

National City[®]

2003

ANNUAL REPORT



My bank is National City.

FINANCIAL HIGHLIGHTS

(Dollars in Millions, Except Per Share Amounts)

	2003	2002	2001
For the Year			
Revenue			
Tax-Equivalent Net Interest Income	\$4,395	\$4,036	\$3,472
Noninterest Income	<u>3,596</u>	<u>2,575</u>	<u>2,678</u>
Total Revenue	\$7,991	\$6,611	\$6,150
Net Income	\$2,117	\$1,447	\$1,388
Net Income Per Common Share			
Basic	\$3.46	\$2.37	\$2.30
Diluted	3.43	2.35	2.27
Dividends Paid Per Common Share	1.25	1.20	1.16
Return on Average Common Equity	23.60%	18.14%	19.94%
Return on Average Assets	1.79	1.40	1.49
Net Interest Margin	4.11	4.34	4.09
Efficiency Ratio	51.46	57.12	55.70
Average Shares – Basic	611,205,682	610,186,786	603,611,073
Average Shares – Diluted	616,410,043	616,174,238	611,936,906
At Year End			
Assets	\$113,933	\$118,021	\$105,817
Portfolio Loans	79,279	72,134	68,041
Earning Assets	102,505	106,853	95,335
Core Deposits	58,922	56,342	51,895
Stockholders' Equity	9,329	8,161	7,381
Book Value Per Common Share	\$15.39	\$13.35	\$12.15
Market Value Per Common Share	33.94	27.32	29.24
Equity to Assets Ratio	8.19%	6.91%	6.98%
Common Shares Outstanding	605,996,120	611,491,359	607,354,729
Common Stockholders of Record	61,370	61,916	64,631
Full-Time Equivalent Employees	33,331	32,731	32,360

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About us

National City Corporation (NYSE: NCC), headquartered in Cleveland, Ohio, is one of the nation's largest financial holding companies. We operate through an extensive distribution network in Ohio, Illinois, Indiana, Kentucky, Michigan and Pennsylvania, and serve customers in selected markets nationally. Our primary businesses include commercial and retail banking, consumer finance, asset management, mortgage financing and servicing, and payment processing.



(left to right)

David A. Daberko
Chairman & CEO

William E. MacDonald III
Vice Chairman

TO OUR STOCKHOLDERS:

Chairman's Letter

National City again posted record earnings in 2003, with net income of \$2.1 billion, or \$3.43 per share, well above the previous record set in 2002, and 51 percent higher than just two years ago. We were extremely well positioned to benefit from a record low interest rate environment in 2003, which fueled unprecedented volumes of mortgage activity. Core deposit growth and consumer lending were also strong, and in combination with mortgage, boosted earnings well above our initial expectations for the year. As discussed in the financial section of this report, results for prior periods have been restated to reflect timing differences in recognizing changes in the fair value of certain mortgage-related assets, with minimal cumulative effect for the three-year period ending December 31, 2003. Although the restatement adds some confusion in comparing current amounts to those previously reported, it does not change the fact that all three years were highly successful ones for National City.

While we are proud of record earnings in a year when many other companies struggled, the real achievements of 2003 go far beyond the financial results. In reality, 2003 was as much about making investments for long-term growth as it was about current earnings. We recognize that the banking and financial services industry is becoming more competitive each year, that customers are becoming more sophisticated and discerning, and that no one has the luxury of resting on his or her laurels. What was adequate or even good performance a few years ago is not sufficient to meet today's higher standards. Our efforts this past year focused on developing and enhancing sustainable business models and building world-class customer franchises.

In our most critical and visible business, Consumer and Small Business Financial Services, comprising the retail branch bank network, call centers, Internet, and small business banking, the achievements were significant. We attracted core deposits faster than the rate for the market as a whole, taking market share from several significant competitors. Customer Connections, our \$125 million investment in technology and delivery system infrastructure, began its rollout last summer. As of year-end, 21 percent of the branch network had been converted, with the balance to follow this year. This system improves and streamlines the routine processes of account openings and customer transactions and substantially reduces paper flow to the back office. More importantly, it provides real-time and relevant customer information and sales prompts to allow our people to serve customers better. The ultimate return on this investment is not the savings in back-office costs, but the increased revenues from a more effective sales process.

As a business still heavily based on personal interactions, we are only as good as the people who face our customers every day. To that end, a major initiative has been the upgrading of our branch staff, specifically branch managers. We have improved the hiring process and have raised not only the standards of performance, but also the training, incentives and career opportunities. To be a great retail bank, we must have a great branch system, and that requires great branch managers. We believe we have more of them today than ever before.

We have also undertaken selective expansion of our branch network to better serve our markets

and grow market share. We believe the greatest potential is in Chicago, where we added four branches in 2003 and plan to open 17 more in 2004. Pockets of opportunity for profitable expansion are also evident in most of our other markets, including Columbus and Indianapolis, where we would expect to open a dozen or more new locations in 2004, bringing the corporate-wide total to around 30. We announced an expansion into the St. Louis marketplace in November via the proposed acquisition of Allegiant Bancorp. This market is an attractive and logical extension of our existing footprint, and we see good potential to add to Allegiant's existing 35-branch network and expand the breadth of product and service offerings over the next couple of years.

Although retail banking has been our primary focus, literally every business unit has a story of investment, growth, and positioning for future success. The Wholesale Banking unit, for example, which provides credit, treasury management and investment banking services to middle-market companies, is well positioned and highly regarded in the marketplace. If, as we believe, the business cycle continues on its upward trend, the combination of improving credit quality and more robust credit demand will be a powerful driver of earnings growth for this business over the next several years. Likewise, our consumer lending businesses, which performed well during the recession, will exhibit further strength in a recovery. In 2004, the cyclical decline in mortgage earnings will likely not be immediately replaced dollar for dollar by earnings growth from the other businesses, but over time we are very confident that our balanced business mix, attention to customers' needs, and focused execution will produce above-average revenue and earnings growth and will be valued accordingly by the market.

Although revenue and earnings growth are the primary drivers of shareholder value, a strong balance sheet and risk management culture are necessary accompaniments to protect that value. With a high return on equity and a solid equity base, National City not only has sufficient capital to fund growth and reinvestment, but also consistently generates excess capital. We return much of that capital to stockholders in the form of quarterly cash dividends, and periodically through repurchases of stock in the open market. We expect to prudently deploy excess capital going forward through a combination of dividend increases, targeted acquisitions, and stock repurchases, all to the long-term benefit of stockholders.

National City is fortunate to have a strong, independent Board of Directors, a capable and deep management team, and a great cadre of dedicated employees. They take our brand promise, "At National City, we care about doing what's right for our customers," seriously and personally, and on behalf of all stockholders I want to thank them for their service and dedication. In the following pages you will see some live examples of what that dedication means to customers. I also encourage you to review the financial pages of this report and to regularly visit our Web site for supplemental financial updates and periodic investor presentations. National City prides itself on the quality, thoroughness, and transparency of financial and operating disclosures to investors, and we welcome your comments and feedback.

Thank you for your continued support and investment.



David A. Daberko
Chairman and CEO
January 29, 2004



A Note of Thanks to Robert G. Siefers

Bob Siefers, vice chairman, retired from National City in 2003 after 32 years of extraordinary service. Bob, through his clear strategic thinking and no-nonsense operating style, was instrumental in shaping National City as it exists today. His vision guided the expansion of our banking franchise from its original base in Cleveland and the growth of our mortgage business to national scale, among other accomplishments.

Bob's first love is investing, and he launched our highly successful Bank Stock Fund, producing over \$750 million in net gains from 1991 to 2003 from astute investments in banking and financial services stocks.

Thanks, Bob, for your hard work and dedication, and all the best for a happy and prosperous retirement.



Small business customers Bill, Jeff and Eric Sullivan, legendary bluegrass instrument craftsmen and owners of First Quality Musical Supplies in Louisville, Kentucky.

Going for great.

For every organization, greatness grows from vision, innovation and accountability. For our company, it also grows from remaining true to our brand promise:

At National City, we care about doing what's right for our customers.

Living our brand promise is our guide to becoming a great company. It tells us what to do at each moment of truth...how to enhance each customer's brand experience...ways we can deliver beyond expectations at every opportunity.

This year's message from our chairman and the following success stories illustrate the ways we strived for greatness in 2003. And how we'll continue to win the hearts and minds of our customers in the future.



Sharon and Alan Rosen
Young, Rosen, Finkel & Silbert, Ltd
National City customers

Our expansion in Chicago. It's more than just geography.

Meet the Rosens.

For Sharon and Alan Rosen, Chicago's Gold Coast Art Fair was more than a great place to find the perfect impressionist painting.

A few days after picking up National City interest rate information at the event, Sharon visited our One North Franklin office. She spoke with Beth Zamfoti concerning a money market savings account. "Beth was extremely helpful," says Sharon. "She actually led me to something better suited to our needs."

The better-suited solution was a money market checking account offering a competitive rate and unlimited check writing. During the application process, Beth learned Sharon was a CPA for her husband's law firm – Young, Rosen, Finkel & Silbert, Ltd. She also learned there was some dissatisfaction with the firm's bank and recognized a cross-selling opportunity. Beth suggested trying

National City and referred Sharon to Small Business Banking Officer Beth Blom.

"The banks here in Chicago tend to focus on middle-market companies," observes Beth Blom, "and that gives us an amazing opportunity to do more for small businesses."

Following numerous phone conversations and two face-to-face meetings which included One North Franklin's small business banking, corporate banking and wealth management teams, Young, Rosen, Finkel & Silbert opened a business savings account with a substantial deposit.

"Our firm was looking for a mutually beneficial business relationship and we wanted to make a statement that we were committed to that relationship," notes Alan.

The afternoon of the second meeting, One North Franklin Branch Manager Michael Staudt picked up the firm's check and met all the partners. He was



Beth Zamfoti
One North Franklin
Sales and Service Representative

DOING WHAT'S RIGHT

asked if he had a few moments to discuss a potential referral opportunity for National City – one of the firm's business clients that was looking for a new bank.

Although still in its infancy, a great long-term relationship and strategic partnership has begun for Young, Rosen, Finkel & Silbert and National City. As of December 2003, the law firm initiated a line of credit and National City is working out the details for using the firm's commercial and industrial real estate tax abatement expertise.

This success story is just one of many from our Chicago expansion that illustrate how we're working as one company to meet and exceed customer needs. Exceptional individual effort and teamwork are building brand over time and sales overnight by attracting customers, keeping them and earning their referrals.

FOR OUR CUSTOMERS.

Going for great:
**NationalCity.com and
Online Banking**

We greatly enhanced the appearance and functionality of NationalCity.com throughout the year, earning an eighth-place ranking for overall bank site from Gomez Advisors (Q4 2003). During the same time period, Gomez ranked NationalCity.com as the No. 2 site for small business, the No. 6 site for credit card and the No. 10 site for mortgage.

Based on an extensive customer survey, our Online Banking and Online Bill Payment services have new and improved capabilities. Now, customers can:

- See pending ATM and debit card transactions immediately
- View changes in their balances instantaneously when they make transfers
- "Nickname" their online accounts
- Pay multiple bills at one time from a consolidated screen
- Skip or edit recurring payments
- Receive notifications from our customer support center
- View and print images of cancelled checks from their computers



Beth Blom
One North Franklin
Small Business Banking Officer

Michael Staudt
One North Franklin
Branch Manager

Going for great: Recreation Finance

To serve the growing number of individuals and families interested in domestic travel and marine recreation, we expanded our recreation finance business to 38 states. As part of the expansion, we'll work closely with dealers to develop specialized retail and floorplan financing options.

In addition, we entered a strategic alliance with Gulf Stream Coach, Inc., one of the fastest growing RV manufacturers in the country. This alliance enables Gulf Stream's nearly 500 dealers to offer some of the best financing options in the industry.

Being innovative. We showcase our competitive spirit and add something extra.

This is Misha Sekula.

Misha is a breast cancer survivor. She's an antique shop owner and the National City customer featured in our most recent television commercial promoting the Diamond EditionSM Visa[®] Platinum card.

"I'm for anything that in any way helps to prevent breast cancer," says Misha, who uses her card for business purchases, travel and theater tickets.

A customer's first purchase with a Diamond Edition card provides a donation of five dollars to the National Breast Cancer Foundation. A portion of every following transaction is also contributed to the organization. By using the card – which offers a low, fixed rate – National City customers contribute to the battle against breast cancer at no cost to themselves.

Market research indicates that women are the fastest growing consumer segment in our economy, yet nine out of 10 women believe that financial services companies are not meeting their needs. The Diamond Edition card sends a message to women that they're a priority for National City. It also shows our ability to recognize a potential competitive opportunity, develop an innovative product and deliver it to the marketplace.

In our partnership with the National Breast Cancer Foundation, National City contributed \$125,000 to the organization – the largest one-time donation it has received to date. Card transactions enabled us to provide an additional \$165,000 for various breast cancer education and prevention initiatives.

"This card and what it stands for really shows that National City is a forward-thinking company that cares about people, not just profit," states Misha. "It says they want to go beyond the status quo and make a deeper difference for their customers and the community."

WINNING THE HEARTS

Misha Sekula
National City customer
Diamond Edition Visa
Platinum cardholder





Mary Clark
Market Leader/Branch Manager
38th and Georgetown
Indianapolis, Indiana

Transforming our branches. It's the people that bring our investments to life.

Introducing Mary Clark.

Mary's ingenuity and genuine concern have made her a true "personal banker" for many National City customers. Soon after joining National City in 1999 as a branch manager, she began reviewing the daily overdrawn checking account report in a different way.

"I looked for names that didn't usually appear on the reports, individuals who had few previous account issues," she says. "Then I'd call, offering my assistance as their personal banker – someone who could help them with any financial need."

According to Mary, most of the customers she called, and continues to call, are surprised to learn that they've overdrawn their accounts. After talking with each customer, she recommends financial solutions that meet the individual's needs.

For instance, she recently contacted a small business customer who had overdrawn a personal checking account. She learned that the business had a \$35,000 credit line with National City and several loans from other banks. Mary knew she could make a difference.

"Today this customer benefits from a more convenient and efficient financial relationship," Mary points out. "We consolidated \$340,000 in non-National City loans for the company and increased their credit line to \$100,000."

What Mary's built with her approach is remarkable and it exemplifies one of the many ways we're enhancing the branch experience for our customers. In fact, customers are so pleased to have her as their personal banker, they consistently send family, friends and acquaintances her way.

"My philosophy is really pretty simple," claims Mary. "If you take care of people and find ways to say 'yes,' you'll always win."

Going for great: National City Mortgage Co.

This past May, National City Mortgage Co. celebrated the milestone of surpassing the one-million-mortgage mark in servicing for the first time since the company's inception in 1955. A dedication to working with customers, even when they experience difficult times, has enabled our servicing portfolio to grow from \$16 billion in 1996 to more than \$141 billion today.

National City Mortgage Co. is now ranked as the country's eighth largest residential loan originator, according to *Inside Mortgage Finance* magazine.

BOARD OF DIRECTORS



David A. Daberko
(2,3)
Chairman & CEO
National City Corporation



Jon E. Barfield
(1,3)
Chairman & President
The Bartech Group, Inc.



James S. Broadhurst
(1,7)
Chairman & CEO
Eat'n Park Hospitality Group, Inc.



John W. Brown
(3,4,5)
Chairman & CEO
Stryker Corporation



Duane E. Collins
(2,3,5,6)
Chairman
Parker Hannifin Corporation



Christopher M. Connor
(5,6)
Chairman & CEO
The Sherwin-Williams Company



Daniel E. Evans
(1,2)
Retired Chairman
Bob Evans Farms, Inc.



Joseph T. Gorman
(4,5)
Retired Chairman
TRW Inc.



Bernadine P. Healy, M.D.
(3,6,7)
Medicine and Health Columnist
and Senior Writer, *U.S. News and
World Report*



Paul A. Ormond
(3,5,6)
Chairman, President & CEO
Manor Care, Inc.



Robert A. Paul
(1,2,3,7)
President & CEO
Ampco-Pittsburgh Corporation



Gerald L. Shaheen
(4,5)
Group President
Caterpillar Inc.



Jerome F. Tatar
(1,3,7)
Retired Chairman
MeadWestvaco Corporation



Jerry Sue Thornton, Ph.D.
(2,6,7)
President
Cuyahoga Community College



Morry Weiss
(3,4,7)
Chairman
American Greetings Corporation

Committees:

- | | | |
|---------------|---|-------------------|
| (1) Audit | (4) Nominating and Board
of Directors Governance | (6) Public Policy |
| (2) Dividend | (5) Compensation and Organization | (7) Investment |
| (3) Executive | | |

OFFICERS

Office of the Chairman

David A. Daberko
Chairman and CEO
William E. MacDonald III
Vice Chairman

Executive Vice Presidents

James R. Bell III
Paul G. Clark
John D. Gellhausen
Thomas W. Golonski
Jon L. Gorney
Jeffrey D. Kelly
Chief Financial Officer
Timothy J. Lathe
Herbert R. Martens, Jr.
Robert J. Ondercik
Ted M. Parker
J. Armando Ramirez
Peter E. Raskind
Philip L. Rice
Shelley J. Seifert
Stephen A. Stitle
David L. Zoeller
General Counsel and Secretary

Senior Vice Presidents

Jeffrey M. Biggar
William I. Cornett, Jr.
Richard J. DeKaser
J. Andrew Dunham
Daniel L. Frate
Paul D. Geraghty
Kenneth M. Goetz
Jane Grebenc
Mary H. Griffith
James P. Gulick
General Auditor
James Hughes
Thomas C. Kaylor
J. Michael Kearney
Janis E. Lyons
Comptroller
W. Robert Manning, Jr.

Joseph T. McCartin
Bruce A. McCrodden
T. Michael Price
Thomas A. Richlovsky
Treasurer
William H. Schecter
Karin L. Stone

Financial Review

This Annual Report contains forward-looking statements. See page 28 for further information on the risks and uncertainties associated with forward-looking statements.

The Financial Review section discusses the financial condition and results of operations of National City Corporation (the Corporation or National City) for each of the past three years and should be read in conjunction with the accompanying consolidated financial statements and notes presented on pages 35 through 75.

Overview

The primary source of National City's revenue is net interest income from loans and deposits, and fees from financial services provided to customers. Business volumes tend to be influenced by overall economic factors including market interest rates, business spending, and consumer confidence, as well as competitive conditions within the marketplace.

During 2003, interest rates reached record low levels resulting in an unprecedented volume of mortgage loan originations. As a result, mortgage-related business contributed to record earnings in 2003, including production and sale of loans, and earnings on the mortgage warehouse (mortgage loans closed, but not yet sold into the secondary market). A rapid rise in interest rates during the third quarter slowed mortgage loan volume. The mortgage warehouse, which peaked in July 2003, has since continued to decline in size as loans sold outpaced new loan activity. The large balance in the warehouse during 2003 benefited both net interest income and net interest margin. As the warehouse declines, both net interest income and net interest margin are expected to be lower going into 2004, as the carrying spread on the warehouse is wider than that of most other assets on the balance sheet. Industry expectations are for mortgage originations to fall approximately 50% nationally in 2004. Other sources of consumer lending, such as home equity loans, remain on a positive trend. However, this activity will likely not completely offset the decline in mortgage loan volumes in the near term.

Low levels of corporate investment spending continued in 2003 as many companies continued to experience excess capacity. Commercial loans outstanding declined in 2003 as payoffs exceeded new loan volume. A lift in business spending in 2004, typically accompanied by an increase in interest rates, would significantly increase earnings in the commercial lending business. Certain economic indicators suggest that business spending has begun to increase; however, uncertainty exists as to how robust and sustainable this trend will be in 2004.

Growth in core deposits continued to be strong throughout 2003. This growth reflects a number of strategic initiatives to grow the deposit base, including investing in new technology, upgrading branch management, and developing an enhanced retail sales culture. These initiatives will continue in 2004 and beyond. Deposit balances associated with mortgage escrow funds are expected to decrease in 2004 as mortgage loan activity declines.

Credit costs continued to be high in 2003, but recent trends have shown improvement as corporate cash flows have strengthened and consumers' financial position has improved in line with an improving economy. Nonperforming assets at the end of 2003 were \$657 million, declining about \$160 million year-over-year, and other credit indicators show positive trends. Given this improvement, the loan loss provision will most likely be lower in 2004 than in 2003.

Restatement of Prior Period Financial Statements

National City has restated prior period financial results as a result of discussions with the Securities and Exchange Commission (SEC) staff on the application of certain technical provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, governing when hedge accounting is permitted to be applied. These provisions pertained specifically to the design and frequency of effectiveness tests.

The restatement primarily changed the timing of recognition of changes in the fair value of loans held for sale and mortgage servicing rights in the financial statements, moving mortgage revenue and net income among several quarters and between years during the three-year period ended December 31, 2003. There was no effect on cash flow, and the hedging programs themselves have not changed.

Management has modified its effectiveness testing methods for 2004 pursuant to discussions with the SEC staff. It is not possible to specify what the exact impact might be other than increased potential for quarterly earnings volatility in periods of significant changes in interest rates. System enhancements initiated in 2002 and completed at year-end 2003 are expected to meet the more rigorous contemporaneous testing standards requested by the SEC. The actual hedging strategies themselves, which have been highly effective in economic terms, will not change as a result of these actions.

Net income for 2002, previously reported as \$1.6 billion, or \$2.59 per diluted share, was restated to \$1.4 billion, or \$2.35 per diluted share. Net income for 2001, previously reported as \$1.4 billion, or \$2.27 per diluted share, remained unchanged, but quarterly results within the year were restated with no net effect for the full year. In addition, net income for the first nine months of 2003, previously reported as \$1.5 billion, or \$2.42 per diluted share, was restated to \$1.6 billion, or \$2.55 per diluted share. Quarterly results within each period were also affected. Reconciliations of the restated results for all affected periods to the results previously reported are included in the Quarterly Summary section of this Financial Review on pages 30 and 31 and in Note 1 to the consolidated financial statements.

All applicable data within this Annual Report has been adjusted to reflect the restatement.

Financial Review CONTINUED

(Dollars in Millions)	Daily Average Balance				
	2003	2002	2001	2000	1999
Assets					
Earning assets:					
Loans ^(a) :					
Commercial	\$ 21,403	\$ 23,989	\$26,029	\$23,575	\$21,080
Commercial construction	2,343	1,380	1,262	1,255	1,279
Real estate – commercial	9,483	8,005	6,788	6,222	6,239
Real estate – residential	45,972	29,615	21,796	14,423	12,427
Home equity lines of credit	9,241	6,986	5,215	4,204	3,312
Credit card and other unsecured lines of credit	2,155	1,900	2,197	2,431	2,025
Other consumer	8,059	11,384	12,318	13,215	13,831
Total loans	98,656	83,259	75,605	65,325	60,193
Securities available for sale, at amortized cost:					
Taxable	6,548	8,154	7,977	11,195	14,139
Tax-exempt	669	674	733	793	866
Total securities available for sale	7,217	8,828	8,710	11,988	15,005
Federal funds sold, security resale agreements, and other investments	973	854	522	469	923
Total earning assets/total interest income/rates	106,846	92,941	84,837	77,782	76,121
Allowance for loan losses	(1,124)	(1,033)	(975)	(987)	(987)
Fair value appreciation (depreciation) of securities available for sale	257	255	167	(310)	129
Nonearning assets	12,398	11,260	9,055	9,065	9,028
Total assets	\$118,377	\$103,423	\$93,084	\$85,550	\$84,291
Liabilities and stockholders' equity					
Interest bearing liabilities:					
NOW and money market accounts	\$ 25,378	\$ 20,740	\$18,120	\$16,549	\$16,804
Savings accounts	2,423	2,561	2,713	3,207	3,818
Consumer time deposits	13,729	15,064	15,332	15,457	14,898
Other deposits	2,752	3,613	5,802	2,936	3,053
Foreign deposits	7,002	6,302	4,319	3,128	2,679
Federal funds borrowed	7,895	5,459	4,637	3,043	3,258
Security repurchase agreements	3,013	3,327	3,887	3,846	4,821
Borrowed funds	1,556	2,406	1,748	2,687	2,879
Long-term debt	24,854	19,558	16,415	16,454	13,316
Total interest bearing liabilities/total interest expense/rates	88,602	79,030	72,973	67,307	65,526
Noninterest bearing deposits	17,203	13,685	11,622	10,792	11,473
Accrued expenses and other liabilities	3,600	2,735	1,515	1,311	1,061
Total liabilities	109,405	95,450	86,110	79,410	78,060
Total stockholders' equity	8,972	7,973	6,974	6,140	6,231
Total liabilities and stockholders' equity	\$118,377	\$103,423	\$93,084	\$85,550	\$84,291
Net interest income					
Interest spread					
Contribution of noninterest bearing sources of funds					
Net interest margin					

^(a) Includes both portfolio loans and loans held for sale or securitization

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, including interest bearing deposits and other borrowings. The amount of net interest income is affected by both changes in the level of interest rates and the amount and composition of earning assets and interest bearing liabilities. Changes in net interest income are most often measured through two statistics – interest spread and net interest margin. The difference between the yields on earning assets and the rates paid on interest bearing liabilities represents the interest spread. The net interest margin is expressed as the percentage of net interest income to average earning assets. Both the interest spread and net interest margin are presented on a tax-equivalent basis. Because noninterest bearing sources of funds, or free funding, principally demand deposits and stockholders' equity, also

support earning assets, the net interest margin exceeds the interest spread.

The table above presents net interest income, interest spread, and net interest margin for the five years 1999 through 2003, comparing daily average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and expense and the corresponding average rates earned and paid. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to pretax equivalents based on the marginal corporate Federal tax rate of 35%. The tax-equivalent adjustments to net interest income for 2003, 2002, and 2001 were \$28 million, \$30 million, and \$34 million, respectively. Average outstanding loan balances include nonperforming loans and loans held for sale or securitization. Average outstanding securities balances are computed based on amortized cost and exclude unrealized gains and losses on securities available for sale.

2003	Interest				Average Rate				
	2002	2001	2000	1999	2003	2002	2001	2000	1999
\$ 818	\$1,133	\$1,791	\$2,083	\$1,648	3.82%	4.72%	6.88%	8.84%	7.82%
103	79	100	112	102	4.41	5.72	7.92	8.92	7.97
581	534	540	550	538	6.13	6.68	7.96	8.83	8.62
2,964	2,119	1,712	1,199	963	6.45	7.15	7.85	8.31	7.75
386	351	397	393	285	4.18	5.02	7.61	9.35	8.61
173	176	264	338	267	8.01	9.26	12.04	13.92	13.19
569	953	1,072	1,126	1,147	7.07	8.38	8.70	8.53	8.30
5,594	5,345	5,876	5,801	4,950	5.69	6.42	7.77	8.88	8.22
339	509	480	698	876	5.17	6.25	6.02	6.23	6.20
51	55	59	64	72	7.68	8.15	8.13	8.12	8.24
390	564	539	762	948	5.41	6.39	6.20	6.36	6.32
41	37	33	37	52	4.17	4.26	6.29	7.85	5.63
\$6,025	\$5,946	\$6,448	\$6,600	\$5,950	5.64%	6.40%	7.60%	8.49%	7.82%
\$ 257	\$ 301	\$ 503	\$ 621	\$ 520	1.01%	1.45%	2.78%	3.76%	3.09%
11	21	36	53	65	.45	.82	1.33	1.67	1.69
506	646	843	885	762	3.69	4.28	5.50	5.72	5.11
34	67	244	184	155	1.23	1.84	4.20	6.26	5.09
84	114	152	194	134	1.20	1.81	3.53	6.19	5.02
114	116	186	195	166	1.44	2.12	4.02	6.43	5.10
19	35	111	200	202	.63	1.04	2.86	5.21	4.19
18	37	64	165	144	1.20	1.55	3.66	6.13	5.01
587	573	837	1,111	765	2.36	2.94	5.10	6.75	5.74
\$1,630	\$1,910	\$2,976	\$3,608	\$2,913	1.84%	2.42%	4.08%	5.36%	4.45%
\$4,395	\$4,036	\$3,472	\$2,992	\$3,037	3.80%	3.98%	3.52%	3.13%	3.37%
					.31	.36	.57	.72	.62
					4.11%	4.34%	4.09%	3.85%	3.99%

In order to manage exposure to changes in interest rates, the Corporation uses various types of derivative instruments. The effects of derivative instruments used to manage interest rate risk associated with earning assets and interest bearing liabilities are included in interest income or expense of the hedged item and consequently affect the yields on those assets and liabilities. Further discussion of the derivative instruments used to manage interest rate risk and the accounting for these instruments is included in Notes 1 and 25 to the consolidated financial statements. A discussion of the effects of changing interest rates is included in the Market Risk section beginning on page 23.

Strong mortgage loan volumes, a higher level of core deposits, and lower funding costs drove the growth in net interest income in both 2003 and 2002.

The net interest margin, which had benefited in 2002 and 2001 from declining interest rates, was unfavorably

affected in 2003 by the sustained low rate environment, which served to narrow deposit spreads.

The record low interest rate environment continued to boost mortgage-related loan production throughout much of 2003, which increased the average balance of mortgage loans held for sale to close to triple that of just two years ago and drove significant growth in the amount of nonconforming residential real estate and home equity loans retained in the loan portfolio.

Solid growth in core deposits over the past three years, fueled by strategic initiatives to grow this funding source, as well as higher mortgage-banking escrow balances, also aided net interest income growth. The Corporation considers noninterest bearing deposits, NOW and money market accounts, savings accounts, and consumer time deposits to be core deposits.

Going into the first half of 2004, it is anticipated that net interest income and the net interest margin will be lower as a result of the continued decline in the

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warehouse of mortgage loans held for sale, which peaked in the third quarter of 2003.

Further discussion of trends in the loan and securities portfolios and detail on the mix of funding sources is included in the Financial Condition section beginning on page 16.

The following table shows changes in tax-equivalent interest income, interest expense, and tax-equivalent net interest income due to volume and rate variances for major categories of earning assets and interest bearing liabilities. The change in interest not solely due to changes in volume or rates has been allocated in proportion to the absolute dollar amounts of the change in each.

(In Millions)	2003 vs 2002			2002 vs 2001		
	Due to Change in Volume	Rate	Net Change	Due to Change in Volume	Rate	Net Change
Increase (decrease) in tax-equivalent interest income –						
Loans:						
Commercial	\$ (122)	\$(193)	\$(315)	\$(142)	\$(516)	\$(658)
Commercial construction	55	(31)	24	9	(30)	(21)
Real estate – commercial	99	(52)	47	100	(106)	(6)
Real estate – residential	1,166	(321)	845	615	(208)	407
Home equity lines of credit	113	(78)	35	135	(181)	(46)
Credit card and other unsecured lines of credit	24	(27)	(3)	(36)	(53)	(89)
Other consumer	(278)	(106)	(384)	(82)	(36)	(118)
Securities available for sale	(103)	(71)	(174)	8	17	25
Federal funds sold, security resale agreements, and other investments	5	(1)	4	21	(17)	4
Total	\$ 959	\$(880)	\$ 79	\$ 628	\$(1,130)	\$(502)
Increase (decrease) in interest expense –						
Deposits:						
NOW and money market accounts	\$ 66	\$(110)	\$(44)	\$ 72	\$(273)	\$(201)
Savings accounts	(1)	(9)	(10)	(2)	(13)	(15)
Consumer time deposits	(58)	(82)	(140)	(15)	(183)	(198)
Purchased deposits	(3)	(60)	(63)	(8)	(207)	(215)
Federal funds borrowed, security repurchase agreements, and borrowed funds	15	(52)	(37)	32	(206)	(174)
Long-term debt	182	(168)	14	160	(423)	(263)
Total	\$ 201	\$(481)	\$(280)	\$ 239	\$(1,305)	\$(1,066)
Increase in tax-equivalent net interest income			\$ 359			\$ 564

Noninterest Income

Details of noninterest income follow:

(In Millions)	2003	2002	2001
Mortgage banking revenue	\$1,482	\$ 590	\$ 525
Deposit service charges	568	514	469
Payment processing revenue	478	451	465
Trust and investment management fees	291	307	320
Card-related fees	169	157	170
Brokerage revenue	122	109	98
Other service fees	106	102	115
Other	333	264	371
Total fees and other income	3,549	2,494	2,533
Securities gains, net	47	81	145
Total noninterest income	\$3,596	\$2,575	\$2,678

On the strength of mortgage banking revenue, noninterest income grew to \$3.6 billion in 2003, up from \$2.6 billion in 2002 and \$2.7 billion in 2001. Mortgage banking revenue includes mortgage loan servicing, hedging, origination, and sales activity conducted through National City Mortgage Co. (NCMC), as well as nonconforming mortgage loan origination and sales activity conducted through First Franklin Financial Corporation (First Franklin), both wholly-owned subsidiaries of the Corporation.

The Corporation sells substantially all of its NCMC loan production into the secondary market and retains the servicing rights. Approximately one-half of the loans originated by First Franklin are also sold as whole loans (with servicing released) to third parties, with the remainder held in portfolio.

Details of mortgage banking revenue follow:

(In Millions)	2003	2002	2001
Servicing revenue:			
Net servicing fees	\$ 422	\$ 368	\$ 270
Amortization of mortgage servicing assets	(514)	(358)	(197)
Mortgage servicing asset impairment recovery (charge)	195	(246)	(88)
Mortgage servicing asset ineffective hedge and other derivative gains, net	176	443	145
Other	5	—	(16)
Net servicing revenue	284	207	114
NCMC origination and sales revenue	881	230	352
First Franklin origination and sales revenue	317	153	59
Total mortgage banking revenue	\$1,482	\$ 590	\$ 525

Information on mortgage loan originations and sales follows:

(In Millions)	2003	2002	2001
NCMC loans originated for sale	\$102,615	\$78,939	\$56,043
First Franklin loans:			
Total loans originated	20,138	10,717	6,301
Less: loans retained in portfolio	(10,233)	(5,547)	(3,836)
Total First Franklin loans originated for sale	9,905	5,170	2,465
Total mortgage loans originated for sale	\$112,520	\$84,109	\$58,508
NCMC loan sales	\$108,514	\$67,553	\$41,009
First Franklin loan sales	8,937	4,559	2,070
Total mortgage loan sales	\$117,451	\$72,112	\$43,079

The growth in mortgage banking revenue during 2003 was reflective of record mortgage originations driven by the historically low interest rate environment, record sales of mortgages sold into the secondary market, and successful hedging strategies to protect the value of mortgage servicing assets (MSRs), partially offset by higher MSR amortization expense. Mortgage loans originated for sale to third parties increased to \$112.5 billion in 2003, up from \$84.1 billion in 2002 and \$58.5 billion in 2001. Mortgage loan sales for 2003 of \$117.5 billion outpaced originations resulting in a decrease in the mortgage loan warehouse to \$14.5 billion at December 31, 2003 from \$24.5 billion at December 31, 2002. Mortgage loan originations declined during the fourth quarter of 2003 as a result of higher interest rates and decreased demand for refinancing. Given an outlook for higher interest rates, this trend is expected to continue into 2004 resulting in lower mortgage loan originations and sales on a year-over-year basis.

The Corporation typically retains the right to service the NCMC mortgage loans it sells. Upon sale, the Corporation recognizes a mortgage servicing right (MSR) asset, which represents the present value of the estimated future net servicing cash flows to be realized over the estimated life of the underlying loan. As a result of the high volume of mortgage loan production and sales in 2003, the unpaid principal balance of loans serviced for third parties increased to \$141.1 billion at December 31, 2003, up from \$101.9 billion at December 31, 2002, and \$73.9 billion at December 31, 2001. Accordingly, the carrying value of mortgage servicing assets also grew to \$1.3 billion at December 31, 2003 up from \$950 million at December 31, 2002.

The value of MSRs is sensitive to changes in interest rates. In a low rate environment, as was experienced during most of 2003 and 2002, mortgage loan refinancings generally increase, causing actual and expected loan prepayments to increase, which drives down the estimated carrying value of existing MSRs. Conversely, as interest rates rise, as was experienced during the third quarter of 2003, mortgage loan refinancings generally decline, causing actual and expected loan prepayments to decrease, which drives up the estimated value of MSRs. The Corporation manages the risk associated with declines in the estimated value of MSRs by using derivative instruments. Further detail on MSRs, including a sensitivity analysis of the effect changes in assumptions have on the estimated value of servicing assets, is included in Note 12 to the consolidated financial statements.

The growth in deposit service charges in 2003 and 2002 is a result of growth in core deposits and deposit accounts, a higher level of customer debit card usage, and fewer waived fees.

Trust and investment management fees include both institutional and personal accounts and is based primarily on the market value of assets under administration. Trust and investment management fees have declined since 2001 as the result of lower assets under administration. At December 31, 2003, the Corporation had total assets under administration of \$111.6 billion, compared to \$131.3 billion at December 31, 2002, and \$147.2 billion at December 31, 2001. Managed assets

under administration increased to \$59.4 billion at December 31, 2003, as the result of improved equity markets which more than offset the effect of withdrawals and distributions in excess of new business, compared to \$57.6 billion at December 31, 2002, but were still below the balance at December 31, 2001 of \$65.0 billion. Proprietary Armada® mutual fund balances, included in assets under management, totaled \$15.3 billion, \$16.0 billion, and \$18.3 billion at December 31, 2003, 2002 and 2001, respectively.

The year-over-year growth in brokerage revenue in 2003 and 2002 resulted from better alignment and integration of retail brokerage activities with the retail branch network. In addition, in 2003, retail brokerage equity trading activities were aided by the recovery in the equity markets.

Other fee income increased in 2003 due to growth in insurance revenue, increases in derivative gains, and higher principal investment gains. Insurance revenue increased to \$73 million in 2003 from \$45 million in 2002 as a result of title insurance commissions and private mortgage insurance contract premiums. Derivative gains, which were mainly associated with increases in the fair values of derivative instruments used to economically hedge risk associated with yield curve flattening as well as to hedge deferred compensation liabilities, were \$100 million in 2003, up from \$24 million in 2002. Gains recognized on principal investments were \$7 million in 2003 compared to losses of \$23 million in 2002. Principal investments are carried at estimated fair value with losses resulting from regularly adjusting the carrying values to the most recent estimation of fair value recognized in earnings. Further detail on the principal investments portfolio is included in Notes 1 and 10 to the consolidated financial statements. Partially offsetting increases in other fee income were asset securitization gains of \$50 million recognized in 2002 that did not recur in 2003.

Other fee income declined in 2002 principally due to the recognition in 2001 of an \$89 million gain from the sale of the Corporation's preferred share interest in National Asset Management Corporation (NAMCO), a former subsidiary of National City, and \$20 million of gains recognized on stock received from insurance company demutualizations. Losses on principal investments also contributed to the decline as \$23 million of losses on these investments were recognized in 2002 compared to only \$2 million in 2001. Partially offsetting the decrease in 2002 in fee income from the aforementioned items was an increase in asset securitization gains, which were \$50 million in 2002 compared to \$21 million in 2001.

Net securities gains are summarized as follows:

(In Millions, Except Per Share Amounts)	2003	2002	2001
Net gains:			
Equity securities	\$ 40	\$ 77	\$142
Debt securities	7	4	3
Net pretax gains	47	81	145
Tax provision	11	23	51
Effect on net income	36	58	94
Effect on diluted net income per share	\$.06	\$.09	\$.15

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Gains and losses on debt securities are generated mainly from the investment portfolio maintained for asset/liability management purposes, while equity securities gains are generated primarily from the Corporation's bank stock fund, an internally managed equity portfolio of bank and thrift common stock investments.

Pre-tax gains from the bank stock fund were \$40 million, \$74 million, and \$123 million in 2003, 2002, and 2001, respectively. Of the total bank stock gains recognized in 2003 and 2002, \$15 million and \$14 million represented appreciation on securities donated to the Corporation's charitable foundation. In addition to gains from the bank stock fund, equity securities gains in 2001 included pretax gains of \$19 million on Student Loan Marketing Association stock that was called. The lower level of gains recognized in 2003 and 2002 in comparison to 2001 is due to a smaller portfolio and market conditions.

Noninterest Expense

Details of noninterest expense follow:

(In Millions)	2003	2002	2001
Salaries, benefits, and other personnel	\$2,215	\$1,865	\$1,710
Third-party services	295	239	204
Equipment	261	245	239
Net occupancy	233	225	213
Card processing	218	211	199
Postage and supplies	138	128	129
Marketing and public relations	136	146	71
Telecommunications	84	86	85
State and local taxes	62	61	52
Travel and entertainment	61	61	58
Goodwill and other intangibles amortization	23	21	86
Other	362	442	299
Total noninterest expense	\$4,088	\$3,730	\$3,345

Noninterest expense was \$4.1 billion in 2003, compared to \$3.7 billion in 2002 and \$3.3 billion in 2001. The increases over the past two years are a result of increased personnel, third party services, and operational costs associated with increased business volumes and various brand development initiatives.

Details of salaries, benefits, and other personnel expense follow:

(In Millions)	2003	2002	2001
Salaries and incentive compensation	\$1,728	\$1,588	\$1,482
Medical and other benefits	231	160	137
Contract labor	110	72	60
Severance and other	146	45	31
Total salaries, benefits, and other personnel	\$2,215	\$1,865	\$1,710
Full-time equivalent employees	33,331	32,731	32,360

Salaries and incentive costs increased in 2003 and 2002 primarily due to increases in mortgage-banking staff and record mortgage origination and sale volume. The increases in contract labor in both years were also mainly driven by mortgage activity. In addition, the Corporation recorded severance expenses of \$77 million in 2003, included in severance and other above, associated with a voluntary early retirement program and position eliminations across all business lines.

Third-party services increased in both 2003 and 2002 primarily due to increases in outsourcing activities related to mortgage banking volumes, and to a lesser extent, increases in payment processing referral fees and professional services.

Marketing and public relations expense rose in 2003 and 2002 in comparison to 2001 due to donations of appreciated investment securities to the Corporation's charitable foundation of \$40 million and \$53 million in 2003 and 2002, respectively. Excluding these charges, marketing and public relations expense increased due to costs associated with a brand awareness campaign, which included targeted television and print advertising across the National City footprint.

Amortization expense associated with goodwill declined in 2002 due to the adoption of Statement of Financial Accounting Standards (SFAS) 142, *Goodwill and Other Intangible Assets*. Upon adoption on January 1, 2002, the Corporation ceased amortizing its goodwill. Further discussion of the adoption of SFAS 142 and detail of the components of goodwill and other intangible assets is included in Note 11 to the consolidated financial statements.

Other noninterest expense decreased in 2003 compared to 2002 due to lower automobile residual value charges, lower non-credit related fraud losses, and a \$16 million loss recognized in 2002 on the consolidation of a commercial paper conduit. Automobile lease residual value charges were \$14 million and \$51 million in 2003 and 2002, respectively.

Other noninterest expense increased in 2002 compared to 2001 primarily due to losses related to the revaluation of community development and civic partnership investments, which totaled \$68 million in 2002, compared to \$7 million in 2001. In addition, 2002 results include higher expenses associated with mortgage banking activities, increases in minority interest expense and non-credit related fraud losses, and the loss upon consolidation of the commercial paper conduit, as described above. Partially offsetting the increase in other expense in 2002 was a decline in write-downs taken on automobile lease residual values, which totaled \$51 million in 2002 compared to \$67 million in 2001.

The efficiency ratio, which expresses noninterest expense as a percentage of tax-equivalent net interest income and total fees and other income, was 51.46% for 2003, down from 57.12% in 2002 and 55.70% in 2001. The lower efficiency ratio in 2003 was due to revenue growth and cost management across all business lines.

Income Taxes

The Corporation's effective tax rate for 2003, 2002, and 2001 was 34.6%, 33.3% and 35.9%, respectively. The rate increased in 2003 mainly due to the effect of state taxes, driven largely by mortgage banking activities. The higher effective rate in 2001 resulted primarily from a \$40 million charge related to the settlement of a tax exposure on corporate-owned life insurance deductions. A reconciliation of the effective tax rate to the statutory tax rate is included in Note 21 to the consolidated financial statements.

Line of Business Results

National City is organized and managed along five major business lines, as described in Note 27 to the consolidated financial statements. Net income by line of business follows:

(In Millions)	2003	2002	2001
Consumer and Small Business			
Financial Services	\$ 627	\$ 611	\$ 606
Wholesale Banking	315	251	368
National Consumer Finance	1,338	538	166
Asset Management	94	97	110
National Processing	49	51	53
Parent and Other	(306)	(101)	85
Consolidated net income	\$2,117	\$1,447	\$1,388

Consumer and Small Business Financial Services (CSB): Net income growth over the past three years is the result of strong growth in core deposits and consumer lending. This growth reflects fundamental improvements in service quality; customer care; training, incentives, and career paths for branch employees; and competitive product offerings such as free checking, on-line bill payment, and enhanced small business banking services. Credit quality has been relatively stable. The persistence of low market interest rates has compressed deposit spreads, resulting in declines in net interest income in spite of volume growth. Fee income, on the other hand, has benefited from growth in deposit and other service fees, reflecting higher volumes of transactions and account growth, and title insurance commissions and private mortgage insurance premiums driven by the strong mortgage market. Loan growth has been good in all categories, especially home equity, partially offset by the run-off of the automobile lease portfolio. CSB ceased originating automobile leases in December 2000, and since then the portfolio has declined from \$1.8 billion to \$151 million, and will be substantially gone in 2004. Noninterest expense includes charges taken in 2003, 2002, and 2001 to recognize the estimated losses on lease residual values in the amounts of \$14 million, \$51 million, and \$67 million, respectively. The 2003 amount is net of insurance recoveries of \$13 million. Additional insurance recoveries are possible in 2004.

Wholesale Banking: Net income growth in 2003 reflects revenue growth, improving credit quality, and good expense controls, and the decline in 2002 is primarily from higher credit costs. Net interest income in 2003 benefited from wider loan spreads, as loan outstandings declined. Loan activity was weakest in the capital markets portfolio, which includes purchased nationally syndicated loans and structured finance, and strongest in commercial real estate. Regional middle market lending was positive in terms of new customer acquisition, but line utilization remained low. Noninterest income was aided by revenue from investment banking and related activities, treasury management services, and principal investment gains. Principal investment gains were \$7 million in 2003 versus losses of \$23 million and \$2 million in 2002 and 2001, respectively. Noninterest expense included residual value write-downs on commercial leases of \$16 million in 2003 and \$9 million in 2002, principally related to commercial aircraft.

National Consumer Finance (NCF): Net income growth in the past three years was due to a combination of strong mortgage and housing markets, strategic decisions in the late 1990s to enter the national home equity and nonconforming mortgage businesses, and successful hedging strategies to protect the value of mortgage servicing rights (MSRs). Production of mortgage loans for sale reached a record \$112.5 billion in 2003, up from \$84.1 billion in 2002 and \$58.5 billion in 2001. Most of the increase represented refinancing of existing loans, although new purchase volume also grew during these periods. A record-low interest rate environment in 2003 stimulated mortgage activity nationally and at NCF. While most of NCF's revenue was generated from the sale of mortgage loans in 2002 and 2003, the business also benefited from net interest income on loans prior to sale and portfolio loan growth, the latter arising from the retention of a portion of First Franklin nonconforming loan production, as well as robust growth in the National Home Equity division. Servicing income was also strong, as loans serviced for third parties grew from \$73.9 billion at the end of 2001 to \$141.1 billion at the end of 2003. Servicing revenue benefited from growth in loans serviced, as well as from the effects of hedging transactions designed to protect MSR values from declines in value arising from prepayments. Absent hedging, declines in the value of MSR during this period would have negated much of the overall net income growth.

Asset Management: The decline in net income over the three years was due mainly to lower levels of assets under administration, resulting in lower fee income. In 2002 most of the decline in assets under administration came from declines in market value. In 2003, market value increased, but was more than offset by withdrawals and distributions in excess of new business.

National Processing: Net income decreased slightly in both 2003 and 2002, despite increases in transaction volumes and associated revenues, due mainly to lower margins in the national market sector of the business. That price compression more than offset strong growth in the more profitable regional sector of the business. This business line's results were also hurt by lower market interest rates, which reduced interest income earned on its excess cash.

Parent and Other: This category includes the results of investment funding activities, certain unallocated corporate income and expense items, and intersegment revenue and expense eliminations. The larger loss in 2003 reflects, on a fundamental basis, the cost of maintaining an asset-sensitive interest rate risk position in a low interest rate environment, and was further affected by several unusual items. The major items affecting comparisons of 2003 to 2002 were higher severance and related charges (\$81 million versus \$33 million) and lower bank stock fund gains (\$40 million versus \$74 million). The net loss for 2002 relative to net income for 2001 reflects higher bank stock fund gains in 2001 and the \$89 million gain on the sale of the preferred stock of NAMCO. In addition, the parent incurred expenses of \$40 million and \$53 million in 2003 and 2002, respectively, upon donation of securities to the Corporation's charitable foundation, with no comparable expense in 2001.

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Financial Condition

Portfolio Loans: End-of-period and average portfolio loan balances by category at December 31 follow:

(In Millions)	2003	2002	2001	2000	1999
As of December 31:					
Commercial	\$19,164	\$22,632	\$25,438	\$25,425	\$22,148
Commercial construction	2,289	2,090	1,314	1,279	1,255
Real estate – commercial	9,828	9,385	7,281	6,511	6,012
Real estate – residential	27,394	19,972	14,764	13,357	10,396
Home equity lines of credit	10,950	8,062	5,828	4,779	3,686
Credit card and other unsecured lines of credit	2,324	2,030	1,867	2,152	2,340
Other consumer	7,330	7,963	11,549	12,101	14,367
Total portfolio loans	\$79,279	\$72,134	\$68,041	\$65,604	\$60,204
Average:					
Commercial	\$21,390	\$23,978	\$26,010	\$23,575	\$21,080
Commercial construction	2,343	1,380	1,262	1,255	1,279
Real estate – commercial	9,483	8,005	6,788	6,222	6,239
Real estate – residential	23,301	15,682	14,007	11,721	9,922
Home equity lines of credit	9,241	6,986	5,215	4,204	3,312
Credit card and other unsecured lines of credit	2,155	1,865	2,164	2,430	2,025
Other consumer	7,906	11,136	12,198	13,215	13,831
Total portfolio loans	\$75,819	\$69,032	\$67,644	\$62,622	\$57,688

National City has diversified and granular commercial, commercial construction, and commercial real estate portfolios lending to a broad customer base represented by over 800 different standard industrial classifications. The customer base is geographically dispersed within National City's six-state footprint and in selected national accounts. The Corporation has no commercial, commercial construction or commercial real estate loans to borrowers in similar industries that exceed 10% of total loans. The following table as of December 31, 2003

summarizes the major industry categories and exposure to individual borrowers.

(Dollars in Millions)	Outstanding Balance	% to Total	Average Loan Balance Per Obligor	Largest Loan to a Single Obligor
Real estate	\$ 9,362	30%	\$.80	\$38
Consumer cyclical	4,787	15	.80	78
Consumer noncyclical	3,959	13	.40	93
Industrial	3,264	10	.80	60
Basic materials	2,576	8	1.20	28
Financial	1,761	6	1.30	42
Services	1,335	4	.40	81
Energy and utilities	616	2	1.00	24
Technology	287	1	2.60	25
Miscellaneous	1,907	6	.20	18
	29,854	95		
Commercial leasing – all industries	1,427	5		
Total commercial, commercial construction, and commercial real estate	\$31,281	100%		

Commercial: The Commercial loan category includes loans to a wide variety of businesses across many industries and regions. Included in this category are loans directly originated by National City and syndicated transactions originated by other financial institutions. The Corporation's commercial lending policy requires each loan, regardless of whether it is directly originated or purchased through syndication, to have viable repayment sources. The risks associated with loans in which National City participates as part of a syndicate of financial institutions are similar to those of directly originated commercial loans, however, additional risk may arise from National City's limited ability to control actions of the syndicate.

Shared National Credits, as defined by the banking regulatory agencies, represent syndicated lending arrangements with three or more participating financial institutions and credit exceeding \$20 million in the aggregate. As of the 2003 Shared National Credit Examination, the Corporation had \$15.3 billion in commitments to lend, of which \$6.2 billion of loans were outstanding under this program, representing participations purchased as well as agented transactions.

With respect to loans originated by National City for syndication to other institutions, such activities are focused on long-term customer relationships. Policies are in place governing the degree of risk assumed and volume of loans held. At December 31, 2003, there were no unsold loans in inventory from syndication activities.

Commercial loans are evaluated for the adequacy of repayment sources at the time of approval and are regularly reviewed for any possible deterioration in the ability of the borrower to repay the loan. In certain instances, collateral is required to provide an additional source of repayment in the event of default by a commercial borrower. The structure of the collateral package, including the type and amount of the collateral, varies from loan to loan depending on the financial strength of the borrower, the amount and terms of the loan, and the collateral available to be pledged by the borrower. Credit risk for commercial

loans arises from borrowers lacking the ability or willingness to repay the loan, and in the case of secured loans, by a shortfall in the collateral value in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral.

Commercial loan outstandings decreased over the past couple of years due to the overall weak demand by corporate borrowers for capital. Despite the improvement in the economy in 2003 and the addition of new customers to the portfolio, commercial borrowers remained cautious in their spending and investment decisions, and paydowns in the portfolio offset the impact of new commercial borrowings. In addition, \$1.5 billion and \$400 million of loans secured by real estate collateral were reclassified from commercial to the commercial real estate and commercial construction portfolios, respectively, in 2002. These reclassifications were made in order to make the presentation of loans secured by real estate more consistent with bank regulatory definitions.

The commercial lease portfolio, included in commercial loans, was \$1.4 billion, \$1.7 billion, and \$2.0 billion at December 31, 2003, 2002, and 2001, respectively. National City serves a diversified customer base in steel, automotive, manufacturing, transportation, and other capital-intensive industries and provides lease financing arrangements for a broad range of equipment, including transportation, manufacturing, technology, aircraft, material handling, construction, and other equipment types. Commercial leasing activities are conducted principally within the Corporation's six-state footprint. The Corporation also has selective investments in lease transactions that are national in scope and originated from secondary sources.

A distribution of total commercial loans by maturity and interest rate at December 31, 2003 follows:

(In Millions)	One Year or Less	One to Five Years	Over Five Years	Total
Variable-rate	\$4,323	\$ 9,590	\$1,131	\$15,044
Fixed-rate	914	1,359	1,847	4,120
Total	\$5,237	\$10,949	\$2,978	\$19,164

Commercial Construction: The commercial construction loan category includes loans originated to developers of real estate to finance the construction of commercial properties. Commercial construction loans are transferred to the commercial real estate portfolio upon completion of the property under construction and satisfaction of all terms in the loan agreement. Lending activities are based primarily on relationships with developers who are active in National City's six-state footprint. Commercial construction loans are governed by the same lending policies and are subject to the same credit risk as described for commercial loans. The increase in the commercial construction balances in 2003 and 2002 was primarily due to new business, and was also affected by the reclassification of \$400 million of loans from the commercial loan portfolio in 2002.

A distribution of total commercial construction loans by maturity and interest rate at December 31, 2003 follows:

(In Millions)	One Year or Less	One to Five Years	Over Five Years	Total
Variable-rate	\$971	\$1,062	\$124	\$2,157
Fixed-rate	19	51	62	132
Total	\$990	\$1,113	\$186	\$2,289

Commercial Real Estate: The commercial real estate category contains mortgage loans to developers and owners of commercial real estate. Origination activities for commercial real estate loans are similar to those described above for the commercial construction portfolio. Lending and credit risk policies for commercial real estate loans are governed by the same policies as for the commercial portfolio. The increase in the commercial real estate balance includes the previously discussed 2002 reclassification of \$1.5 billion of loans from the commercial portfolio. Commercial real estate lending activity continued to grow in 2003 as the result of sustained demand for credit for commercial real estate projects and business development efforts.

Residential real estate: The residential real estate category contains loans to consumers secured by residential real estate, including home equity installment loans. The Corporation's residential real estate lending policies require each loan to have viable repayment sources. Residential real estate loans are evaluated for the adequacy of these repayment sources at the time of approval, using such factors as credit scores, debt-to-income ratios, and collateral values. Credit risk for residential real estate loans arises from borrowers lacking the ability or willingness to repay the loans, and by a shortfall in the value of the residential real estate in relation to the outstanding loan balance in the event of a default and subsequent liquidation of the real estate collateral.

Residential real estate portfolio loans are originated by NCMC and First Franklin. NCMC's residential real estate production is primarily originated in accordance with underwriting standards set forth by the government-sponsored entities (GSEs) of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (GNMA), who serve as the primary purchasers of loans sold in the secondary mortgage market by mortgage lenders. These loans are generally collateralized by one-to-four family residential real estate, have loan-to-collateral value ratios of 80% or less, and are made to borrowers in good credit standing. NCMC originates residential real estate loans through retail branch offices located throughout the United States, a wholesale network of brokers, and through National City banking offices located within the Corporation's six-state footprint. Substantially all residential real estate loans originated by NCMC are sold in the secondary mortgage market. The right to service the loans and receive fee income is generally retained when NCMC sells the mortgage loans. During 2003, \$1.2 billion of adjustable-rate mortgage loans originated by NCMC were retained in portfolio and contributed to the increase in the residential real estate portfolio.

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Residential real estate loans originated by First Franklin are generally not readily saleable in the secondary market to the GSEs for inclusion in mortgage-backed securities due to the credit characteristics of the borrower, the underlying documentation, the loan-to-value ratio, or the size of the loan, among other factors. Mortgage loans originated by First Franklin are typically readily saleable to other secondary market investors, and the Corporation generally sells between 40% and 50% of the origination volume to third-party investors, servicing released. During the past three years, \$10.2 billion, \$5.5 billion, and \$3.8 billion, respectively, of First Franklin originated loans were retained in portfolio by the Corporation. The retention of these mortgage loans was a primary driver of the increases in the residential real estate portfolio in 2003 and 2002. At December 31, 2003 and 2002, the First Franklin residential real estate portfolio totaled \$15.1 billion and \$9.4 billion, respectively. First Franklin offers a variety of loan programs and documentation levels for borrowers. First Franklin uses third-party credit scores that are incorporated into the lending guidelines along with loan amount, loan-to-value, and loan purpose. These loans are originated principally through wholesale channels, including a national network of brokers and mortgage bankers. No single source represents more than 1% of total production. Loan production is primarily located on the West Coast (59% of volume, of which 45% is California); however, expansion continues in the Midwest (20%) and East Coast (21%) markets. Written agreements are in place with all brokers that require them to be knowledgeable of all consumer protection laws and regulations, and brokers are actively monitored for compliance.

Also included in the residential real estate loan portfolio are prime-quality installment home equity loans originated in National City's six-state footprint through the retail branch network of the CSB line of business and nationally through NCF's National Home Equity business unit.

Prior to 2001, the Corporation also originated residential real estate loans through its former Altegra unit. This business unit was closed in December 2000. During 2003, the majority of the remaining Altegra originated loans, totaling \$950 million, were sold.

Also affecting the increase in the residential real estate portfolio was the December 2002 reclassification of approximately \$3.2 billion of installment loans secured by home equity from the other consumer portfolio to the residential real estate portfolio. This reclassification was made for consistency with bank regulatory definitions.

Home Equity Lines of Credit: The home equity category consists mainly of revolving lines of credit secured by residential real estate. Home equity lines are generally governed by the same lending policies and subject to credit risk as described above for residential real estate loans. These loans are originated on a nationwide basis through the National Home Equity division, as well as through National City banking offices. The increase in home equity lines of credit during the past two years reflects strategies to grow this business, aided by the low interest rate environment, national marketing efforts, and cross-selling programs.

Credit Cards and Other Unsecured Lines of Credit: This category includes the outstanding balances on open-ended credit card accounts and unsecured personal and business lines of credit. Credit card loans are typically unsecured and are generally governed by similar lending policies and credit risk as described for residential real estate and consumer loans. The 2003 increase in credit cards and other unsecured lines of credit was due to the growth in credit card receivable balances associated with new products and marketing programs. In each of 2002 and 2001, the Corporation securitized \$425 million of credit card receivables. Off-balance sheet securitized credit card receivables totaled \$1.5 billion at December 31, 2003 and 2002.

Other Consumer: Other consumer loans include installment loans used for the purchase of automobiles, boats, and recreational vehicles; automobile leases; and student loans. These consumer loans are generally governed by the same lending policies as described for residential real estate. Credit risk for consumer loans arises from borrowers lacking the ability or willingness to repay the loan, and in the case of secured loans, by a shortfall in the value of the collateral in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral. The decrease in the other consumer portfolio over the past three years reflects the \$3.2 billion loan reclassification described in the residential real estate discussion above and the run-off of the automobile lease portfolio. The Corporation ceased the origination of automobile leases in December 2000 and at December 31, 2003, 2002, and 2001, the automobile lease portfolio balance totaled \$151 million, \$572 million, and \$1.2 billion, respectively. In addition, in 2003, the Corporation designated a portion of its automobile loan production as held for sale rather than placing them in the loan portfolio.

Loans Held for Sale or Securitization: End-of-period and average loans held for sale or securitization at December 31 follow:

(In Millions)	2003	2002	2001	2000	1999
As of December 31:					
Commercial	\$ 16	\$ 15	\$ 51	\$ —	\$ —
Mortgage	14,497	24,486	15,553	3,031	2,731
Automobile	854	—	825	—	—
Credit Card	—	—	402	408	—
Total loans held for sale or securitization	\$15,367	\$24,501	\$16,831	\$3,439	\$2,731
Average:					
Commercial	\$ 13	\$ 11	\$ 19	\$ —	\$ —
Mortgage	22,671	13,933	7,789	2,702	2,505
Automobile	153	248	120	—	—
Credit Card	—	35	33	1	—
Total loans held for sale or securitization	\$22,837	\$14,227	\$ 7,961	\$2,703	\$2,505

The increase in the average loans held for sale or securitization was mainly due to the record volume of mortgage loan originations by NCMC and First Franklin in 2003, aided by the historically low interest rate environment, which fueled mortgage refinancings and home purchase activity. The lower end-of-period mortgage loans held for sale is attributed to mortgage loan sales outpacing new mortgage loan production in the third and fourth quarters of 2003 and to a lesser extent,

the \$950 million sale of the former Altegra portfolio previously discussed above in the residential real estate portfolio section. The higher level of mortgage loans held for sale served as the primary driver of the increase in net interest income and, as a result of the steep yield curve, also had a positive impact on the net interest margin.

Securities: Securities balances at December 31 follow:

(In Millions)	2003	2002	2001	2000	1999
U.S. Treasury and Federal agency debentures	\$ 637	\$1,084	\$ 977	\$1,125	\$ 1,171
Mortgage-backed securities	3,928	4,553	6,447	5,515	9,629
Asset-backed and corporate debt securities	931	1,815	760	1,440	2,633
States and political subdivisions	672	651	703	767	826
Other securities	494	765	815	964	921
Total amortized cost	\$6,662	\$8,868	\$9,702	\$9,811	\$15,180
Total fair value	\$6,866	\$9,211	\$9,859	\$9,904	\$14,904

The majority of the decline in the securities portfolio in 2003 and 2002 has been through sales and principal paydowns in the mortgage-backed securities portfolio. This runoff in mortgage-backed securities more than offset the 2002 increase which resulted from the consolidation of \$2 billion of asset-backed securities from the commercial paper conduit, as described in Note 6 of the consolidated financial statements. At December 31, 2003, the securities portfolio included net unrealized gains of \$204 million. The weighted-average yield of debt securities included in the portfolio at December 31, 2003 was 4.99%, compared to 5.40% at December 31, 2002, computed on a tax equivalent basis.

Funding: Detail of average deposit and borrowed funds balances follows:

(In Millions)	2003	2002	2001	2000	1999
Noninterest bearing NOW and money market	\$ 17,203	\$13,685	\$11,622	\$10,792	\$11,473
Savings	25,378	20,740	18,120	16,549	16,804
Consumer time	2,423	2,561	2,713	3,207	3,818
Core deposits	13,729	15,064	15,332	15,457	14,898
Other deposits	58,733	52,050	47,787	46,005	46,993
Foreign deposits	2,752	3,613	5,802	2,936	3,053
Purchased deposits	7,002	6,302	4,319	3,128	2,679
Total deposits	68,487	61,965	57,908	52,069	52,725
Short-term borrowings	12,464	11,192	10,272	9,576	10,958
Long-term debt	24,854	19,558	16,415	16,454	13,316
Total deposits and borrowed funds	\$105,805	\$92,715	\$84,595	\$78,099	\$76,999

Average funding balances increased in 2003 and 2002 to support the increase in portfolio loans and loans held for sale.

Core deposits increased in 2003, continuing a growth trend that began in late 2000, reflecting net new account acquisition and higher balances per account. This growth reflects the previously mentioned strategic initiatives to grow the customer deposit base through investments in new technology, new product offerings, and improved customer service. A higher level of mortgage banking-related escrow deposits also boosted core deposit balances over the past several years as the result of strong refinancing activity and growth in the portfolio of loans serviced for third parties. Average mortgage banking-related escrow deposits totaled \$5.1 billion, \$2.7 billion, and \$1.5 billion in 2003, 2002, and 2001, respectively. Within the core deposit categories, there has been a shift in mix over the past three years from administered-rate products, such as savings accounts, to market-indexed money market products, due in part to retail deposit migration initiatives which encouraged customers to upgrade to deposit products more suited to their needs in order to promote longer-term customer satisfaction and retention. Consumer time deposits consist primarily of certificates of deposit sold to retail banking customers. Balances have declined since 2000 due to the reduced attractiveness of this product in a low interest rate environment.

Other deposits consist principally of brokered deposits and other non-core certificates of deposit. Brokered deposits represent certificates of deposit acquired through third parties. The remaining certificates of deposit within other deposits are issued primarily to commercial customers, including trusts and state and political subdivisions.

Foreign deposits primarily represent U.S. dollar deposits in the Corporation's Grand Cayman branches from institutional money managers and corporate customers. A small portion of these balances also represents deposits denominated in Canadian dollars used to support lending activity in Canada.

Certificates of deposit of \$100,000 or more totaled \$3.5 billion at December 31, 2003, of which \$.6 billion mature within three months, \$.3 billion mature between three and six months, \$.3 billion mature between six months and one year, and \$2.3 billion mature beyond one year.

Short-term borrowings are comprised mainly of Federal funds purchased, securities sold under agreements to repurchase, U.S. Treasury demand notes, commercial paper, and short-term senior bank notes. Balances have increased over the past three years principally due to the increase in mortgage loans held for sale. At December 31, 2003 and 2002, short-term borrowings included \$5.7 billion and \$8.9 billion, respectively, of U.S. Treasury demand notes. These notes are typically a lower-cost source of funding provided by the U.S. Treasury when excess funds are on hand. The amount of the notes held at any given time can fluctuate significantly depending on the U.S. Treasury's cash needs. Replacement funding through other short-term channels is available in the event the notes are called.

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Long-term debt includes senior and subordinated debt issued by the Corporation or its bank subsidiaries and debt obligations related to capital securities issued by two subsidiary trusts. A wholesale funding policy governs the funding activity of all subsidiary banks. The policy identifies eligible funding instruments and applicable constraints for gathering discretionary liabilities. This policy requires compliance with Section 301 of the FDIC Improvement Act of 1991 regarding the issuance of brokered deposits. The Corporation conducts its funding activities in compliance with the Bank Secrecy Act and other regulations relating to money laundering activity. The Corporation increased its use of longer-term funding in 2003 and 2002, principally through the issuance of senior and subordinated bank notes, to take advantage of the relatively attractive pricing of such funding.

Capital

The Corporation has consistently maintained regulatory capital ratios at or above the "well-capitalized" standards. For further detail on capital and capital ratios, see Notes 18 and 19 to the consolidated financial statements.

Stockholders' equity was \$9.3 billion at December 31, 2003, up from \$8.2 billion at December 31, 2002. Equity as a percentage of assets was 8.19% at December 31, 2003, compared to 6.91% a year ago. Book value per common share rose to \$15.39 at December 31, 2003, up from \$13.35 at December 31, 2002.

On February 24, 2003, the Corporation's Board of Directors authorized a share repurchase program for the repurchase of up to 25,000,000 shares of National City common stock, subject to an aggregate purchase limit of \$800 million. On October 25, 1999, the Corporation's Board of Directors authorized the repurchase of up to 30,000,000 shares of National City common stock, subject to an aggregate purchase limit of \$1.0 billion. There are no expiration dates associated with the 2003 and 1999 programs (collectively, the programs). Shares repurchased under the programs are purchased on the open market and are held for reissue in connection with the Corporation's stock compensation plans and for general corporate purposes. During 2003, 2002, and 2001, the Corporation repurchased 11,462,200, 1,264,000, and 9,316,800 shares of its common stock, respectively. As of December 31, 2003, 27,858,000 shares remain authorized for repurchase. The Corporation's businesses typically generate significant amounts of capital each year in excess of normal dividend and reinvestment requirements. Subject to ongoing capital, investment, and acquisition considerations, management intends to continue share repurchases in 2004 on an opportunistic basis.

National City paid dividends per common share of \$1.25 in 2003 and \$1.20 in 2002, and has paid dividends in every year since its founding except 1868, 1934 and 1935. The dividend payout ratio, representing dividends per share divided by earnings per share, was 36.4% and 51.1% for the years 2003 and 2002, respectively. The decrease in the dividend payout ratio is attributable to the significant increase in earnings in 2003. The dividend payout ratio continues to be reviewed by management and the Board of Directors, particularly in light of new tax laws enacted in 2003.

At December 31, 2003, the Corporation's market capitalization was \$20.6 billion and there were 61,370 shareholders of record. National City's common stock is traded on the New York Stock Exchange under the symbol "NCC." Historical stock price information for National City's common stock is presented in tabular form on the inside back cover of this report.

Risk Management

National City management, with the oversight of the Board of Directors, has in place a variety of committees and organizational structures for managing and mitigating risk. The following discussion addresses the three major risks facing National City: credit, market, and liquidity.

Credit Risk

The Corporation's lending activities are subject to varying degrees of credit risk. Credit risk is mitigated through portfolio diversification, limiting exposure to any single industry or customer, collateral protection, and standard lending policies and underwriting criteria. Note 1 to the consolidated financial statements describes the accounting policies related to nonperforming loans and charge-offs and describes the methodologies used to develop the allowance for loan losses. The policies governing nonperforming loans and charge-offs are consistent with regulatory standards.

The most significant factor affecting the level of nonperforming and delinquent loans and net charge-offs in 2003 and the allowance for loan losses at year end was the overall improvement in the economy, which lessened the financial stress on companies and individual borrowers that had manifested itself into increased levels of delinquencies and net charge-offs during 2002 and early 2003. The disposition of certain commercial and residential real estate portfolio loans in 2003 also served to reduce nonperforming and delinquent loans at year end.

There were no particular industry or geographic concentrations in nonperforming or delinquent loans or net charge-offs.

Nonperforming Assets: Nonperforming assets at December 31 follow:

(Dollars in Millions)	2003	2002	2001	2000	1999
Commercial	\$257	\$408	\$350	\$176	\$127
Commercial construction	7	6	14	7	3
Real estate – commercial	67	60	64	67	69
Real estate – residential	219	228	166	119	70
Total nonperforming loans	550	702	594	369	269
Other real estate owned (OREO)	99	115	64	33	20
Mortgage loans held for sale	8	—	—	—	—
Total nonperforming assets	\$657	\$817	\$658	\$402	\$289
Nonperforming assets as a percentage of:					
Period-end portfolio loans and other nonperforming assets	.83%	1.13%	.97%	.61%	.48%
Period-end total assets	.58	.69	.62	.45	.33

Detail of loans 90 days past due accruing interest follows:

(In Millions)	2003	2002	2001	2000	1999
Commercial	\$ 20	\$ 41	\$ 52	\$ 49	\$ 35
Commercial construction	3	1	6	12	2
Real estate – commercial	32	26	30	23	9
Real estate – residential	428	450	442	218	73
Home equity lines of credit	15	16	17	8	4
Credit card and other unsecured lines of credit	18	8	12	6	13
Other consumer	12	19	28	26	94
Mortgage loans held for sale and other	37	14	26	—	—
Total loans 90 days past due accruing interest	\$565	\$575	\$613	\$342	\$230

Nonperforming assets and loans 90 days past due declined from 2002 to 2003, as loan charge-offs, sales, and paydowns outpaced the addition of new loans to nonperforming and delinquent status. New additions of nonperforming and delinquent loans slowed due to the improvement in the economy. During 2003, \$127 million of nonperforming commercial loans and approximately \$7 million of nonperforming residential real estate loans were sold to third parties. Delinquent credit card and other unsecured lines of credit increased in 2003 as a result of a change in the charge-off policy during the first quarter, which extended the period of time before charging off delinquent balances from 120 days to 150 days. The change in policy was implemented to better manage collection efforts and is consistent with bank regulatory guidelines. The increase in nonperforming and delinquent mortgage loans held for sale was related to the growth in mortgage lending during 2003.

The increase in nonperforming commercial loans from 2001 to 2002 was largely related to commercial loans to leveraged borrowers, whose dependence on third-party

financing and inherently higher interest costs made them particularly vulnerable to the economic downturn. The increase in nonperforming and delinquent residential real estate loans from 2001 to 2002 was attributed to growth in the residential real estate portfolio and the effects of the economic downturn on the former Altegra portfolio.

Allowance for Loan Losses: A reconciliation of the allowance for loan losses follows:

(Dollars in Millions)	2003	2002	2001	2000	1999
Balance at beginning of year	\$ 1,099	\$ 997	\$ 929	\$ 970	\$ 970
Provision	638	682	605	287	250
Allowance related to loans sold or securitized	(2)	(4)	(74)	(42)	—
Charge-offs:					
Commercial	328	318	199	94	81
Commercial construction	3	2	1	2	—
Real estate – commercial	31	21	16	7	7
Real estate – residential	152	86	60	25	17
Home equity lines of credit	24	21	14	7	7
Credit card and other unsecured lines of credit	98	83	98	106	101
Other consumer	121	171	199	167	175
Total charge-offs	757	702	587	408	388
Recoveries:					
Commercial	44	33	17	17	20
Commercial construction	—	—	—	1	—
Real estate – commercial	5	5	6	4	9
Real estate – residential	37	8	1	1	2
Home equity lines of credit	7	5	3	4	4
Credit card and other unsecured lines of credit	8	8	23	22	21
Other consumer	46	67	74	73	82
Total recoveries	147	126	124	122	138
Net charge-offs	610	576	463	286	250
Balance at end of year	\$ 1,125	\$ 1,099	\$ 997	\$ 929	\$ 970
Portfolio loans outstanding at December 31	\$79,279	\$72,134	\$68,041	\$65,604	\$60,204
Allowance as a percentage of:					
Portfolio loans	1.42%	1.52%	1.47%	1.42%	1.61%
Nonperforming loans	204.8	156.4	167.9	251.7	360.5
Net charge-offs	184.7	190.7	215.6	324.3	389.0

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Net charge-offs as a percentage of average loans by portfolio type follow:

	2003	2002	2001	2000	1999
Commercial	1.33%	1.19%	.70%	.33%	.29%
Commercial construction	.12	.07	.10	.07	(.02)
Real estate – commercial	.27	.20	.15	.05	(.03)
Real estate – residential	.49	.50	.42	.20	.15
Home equity lines of credit	.18	.24	.21	.08	.09
Credit card and other unsecured lines of credit	4.21	4.02	3.48	3.43	3.93
Other consumer	.94	.93	1.02	.71	.67
Total net charge-offs to average portfolio loans	.80%	.83%	.68%	.46%	.43%

Net charge-offs increased during 2003 and 2002 due to losses on commercial loans to highly leveraged borrowers, the effect of higher residential real estate portfolio balances, and charge-offs recognized on sales of portfolio loans. The increase in leveraged loan charge-offs was driven by nationally syndicated loans in which National City participates but was not the agent bank. The increase in commercial real estate loan net charge-offs was a function of overall portfolio growth. The increase in residential real estate net charge-offs reflects the growth and seasoning of the portfolio through the retention of First Franklin loans, a \$17 million write-down related to the sale of \$950 million of the former Altegra portfolio in 2003, and to a lesser extent, the reclassification of certain home equity installment loans to the residential real estate portfolio from the other consumer portfolio in December 2002. The year-over-year increase in net charge-offs on credit card and other unsecured lines of credit was primarily the result of higher losses associated with an increase in consumer bankruptcies and growth in the portfolio, offset to some extent by approximately \$2 million associated with the aforementioned change in the charge-off policy for delinquent credit card balances. The year-over-year decrease in other consumer net charge-offs was due to the overall lower balance of the portfolio affected by the aforementioned reclassification of certain home equity installment loans to the residential real estate portfolio and the continued run-off of the automobile lease portfolio.

The provision for loan losses decreased in 2003 in response to the decline in nonperforming and delinquent assets and rose in 2002 and 2001 in response to the higher level of nonperforming assets and charge-offs and uncertainty surrounding the magnitude and duration of the deterioration of economic conditions.

An allocation of the ending allowance for loan losses by portfolio type follows:

(In Millions)	2003	2002	2001	2000	1999
Commercial	\$ 383	\$ 450	\$ 409	\$ 349	\$ 242
Commercial construction and real estate – commercial	56	58	58	63	58
Real estate – residential	125	126	119	66	35
Home equity lines of credit and other consumer loans	94	124	142	127	133
Credit card and other unsecured lines of credit	129	101	83	121	134
Unallocated	338	240	186	203	368
Total allowance	\$1,125	\$1,099	\$997	\$929	\$970

The percentage of portfolio loans in each category to total loans at year end follows:

	2003	2002	2001	2000	1999
Commercial	24.2%	31.4%	37.4%	38.8%	36.8%
Commercial construction and real estate – commercial	15.3	15.9	12.6	11.8	12.1
Real estate – residential	34.6	27.7	21.7	20.4	17.3
Home equity lines of credit and other consumer loans	23.0	22.2	25.6	25.7	29.9
Credit card and other unsecured lines of credit	2.9	2.8	2.7	3.3	3.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%

National City maintains an allowance for loan losses sufficient to absorb estimated probable current losses inherent in the loan portfolio. The evaluation of each element and of the overall allowance is based on the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events in specific industries and geographical areas, and other pertinent factors, including general economic conditions, unemployment levels, and regulatory guidance.

The allowance allocated to the commercial portfolio at December 31, 2003 decreased since last year due to the overall improvement in credit quality, the decline in the portfolio balance, and sales of nonperforming commercial loans in 2003. The lower allowance allocated to home equity lines of credit and other consumer loans at year-end 2003 was primarily due to the refinement of loss allocation factors to reflect a more detailed product mix and, to a lesser extent, the reclassification of allowance to residential real estate associated with the aforementioned home equity installment loan reclassification. The 2003 increase in credit card and other unsecured lines of credit allocated allowance was attributed to the increase in delinquent balances coupled with growth in the portfolio.

The unallocated allowance recognizes estimated probable inherent but undetected losses in the loan portfolio. The increase in the unallocated allowance in 2003 relative to the allocated allowance and to the 2002 unallocated allowance reflects continued uncertainty surrounding near term economic conditions and the sustained effects of a weak economy over the past two years. Although most observable credit quality indicators have shown improvement, there are also increased risks that additional undetected losses exist in light of the severity of the past recession and ongoing uncertainty. Such uncertainty is evidenced by conflicting reports on economic growth and job creation, volatility of interest rates and energy prices, the impacts of terrorism and war, budget shortfalls at all levels of government, and continuing slow demand for capital investments, especially in the manufacturing sector, all of which has led to greater volatility in historical loss rates used in National City's credit risk models. Additionally, as the result of acquisitions and expansion of lending activities into new products and markets, the portfolio mix has changed in recent years. As a result, historical loss experience data used in the allowance allocation estimates may not correspond exactly to the characteristics of the current portfolio. Also, in some portfolio sectors, robust data representative of a complete economic cycle is not available. In light of these factors, management believes that the actual risk of loss in the portfolio may be greater than the estimates in the historical loss allocation models. As such, and in light of the overall decline in the ratio of allowance to loans, management believes that the unallocated allowance at year-end 2003 appropriately reflects probable inherent but undetected losses in the portfolio.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments or other assets due to changes in interest rates, currency exchange rates, or equity prices. Interest rate risk is National City's primary market risk and results from timing differences in the repricing of assets and liabilities, changes in relationships between rate indices, and the potential exercise of explicit or embedded options. The Asset/Liability Management Committee (ALCO) meets monthly and is responsible for reviewing the interest-rate-sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. The guidelines established by ALCO are reviewed by the Investment Committee of the Corporation's Board of Directors. The Corporation does not have any material foreign currency exchange rate risk exposure.

Asset/Liability Management: One of the primary goals of asset/liability management is to maximize net interest income and the net value of future cash flows within authorized risk limits.

Interest Rate Risk Measurement: Interest rate risk is monitored primarily through the use of two complementary measures: earnings simulation modeling and net present value estimation. Both measures are highly assumption-dependent and change regularly as the balance sheet and business mix evolve; however, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk, the distribution of risk along the yield curve, the level of risk through time, and the amount of exposure to changes

in certain interest rate relationships. Both models assume a parallel shift in the yield curve. The key assumptions employed by these measures are analyzed regularly and reviewed by ALCO.

Earnings Simulation Modeling: Net income is affected by changes in the absolute level of interest rates. Net income is also subject to changes in the shape of the yield curve. In general, a flattening of the yield curve would result in a decline in earnings due to the compression of earning asset yields and funding rates, while a steepening would result in increased earnings as investment margins widen. Earnings are also affected by changes in spread relationships between certain rate indices, such as the prime rate and the London Interbank Offering Rate (LIBOR).

The earnings simulation model projects changes in net income caused by the effect of changes in interest rates on net interest income. The model requires management to make assumptions about how the balance sheet is likely to evolve through time in different interest rate environments. Loan and deposit growth rate assumptions are derived from historical analyses and management's outlook, as are the assumptions used to project yields and rates for new loans and deposits. Securities portfolio maturities and prepayments are assumed to be reinvested in similar instruments. Mortgage loan prepayment assumptions are developed from industry median estimates of prepayment speeds in conjunction with the historical prepayment performance of the Corporation's own loans. Noncontractual deposit growth rates and pricing are modeled on historical patterns.

The most recent earnings simulation model projects net income would increase by approximately .6% of stable-rate net income if rates were to rise gradually by 200 basis points over the next twelve months. The model also projects a decrease in net income of 8.2% if rates were to fall gradually by 200 basis points over the same period. The projected decrease in net income is above the ALCO guideline of minus 4.0%, however, management believes a sustained 200 basis point decline in market interest rates from their current low level is highly unlikely.

The earnings simulation model excludes the earnings dynamics related to how fee income and noninterest expense may be affected by changes in interest rates. Mortgage banking revenue in particular, which is generated from originating, selling, and servicing residential mortgage loans, is highly sensitive to changes in interest rates due to the direct effect changes in interest rates have on loan demand and the value of mortgage servicing assets. In general, low or declining interest rates typically lead to increased origination and sales income but potentially lower servicing-related income due to the impact of higher loan prepayments on the value of mortgage servicing assets. Conversely, high or rising interest rates typically reduce mortgage loan demand and hence origination and sales income while servicing-related income may rise due to lower prepayments. In addition, net interest income earned on loans held for sale increases when the yield curve steepens and decreases when the yield curve flattens. Risk related to mortgage banking activities is also monitored by ALCO.

Financial Review CONTINUED

Net Present Value Estimation: The Net Present Value (NPV) measure is used for discerning levels of risk present in the balance sheet that might not be taken into account in the earnings simulation model due to the shorter time horizon used by that model. The NPV of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows minus the discounted value of liability cash flows. Interest rate risk analysis using NPV involves changing the interest rates used in determining the cash flows and in discounting the cash flows. The resulting percentage change in NPV is an indication of the longer-term repricing risk and options risk embedded in the balance sheet. In contrast to the earnings simulation model, which assumes rates will experience a gradual change and then stabilize at a particular level after one year, implied forward rates are used for the NPV measure. The NPV measure also assumes a static balance sheet, versus the growth assumptions that are incorporated into the earnings simulation measure and an unlimited time horizon instead of the one-year horizon applied in the earnings simulation model. As with earnings simulation modeling, assumptions about the timing and variability of balance sheet cash flows are critical in NPV analysis. Particularly important are assumptions driving mortgage prepayments and changes in the noncontractual deposit portfolios. These assumptions are applied consistently in both models.

Based upon the most recent NPV estimation, a 150 basis point immediate increase in rates was estimated to increase NPV by 1.8%. NPV was projected to decline by 1.8% if rates immediately decreased by 150 basis points. Policy guidelines limit the amount of the estimated decline in NPV to 7.0%.

Summary information about the interest-rate risk measures follows:

	2003	2002
One-Year Net Income Simulation Projection		
-200 bp Ramp vs. Stable Rate	-8.2%	-6.9%
+200 bp Ramp vs. Stable Rate	.6%	1.9%
Static Net Present Value Change		
-150 bp Shock vs. Stable Rate	-1.8%	-3.5%
+150 bp Shock vs. Stable Rate	1.8%	4.2%

At the end of 2003, the interest-rate-risk position was asset sensitive, meaning net income should increase as rates rise and decrease as rates fall. During 2003, the Corporation maintained an asset sensitive interest-rate risk position due to management's expectation that rates would rise.

Interest Rate Risk Management: Financial instruments used to manage interest rate risk include investment securities and interest rate derivatives, which include interest rate swaps, interest rate caps and floors, interest rate forwards, and exchange-traded futures and options contracts. Interest rate derivatives have characteristics similar to securities but possess the advantages of customization of the risk-reward profile of the instrument, minimization of balance sheet leverage, and improvement of the liquidity position. Further discussion

of the use of and the accounting for derivative instruments is included in Notes 1 and 25 to the consolidated financial statements.

Trading Risk Management: The Corporation maintains a trading account primarily to provide investment products and risk management services to its customers. Trading risk is monitored on a regular basis through the use of the value-at-risk methodology (VAR). The Corporation primarily uses the historical simulation VAR method. VAR is defined as the potential overnight dollar loss from adverse market movements, with 97.5% confidence, based on historical prices and market rates. During 2003, the average, high, and low VAR amounts were \$552 thousand, \$858 thousand, and \$293 thousand, respectively, and within the limit established by ALCO of \$2 million. During 2002, the average, high, and low VAR amounts were \$603 thousand, \$1 million, and \$318 thousand, respectively. Month-end VAR estimates are monitored regularly. Income from these activities, including interest income, totaled \$11 million in 2003, \$16 million in 2002, and \$29 million in 2001.

Liquidity Risk

Liquidity risk arises from the possibility the Corporation may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The objective of liquidity risk management is to ensure that the cash flow requirements of depositors and borrowers, as well as the operating cash needs of the Corporation, are met, taking into account all on- and off-balance sheet funding demands. Liquidity risk management also includes ensuring cash flow needs are met at a reasonable cost. The Corporation maintains a liquidity risk management policy, which identifies the primary sources of liquidity, establishes procedures for monitoring and measuring liquidity, and establishes minimum liquidity requirements in compliance with regulatory guidance. The policy also includes a contingency funding plan to address liquidity needs in the event of an institution-specific or a systemic financial crisis. The liquidity position is continually monitored and reviewed by the Asset/Liability Management Committee.

Funds are available from a number of sources, including the securities portfolio, the core deposit base, the capital markets, the Federal Home Loan Bank, the U.S. Treasury, and through the sale and securitization of various types of assets. Funding sources did not change significantly during 2003. Core deposits, the most significant source of funding, comprised approximately 56% of funding during each of the three years ended December 31, 2003. Asset securitization vehicles have also been used as a source of funding. In 2002, the Corporation securitized \$1.1 billion of automobile loans and \$425 million of credit card receivables. During 2001, credit card receivables of \$425 million were sold through securitization. As of December 31, 2003, the Corporation had designated \$854 million of newly originated automobile loans as held for securitization pending an anticipated transaction in 2004. Further discussion of securitization activities is included in Note 5 to the consolidated financial statements.

At the holding company level, the Corporation uses cash to pay dividends to stockholders, repurchase common stock, make selected investments and acquisitions, and service debt. The main sources of funding for the holding company include dividends and returns of investment from its subsidiaries, a line of credit with its bank subsidiaries, the commercial paper market, a revolving credit agreement with a group of unaffiliated banks, and access to the capital markets.

The primary source of funding for the holding company has been dividends and returns of investment from its bank subsidiaries. As discussed in Note 18 to the consolidated financial statements, subsidiary banks are subject to regulation and, among other things, may be limited in their ability to pay dividends or transfer funds to the holding company. Accordingly, consolidated cash flows as presented in the consolidated financial statements of cash flows on page 38 may not represent cash immediately available to the holding company. During 2003, the subsidiary banks declared dividends to the holding company totaling \$1.3 billion, of which \$918 million had been paid as of year end. During 2002 and 2001, the subsidiary banks declared and paid dividends to the holding company of \$1.1 billion and \$775 million, respectively. Additionally, during 2003, the bank subsidiaries were granted regulatory approval to provide liquidity to the holding company in the form of return of capital in the amount of \$555 million. Of this amount, \$306 million was paid to the holding company in 2003. In 2002 and 2001, returns of capital paid to the holding company were \$345 thousand and \$465 million, respectively. As of January 1, 2004, the amount of dividends that the bank subsidiaries can pay to the parent company without prior regulatory approval was \$1.2 billion compared to \$975 million at January 1, 2003.

Funds raised in the commercial paper market through the Corporation's subsidiary, National City Credit Corporation, support the short-term cash needs of the holding company and nonbank subsidiaries. At December 31, 2003 and 2002, \$693 million and \$1.0 billion, respectively, of commercial paper borrowings were outstanding.

The holding company has a \$500 million internal line of credit with its banking subsidiaries to provide additional liquidity support. There were no borrowings under this agreement at December 31, 2003 or 2002. During 2001, \$310 million of collateralized borrowings under this agreement were repaid. The holding company also has a \$375 million revolving credit agreement with a group of unaffiliated financial institutions, which serves as a back-up liquidity facility. No borrowings have occurred under this facility. This facility expires in 2005 with a provision to extend the expiration date under certain circumstances.

During 2003, the Corporation filed a shelf registration with the SEC to allow for the sale, over time, of up to \$1.5 billion in senior subordinated debt securities, preferred stock, depository shares, and common stock issuable in connection with conversion of the aforementioned securities. During 2003, the holding company issued \$300 million of senior notes under a prior shelf registration.

Contractual Obligations, Commitments, Contingent Liabilities, and Off-balance Sheet Arrangements

The Corporation has various financial obligations, including contractual obligations and commitments, that may require future cash payments.

Contractual Obligations: The following table presents, as of December 31, 2003, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

(In Millions)	Note Reference	Payments Due In				Total
		One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
Deposits without a stated maturity ^(a)		\$49,871	\$ —	\$ —	\$ —	\$49,871
Consumer and brokered certificates of deposits ^{(b)(c)}		5,382	7,175	1,696	1,264	15,517
Federal funds borrowed and security repurchase agreements ^(b)	14	6,694	—	—	—	6,694
Borrowed funds ^(b)	15	6,373	—	—	—	6,373
Long-term debt ^{(b)(c)}	16,17	11,388	7,256	2,991	4,596	26,231
Operating leases	22	123	182	135	290	730
Purchase obligations		121	127	24	6	278

(a) Excludes interest

(b) Includes interest on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon interest rates in effect at December 31, 2003. The contractual amounts to be paid on variable rate obligations are affected by changes in market interest rates. Future changes in market interest rates could materially affect the contractual amounts to be paid.

(c) Excludes unamortized premiums or discounts, hedge basis adjustments, or other similar carrying value adjustments

The Corporation's operating lease obligations represent short and long-term lease and rental payments for facilities, certain software and data processing and other equipment. Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Corporation and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligation amounts presented above primarily relate to certain contractual payments for services provided for information technology, capital expenditures, and the outsourcing of certain operational activities.

The Corporation also has obligations under its postretirement plan as described in Note 24 to the consolidated financial statements. The postretirement benefit payments represent actuarially determined future benefit payments to eligible plan participants. The Corporation reserves the right to terminate the postretirement benefit plan at any time. The Corporation does not have any commitments or obligations to the defined benefit pension plan at December 31, 2003 due to the funded status of the plan. See further discussion in Note 24.

The Corporation also enters into derivative contracts under which the Corporation is required to either

Financial Review CONTINUED

receive cash from or pay cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of the contracts change daily as market interest rates change. Certain contracts, such as interest rate futures, are cash settled daily, while others, such as interest rate swaps, involve monthly cash settlement. Because the derivative liabilities recorded on the balance sheet at December 31, 2003 do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented on the previous page. Further discussion of derivative instruments is included in Notes 1 and 25 to the consolidated financial statements.

Commitments: The following table details the amounts and expected maturities of significant commitments as of December 31, 2003. Further discussion of these commitments is included in Note 22 to the consolidated financial statements.

(In Millions)	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Commitments to extend credit:					
Commercial	\$ 6,402	\$6,618	\$1,952	\$229	\$15,201
Residential real estate	10,556	—	—	—	10,556
Revolving home equity and credit card lines	23,937	—	—	—	23,937
Other	522	—	—	—	522
Standby letters of credit	1,395	1,437	755	178	3,765
Commercial letters of credit	120	31	—	—	151
Net commitments to sell mortgage loans and mortgage-backed securities	13,126	—	—	—	13,126
Commitments to fund principal investments	21	108	50	48	227
Commitments to fund civic and community investments	97	41	26	36	200

Commitments to extend credit, including loan commitments, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

The commitments to fund principal investments primarily relate to the Corporation's indirect investments in various private equity funds managed by third-party general and limited partners. These estimated commitments were based primarily on the expiration of each fund's investment period at December 31, 2003. The timing of these payments could change due to extensions in the investment periods of the funds or by the rate the commitments are invested, both of which are determined by either the general and/or limited partners of the funds.

The commitments to fund civic and community investments represent future cash outlays for the construction and development of properties for low-income housing, small business real estate, and historic tax credit projects. The timing and amounts of these commitments are projected based upon the financing arrangements provided in each project's partnership or operating agreement, and could change due to variances in the construction schedule, project revisions, or the cancellation of the project.

Contingent Liabilities: The Corporation may also incur liabilities under certain contractual agreements contingent upon the occurrence of certain events. A discussion of significant contractual arrangements under which National City may be held contingently liable, including guarantee arrangements, is included in Note 22 to the consolidated financial statements.

Off-Balance Sheet Arrangements: The Corporation's significant off-balance sheet arrangements include the use of special-purpose entities, generally securitization trusts, to diversify its funding sources. During the past three years, National City has sold credit card receivables and automobile loans to securitization trusts which are considered qualifying special-purpose entities and, accordingly, are not included in the consolidated balance sheet. The Corporation continues to service the loans sold to the trusts, for which it receives a servicing fee, and also has certain retained interests in the assets of the trusts. Further discussion on the accounting for securitizations is included in Note 1 to the consolidated financial statements and detail regarding securitization transactions and retained interests is included in Note 5.

Application of Critical Accounting Policies

National City's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good

faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Corporation are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, the valuation of mortgage servicing assets, and the valuation of derivative instruments to be critical accounting policies.

Allowance for Loan Losses: The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan and lease portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan and lease portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either Statement of Financial Accounting Standards No. (SFAS) 5, *Accounting for Contingencies*, or SFAS 114, *Accounting by Creditors for Impairment of a Loan*. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume.

The unallocated portion of the allowance reflects management's estimate of probable inherent but unde-

tected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that accounts for the inherent imprecision in loan loss migration models. The Corporation has grown through acquisition, expanded the geographic footprint in which it operates, and changed its portfolio mix in recent years. As a result, historical loss experience data used to establish allocation estimates may not precisely correspond to the current portfolio. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for credit losses could be required that could adversely affect earnings or financial position in future periods. The allowance for loan losses is assigned to the Corporation's business lines based on the nature of the loan portfolio in each business line. The Wholesale Banking, Consumer and Small Business Financial Services, and National Consumer Finance business lines have been assigned the majority of the allocated allowance and accordingly would be the business lines most affected by actual outcomes differing from management estimates.

The Credit Risk section of this financial review includes a discussion of the factors driving changes in the allowance for loan losses during the current period.

Mortgage Servicing Right (MSR) Assets: Servicing residential mortgage loans for third-party investors represents a significant business activity of the National Consumer Finance line of business. As of December 31, 2003, the MSR portfolio totaled \$1.3 billion. MSRs do not trade in an active open market with readily observable market prices. Although sales of MSRs do occur, the exact terms and conditions may not be readily available. As such, MSRs are established and valued using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the value of MSRs. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the fair value of the MSRs, mortgage interest rates, which are used to determine prepayment

Financial Review CONTINUED

rates, and discount rates are held constant over the estimated life of the portfolio. Expected mortgage loan prepayment rates are derived from a third-party model and adjusted to reflect National City's actual prepayment experience. MSR's are carried at the lower of the initial capitalized amount, net of accumulated amortization and hedge accounting adjustments, or fair value. Certain MSR's hedged with derivative instruments as part of SFAS 133 hedge relationships may be adjusted above their initial carrying value. Management compares its fair value estimates and assumptions to observable market data where available and to recent market activity and believes that the fair values and related assumptions are comparable to those used by other market participants.

Note 12 to the consolidated financial statements includes a sensitivity analysis showing the effects immediate 10% and 20% adverse changes in the mortgage loan prepayment and discount rate assumptions used to estimate the fair value of MSR's would have on the fair value. Management mitigates risk associated with declines in the estimated fair value of MSR's due to increases in mortgage loan prepayments through the use of derivative instruments that are expected to increase in value when interest rates decline. The effects of recognized changes in the values of the MSR's and the related derivative instruments are included in mortgage banking revenue on the income statement. Note 12 to the financial statements includes discussion of the impacts of valuation changes on current period income.

Derivative Instruments: The Corporation regularly uses derivative instruments as part of its risk management activities to protect the value of certain assets and liabilities and future cash flows against adverse price or interest rate movements. As of December 31, 2003, the recorded amount of derivative assets and liabilities were \$1.3 billion and \$876 million, respectively. All derivative instruments are carried at fair value on the balance sheet. The valuation of derivative instruments is considered critical because most are valued using discounted cash flow modeling techniques in the absence of market value quotes. Therefore, management must make estimates regarding the amount and timing of future cash

flows, which are susceptible to significant change in future periods based on changes in interest rates. The cash flow projection models are acquired from third parties and the assumptions used by management are based on yield curves, forward yield curves, and implied volatilities observable in the cash and derivatives markets. The pricing models are also regularly validated by testing through comparison with other third parties.

Because the majority of the derivative instruments are used to protect the value of other assets and liabilities on the balance sheet, changes in the value of the derivative instruments are typically offset by changes in the value of the assets and liabilities being hedged, although income statement volatility can occur if the derivative instruments are not effective in hedging changes in the value of those assets and liabilities. Changes in the fair values of derivative instruments associated with mortgage banking activities are included in mortgage banking revenue on the consolidated income statement and affect the results of the National Consumer Finance line of business. Changes in the fair values of other derivatives are included in other income on the income statement and are primarily generated from investment funding activities and are not allocated to the business lines. Notes 1 and 25 to the consolidated financial statements also provide further discussion on the accounting and use of derivative instruments.

Any material effect on the financial statements related to these critical accounting areas is also discussed in this financial review.

Recent Accounting Pronouncements and Developments

Note 2 to the consolidated financial statements discusses new accounting policies adopted by the Corporation during 2003 and the expected impact of accounting policies recently issued or proposed but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section(s) of this financial review and notes to the consolidated financial statements.

Forward Looking Statements

This Annual Report contains forward-looking statements. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, the Corporation's ability to effec-

tively execute its business plans; changes in general economic and financial market conditions; changes in interest rates; changes in the competitive environment; continuing consolidation in the financial services industry; new litigation or changes in existing litigation; losses, customer bankruptcy, claims and assessments; changes in banking regulations or other regulatory or legislative requirements affecting the Corporation's business; and changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies. Management may elect to update forward-looking statements at some future point; however, it specifically disclaims any obligation to do so.

Quarterly Summary

Fourth Quarter Review

Unaudited quarterly results are presented on pages 30 and 31.

Net income for the fourth quarter of 2003 was \$544 million, or \$.88 per diluted share, compared to \$344 million, or \$.56 per diluted share for the third quarter of 2003, and \$280 million, or \$.46 per diluted share for the fourth quarter of 2002. The increase in net income in the fourth quarter of 2003 over these prior periods was primarily due to increased mortgage banking revenue, offset to a lesser extent by a decrease in net interest income and an increase in noninterest expense.

Returns on average common equity and average assets were 22.99% and 1.89%, respectively, for the fourth quarter of 2003, compared to 14.87% and 1.10% for the third quarter of 2003, and 13.41% and .99% for the fourth quarter of 2002. The improvement in linked-quarter and year-over-year quarter results was primarily driven by the growth in mortgage banking revenue discussed above. In addition, average total assets for the fourth quarter of 2003 were \$9.2 billion lower than the third quarter primarily due to lower levels of loans held for sale.

Net interest income for the fourth quarter of 2003 was \$1.0 billion, down 9.6% from the prior quarter and down 3.7% from the fourth quarter of 2002. Net interest margin was 4.03% during the fourth quarter of 2003, versus 4.10% in the third quarter of 2003 and 4.26% in the fourth quarter of 2002. Net interest margin has declined in comparison to the prior quarter due to lower balances of mortgage loans held for sale, which carried higher spreads than most other earning assets. Lower interest rates accounted for the decrease

in net interest income and margin in comparison to the prior year fourth quarter.

The provision for loan losses was \$148 million for the fourth quarter of 2003, compared to \$107 million for the third quarter of 2003 and \$159 million for the fourth quarter of 2002. The changes were driven primarily by commercial charge-offs. See the Credit Risk section of the Financial Review for further discussion of the allowance for loan losses and credit quality.

Fees and other income was \$981 million for the fourth quarter of 2003, up significantly from \$484 million in the prior quarter and \$528 million in the fourth quarter of 2002. The increase in fees and other income during the fourth quarter of 2003 reflect increases in mortgage banking revenue, which rose \$478 million compared to the prior quarter and \$406 million compared to the prior year. Mortgage origination and sales revenue accounted for most of this increase at \$399 million, \$(57) million, and \$24 million for the fourth quarter of 2003, the third quarter of 2003 and the fourth quarter of 2002, respectively. These variations were amplified by not applying hedge accounting to loans held for sale. Changes in the fair value of loans held for sale were recognized in the period of loan sale rather than in the period that interest rates moved, while losses on derivatives used to economically hedge the value of the loans were recorded immediately, thereby increasing the volatility of mortgage origination and sales revenue. Net servicing revenue also increased during the fourth quarter as a result of continued growth in the servicing portfolio. Net servicing revenue was \$52 million in the fourth quarter of 2003, up from \$30 million in the third quarter of 2003, and \$21 million in the fourth quarter of 2002.

Quarterly Summary CONTINUED

Quarterly Financial Information

Unaudited quarterly results are presented below. The quarterly and year-to-date results for 2001, 2002 and the first three quarters of 2003 were restated related to the application of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. On the following page, a reconciliation has been provided to show the impact of the restatement on previously reported amounts in the Corporation's Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission. Refer to Note 1 to the Consolidated Financial Statements for further discussion on the restatement.

(Dollars in Millions, Except Per Share Amounts)	First	Second	Third	Fourth	Full Year
2003					
Condensed Income Statement					
Interest income	\$1,519	\$1,521	\$1,548	\$1,409	\$5,997
Interest expense	426	426	403	375	1,630
Net interest income	1,093	1,095	1,145	1,034	4,367
Provision for loan losses	200	183	107	148	638
Fees and other income	1,103	981	484	981	3,549
Net securities gains	—	32	5	10	47
Noninterest expense	1,009	1,026	1,008	1,045	4,088
Income before income tax expense	987	899	519	832	3,237
Net income	643	586	344	544	2,117
Financial Ratios					
Return on average common equity	30.60%	26.74%	14.87%	22.99%	23.60%
Return on average assets	2.24	1.97	1.10	1.89	1.79
Net interest margin	4.21	4.11	4.10	4.03	4.11
Efficiency ratio	45.77	49.27	61.62	51.69	51.46
Per Common Share					
Basic net income	\$ 1.05	\$.96	\$.56	\$.89	\$ 3.46
Diluted net income	1.05	.94	.56	.88	3.43
Dividends declared and paid	.305	.305	.32	.32	1.25
2002					
Condensed Income Statement					
Interest income	\$1,503	\$1,436	\$1,443	\$1,534	\$5,916
Interest expense	506	473	472	459	1,910
Net interest income	997	963	971	1,075	4,006
Provision for loan losses	189	165	169	159	682
Fees and other income	691	699	576	528	2,494
Net securities gains (losses)	54	44	—	(17)	81
Noninterest expense	875	974	870	1,011	3,730
Income before income tax expense	678	567	508	416	2,169
Net income	446	374	347	280	1,447
Financial Ratios					
Return on average common equity	24.03%	19.05%	16.79%	13.41%	18.14%
Return on average assets	1.77	1.53	1.36	.99	1.40
Net interest margin	4.36	4.42	4.34	4.26	4.34
Efficiency ratio	51.58	58.33	55.98	62.80	57.12
Per Common Share					
Basic net income	\$.73	\$.62	\$.56	\$.46	\$ 2.37
Diluted net income	.73	.60	.56	.46	2.35
Dividends declared and paid	.295	.295	.305	.305	1.20
2001					
Condensed Income Statement					
Interest income	\$1,660	\$1,625	\$1,615	\$1,514	\$6,414
Interest expense	889	799	718	570	2,976
Net interest income	771	826	897	944	3,438
Provision for loan losses	83	153	160	209	605
Fees and other income	588	692	503	750	2,533
Net securities gains	88	17	21	19	145
Noninterest expense	805	840	815	885	3,345
Income before income tax expense	559	542	446	619	2,166
Net income	329	356	297	406	1,388
Financial Ratios					
Return on average common equity	20.13%	20.86%	16.69%	22.07%	19.94%
Return on average assets	1.52	1.55	1.25	1.64	1.49
Net interest margin	3.92	3.98	4.20	4.25	4.09
Efficiency ratio	58.86	55.01	57.91	51.95	55.70
Per Common Share					
Basic net income	\$.55	\$.59	\$.49	\$.67	\$ 2.30
Diluted net income	.54	.58	.49	.66	2.27
Dividends declared and paid	.285	.285	.295	.295	1.16

(Dollars in Millions, Except Per Share Amounts)	First	Second	Third		Nine Months
2003					
Reconciliation to Previously Reported Results					
Fees and other income:					
As originally reported	\$ 866	\$1,030	\$ 542		\$2,438
Adjustment	237	(49)	(58)		130
Restated	1,103	981	484		2,568
Income before income tax expense:					
As originally reported	750	948	577		2,275
Adjustment	237	(49)	(58)		130
Restated	987	899	519		2,405
Net income:					
As originally reported	496	617	379		1,492
Adjustment	147	(31)	(35)		81
Restated	643	586	344		1,573
Basic net income per share:					
As originally reported	.81	1.01	.62		2.44
Adjustment	.24	(.05)	(.06)		.13
Restated	1.05	.96	.56		2.57
Diluted net income per share:					
As originally reported	.81	.99	.62		2.42
Adjustment	.24	(.05)	(.06)		.13
Restated	\$ 1.05	\$.94	\$.56		\$ 2.55
	First	Second	Third	Fourth	Full Year
2002					
Reconciliation to Previously Reported Results					
Fees and other income:					
As originally reported	\$ 691	\$ 729	\$ 621	\$ 690	\$2,731
Adjustment	—	(30)	(45)	(162)	(237)
Restated	691	699	576	528	2,494
Income before income tax expense:					
As originally reported	678	597	553	578	2,406
Adjustment	—	(30)	(45)	(162)	(237)
Restated	678	567	508	416	2,169
Net income:					
As originally reported	446	393	374	381	1,594
Adjustment	—	(19)	(27)	(101)	(147)
Restated	446	374	347	280	1,447
Basic net income per share:					
As originally reported	.73	.65	.61	.62	2.61
Adjustment	—	(.03)	(.05)	(.16)	(.24)
Restated	.73	.62	.56	.46	2.37
Diluted net income per share:					
As originally reported	.73	.63	.61	.62	2.59
Adjustment	—	(.03)	(.05)	(.16)	(.24)
Restated	\$.73	\$.60	\$.56	\$.46	\$ 2.35
	First	Second	Third	Fourth	Full Year
2001					
Reconciliation to Previously Reported Results					
Fees and other income:					
As originally reported	\$ 598	\$ 682	\$ 597	\$ 656	\$2,533
Adjustment	(10)	10	(94)	94	—
Restated	588	692	503	750	2,533
Income before income tax expense:					
As originally reported	569	532	540	525	2,166
Adjustment	(10)	10	(94)	94	—
Restated	559	542	446	619	2,166
Net income:					
As originally reported	335	350	356	347	1,388
Adjustment	(6)	6	(59)	59	—
Restated	329	356	297	406	1,388
Basic net income per share:					
As originally reported	.56	.58	.59	.57	2.30
Adjustment	(.01)	.01	(.10)	.10	—
Restated	.55	.59	.49	.67	2.30
Diluted net income per share:					
As originally reported	.55	.57	.58	.57	2.27
Adjustment	(.01)	.01	(.09)	.09	—
Restated	\$.54	\$.58	\$.49	\$.66	\$ 2.27

Statistical Data

Consolidated Statements of Income and Selected Financial Data^(a)

	For the Calendar Year										
(In Millions, Except Per Share Amounts)	2003 ^(b)	2002 ^(b)	2001 ^(b)	2000	1999	1998	1997	1996	1995	1994	1993
Statements of Income											
Interest income:											
Loans	\$5,585	\$5,334	\$5,864	\$5,790	\$4,938	\$4,812	\$4,487	\$4,425	\$4,383	\$3,673	\$3,420
Securities	372	546	518	740	922	885	840	854	966	911	945
Other	40	36	33	37	53	60	36	40	52	20	14
Total interest income	5,997	5,916	6,415	6,567	5,913	5,757	5,363	5,319	5,401	4,604	4,379
Interest expense:											
Deposits	892	1,148	1,778	1,937	1,636	1,846	1,813	1,862	1,975	1,479	1,547
Borrowings and long-term debt	738	762	1,198	1,671	1,277	999	739	612	673	420	187
Total interest expense	1,630	1,910	2,976	3,608	2,913	2,845	2,552	2,474	2,648	1,899	1,734
Net interest income	4,367	4,006	3,439	2,959	3,000	2,912	2,811	2,845	2,753	2,705	2,645
Provision for loan losses	638	682	605	287	250	201	225	240	205	196	228
Net interest income after provision for loan losses	3,729	3,324	2,834	2,672	2,750	2,711	2,586	2,605	2,548	2,509	2,417
Fees and other income	3,549	2,494	2,533	2,427	2,243	2,180	1,766	1,528	1,332	1,274	1,202
Securities gains, net	47	81	145	57	138	134	81	109	42	35	59
Total noninterest income	3,596	2,575	2,678	2,484	2,381	2,314	1,847	1,637	1,374	1,309	1,261
Noninterest expense before merger charges	4,088	3,730	3,345	3,184	2,983	2,998	2,727	2,725	2,690	2,635	2,540
Merger charges	—	—	—	—	—	379	66	75	24	—	—
Total noninterest expense	4,088	3,730	3,345	3,184	2,983	3,377	2,793	2,800	2,714	2,635	2,540
Income before income taxes and cumulative effect of accounting changes	3,237	2,169	2,167	1,972	2,148	1,648	1,640	1,442	1,208	1,183	1,138
Income taxes	1,120	722	779	670	743	577	518	448	380	364	334
Income before cumulative effect of accounting changes	2,117	1,447	1,388	1,302	1,405	1,071	1,122	994	828	819	804
Cumulative effect of accounting changes, net	—	—	—	—	—	—	—	—	—	—	60
Net income	\$2,117	\$1,447	\$1,388	\$1,302	\$1,405	\$1,071	\$1,122	\$ 994	\$ 828	\$ 819	\$ 864
Per Common Share											
Diluted net income	\$3.43	\$2.35	\$2.27	\$2.13	\$2.22	\$1.61	\$1.71	\$1.48	\$1.22	\$1.21	\$1.25
Dividends declared	1.25	1.20	1.16	.855	1.085	.97	.86	.94	.65	.59	.53
Dividends paid	1.25	1.20	1.16	1.14	1.06	.94	.84	.74	.65	.59	.53
Average diluted shares	616.41	616.17	611.94	612.63	632.45	665.72	655.47	673.10	676.48	674.85	691.68
Book value	\$15.39	\$13.35	\$12.15	\$11.06	\$ 9.39	\$10.69	\$ 9.75	\$ 9.39	\$ 8.77	\$ 7.43	\$ 7.69
Market value (close)	33.94	27.32	29.24	28.75	23.69	36.25	32.88	22.44	16.56	12.94	12.25
Financial Ratios											
Return on average common equity	23.60%	18.14%	19.94%	21.29%	22.64%	15.40%	18.20%	16.69%	15.44%	16.39%	18.38%
Return on average total equity	23.60	18.14	19.90	21.21	22.56	15.37	18.20	16.61	15.19	16.09	17.42
Return on average assets	1.79	1.40	1.49	1.52	1.67	1.34	1.56	1.40	1.15	1.23	1.37
Average stockholders' equity to average assets	7.58	7.71	7.49	7.18	7.39	8.70	8.57	8.44	7.59	7.62	7.88
Dividend payout ratio	36.44	51.06	51.10	40.14	48.87	60.25	50.29	63.51	53.28	48.76	42.40
Net interest margin	4.11	4.34	4.09	3.85	3.99	4.11	4.37	4.47	4.24	4.53	4.71
Net charge-offs to average portfolio loans	.80	.83	.68	.46	.43	.37	.44	.46	.42	.35	.50
Efficiency ratio	51.46	57.12	55.70	58.75	56.49	65.81	60.45	63.47	65.85	65.22	64.84
At Year End											
Assets	\$113,933	\$118,021	\$105,817	\$88,535	\$87,121	\$88,246	\$75,779	\$72,918	\$74,142	\$70,438	\$66,395
Portfolio loans	79,279	72,134	68,041	65,604	60,204	58,011	51,994	50,442	50,127	47,396	42,996
Loans held for sale or securitization	15,368	24,501	16,831	3,439	2,731	3,508	1,250	444	416	140	—
Securities	6,866	9,211	9,859	9,904	14,904	16,119	13,798	13,412	15,384	15,338	16,441
Deposits	63,930	65,119	63,130	55,256	50,066	58,247	52,617	53,619	54,923	54,755	51,388
Long-term debt	23,666	22,730	17,316	18,145	15,038	9,689	6,297	3,516	3,515	2,693	1,515
Common stockholders' equity	9,329	8,161	7,381	6,740	5,698	6,977	6,158	6,216	5,706	4,851	5,120
Total stockholders' equity	9,329	8,161	7,381	6,770	5,728	7,013	6,158	6,216	5,892	5,039	5,318
Common shares outstanding	606.00	611.49	607.35	609.19	607.06	652.65	631.39	661.72	650.96	652.68	665.66

^(a) Prior period data have been restated, where applicable, for stock splits and pooling-of-interests business combinations

^(b) Financial data reflects restated results for 2001, 2002 and the first nine months of 2003 related to the application of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. Refer to Note 1 of the Consolidated Financial Statements for further details.

Report of Management on Internal Control

National City Corporation is responsible for the preparation, integrity, and fair presentation of the financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with accounting principles generally accepted in the United States and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of National City Corporation, are responsible for establishing and maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in conformity with accounting principles generally accepted in the United States. The system of internal control over financial reporting as it relates to the financial statements contains self-monitoring mechanisms, and compliance is tested and evaluated through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that controls can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in condition, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Audit Committee, consisting entirely of outside directors, meets regularly with management, internal auditors and independent auditors, and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting, and internal controls. Ernst & Young LLP, independent auditors, and the internal auditors have direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2003, in relation to criteria for effective internal control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2003, its system of internal control over financial reporting met those criteria.



David A. Daberko
Chairman and Chief
Executive Officer



Jeffrey D. Kelly
Chief Financial Officer

Cleveland, Ohio
January 29, 2004

Reports of Ernst & Young LLP, Independent Auditors

Report on Internal Control

Audit Committee of the Board of Directors and the Stockholders of National City Corporation

We have examined management's assertion, included in the accompanying Report of Management on Internal Control, that National City Corporation's system of internal control over financial reporting as of December 31, 2003, met the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), insofar as management's assertion relates to internal control over the annual financial reporting in the 2003 consolidated financial statements of National City Corporation. National City Corporation's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Report on Consolidated Financial Statements

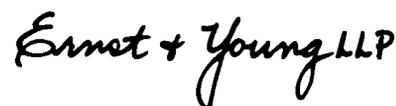
Audit Committee of the Board of Directors and the Stockholders of National City Corporation

We have audited the accompanying consolidated balance sheets of National City Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of National City Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatement due to errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

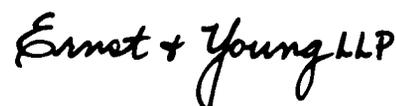
In our opinion, management's assertion that, it believes that, as of December 31, 2003, National City Corporation's system of internal control over financial reporting insofar as management's assertion relates to internal control over the annual financial reporting in the 2003 consolidated financial statements of National City Corporation, met the established criteria in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission, is fairly stated, in all material respects, based on those criteria.



Cleveland, Ohio
January 29, 2004

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National City Corporation and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1, the consolidated financial statements for the years ended December 31, 2002 and 2001 have been restated.



Cleveland, Ohio
January 29, 2004

Consolidated Financial Statements

Consolidated Balance Sheets

(Dollars in Thousands, Except Per Share Amounts)	December 31	
	2003	2002
Assets		
Cash and demand balances due from banks	\$ 3,595,706	\$ 3,756,426
Federal funds sold and security resale agreements	162,347	136,343
Securities available for sale, at fair value	6,865,616	9,211,268
Other investments	830,887	869,147
Loans held for sale or securitization:		
Commercial	16,300	14,840
Mortgage	14,497,277	24,486,524
Automobile	853,982	—
Total loans held for sale or securitization	15,367,559	24,501,364
Portfolio loans:		
Commercial	19,164,326	22,631,724
Commercial construction	2,289,429	2,090,336
Real estate – commercial	9,827,877	9,384,851
Real estate – residential	27,393,711	19,972,549
Home equity lines of credit	10,950,356	8,062,199
Credit card and other unsecured lines of credit	2,324,198	2,030,024
Other consumer	7,328,956	7,962,729
Total portfolio loans	79,278,853	72,134,412
Allowance for loan losses	(1,125,329)	(1,098,588)
Net portfolio loans	78,153,524	71,035,824
Properties and equipment	1,125,526	1,036,937
Other real estate owned	99,418	114,931
Mortgage servicing assets	1,298,417	615,193
Goodwill	1,103,340	1,078,281
Other intangible assets	62,475	74,573
Derivative assets	1,349,259	1,468,381
Accrued income and other assets	3,919,386	4,122,722
Total Assets	\$ 113,933,460	\$ 118,021,390
Liabilities		
Deposits:		
Noninterest bearing	\$ 16,585,367	\$ 16,156,081
NOW and money market	26,849,261	23,022,449
Savings	2,353,721	2,477,067
Consumer time	13,133,909	14,686,005
Other	924,969	3,403,827
Foreign	4,082,803	5,373,339
Total deposits	63,930,030	65,118,768
Federal funds borrowed and security repurchase agreements	6,693,916	6,528,258
Borrowed funds	6,615,460	11,493,909
Long-term debt	23,480,724	22,550,295
Junior subordinated debentures owed to unconsolidated subsidiary trusts	185,568	—
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts holding solely debentures of the Corporation	—	180,000
Derivative liabilities	875,737	1,243,544
Accrued expenses and other liabilities	2,823,354	2,745,559
Total Liabilities	104,604,789	109,860,333
Stockholders' Equity		
Common stock, par value \$4 per share, authorized 1,400,000,000 shares, outstanding 605,996,120 shares in 2003 and 611,491,359 shares in 2002	2,423,985	2,445,966
Capital surplus	1,116,279	989,346
Retained earnings	5,723,720	4,658,565
Accumulated other comprehensive income	64,687	67,180
Total Stockholders' Equity	9,328,671	8,161,057
Total Liabilities and Stockholders' Equity	\$ 113,933,460	\$ 118,021,390

See Notes to Consolidated Financial Statements

Consolidated Financial Statements CONTINUED

Consolidated Statements of Income

(Dollars in Thousands, Except Per Share Amounts)	For the Calendar Year		
	2003	2002	2001
Interest Income			
Loans	\$5,584,681	\$5,333,962	\$5,863,785
Securities:			
Taxable	318,304	474,096	433,115
Exempt from Federal income taxes	33,927	36,286	39,800
Dividends	20,404	35,191	45,201
Federal funds sold and security resale agreements	2,756	2,010	4,317
Other investments	37,750	34,375	28,534
Total interest income	5,997,822	5,915,920	6,414,752
Interest Expense			
Deposits	891,731	1,148,378	1,777,731
Federal funds borrowed and security repurchase agreements	132,397	150,430	297,374
Borrowed funds	18,672	37,375	63,987
Long-term debt and capital securities	587,016	574,358	836,811
Total interest expense	1,629,816	1,910,541	2,975,903
Net Interest Income	4,368,006	4,005,379	3,438,849
Provision for Loan Losses	638,418	681,918	605,295
Net interest income after provision for loan losses	3,729,588	3,323,461	2,833,554
Noninterest Income			
Mortgage banking revenue	1,482,026	590,341	525,312
Deposit service charges	568,067	513,560	469,326
Payment processing revenue	477,888	451,037	464,627
Trust and investment management fees	291,075	307,387	319,825
Card-related fees	168,947	156,965	169,453
Brokerage revenue	122,080	108,585	97,505
Other	438,766	366,007	486,973
Total fees and other income	3,548,849	2,493,882	2,533,021
Securities gains, net	47,152	81,092	144,802
Total noninterest income	3,596,001	2,574,974	2,677,823
Noninterest Expense			
Salaries, benefits, and other personnel	2,215,686	1,865,480	1,710,309
Equipment	261,421	245,431	238,956
Net occupancy	232,989	225,044	212,780
Third-party services	295,348	239,083	203,762
Card processing	218,093	210,891	198,928
Marketing and public relations	135,569	146,138	71,348
Other	729,017	797,567	708,793
Total noninterest expense	4,088,123	3,729,634	3,344,876
Income before income tax expense	3,237,466	2,168,801	2,166,501
Income tax expense	1,120,402	722,158	778,393
Net Income	\$2,117,064	\$1,446,643	\$1,388,108
Net Income Per Common Share			
Basic	\$3.46	\$2.37	\$2.30
Diluted	3.43	2.35	2.27
Average Common Shares Outstanding			
Basic	611,205,682	610,186,786	603,611,073
Diluted	616,410,043	616,174,238	611,936,906

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in Thousands, Except Per Share Amounts)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2000	\$29,968	\$2,436,755	\$ 837,444	\$3,405,077	\$ 60,577	\$6,769,821
Comprehensive income:						
Net income				1,388,108		1,388,108
Other comprehensive income, net of tax:						
Cumulative effect of change in accounting principle					(25,995)	(25,995)
Change in unrealized gains and losses on securities, net of reclassification adjustment for net gains included in net income					45,079	45,079
Change in unrealized gains and losses on derivative instruments used in cash flow hedging relationships, net of reclassification adjustment for net losses included in net income					(7,384)	(7,384)
Total comprehensive income						1,399,808
Common dividends declared, \$1.16 per share				(699,848)		(699,848)
Preferred dividends declared				(1,016)		(1,016)
Issuances of 5,709,641 common shares under stock-based compensation plans, including related tax effects		22,838	55,866			78,704
Repurchase of 9,316,800 common shares		(37,267)	(6,707)	(122,272)		(166,246)
Conversion of 585,396 shares of preferred stock to 1,773,220 common shares	(29,270)	7,093	22,177			—
Balance, December 31, 2001	\$ 698	\$2,429,419	\$ 908,780	\$3,970,049	\$ 72,277	\$7,381,223
Comprehensive income:						
Net income				1,446,643		1,446,643
Other comprehensive income, net of tax:						
Change in unrealized gains and losses on securities, net of reclassification adjustment for net gains included in net income					117,417	117,417
Change in unrealized gains and losses on derivative instruments used in cash flow hedging relationships, net of reclassification adjustment for net losses included in net income					(122,514)	(122,514)
Total comprehensive income						1,441,546
Common dividends declared, \$1.20 per share				(732,064)		(732,064)
Preferred dividends declared				(21)		(21)
Issuance of 5,360,548 common shares under stock-based compensation plans, including related tax effects		21,443	81,493			102,936
Repurchase of 1,264,000 common shares		(5,056)	(1,428)	(26,042)		(32,526)
Conversion of 13,234 shares of preferred stock to 40,082 common shares and redemption of 735 shares	(698)	160	501			(37)
Balance, December 31, 2002	\$ —	\$2,445,966	\$ 989,346	\$4,658,565	\$ 67,180	\$8,161,057
Comprehensive income:						
Net income				2,117,064		2,117,064
Other comprehensive income, net of tax:						
Change in unrealized gains and losses on securities, net of reclassification adjustment for net gains included in net income					(90,755)	(90,755)
Change in unrealized gains and losses on derivative instruments used in cash flow hedging relationships, net of reclassification adjustment for net losses included in net income					88,262	88,262
Total comprehensive income						2,114,571
Common dividends declared, \$1.25 per share				(764,817)		(764,817)
Issuance of 5,966,961 common shares under stock-based compensation plans, including related tax effects		23,868	146,609			170,477
Repurchase of 11,462,200 common shares		(45,849)	(19,676)	(287,092)		(352,617)
Balance, December 31, 2003	\$ —	\$2,423,985	\$1,116,279	\$5,723,720	\$ 64,687	\$9,328,671

See Notes to Consolidated Financial Statements

Consolidated Financial Statements CONTINUED

Consolidated Statements of Cash Flows

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Operating Activities			
Net income	\$ 2,117,064	\$ 1,446,643	\$ 1,388,108
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	638,418	681,918	605,295
Depreciation and amortization of properties and equipment	194,877	182,840	182,730
Amortization of intangible assets and mortgage servicing assets	536,972	378,747	283,584
Accretion of premiums and discounts on securities and debt	(20,085)	(23,415)	(9,151)
Mortgage servicing asset impairment (recoveries) charges	(194,277)	246,330	88,018
Ineffective hedge and other derivative gains, net	(251,549)	(671,841)	(405,527)
Securities gains, net	(47,152)	(81,092)	(144,802)
Gains on loans sold or securitized, net	(1,031,561)	(528,688)	(358,956)
Other losses, net	166,968	290,403	62,162
Originations and purchases of loans held for sale or securitization	(111,133,636)	(81,217,831)	(57,995,822)
Principal payments on and proceeds from sales of loans held for sale or securitization	119,666,635	71,705,366	44,684,194
Provision for deferred income taxes	(107,880)	(220,528)	1,783
Decrease in accrued interest receivable	12,383	8,491	519,030
(Decrease) increase in accrued interest payable	(19,479)	36,059	(640,761)
Net change in other assets and liabilities	2,258,672	1,512,112	(134,412)
Net cash provided by (used in) operating activities	12,786,370	(6,254,486)	(11,874,527)
Lending and Investing Activities			
Net decrease (increase) in Federal funds sold, security resale agreements, and other investments	12,256	(128,089)	164,413
Purchases of available-for-sale securities	(3,967,818)	(4,089,805)	(3,252,831)
Proceeds from sales of available-for-sale securities	1,731,204	3,112,992	2,625,290
Proceeds from maturities, calls, and prepayments of available-for-sale securities	4,488,063	2,681,143	2,072,950
Net increase in loans	(10,948,201)	(4,231,022)	(4,492,467)
Proceeds from sales or securitizations of loans	1,835,347	1,902,237	1,007,921
Net increase in properties and equipment	(296,887)	(152,973)	(189,222)
(Purchases)/proceeds from acquisitions and divestitures	(35,118)	—	43,500
Net cash used in lending and investing activities	(7,181,154)	(905,517)	(2,020,446)
Deposit and Financing Activities			
Net (decrease) increase in deposits	(1,161,690)	1,970,593	7,852,894
Net increase (decrease) in Federal funds borrowed and security repurchase agreements	165,658	(65,130)	915,745
Net (decrease) increase in borrowed funds	(4,878,449)	243,538	7,675,017
Repayments of long-term debt	(10,317,328)	(5,287,240)	(6,996,405)
Proceeds from issuances of long-term debt, net	11,372,830	10,312,428	6,105,344
Dividends paid	(764,817)	(732,095)	(701,304)
Issuances of common stock	170,477	102,936	78,704
Repurchases of common stock	(352,617)	(32,526)	(166,246)
Redemption of preferred stock	—	(37)	—
Net cash (used in) provided by deposit and financing activities	(5,765,936)	6,512,467	14,763,749
Net (decrease) increase in cash and demand balances due from banks	(160,720)	(647,536)	868,776
Cash and demand balances due from banks, January 1	3,756,426	4,403,962	3,535,186
Cash and Demand Balances Due from Banks, December 31	\$ 3,595,706	\$ 3,756,426	\$ 4,403,962
Supplemental Information			
Cash paid for:			
Interest	\$ 1,421,774	\$ 1,874,482	\$ 3,616,664
Income taxes	1,177,170	877,918	747,142
Noncash items:			
Transfers of loans to other real estate	228,731	187,414	121,043
Carrying value of securities donated to the National City Charitable Foundation	25,007	36,306	—
Consolidation of asset-backed commercial paper conduit			
Loans	—	679,451	—
Securities	—	1,992,178	—
Other assets	—	1,492	—
Commercial paper borrowings	—	2,688,757	—
Other liabilities	—	228	—
Trade date purchase of debt securities not yet settled	—	—	1,057,299
Fair value of AMVESCAP PLC stock received in connection with sale of National Asset Management Corporation preferred stock	—	1,386	41,319

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Nature of Operations

National City Corporation (National City or the Corporation) is a financial holding company headquartered in Cleveland, Ohio. National City operates through an extensive branch bank network in Ohio, Michigan, Pennsylvania, Indiana, Kentucky, and Illinois and also conducts selected consumer lending businesses and other financial services on a nationwide basis. Primary businesses include commercial and retail banking, consumer finance, asset management, mortgage financing and servicing, and payment processing.

1. Basis of Presentation and Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of the Corporation and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain prior period amounts have been reclassified to conform with the current period presentation.

Restatement of Prior Period Financial Statements: The Corporation has restated prior period financial statements based upon changes in its method of assessing effectiveness of its hedging activities pursuant to Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities* (SFAS 133). The restatement resulted from changes in the technical application of effectiveness tests under SFAS 133 relating to hedging programs for mortgage servicing rights and mortgage loans held for sale. The impact of the restatement to net income and the related per share amounts for the years ended December 31, 2001 and 2002 and the nine months ended September 30, 2003 was as follows:

(In Thousands, Except Per Share Amounts)	Nine Months Ended		For the Year Ended	
	September 30, 2003		2002	2001
As originally reported:				
Net income	\$1,492,476	\$1,593,598	\$1,388,108	
Net income per common share:				
Basic	\$2.44	\$2.61	\$2.30	
Diluted	2.42	2.59	2.27	
As restated:				
Net income	\$1,572,948	\$1,446,643	\$1,388,108	
Net income per common share:				
Basic	\$2.57	\$2.37	\$2.30	
Diluted	2.55	2.35	2.27	

This change had no significant impact on financial position or cumulative net income for the three-year period ending December 31, 2003. See the Financial Review section for a Summary Condensed Income Statement of the restated quarterly financial results.

Consolidation: Accounting Research Bulletin No. 51 (ARB 51), *Consolidated Financial Statements*, requires a company's consolidated financial statements include subsidiaries in which the company has a controlling financial interest. This requirement usually has been applied to subsidiaries in which a company has a majority voting interest. Investments in companies in which the Corporation controls operating and financing decisions (principally defined as owning a voting or

economic interest greater than 50%) are consolidated. Investments in companies in which the Corporation has significant influence over operating and financing decisions (principally defined as owning a voting or economic interest of 20% to 50%) and limited partnership investments are generally accounted for by the equity method of accounting. These investments are normally included in other assets and National City's proportionate share of income or loss is included in other noninterest income.

The voting interest approach defined in ARB 51 is not applicable in identifying controlling financial interests in entities that are not controllable through voting interests or in which the equity investors do not bear the residual economic risks. In such instances, Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities (VIE)*, indicates when a company should include in its financial statements the assets, liabilities and activities of another entity. In general, a VIE is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or entitles it to receive a majority of the entity's residual returns or both. A company that consolidates a VIE is called the primary beneficiary of that entity. The Corporation's consolidated financial statements include the assets, liabilities and activities of VIEs for which it is deemed to be the primary beneficiary.

The Corporation uses special-purpose entities (SPEs), primarily securitization trusts, to diversify its funding sources. SPEs are not operating entities, generally have no employees, and usually have a limited life. The basic SPE structure involves the Corporation transferring assets to the SPE. The SPE funds the purchase of those assets by issuing asset-backed securities to investors. The legal documents governing the SPE describe how the cash received on the assets held in the SPE must be allocated to the investors and other parties that have rights to these cash flows. National City structures these SPEs to be bankruptcy remote, thereby insulating investors from the impact of the creditors of other entities, including the transferor of the assets.

Where the Corporation is a transferor of assets to an SPE, the assets sold to the SPE are no longer recorded on the balance sheet and the SPE is not consolidated when the SPE is a qualifying special-purpose entity (QSPE). Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, provides specific criteria for determining when an SPE meets the definition of a QSPE. In determining whether to consolidate non-qualifying SPEs where assets are legally isolated from National City's creditors, the Corporation considers such factors as the amount of third-party equity, the retention of risks and rewards, and the extent of control available to third parties. The Corporation currently services certain credit card receivables and automobile loans that were sold to two separate securitization trusts. Both trusts meet the applicable

Notes to Consolidated Financial Statements CONTINUED

QSPE criteria under SFAS 140, and accordingly, are not consolidated on the balance sheet. Further discussion regarding these securitization trusts is included in Note 5.

Use of Estimates: The accounting and reporting policies of National City conform with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ materially from those estimates.

Statement of Cash Flows: Cash and demand balances due from banks are considered "cash and cash equivalents" for financial reporting purposes.

Business Combinations: SFAS 141, *Business Combinations*, requires business combinations initiated after June 30, 2001 to be accounted for by the purchase method. Under the purchase method, net assets of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

Loans: Loans are generally reported at the principal amount outstanding, net of unearned income. Loans held for sale or securitization are valued on an aggregate basis at the lower of carrying amount or fair value.

Interest income is recognized on an accrual basis. Loan origination fees, certain direct costs, and unearned discounts are deferred and amortized into interest income as an adjustment to the yield over the term of the loan. Loan commitment fees are generally deferred and amortized into fee income on a straight-line basis over the commitment period. Other credit-related fees, including letter and line of credit fees and loan syndication fees, are recognized as fee income when earned.

Income on direct financing leases is recognized on a basis that achieves a constant periodic rate of return on the outstanding investment. Income on leveraged leases is recognized on a basis that achieves a constant periodic rate of return on the outstanding investment in the lease, net of the related deferred tax liability, in the years in which the net investment is positive. Residual values on leased assets are reviewed regularly for other-than-temporary impairment. When there is other-than-temporary impairment in the carrying value of the Corporation's interest in the residual value of a leased asset, the carrying value is reduced to the estimated fair value with the write-down generally recognized in other noninterest expense in the income statement.

Commercial loans and leases and loans secured by real estate are designated as nonperforming when either principal or interest payments are 90 days or more past due (unless the loan or lease is sufficiently collateralized such that full repayment of both principal and interest is expected and is in the process of collection), terms are renegotiated below market levels, or when an individual analysis of a borrower's creditworthiness indicates a

credit should be placed on nonperforming status. When a loan is placed on nonperforming status, uncollected interest accrued in prior years is charged against the allowance for loan losses, while uncollected interest accrued in the current year is charged against interest income. Interest income during the period the loan is on nonperforming status is recorded on a cash basis after recovery of principal is reasonably assured.

Commercial loans and leases and commercial loans secured by real estate are generally charged off to the extent principal and interest due exceed the net realizable value of the collateral, with the charge-off occurring when the loss is reasonably quantifiable but not later than when the loan becomes 180 days past due. Loans secured by residential real estate are generally charged off to the extent principal and interest due exceed 90% of the current appraised value of the collateral and the loan becomes 180 days past due.

Commercial and commercial real estate loans exceeding \$500,000 are evaluated for impairment in accordance with the provisions of SFAS 114, *Accounting by Creditors for Impairment of a Loan*, which requires an allowance to be established as a component of the allowance for loan losses when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan and the recorded investment in the loan exceeds its fair value. Fair value is measured using either the present value of expected future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the collateral if the loan is collateral dependent. All loans subject to evaluation and considered impaired are included in nonperforming assets.

Consumer loans are subject to mandatory charge-off at a specified delinquency date and are usually not classified as nonperforming prior to being charged off. Closed-end consumer loans, which include installment and student loans and automobile leases, are generally charged off in full no later than when the loan becomes 120 days past due. Installment loans secured by home equity and classified as residential real estate are also subject to this charge-off policy. Open-end, unsecured consumer loans, such as credit card loans, are generally charged off in full no later than when the loan becomes 150 days past due.

The Corporation, through its subsidiary NCMC, sells mortgage loans to GNMA in the normal course of business and retains the servicing rights. The GNMA programs under which the loans are sold allow the Corporation to repurchase individual delinquent loans that meet certain criteria from the securitized pool. At the Corporation's option, and without GNMA's prior authorization, the Corporation may repurchase the delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. Under SFAS 140, once the Corporation has the unconditional ability to repurchase the delinquent loan, the Corporation is deemed to have regained effective control over the loan and is required to recognize the loan on its balance sheet and record an offsetting liability, regardless of the Corporation's intent to repurchase the loan. As of December 31, 2003, residential real estate portfolio loans included \$240 million of loans available for repurchase under the GNMA optional repurchase pro-

grams with the offsetting liability recorded within other borrowed funds.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and geographical areas, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary. When loans are identified for sale or securitization, attributed loan loss allowance is reclassified as a direct reduction to the carrying value of the loans.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either SFAS 5, *Accounting for Contingencies*, or SFAS 114. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio.

Other Real Estate Owned: Other real estate owned (OREO) is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO also includes bank premises qualifying as held for sale under SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. OREO obtained in satisfaction of a loan is recorded at the estimated fair value less anticipated selling costs based upon the property's appraised value at the date of transfer, with any difference between the fair value of the property and the carrying value of the loan charged to the allowance for loan losses. Bank premises are transferred at the lower of carrying value or estimated fair value less anticipated selling costs. Subsequent changes in value are reported as adjustments to the carrying amount, not to exceed the initial carrying value of the assets at the time of transfer. Changes in value subsequent to transfer are recorded in noninterest expense on the income statement. Gains or losses not previously recognized resulting from the sale of OREO are recognized in noninterest expense on the date of sale.

Securities: Securities purchased with the intention of realizing short-term profits are considered trading securities, carried at fair value, and included in other investments. Realized and unrealized gains and losses are included in securities gains or losses on the income statement. Interest on trading account securities is recorded in interest income. As of December 31, 2003 and December 31, 2002, trading account securities totaled \$22 million and \$15 million, respectively.

Securities are classified as held to maturity when management has the positive intent and ability to hold the securities to maturity. Securities held to maturity, when present, are carried at amortized cost. National City held no securities classified as held to maturity at either December 31, 2003 or 2002.

Securities not classified as held to maturity or trading are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income, net of tax. Realized gains and losses on the sale of and other-than-temporary impairment charges on available-for-sale securities are recorded in securities gains or losses on the income statement.

Interest and dividends on securities, including amortization of premiums and accretion of discounts using the effective-interest method over the period to maturity, are included in interest income. Realized gains and losses on the sale of and other-than-temporary impairment charges on securities, except for the Corporation's internally-managed equity portfolio comprised primarily of bank and thrift common stock investments (bank stock fund), are determined using the specific-identification method. On January 1, 2003, the Corporation changed to the average-cost method to determine realized gains and losses and other-than-temporary impairment charges on bank stock fund investments, consistent with the manner in which the Corporation manages the investments in this fund. Purchases and sales of securities are recognized on a trade-date basis.

Notes to Consolidated Financial Statements CONTINUED

Principal Investments: Principal investments, which include direct investments in private and public companies and indirect investments in private equity funds, are carried at estimated fair value with changes in fair value recognized in other noninterest income.

Direct investments include equity and mezzanine investments in the form of common stock, preferred stock, limited liability company interests, warrants, and subordinated debt. Direct mezzanine investments in the form of subordinated debt and preferred stock, which earn interest or dividends, are included in other investments on the balance sheet, while the remainder of the direct investments are included in other assets. Indirect investments include ownership interests in private equity funds managed by third-party general partners and are included in other assets on the balance sheet.

The fair values of publicly traded investments are determined using quoted market prices, subject to various discount factors, sales restrictions, and regulation, when appropriate. Investments that are not publicly traded are initially valued at cost and subsequent adjustments to fair value are estimated in good faith by management. Factors used in determining the fair value of direct investments include consideration of the company's business model, current and projected financial performance, liquidity, management team, and overall economic and market conditions. Factors used in determining the fair value of indirect investments include evaluation of the general partner's valuation techniques and overall economic and market conditions. The fair value estimates of the investments are based upon currently available information and may not necessarily represent amounts that will ultimately be realized, which depend on future events and circumstances.

Interest and dividends on principal investments are recorded in interest income on the statement of income. Principal investment fee income, fair value adjustments, realized gain and losses on the return of capital, and principal investment write-offs are recognized in other noninterest income.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase: Securities purchased under agreements to resell and securities sold under agreements to repurchase are generally accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral obtained or requested to be returned to the Corporation as deemed appropriate.

Goodwill and Other Intangible Assets: Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. On January 1, 2002, the Corporation adopted

SFAS 142, *Goodwill and Other Intangible Assets*. Under the provisions of SFAS 142, goodwill is no longer ratably amortized into the income statement over an estimated life, but rather is tested at least annually for impairment. Intangible assets which have finite lives continue to be amortized over their estimated useful lives and also continue to be subject to impairment testing. All other intangible assets have finite lives and are amortized on a straight-line basis over varying periods not exceeding 10 years. Note 11 includes a summary of goodwill and other intangible assets.

Depreciable Assets: Properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from one to 10 years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment; and 10 to 40 years for buildings and building improvements. Land improvements are amortized over a period of 15 years, and leasehold improvements are amortized over the term of the respective lease plus the first optional renewal period, if applicable. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the estimated remaining life of the asset.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Corporation recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recorded in other noninterest expense on the income statement.

Asset Securitizations: National City uses the securitization of financial assets as a source of funding. Financial assets, including pools of credit card receivables and automobile loans, are transferred into trusts or to SPEs in transactions which are effective under applicable banking rules and regulations to legally isolate the assets from National City Bank (the Bank), a subsidiary of the Corporation. Where the transferor is a depository institution such as a bank subsidiary of the Corporation, legal isolation is accomplished through compliance with specific rules and regulations of the relevant regulatory authorities. In addition, National City purchases the guaranteed portion of Small Business Administration (SBA) loans from third-party lenders and then securitizes these loans into SBA guaranteed pooled securities through the use of a fiscal and transfer agent approved by the SBA. The certificates are then sold directly to institutional investors, achieving legal isolation.

SFAS 140 requires, for certain transactions completed after the initial adoption date, a "true sale" analysis of the treatment of the transfer under state law as if the Corporation was a debtor under the bankruptcy code. A "true sale" legal analysis includes several legally relevant factors, such as the nature and level of recourse to the transferor and the nature of retained servicing rights. The analytical conclusion as to a true sale is

never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met under SFAS 140, other factors concerning the nature and extent of the transferor's control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted, including whether the SPE has complied with rules concerning qualifying special-purpose entities.

A legal opinion regarding legal isolation for each credit card securitization has been obtained by the Bank. The opinion rendered in connection with the 2002 credit card securitization included in its conclusion that the Federal Deposit Insurance Corporation (FDIC) regulation, *Treatment by the Federal Deposit Insurance Corporation as Conservator or Receiver of Financial Assets Transferred by an Insured Depository Institution in Connection with a Securitization or Participation* (Securitization Rule) would be applicable to the transfer of such receivables. The Securitization Rule provides reasonable assurance that neither the FDIC acting as conservator or receiver for the transferring bank subsidiary, nor any other creditor of the bank, may reclaim or recover the receivables from the securitization trust or recharacterize the receivables as property of the transferring bank subsidiary or of the conservatorship or receivership for the bank. The opinion further reasoned, even if the Securitization Rule did not apply, then pursuant to various FDIC pronouncements, the FDIC would uphold the effectiveness of the security interest granted in the financial assets. A legal opinion was obtained for the first step in the automobile loan securitization transaction in 2002, which was structured as a two-step securitization. While noting the transaction fell within the meaning of a "securitization" under the Securitization Rule, in accordance with accounting guidance, an analysis was also rendered under state law as if the transferring Bank was a debtor under the bankruptcy code. The "true sale" opinion provides reasonable assurance the purchased assets would not be characterized as the property of the transferring Bank's receivership or conservatorship estate in the event of insolvency and also states the transferor would not be required to substantively consolidate the assets and liabilities of the purchaser SPE with those of the transferor upon such event. The process of securitizing SBA loans into pools of SBA certificates is prescribed by the SBA and must be followed to obtain the SBA guarantee. This process has been developed to meet the requirements for sale treatment under SFAS 140.

In a securitization, the trust issues beneficial interests in the form of senior and subordinated asset-backed securities backed or collateralized by the assets sold to the trust. The senior classes of the asset-backed securities typically receive investment grade credit ratings at the time of issuance. These ratings are generally achieved through the creation of lower-rated subordinated classes of asset-backed securities, as well as subordinated interests retained by an affiliate of the Corporation. In all cases, the Corporation or its affiliate retains interests in the securitized assets, which may take the form of seller certificates, subordinated tranches, cash reserve balances, servicing assets, and interest-only strips representing the cash flows gener-

ated by the assets in excess of the contractual cash flows required to be paid to the investors and for other obligations such as servicing fees.

An SBA approved fiscal and transfer agent associated with the SBA securitizations issues certificates once all the necessary documents to support the transaction have been provided. The Corporation retains beneficial interests in the securitized assets in the form of interest-only strips. The SBA guarantees the credit risk with respect to the loans sold.

In accordance with SFAS 140, securitized loans are removed from the balance sheet and a net gain or loss is recognized in income at the time of initial sale and each subsequent sale when the combined net sales proceeds and, if applicable, retained interests differ from the loans' allocated carrying amount. Net gains or losses resulting from securitizations are recorded in noninterest income.

Retained interests in the subordinated tranches and interest-only strips are recorded at their fair value and included in the available-for-sale or trading securities portfolio. Retained interests in the credit card and automobile loan securitizations are classified as available-for-sale securities. Retained interests in the SBA securitizations are classified as trading securities and are included in other investments on the consolidated balance sheet. Subsequent adjustments to the fair value of retained interests classified as available-for-sale are recorded through other comprehensive income within stockholders' equity or in other noninterest expense in the income statement if the fair value has declined below the carrying amount and such decline has been determined to be other-than-temporary. Fair value adjustments and other-than-temporary adjustments to retained interests classified as trading securities are recorded in other noninterest income on the income statement. The Corporation uses assumptions and estimates in determining the fair value allocated to the retained interests at the time of sale and each subsequent sale in accordance with SFAS 140. These assumptions and estimates include projections concerning rates charged to customers, the expected life of the receivables, credit loss experience, loan repayment rates, the cost of funds, and discount rates commensurate with the risks involved.

On a quarterly basis, management reviews the historical performance of each retained interest and the assumptions used to project future cash flows. If past performance and future expectations dictate, assumptions are revised and the present value of future cash flows is recalculated. Refer to Note 5 for further analysis of the assumptions used in the determination of fair value.

When the Corporation retains the right to service the loans and receives related fees that exceed the current market rate to service the receivables, a servicing asset is recorded and included in other assets on the balance sheet. A servicing asset is not recognized if the Corporation receives adequate compensation relative to current market servicing prices to service the receivables sold. Servicing assets created in a securitization are initially measured at their allocated carrying amount based upon relative fair values at the date of securitization and are subsequently carried at the lower of this initial

Notes to Consolidated Financial Statements CONTINUED

carrying value, adjusted for amortization, or fair value. Impairment, if any, is recognized when and in the amount the carrying value exceeds its fair value as determined by calculating the present value of the expected future net servicing cash flows using the assumptions described previously. The amortization of servicing assets occurs in proportion to, and over the period of, the estimated net servicing income and is recorded in noninterest income on the income statement.

For securitizations involving credit card receivables, the Corporation's continuing involvement in the securitized assets includes maintaining an undivided, pro rata interest in all credit card loan receivables that are in the trust, referred to as seller's interest. The seller's interest ranks "pari-passu" with the investors' interests in the trust. As the amount of the loans in the securitized pool fluctuates due to customer payments, purchases, cash advances, and credit losses, the carrying amount of the seller's interest will vary. However, the Corporation is required to maintain its seller's interest at a minimum level of 4% of the initial invested amount in each series to ensure receivables are available for allocation to the investors' interests.

Also with regard to credit card securitizations, the trust is not required to make principal payments to the investors during the revolving period, which generally approximates 48 months. Instead, the trust uses principal payments received on the accounts to purchase new loan receivables. Therefore, the principal dollar amount of the investor's interest in the loans within the trust remains unchanged. Once the revolving period ends, the trust distributes principal payments to the investors according to the terms of the transaction. Distribution of principal to the investors in the credit card trust may begin earlier if the average annualized yield on the loans securitized (generally equal to the sum of interest income, interchange and other fees, less principal credit losses during the period) for three consecutive months drops below a minimum yield (generally equal to the sum of the coupon rate payable to investors plus contractual servicing fees), or certain other events occur.

The retained interests represent National City's maximum loss exposure with respect to securitization vehicles. The investors in the asset-backed securities issued by the SPEs have no further recourse against the Corporation if cash flows generated by the securitized assets are inadequate to service the obligations of the SPEs.

Transaction costs associated with revolving loan securitizations are deferred at the time of sale and amortized over the revolving term of the securitization, while transaction costs associated with fixed-term loan securitizations are recognized as a component of the gain or loss at the time of sale.

Derivative Instruments: The Corporation enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. The Corporation is also required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

Under the guidelines of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, all derivative instruments are required to be carried at fair value on the balance sheet. SFAS 133 provides special hedge accounting provisions, which permit the change in the fair value of the hedged item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in the fair value of the derivative.

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 risk, are considered fair value hedges under SFAS 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. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking each hedge transaction.

Fair value hedges are accounted for by recording the fair value of the derivative instrument and the fair value related to the risk being hedged of the hedged asset or liability on the balance sheet with corresponding offsets recorded in the income statement. The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as a freestanding asset or liability. Actual cash receipts or payments and related amounts accrued during the period on derivatives included in a fair value hedge relationship are recorded as adjustments to the income or expense recorded on the hedged asset or liability.

Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either a freestanding asset or liability, with a corresponding offset recorded in other comprehensive income within stockholders' equity, net of tax. Amounts are reclassified from other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings.

Under both the fair value and cash flow hedge methods, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the income statement. At the hedge's inception and at least quarterly thereafter, a formal assessment is performed 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. SFAS 133 basis adjustments recorded on hedged assets and liabilities are amortized over the remaining life of the hedged item beginning no later than when hedge accounting ceases.

Mortgage Servicing Assets: The Corporation sells mortgage loans in the secondary market and typically retains the right to service the loans sold. Upon sale, a mortgage servicing right (MSR) asset is established, which represents the then current fair value of future net cash flows expected to be realized for performing the servicing activities. MSRs, when purchased, are initially recorded at cost. MSRs are carried at the lower of the initial capitalized amount, net of accumulated amortization and hedge accounting adjustments, or fair value. Certain MSRs hedged with derivative instruments as part of SFAS 133 hedge relationships may be adjusted above their initial carrying value. Changes in fair value resulting from the application of hedge accounting become part of the carrying values of MSRs.

The carrying values of MSRs (initial capitalized amount, net of accumulated amortization and hedge accounting adjustments) are amortized in proportion to, and over the period of, estimated net servicing income.

MSRs are evaluated for impairment in accordance with SFAS 140. For purposes of determining impairment, the MSRs are stratified by certain risk characteristics, primarily loan type and note rate. If temporary impairment exists within a risk stratification tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value, including hedge accounting adjustments, exceeds the fair value. If it is later determined all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced through a recovery of income.

MSRs are also reviewed for other-than-temporary impairment. Other-than-temporary impairment exists when the recoverability of a recorded valuation allowance is determined to be remote taking into consideration historical and projected interest rates and loan pay-off activity. When this situation occurs, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the MSRs. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent recoveries.

The fair value of MSRs is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the value of MSRs. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determin-

ing the fair value of the MSRs, mortgage interest rates, which are used to determine prepayment rates, and discount rates are held constant over the estimated life of the portfolio. Expected mortgage loan prepayment rates are derived from a third-party model and adjusted to reflect National City's actual prepayment experience. Servicing fees, net of amortization, impairment, and related derivative gains and losses are recorded in mortgage banking revenue on the income statement.

Stock-Based Compensation: Effective January 1, 2003, the Corporation adopted the fair value method of recording stock awards under SFAS 123, *Accounting for Stock-Based Compensation*. Under the guidance of SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, the Corporation began applying the recognition provisions of SFAS 123 to all awards granted to employees after January 1, 2003. Compensation expense for option awards granted subsequent to January 1, 2003 were determined based on the estimated fair value of the award at the date of grant and recognized ratably in the income statement over the option's vesting period. Stock options granted prior to January 1, 2003, will continue to be accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*. Under APB 25, compensation expense for employee stock options is generally not recognized if the exercise price of the option equals or exceeds the market price of the stock on the date of grant. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2003 is less than that which would have been recognized if the fair value method had been applied to all unvested stock awards. The remaining outstanding options accounted for under APB 25 vest through 2005.

Compensation expense for restricted share awards is ratably recognized over the period of service, usually the restricted period, based upon the fair value of the stock on the date of grant. The adoption of the recognition provisions of SFAS 123 did not have a significant impact on the determination of compensation expense for restricted share awards.

The table on the following page illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of SFAS 123 to all stock option awards. Also included in the pro forma net income and earnings per share is the after-tax expense, net of minority interest benefit, related to option awards granted by the Corporation's 84%-owned payment processing subsidiary, National Processing, Inc., on its common stock.

Notes to Consolidated Financial Statements CONTINUED

(In Thousands, Except Per Share Amounts)	For the Calendar Year		
	2003	2002	2001
Net income, as reported	\$2,117,064	\$1,446,643	\$1,388,108
Add: option expense included in reported net income, net of related tax effects			
National City common stock	8,548	—	—
National Processing common stock	144	—	—
Less: total option expense determined under fair value method for all option awards, net of related tax effects			
National City common stock	(41,251)	(44,872)	(40,060)
National Processing common stock	(5,378)	(6,224)	(3,901)
Pro forma net income	\$2,079,127	\$1,395,547	\$1,344,147
Pro forma net income per share:			
Basic – as reported	\$3.46	\$2.37	\$2.30
Basic – pro forma	3.40	2.29	2.23
Diluted – as reported	3.43	2.35	2.27
Diluted – pro forma	3.37	2.26	2.20

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was originally developed for use in estimating the fair value of traded options, which have different characteristics from the Corporation's employee stock options. The model is also sensitive to changes in assumptions, which can materially affect the fair value estimate. The following weighted-average assumptions were used to determine the fair value of options granted on National City common stock:

	For the Calendar Year		
	2003	2002	2001
Risk-free interest rate	3.26%	3.48%	5.55%
Expected dividend yield	4.14	3.86	3.50
Expected volatility	27.15	26.10	23.60
Expected option life (in years)	5	5	4
Weighted-average grant-date fair value of options	\$6.04	\$5.09	\$5.83

The weighted-average assumptions used to value the National Processing option grants are disclosed in National Processing, Inc.'s December 31, 2003 Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission (SEC) and is accessible at www.sec.gov.

Advertising Costs: Advertising costs are generally expensed as incurred.

Income Taxes: The Corporation and its subsidiaries file a consolidated Federal income tax return. The provision for income taxes is based upon income in the financial statements, rather than amounts reported on the Corporation's income tax return.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

Stock Repurchases: Acquisitions of the Corporation's common stock are recorded using the par value method, which requires the cash paid to be allocated to common stock, capital surplus, and retained earnings.

2. Recent Accounting Pronouncements

Loan Commitments: On December 11, 2003, the SEC staff announced its intention to release a Staff Accounting Bulletin that would require all registrants to account for mortgage loan interest rate lock commitments related to loans held for sale as written options, effective no later than for commitments entered into after March 31, 2004. The Corporation enters into such commitments with customers in connection with residential mortgage loan applications and at December 31, 2003 had approximately \$4.1 billion in notional amount of these commitments outstanding. This guidance, if issued, would require the Corporation to recognize a liability on its balance sheet equal to the fair value of the commitment at the time the loan commitment is issued. As a result, this guidance would delay the recognition of any revenue related to these commitments until such time as the loan is sold, however, it would have no effect on the ultimate amount of revenue or cash flows recognized over time. The Corporation is currently assessing the impact of this pending guidance on its results of operations and financial position. In the quarter of adoption, there would likely be a one-time negative impact to mortgage banking revenue yet to be determined.

Employers' Disclosures about Pensions and Other Postretirement Benefits: In December 2003, the FASB revised SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This Statement retains the disclosures required by the original SFAS 132 and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension and postretirement plans. In addition, this Statement requires interim period disclosure of the components of net period benefit cost and contributions if significantly different from previously reported amounts. See Note 24 for the additional pension and other postretirement benefit disclosures as the Corporation adopted the provisions of this Statement as of December 31, 2003.

Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity: In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This Statement establishes standards for classifying and measuring certain financial instruments that embody obliga-

tions of the issuer and have characteristics of both liabilities and equity. The provisions of SFAS 150 became effective June 1, 2003, for all financial instruments created or modified after May 31, 2003, and otherwise became effective as of July 1, 2003. The adoption of this standard did not have a material impact on financial condition, the results of operations, or liquidity.

In December 2003, the FASB deferred for an indefinite period the application of the guidance in SFAS 150 to noncontrolling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability in the parent's financial statements under SFAS 150. The deferral is limited to mandatorily redeemable noncontrolling interests associated with finite-lived subsidiaries. Management does not believe any such applicable entities exist as of December 31, 2003, but will continue to evaluate the applicability of this deferral to entities which may be consolidated as a result of FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*.

Amendment of Statement 133 on Derivative Instruments and Hedging Activities: In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under SFAS 133, as well as amends certain other existing FASB pronouncements. In general, SFAS 149 is effective for derivative transactions entered into or modified and for hedging relationships designated after June 30, 2003. The adoption of this standard did not have a material impact on financial condition, the results of operations, or liquidity.

Consolidation of Variable Interest Entities: In January 2003, the FASB issued FIN 46, which provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE are to be included in an entity's consolidated financial statements. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics include the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity if they occur, or the right to receive the expected residual returns of the entity if they occur.

During the third quarter of 2003, the Corporation applied the provisions of FIN 46 to two wholly-owned subsidiary trusts that issued capital securities to third-party investors and to certain direct and indirect interests in investment partnerships. The application of FIN 46 resulted in the deconsolidation of the two wholly-owned subsidiary trusts. The assets and liabilities of the subsidiary trusts that were deconsolidated totaled \$189 million and \$183 million, respectively. See Note 17 for further discussion of these trusts and the Corporation's related obligations. The application of FIN 46 to certain direct and indirect interests in investment partnerships resulted in the consolidation of assets and liabilities each totaling \$73 million. Of the total \$73 mil-

lion of liabilities consolidated, \$72 million represented amounts owned by minority ownership interests.

In December 2003, the FASB reissued FIN 46 with certain modifications and clarifications. Application of this guidance was effective for interests in certain VIEs commonly referred to as special-purpose entities (SPEs) as of December 31, 2003. Application for all other types of entities is required for periods ending after March 15, 2004, unless previously applied.

Management continues to evaluate the applicability of FIN 46 on various other investments and interests, including low-income housing partnership interests, small business commercial real estate partnerships, historic tax credit partnerships, leveraged leasing structures, and certain trust accounts. The Corporation does not believe that the application of FIN 46 to any of these investments or interests, if required, will have a material impact on financial condition, results of operations, or liquidity.

Guarantees: In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation expands the disclosures to be made by a guarantor about its obligations under certain guarantees and requires the guarantor to recognize a liability for the obligation assumed under a guarantee. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, while other guarantees are subject to just the disclosure requirements of FIN 45 but not to the recognition provisions. The disclosure requirements of FIN 45 were effective for the Corporation as of December 31, 2002, and require disclosure of the nature of the guarantee, the maximum potential amount of future payments the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are applied prospectively to guarantees issued or modified after December 31, 2002. Significant guarantees are disclosed in Note 22. The implementation of the accounting requirements of FIN 45 did not have a material impact on financial condition, the results of operations, or liquidity.

Accounting for Stock-Based Compensation: In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, which provides guidance to transition from the intrinsic value method of accounting for stock-based employee compensation under APB 25 to SFAS 123's fair value method of accounting, if a company so elects.

Effective January 1, 2003, the Corporation adopted the fair value method of recording stock options under SFAS 123 prospectively for awards granted, modified or settled after January 1, 2003. Refer to Notes 1 and 23 for further discussion on the adoption of SFAS 148. The income statement impact associated with expensing

Notes to Consolidated Financial Statements CONTINUED

National City stock options was approximately \$12 million pretax and \$9 million, or \$.01 per diluted share, after tax, in 2003.

Accounting for Costs Associated with Exit or Disposal Activities: SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was issued in June 2002 and was adopted by the Corporation on January 1, 2003. This statement requires a cost associated with an exit or disposal activity, such as the sale or termination of a line of business, the closure of business activities in a particular location, or a change in management structure, to be recorded as a liability at fair value when it becomes probable the cost will be incurred and no future economic benefit will be gained by the company for such cost. Applicable costs include employee termination benefits, contract termination costs, and costs to consolidate facilities or relocate employees. SFAS 146 supersedes EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*, which in some cases required certain costs to be recognized before a liability was actually incurred. The adoption of this standard did not have a material impact on financial condition, the results of operations, or liquidity.

Asset Retirement Obligations: In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 requires an entity to record a liability for an obligation associated with the retirement of an asset at the time the liability is incurred by capitalizing the cost as part of the carrying value of the related asset and depreciating it over the remaining useful life of that asset. The standard became effective for the Corporation on January 1, 2003 and its adoption did not have a material impact on financial condition, the results of operations, or liquidity.

Non-GAAP Financial Measures: In March 2003, the SEC issued Regulation G, *Conditions for Use of Non-GAAP Financial Measures*. As defined in Regulation G, a non-GAAP financial measure is a numerical measure of a company's historical or future performance, financial position, or cash flow that excludes or includes amounts or adjustments that are included or excluded in the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). Companies that present non-GAAP financial measures must disclose a numerical reconciliation to the most directly comparable measurement using GAAP. Management does not believe it has used any non-GAAP financial measure in this report.

3. Acquisitions and Divestitures

In November 2003, the Corporation signed a definitive agreement to acquire Allegiant Bancorp, Inc., a \$2.5 billion asset bank holding company operating a 35 branch network in the St. Louis, Missouri metropolitan area. Under the terms of the purchase agreement, Allegiant shareholders will receive either .833 shares of National City common stock in a tax-free exchange, or \$27.25 in cash, for each share of Allegiant common stock, for a total indicated value of approximately \$475 million. Completion of this transaction is subject to shareholder and regulatory approvals.

In June 2003, National Processing, Inc., the Corporation's 84%-owned payment processing subsidiary, acquired Bridgeview Payment Solutions, Inc. (BPS) from Bridgeview Bank and Trust Company for \$32 million in cash. The preliminary allocation of the purchase price increased goodwill by approximately \$24 million. The remainder of the purchase price was primarily allocated to merchant contracts, which were recorded as other intangible assets and are being amortized on a straight-line basis over five years. The results of operations for BPS have been included in the consolidated financial statements since the date of acquisition.

In April 2001, National City sold its preferred share interest in National Asset Management Corporation (NAMCO), a Louisville, Kentucky-based investment advisor, to AMVESCAP PLC (AVZ) for a gain of \$89 million. The gain is included in other noninterest income on the income statement. The carrying value of National City's investment in NAMCO preferred shares was \$2 million. Cash proceeds of \$49 million and 2.8 million shares of AVZ stock, with a value of \$41 million, were received in connection with the sale. The shares were sold later in the second quarter of 2001. In May 2002, National City received additional contingent consideration of \$5 million related to the sale of NAMCO, consisting of cash of \$4 million and 126,677 shares of AVZ stock, with a value of \$1 million. The consideration was recorded in other noninterest income on the income statement.

In June 2001, National Processing acquired a 70% interest in ABN AMRO Merchant Services, LLC (AAMS) for cash of \$49 million. Under the terms of the agreement, National Processing provides AAMS with all merchant-processing services, including both authorization and settlement of all card-based transactions. The acquisition was accounted for by the purchase method, with the results of operations of AAMS included in the income statement from the date of acquisition. Goodwill of \$27 million was recorded in connection with the acquisition. The remainder of the purchase price was allocated to other intangible assets, primarily acquired-merchant contracts, which are being amortized on a straight-line basis over 10 years.

In August 2001, National Processing sold its business process outsourcing business unit for \$43 million in cash. This business unit primarily processed health care claims, credit card applications, and airline tickets. In connection with the disposal, a pretax impairment loss, net of minority interest benefit, of \$3 million was recorded in 2001.

4. Restructuring Charges

In the first quarter of 2003, the Corporation implemented cost-reduction initiatives focused on improving long-term profitability. These cost-reduction initiatives included a voluntary retirement program and position eliminations across the Corporation's lines of business. In connection with the cost-reduction initiatives, a liability was established and a charge to income recorded for severance and costs associated with outplacement services provided to employees whose positions were eliminated. A rollforward of the severance liability is presented in the table below. Also included in the rollforward of the liability are severance expenses incurred in the normal course of business. Except for

severance charges incurred by the National Processing line of business, all other severance and related termination expenses were recorded as unallocated corporate charges within the Parent and Other category. Of the total net expense recorded in 2003 of \$82 million, \$5 million related to outplacement services provided and was recorded within third-party services expense on the income statement. The remainder was recorded within personnel expense.

	For the Year Ended December 31, 2003		
(In Thousands)	Parent and Other	National Processing	Total
Beginning balance	\$ 13,895	\$ 3,141	\$ 17,036
Severance and other termination costs	83,405	1,764	85,169
Payments	(80,503)	(2,235)	(82,738)
Adjustments	(2,643)	(897)	(3,540)
Ending balance	\$ 14,154	\$ 1,773	\$ 15,927

Adjustments to the liability were recognized for instances in which severed employees accepted new positions resulting in termination of their severance benefits.

5. Securitization Activity

The Corporation periodically sells assets through securitization transactions.

During 2003, the Corporation securitized five pools of Small Business Administration (SBA) loans totaling \$52 million, and recognized a pretax loss of \$215 thousand, which was recorded in other noninterest income. Retained interests in the form of interest-only strips were recognized with an initial carrying value of approximately \$4 million. The SBA loans securitized were sold servicing released and transaction costs were expensed in conjunction with the sale.

A summary of the assumptions used to value the credit card retained interests and automobile retained interests and servicing asset at the time of the securitizations were as follows:

	Weighted- Average Life (in months)	Variable Annual Coupon Rate to Investors	Monthly Principal Repayment Rate	Expected Annual Credit Losses	Annual Discount Rate	Yield
Credit Card:						
Series 2000-1	5.5	6.86%	18.08%	4.17%	15.00%	14.43%
Series 2001-1	5.6	6.06	17.79	4.08	15.00	14.77
Series 2002-1	5.7	2.06	17.41	5.34	15.00	11.99
	Weighted- Average Life (in months)	Monthly Prepayment Speed (% ABS)	Expected Cumulative Credit Losses	Annual Discount Rate	Weighted- Average Coupon	
Automobile:						
Interest only strip	22.9	1.40%	2.25%	12.00%	8.71%	
Servicing asset	22.9	1.40	2.25	12.00	8.71	

A summary of the components of managed loans, representing both owned and securitized loans, along with quantitative information about delinquencies and net credit losses is presented on the following page. The

On January 31, 2002, National City sold \$425 million of credit card receivables to the National City Credit Card Master Trust (trust) and recognized a pretax gain of \$25 million, which was recorded in other noninterest income. Retained interests in the form of interest-only strips and subordinated tranches were also recognized with initial carrying values of \$5 million and \$27 million, respectively. Transaction costs of \$2 million incurred in connection with the securitization were deferred and are being amortized over the revolving term of the securitization.

In January 2001, the Corporation also sold \$425 million of credit card receivables in a securitization transaction and recognized a pretax gain of \$21 million, which was recorded in other noninterest income. Retained interests in the form of interest-only strips and subordinated tranches were also recognized with initial carrying values of \$4 million and \$28 million, respectively. Transaction costs of \$2 million incurred in connection with the securitization were deferred and are being amortized over the revolving term of the securitization.

The transaction costs deferred in connection with the credit card securitizations consisted primarily of securities underwriting, filing, and professional services fees.

The Corporation established an automobile receivables trust into which it sold, through securitization on March 27, 2002, \$1.1 billion of fixed-rate, closed-end automobile loans. A pretax gain of \$25 million was recorded as a result of the securitization and was recorded in other noninterest income. Retained interests in the form of interest-only strips, subordinated tranches, and dealer rebate receivables were also recognized with initial carrying values of \$41 million, \$62 million, and \$2 million, respectively. In addition, a servicing asset was created in the amount of \$17 million. See Note 1 for further details regarding the accounting for servicing assets.

automobile loans presented represent the managed portfolio of indirect prime automobile loans. The SBA loans represent securitized loans originally purchased and then sold by the Corporation.

Notes to Consolidated Financial Statements CONTINUED

(In Millions)	As of December 31, 2003		For the Calendar Year	
	Principal Balance	Loans Past Due 30 Days or More	Average Balances	Net Credit Losses
Type of loan:				
Credit card	\$2,585.3	\$ 95.0	\$2,447.2	\$136.2
Automobile	4,307.2	71.1	4,427.2	46.2
SBA	43.5	5.7	35.0	—
Total loans managed or securitized	6,936.0	171.8	6,909.4	182.4
Less:				
Loans securitized:				
Credit card	1,450.0	45.2	1,450.0	74.7
Automobile	495.4	10.0	656.4	9.4
SBA	43.5	5.7	35.0	—
Loans held for securitization:				
Credit card	—	—	—	—
Automobile	854.0	2.8	153.1	—
SBA	—	—	—	—
Loans held in portfolio	\$4,093.1	\$108.1	\$4,614.9	\$ 98.3

(In Millions)	As of December 31, 2002		For the Calendar Year	
	Principal Balance	Loans Past Due 30 Days or More	Average Balances	Net Credit Losses
Type of loan:				
Credit card	\$2,400.0	\$ 87.0	\$2,263.7	\$124.0
Automobile	4,400.3	91.2	4,394.0	44.7
SBA	—	—	—	—
Total loans managed or securitized	6,800.3	178.2	6,657.7	168.7
Less:				
Loans securitized:				
Credit card	1,450.0	48.0	1,415.1	73.8
Automobile	834.4	11.8	738.6	4.9
SBA	—	—	—	—
Loans held for securitization:				
Credit card	—	—	34.9	—
Automobile	—	—	248.4	—
SBA	—	—	—	—
Loans held in portfolio	\$4,515.9	\$118.4	\$4,220.7	\$ 90.0

The Corporation's on-balance-sheet credit card receivables are expected to increase following the revolving period of the securitization.

Certain cash flows received from the securitization trusts follow:

(In Millions)	For the Calendar Year					
	2003			2002		2001
	Credit Card	Automobile	SBA	Credit Card	Automobile	Credit Card
Proceeds from new securitizations	\$ —	\$ —	\$ 48.0	\$ 397.4	\$1,041.0	\$ 397.4
Proceeds from collections reinvested in previous securitizations	3,089.3	—	—	3,002.2	—	2,052.4
Servicing fees received	29.0	6.6	—	28.3	9.1	19.3
Other cash flows received on retained interest	89.6	15.0	.9	94.5	16.1	66.8
Proceeds from sales of previously charged-off accounts	1.1	—	—	1.6	.2	1.4
Purchases of delinquent or foreclosed assets	—	—	—	—	—	—
Repayments of servicing advances	—	—	—	—	—	—

A summary of the fair values of the interest-only strips and servicing assets retained, key economic assumptions used to arrive at the fair values, and the sensitivity of the December 31, 2003, fair values to immediate 10% and 20% adverse changes in those assumptions follows. Actual credit losses experienced through year-end 2003 on the pool of automobile loans securitized have been consistent with initial projections. As such, the expected static pool loss assumption would perform consistent with that disclosed in the sensitivity analysis. The sensitivities are hypothetical. Changes in fair value

based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might either magnify or counteract the sensitivities.

(Dollars in Millions)	Fair Value	Weighted-Average Life (in months) ^(b)	Variable Annual Coupon Rate to Investors ^(b)	Monthly Principal Repayment Rate ^(b)	Expected Annual Credit Losses ^(b)	Annual Discount Rate ^(b)	Yield ^(b)
Credit Card Loans							
Interest-only strips ^(a)	\$6.2	3.3	1.35%	17.90%	5.57%	15.00%	10.27%
As of December 31, 2003							
Decline in fair value of 10% adverse change			\$.4	\$.5	\$ 2.1	\$ —	\$ 3.9
Decline in fair value of 20% adverse change			.9	.8	4.3	—	6.2

^(a) Represents interest-only strips recognized in connection with the credit card securitization series 2000-1, 2001-1 and 2002-1

^(b) Represents weighted-average assumptions and aggregate declines in fair value for all credit card securitization series

(Dollars in Millions)	Fair Value	Weighted-Average Life (in months)	Monthly Prepayment Speed (% ABS) ^(a)	Expected Cumulative Credit Losses ^(c)	Annual Discount Rate	Weighted-Average Coupon
Automobile Loans						
Series 2002-A						
Interest-only strip	\$15.2	14.5	1.40%	2.16%	12.00%	8.71%
As of December 31, 2003						
Decline in fair value of 10% adverse change			\$.8	\$ 2.0	\$.3	\$ 4.6
Decline in fair value of 20% adverse change			1.6	4.0	.7	8.9
Servicing asset	\$ 4.9	10.9	1.40%	2.16%	12.00%	8.71%
As of December 31, 2003^(b)						
Decline in fair value of 10% adverse change			\$.3	—	\$ —	\$ —
Decline in fair value of 20% adverse change			.6	—	—	—

^(a) Absolute prepayment speed

^(b) Carrying value of servicing asset at December 31, 2003 was \$4.8 million

^(c) The expected static pool loss assumption performed consistent with the expected cumulative credit loss assumptions

6. Asset-Backed Commercial Paper Conduit

During 2002 and 2001, the Corporation served as the administrative agent and investment advisor to a commercial paper conduit (North Coast Funding, LLC) that purchased high-grade assets from the Corporation and certain corporate customers and then issued high-grade commercial paper to third-party investors collateralized by such assets. The conduit was established in 2000, and at that time, was considered an unconsolidated qualified special-purpose entity under the guidelines of SFAS 140.

Effective September 29, 2002, the asset sale agreement between North Coast Funding, LLC and National City SPC, Inc. was amended to grant the conduit the right to sell assets at its sole discretion. All parties to the conduit and the rating agencies were informed of the intent to amend the agreement and the independent third-party owner of the conduit approved the amendment. The nature of the amendment caused the conduit to lose its status as a qualifying special-purpose entity. As a result, under applicable accounting guidance, the assets and liabilities and results of operations of the conduit were consolidated in the financial statements of the Corporation. During the fourth quarter of 2002, the remaining commercial paper borrowings held by third-party investors matured and the conduit was legally dissolved.

7. Loans and Lease Financings

Total loans outstanding were recorded net of unearned income and deferred loan fees and costs of \$208 million and \$390 million, respectively, at December 31, 2003 and 2002.

The loan portfolio includes lease financing receivables consisting of direct financing and leveraged leases on equipment, which are included in commercial loans on the consolidated balance sheet, and retail automobile lease financings, which are included in other consumer loans on the consolidated balance sheet. The direct financing and leveraged leased equipment consists primarily of manufacturing and mining equipment, commercial trucks and trailers, railroad equipment, and airplanes. The Corporation ceased originating retail automobile leases in December 2000 and is letting the portfolio run off over time. A summary of lease financings by type at December 31 follows:

(In Thousands)	2003	2002
Commercial		
Direct financings	\$1,148,494	\$1,381,879
Leveraged leases	278,772	322,140
Total commercial lease financings	1,427,266	1,704,019
Consumer		
Retail automobile lease financings	150,864	571,641
Total net investment in lease financings	\$1,578,130	\$2,275,660

Notes to Consolidated Financial Statements CONTINUED

The components of the net investment in lease financings at December 31 follow:

(In Thousands)	2003	2002
Commercial		
Lease payments receivable	\$1,237,339	\$1,528,532
Estimated residual value of leased assets	487,007	561,438
Gross investment in commercial lease financings	1,724,346	2,089,970
Unearned income	(297,080)	(385,951)
Total net investment in commercial lease financings	\$1,427,266	\$1,704,019
Consumer		
Lease payments receivable	\$ 38,820	\$ 169,330
Estimated residual value of leased assets	121,630	446,872
Gross investment in consumer lease financings	160,450	616,202
Unearned income	(9,586)	(44,561)
Total net investment in consumer lease financings	\$ 150,864	\$ 571,641

A rollforward of the residual value component of lease financings follows:

(In Thousands)	2003	2002
Commercial		
Beginning balance	\$561,438	\$595,867
Additions	46,780	45,499
Runoff	(83,356)	(70,104)
Write-downs	(37,855)	(9,824)
Ending balance	\$487,007	\$561,438
Consumer		
Beginning balance	\$446,872	\$862,428
Additions	—	—
Runoff	(311,140)	(364,704)
Write-downs	(14,102)	(50,852)
Ending balance	\$121,630	\$446,872

The commercial lease residual value write-downs recorded during 2003 were primarily associated with various commercial aircraft leases. The write-downs consisted of \$16 million attributable to decreases in the residual values of airplanes which were charged to other noninterest expense, \$6 million attributable to credit losses which were charged to the allowance for loan losses, and \$16 million attributable to the write-off of unearned income and other related accounts.

At December 31, 2003, the minimum future lease payments to be received from lease financings were as follows:

(In Millions)	2004	2005	2006	2007	2008	2009 and Beyond	Total
Commercial	\$331.8	\$239.0	\$166.3	\$142.3	\$81.6	\$276.3	\$1,237.3
Consumer	33.3	5.5	—	—	—	—	38.8
Total	\$365.1	\$244.5	\$166.3	\$142.3	\$81.6	\$276.3	\$1,276.1

8. Allowance for Loan Losses

The allowance for loan losses represents an estimation of probable credit losses inherent in the loan portfolio. Activity in the allowance for loan losses follows:

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Balance at beginning of year	\$1,098,588	\$ 997,331	\$ 928,592
Provision	638,418	681,918	605,295
Allowance related to loans sold or securitized	(2,253)	(4,477)	(73,990)
Charge-offs	(757,176)	(702,214)	(586,921)
Recoveries	147,752	126,030	124,355
Net charge-offs	(609,424)	(576,184)	(462,566)
Balance at end of year	\$1,125,329	\$1,098,588	\$ 997,331

In 2003, 2002, and 2001, \$2 million, \$4 million, and \$29 million, respectively, of allowance for loan losses was transferred to the bases of credit card and automobile loans either sold through securitization during the year or held for securitization as of the end of the year.

During 2003, \$967 million of residential real estate loans from the former Altegra portfolio were sold and \$17 million was charged off to record the loans at fair value prior to sale. In 2001, the Corporation decided to accelerate the disposition of these loans and increased the allowance for loan losses by \$68 million. Loans totaling \$150 million were sold from the portfolio during 2001 with related loan loss allowance of \$46 million included in the bases of the loans sold, essentially covering the loss on sale.

Nonperforming loans totaled \$550 million and \$702 million at December 31, 2003 and 2002, respectively. For loans classified as nonperforming at December 31, 2003, the contractual interest due and actual interest recognized on those loans during 2003 was \$65 million and \$16 million, respectively. Included in nonperforming loans were impaired loans, as defined under SFAS 114, aggregating \$263 million and \$391 million at December 31, 2003 and 2002, respectively. Average impaired loans for 2003, 2002, and 2001 totaled \$358 million, \$354 million, and \$122 million, respectively. The majority of the loans deemed impaired were evaluated using the fair value of the collateral as the measurement method. The related allowance allocated to impaired loans for 2003 and 2002 was \$22 million and \$76 million, respectively. At December 31, 2003, impaired loans with an associated allowance totaled \$75 million, while \$188 million of impaired loans had no related allowance. At December 31, 2002, \$206 million of impaired loans had an associated allowance, while \$185 million of impaired loans had no related allowance. There was no interest recognized in 2003, 2002, and 2001 on impaired loans while they were considered impaired.

9. Securities

Securities available for sale follow:

December 31, 2003				
(In Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and Federal agency debentures	\$ 636,800	\$ 44,316	\$ 11	\$ 681,105
Mortgage-backed securities	3,927,888	109,059	9,762	4,027,185
Asset-backed and corporate debt securities	930,894	5,919	2,140	934,673
States and political subdivisions	672,063	49,685	14	721,734
Other	494,405	6,515	1	500,919
Total securities	\$6,662,050	\$215,494	\$ 11,928	\$6,865,616

December 31, 2002				
(In Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and Federal agency debentures	\$1,084,077	\$ 59,846	\$ —	\$1,143,923
Mortgage-backed securities	4,552,641	227,304	379	4,779,566
Asset-backed and corporate debt securities	1,815,549	8,144	5,735	1,817,958
States and political subdivisions	650,747	51,942	20	702,669
Other	765,065	6,192	4,105	767,152
Total securities	\$8,868,079	\$353,428	\$10,239	\$9,211,268

The other category includes Federal Reserve and Federal Home Loan Bank stock, certain retained interests in securitizations, and the Corporation's internally managed equity portfolio of bank and thrift common stock investments, which had an amortized cost and fair value of \$7 million and \$8 million, respectively, at December 31, 2003, and \$75 million and \$71 million, respectively, at December 31, 2002.

The following table presents the age of gross unrealized losses and fair value by investment category.

(In Thousands)	December 31, 2003					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Federal agency debentures	\$ 990	\$ 11	\$ —	\$ —	\$ 990	\$ 11
Mortgage-backed securities	736,022	9,755	3,653	7	739,675	9,762
Asset-backed securities	177,391	314	236,721	1,826	414,112	2,140
States and political subdivisions	11,363	7	188	7	11,551	14
Other	3	1	3	—	6	1
Total	\$925,769	\$10,088	\$240,565	\$1,840	\$1,166,334	\$11,928

Management does not believe any individual unrealized loss as of December 31, 2003 represents an other-than-temporary impairment. The unrealized losses reported for mortgage-backed securities relate primarily to securities issued by FNMA, FHLMC and private institutions. These unrealized losses are primarily attributable to changes in interest rates and individually were 2% or less of their respective amortized cost basis. The unrealized losses associated with the asset-backed securities relate primarily to securities collateralized by home equity and manufactured housing loans. These unrealized losses were also mainly attributed to changes in interest rates and were individually 2% or less of their respective amortized cost basis. The Corporation has both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the amortized cost.

The following table presents the amortized cost, fair value, and weighted-average yield of securities at December 31, 2003 by maturity:

(Dollars in Thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	After 10 Years	Total	Weighted-Average Yield ^(a)
U.S. Treasury and Federal agency debentures	\$232,001	\$ 72,964	\$ 315,084	\$ 16,751	\$ 636,800	5.22%
Mortgage-backed securities	55,347	2,001,905	1,858,983	11,653	3,927,888	5.17
Asset-backed and corporate debt securities	127,448	691,600	25,243	86,603	930,894	2.27
States and political subdivisions	31,279	221,793	369,445	49,546	672,063	7.61
Other	4,062	105,157	—	385,186	494,405	4.66
Amortized cost	\$450,137	\$3,093,419	\$2,568,755	\$549,739	\$6,662,050	
Fair value	\$456,851	\$3,171,502	\$2,676,539	\$560,724	\$6,865,616	
Weighted-average yield^(a)	4.57%	4.65%	5.57%	4.41%	4.99%	

^(a) Yield on debt securities only; equity securities and retained interests in securitizations are excluded

Weighted-average yields are based on amortized cost. Yields on tax-exempt securities are calculated on a tax-equivalent basis using the marginal Federal income tax rate of 35%. Mortgage-backed securities and retained interests in securitizations are assigned to maturity categories based on their estimated average lives. Equity securities are included in other securities in the after 10 years category.

At December 31, 2003, the fair value of securities pledged to secure public and trust deposits, U.S. Treasury notes, security repurchase agreements, and derivative instruments totaled \$5.4 billion.

At December 31, 2003, there were no securities of a single issuer, other than U.S. Treasury debentures and other U.S. government-sponsored agency securities, which exceeded 10% of stockholders' equity.

In 2003, 2002, and 2001, gross securities gains of \$52 million, \$109 million, and \$146 million and gross securities losses of \$5 million, \$28 million, and \$2 million were recognized, respectively.

Notes to Consolidated Financial Statements CONTINUED

10. Principal Investments

The principal investment portfolio is managed within the Wholesale Banking line of business. The principal investment portfolio primarily consists of investments in the consumer, retail, manufacturing, automotive, commercial services, and building products industries with the largest industry constituting approximately 22% of the total portfolio. A rollforward of principal investments follows:

(In Thousands)	December 31	
	2003	2002
Direct Investments:		
Carrying value at beginning of year	\$317,089	\$286,333
Investments – new fundings	71,056	57,107
Reclassifications	(12,415)	—
Return of capital and writeoffs	(52,371)	(7,779)
Fair value adjustments	(23,282)	(18,572)
Carrying value at end of year	\$300,077	\$317,089
Indirect Investments:		
Carrying value at beginning of year	\$254,899	\$209,051
Investments – new fundings	56,710	59,903
Reclassifications	12,415	—
Return of capital and writeoffs	(25,564)	(8,475)
Fair value adjustments	(3,521)	(5,580)
Carrying value at end of year	\$294,939	\$254,899
Total Principal Investments:		
Carrying value at beginning of year	\$571,988	\$495,384
Investments – new fundings	127,766	117,010
Reclassifications	—	—
Return of capital and writeoffs	(77,935)	(16,254)
Fair value adjustments	(26,803)	(24,152)
Carrying value at end of year	\$595,016	\$571,988

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Principal investment revenue ^(a)	\$29,384	\$22,198	\$19,740
Net principal investment gains (losses) ^(b)	\$7,025	\$(22,902)	\$(1,856)

^(a) Consists primarily of interest, dividends, and fee income

^(b) Consists of fair value adjustments, realized gains and losses on the return of capital, and principal investment write-offs

Accounting policies for principal investments are included in Note 1. Commitments to fund principal investments are discussed in Note 22.

11. Goodwill and Other Intangible Assets

Upon the adoption of SFAS 142 on January 1, 2002, the Corporation ceased amortizing its goodwill, which decreased noninterest expense and increased net income in 2003 and 2002 as compared to 2001. The following table shows the pro forma effects of applying SFAS 142 to 2001.

(In Thousands, Except Per Share Amounts)	For the Calendar Year		
	2003	2002	2001
Goodwill amortization:			
Pretax	\$ —	\$ —	\$ 65,721
After-tax	—	—	56,348
Net income:			
Reported	2,117,064	1,446,643	1,388,108
Add back: after-tax goodwill amortization	—	—	56,348
Adjusted	\$2,117,064	\$1,446,643	\$1,444,456
Basic net income per common share:			
Reported	\$3.46	\$2.37	\$2.30
Add back: goodwill amortization per share	—	—	.09
Adjusted	\$3.46	\$2.37	\$2.39
Diluted net income per common share:			
Reported	\$3.43	\$2.35	\$2.27
Add back: goodwill amortization per share	—	—	.09
Adjusted	\$3.43	\$2.35	\$2.36

A rollforward of goodwill by line of business for 2003 and 2002 follows:

(In Thousands)	January 1 2003	Goodwill Acquired	Impairment Losses	December 31 2003
Consumer and Small Business Financial Services	\$ 512,731	\$ 550	—	\$ 513,281
Wholesale Banking	86,729	—	—	86,729
National Consumer Finance	261,387	430	—	261,817
Asset Management	126,207	—	—	126,207
National Processing	91,227	24,079	—	115,306
Parent and Other	—	—	—	—
Total	\$1,078,281	\$25,059	—	\$1,103,340

(In Thousands)	January 1 2002	Goodwill Acquired	Impairment Losses	December 31 2002
Consumer and Small Business Financial Services	\$ 512,731	—	—	\$ 512,731
Wholesale Banking	86,729	—	—	86,729
National Consumer Finance	261,387	—	—	261,387
Asset Management	126,207	—	—	126,207
National Processing	91,227	—	—	91,227
Parent and Other	—	—	—	—
Total	\$1,078,281	—	—	\$1,078,281

The goodwill acquired for National Processing relates to the payment processing company's second quarter acquisition of Bridgeview Payment Solutions, Inc. The value assigned to goodwill is based upon a preliminary allocation of the purchase price. Other intangibles, primarily merchant contracts, of approximately \$10 million were capitalized and are being amortized on a straight-line basis over five years. Refer to Note 3 for further discussion.

During the second quarter of 2003, the Consumer and Small Business Financial Services line of business acquired a teleconsulting business and capitalized goodwill and other intangible assets of \$550 thousand and \$1 million, respectively. The other intangible assets capitalized are being amortized over a period of four years.

During the third quarter of 2003, the National City Mortgage Co. division of National Consumer Finance purchased two retail residential mortgage loan origination branches and capitalized goodwill of \$430 thousand. There were no other intangible assets capitalized in connection with this transaction.

On January 1, 2002, in conjunction with the adoption of SFAS 142, previously classified goodwill assets with a gross carrying value of \$28 million, accumulated amortization of \$20 million, and a net carrying value of \$8 million, were transferred to core deposit intangibles because these assets met the criteria for recognition apart from goodwill.

The Corporation has finite-lived intangible assets capitalized on its balance sheet in the form of core deposit, credit card, and merchant portfolios and other intangibles. Merchant portfolio intangibles relate to merchant card customer portfolios acquired by National Processing. These intangible assets continue to be amortized over their estimated useful lives, which range from one to 10 years.

A summary of core deposit, credit card, and merchant portfolios and other intangible assets follows:

(In Thousands)	December 31	
	2003	2002
Core deposit intangibles		
Gross carrying amount	\$ 93,328	\$ 93,328
Less: accumulated amortization	78,162	65,169
Net carrying amount	15,166	28,159
Credit card intangibles		
Gross carrying amount	17,323	17,323
Less: accumulated amortization	14,321	12,990
Net carrying amount	3,002	4,333
Merchant portfolios and other intangibles		
Gross carrying amount	74,736	63,577
Less: accumulated amortization	30,429	21,496
Net carrying amount	44,307	42,081
Total finite-lived intangibles		
Gross carrying amount	185,387	174,228
Less: accumulated amortization	122,912	99,655
Net carrying amount	\$ 62,475	\$ 74,573

Amortization expense on finite-lived intangible assets totaled \$23 million, \$21 million, and \$17 million for 2003, 2002, and 2001, respectively. Amortization expense on finite-lived intangible assets is expected to total \$23 million, \$11 million, \$9 million, \$8 million, and \$4 million in 2004, 2005, 2006, 2007, and 2008, respectively.

12. Mortgage Servicing Right (MSR) Assets

The unpaid principal balance of residential mortgage loans serviced for third parties was \$141.1 billion at December 31, 2003, compared to \$101.9 billion at December 31, 2002.

Changes in the carrying value of MSRs and the associated valuation allowance follow:

(In Thousands)	For the Calendar Year	
	2003	2002
Mortgage servicing assets		
Balance at beginning of period	\$ 949,539	\$1,223,720
Additions	1,217,402	826,689
Amortization	(513,700)	(357,589)
SFAS 133 hedge basis adjustments	(195,993)	(717,340)
Application of valuation allowance to directly write-down MSRs	(137,874)	—
Sales	(18,762)	(25,941)
Carrying value before valuation allowance at end of period	1,300,612	949,539
Valuation allowance		
Balance at beginning of period	(334,346)	(88,016)
Impairment recoveries (charges)	194,277	(246,330)
Application of valuation allowance to directly write-down MSRs	137,874	—
Balance at end of period	(2,195)	(334,346)
Net carrying value of MSRs at end of period	\$1,298,417	\$ 615,193
Fair value of MSRs at end of period	\$1,443,629	\$ 615,193

MSRs are evaluated for impairment and a valuation allowance is established through a charge to income when the carrying value of the MSR, including hedge

Notes to Consolidated Financial Statements CONTINUED

accounting adjustments, exceeds the fair value and is determined to be temporary. Other-than-temporary impairment is recognized when the recoverability of a recorded valuation allowance is determined to be remote taking into consideration historical and projected interest rates and loan pay-off activity. When this situation occurs, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the MSR. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent recoveries. During the second quarter of 2003, management determined that \$138 million of previously established valuation allowance was not recoverable and reduced both the asset and the valuation allowance. At January 1, 2001, there was no valuation allowance recognized against the carrying value of the MSR. Activity in the valuation allowance during 2001 totaled \$88 million and was entirely related to impairment charges.

The fair value of MSRs is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the valuation. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the fair value of the MSRs, mortgage interest rates, which are used to determine prepayment rates, and discount rates are held constant over the estimated life of the portfolio. Expected mortgage loan prepayment rates are derived from a third-party model and adjusted to reflect National City's actual prepayment experience. At December 31, 2003, the fair value of MSRs exceeded the carrying value reported in the consolidated balance sheet by \$145 million. This difference represents increases in the fair value of certain MSRs accounted for under SFAS 140 that were not permitted to be recorded above their cost basis, net of accumulated amortization and SFAS 133 adjustments.

The key economic assumptions used to estimate the value of the MSRs at December 31, 2003 and 2002 are presented in the table that follows. A sensitivity analysis of the current fair value to immediate 10% and 20% adverse changes in those assumptions as of December 31, 2003 is also presented. These sensitivities are hypothetical. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSR is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the discount rates), which might magnify or counteract the sensitivities.

(Dollars in Millions)	December 31	
	2003	2002
Fair value	\$1,443.6	\$615.2
Weighted-average life (in years)	3.8	2.2
Weighted-average constant prepayment rate (CPR)	24.24%	63.07%
Weighted-average discount rate	9.56	9.53
Prepayment rate:		
Decline in fair value from 10% adverse change	\$ 84.9	
Decline in fair value from 20% adverse change	161.6	
Discount rate:		
Decline in fair value from 10% adverse change	41.3	
Decline in fair value from 20% adverse change	80.1	

The key economic assumptions used in determining the fair value of MSRs capitalized in 2003 were as follows:

Weighted-average CPR	26.74%
Weighted-average life (in years)	3.9
Weighted-average discount rate	9.46%

Risk associated with declines in estimated fair value due to increases in mortgage loan prepayments is managed using derivative instruments that are expected to increase in value when interest rates decline. The Corporation typically strives to include the derivative instruments it uses to protect the value of the MSRs in SFAS 133 hedge relationships in order to record gains and losses on both the assets and the associated derivative instruments simultaneously in the income statement. MSRs not included in SFAS 133 relationships may not be written up above their initial carrying value, adjusted for amortization, limiting the amount of gains that might otherwise be recognized to offset losses on the derivative instruments, which are always carried at fair value. Notes 1 and 25 provide further discussion on how derivative instruments are accounted for, the nature of the derivative instruments used by the Corporation, the risks associated with the use of derivative instruments, and ineffective hedge and other gains and losses generated by derivative instruments during the current and prior year.

13. Properties and Equipment

Properties and equipment follow:

(In Thousands)	December 31	
	2003	2002
Land	\$ 158,237	\$ 140,416
Buildings and leasehold improvements	1,040,590	955,880
Equipment	1,475,999	1,459,787
	2,674,826	2,556,083
Less accumulated depreciation and amortization	1,549,300	1,519,146
Net properties and equipment	\$1,125,526	\$1,036,937

Depreciation and amortization of properties and equipment totaled \$195 million in 2003, and \$183 million in both 2002 and 2001.

The Corporation also leases owned equipment to customers under operating lease arrangements. The net book value of leased equipment was \$40 million and \$71 million at December 31, 2003 and 2002, respectively. Net rental income from operating equipment leases, which represents lease rental income less depreciation expense on the equipment, was \$7 million, \$5 million, and \$8 million in 2003, 2002, and 2001, respectively. At December 31, 2003, aggregate minimum future rental payments to be received under these operating leases totaled \$11 million in 2004, \$8 million in 2005, \$4 million in 2006, \$1 million in 2007, \$1 million in 2008, and \$1 million in 2009 and beyond.

14. Federal Funds Borrowed and Security Repurchase Agreements

Detail of Federal funds borrowed and security repurchase agreements follows:

(Dollars in Thousands)	2003	2002	2001
Balance at December 31:			
Federal funds borrowed	\$3,915,870	\$3,384,360	\$2,922,684
Security repurchase agreements	2,778,046	3,143,898	3,670,703
Maximum outstanding at any month end:			
Federal funds borrowed	9,801,158	8,342,164	6,728,474
Security repurchase agreements	3,200,560	3,556,471	4,189,646
Daily average amount outstanding:			
Federal funds borrowed	7,895,213	5,459,056	4,637,415
Security repurchase agreements	3,012,672	3,327,042	3,886,814
Weighted daily average interest rate:			
Federal funds borrowed	1.44%	2.12%	4.02%
Security repurchase agreements	.63	1.04	2.86
Weighted daily interest rate for amounts outstanding at December 31:			
Federal funds borrowed	.85%	1.23%	1.39%
Security repurchase agreements	.50	.84	1.10

Federal funds borrowed and security repurchase agreements generally mature within 30 days of the transaction date.

15. Borrowed Funds

Detail of borrowed funds follows:

(In Thousands)	December 31	
	2003	2002
U.S. Treasury notes	\$5,654,745	\$ 8,881,947
Commercial paper	692,684	1,043,209
Senior bank notes	—	1,560,000
Other	268,031	8,753
Total borrowed funds	\$6,615,460	\$11,493,909
Weighted-average yield	.78%	1.16%

U.S. Treasury notes represent secured borrowings from the U.S. Treasury. These borrowings are collateralized by qualifying securities and commercial and residential real estate loans. The funds are placed at the discretion of the U.S. Treasury. As of December 31, 2003 and 2002, \$5.7 billion and \$7.9 billion of notes, respectively, were callable on demand by the U.S. Treasury. As of December 31, 2002, \$1.0 billion of the notes were term notes with a stated maturity of less than one month.

Commercial paper is issued by the Corporation's subsidiary, National City Credit Corporation, and is due in three months or less.

The other category at December 31, 2003 includes the Corporation's liability related to mortgage loans available for repurchase under GNMA optional repurchase programs. See further discussion in Note 1.

16. Long-Term Debt

The composition of long-term debt follows. This note excludes the discussion and amounts associated with the junior subordinated notes owed to the unconsolidated subsidiary trusts. See Note 17 for further discussion on these obligations.

(In Thousands)	December 31	
	2003	2002
3.20% senior notes due 2008	\$ 295,590	\$ —
6.625% subordinated notes due 2004	249,978	249,849
7.75% subordinated notes due 2004	199,850	199,594
8.50% subordinated notes due 2004	149,989	149,863
7.20% subordinated notes due 2005	256,912	260,849
5.75% subordinated notes due 2009	326,933	333,928
6.875% subordinated notes due 2019	785,646	808,353
Other	1,760	2,640
Total holding company	2,266,658	2,005,076
6.50% subordinated notes due 2003	—	202,158
7.25% subordinated notes due 2010	263,790	272,007
6.30% subordinated notes due 2011	224,940	231,006
7.25% subordinated notes due 2011	198,461	198,263
6.25% subordinated notes due 2011	333,766	342,357
6.20% subordinated notes due 2011	537,793	550,307
4.63% subordinated notes due 2013	299,237	—
4.25% subordinated notes due 2018	221,969	—
Senior bank notes	15,266,153	14,998,141
Federal Home Loan Bank advances	3,867,957	3,750,980
Total bank subsidiaries	21,214,066	20,545,219
Total long-term debt	\$23,480,724	\$22,550,295

The amounts above represent the par value of the debt adjusted for any unamortized discount or other basis adjustments related to hedging the debt with derivative instruments. The Corporation uses derivative instru-

Notes to Consolidated Financial Statements CONTINUED

ments, primarily interest rate swaps and caps, to manage interest rate risk on its long-term debt. Interest rate swaps are used to hedge the fair value of certain fixed-rate debt by converting the debt to variable rate and are also used to hedge the cash flow variability associated with certain variable-rate debt by converting the debt to fixed rate. Interest rate caps are used to hedge cash flow variability by capping the interest payments associated with variable-rate debt issuances. Interest rate swaps and caps used to convert the Corporation's debt are based on the one- or three-month London Interbank Offering Rate (LIBOR) rate, the Federal Funds rate, or the Prime rate. Further discussion on derivative instruments is included in Notes 1 and 25.

The subordinated notes of the holding company and bank subsidiaries qualify for Tier 2 capital under the regulatory capital requirements of the federal banking agencies. Further discussion on regulatory capital requirements is included in Note 18.

A summary of par values and weighted-average rates of long-term debt as of December 31, 2003 follows. The weighted-average effective rate includes the effects of derivative instruments used to manage interest rate risk.

(Dollars In Thousands)	Par Value	Weighted-Average Contractual Rate	Weighted-Average Effective Rate
Senior notes	\$ 300,000	3.20%	1.34%
Subordinated notes	3,825,000	6.43	3.22
Senior bank notes	15,198,500	1.46	1.31
FHLB advances	3,859,464	1.30	2.16
Other	1,760	12.95	12.95
Total long-term debt	\$23,184,724	2.28%	1.77%

All senior notes and subordinated notes of the holding company and subordinated notes of the bank subsidiaries were issued at fixed rates, pay interest semi-annually and may not be redeemed prior to maturity. Subordinated notes with a par amount of \$550 million were issued by the bank subsidiaries in 2003. In March 2003, the holding company issued senior notes with a par value of \$300 million.

Senior bank notes are issued by National City's bank subsidiaries. During 2003, senior bank notes with a par value of \$10.0 billion were issued by the bank subsidiaries. At December 31, 2003, senior bank notes totaling \$1.3 billion were contractually based on a fixed rate of interest and \$13.9 billion were contractually based on a variable rate of interest. Senior bank notes have maturities ranging from 2004 to 2078.

FHLB advances at December 31, 2003, contractually consisted of \$189 million of fixed-rate obligations and \$3.7 billion of variable-rate obligations. FHLB advances are collateralized by qualifying residential real estate loans and have maturities ranging from 2004 to 2023.

At December 31, 2003, long-term debt maturities for the next five years and thereafter are as follows: \$10.9 billion in 2004, \$4.7 billion in 2005, \$2.0 billion in 2006, \$1.3 billion in 2007, \$1.2 billion in 2008, and \$3.1 billion thereafter. These maturities are based upon the par values of long-term debt.

A credit agreement dated April 12, 2001, as amended, with a group of unaffiliated banks allows the Corporation to borrow up to \$375 million until April 12, 2005 with a provision to extend the expiration date under certain circumstances. The Corporation pays a variable annual facility fee based on its long-term debt rating. The fee is currently 10 basis points on the amount of the credit facility. There have been no borrowings outstanding under this agreement.

17. Junior Subordinated Debentures Owed to Unconsolidated Subsidiary Trusts and Corporation-Obligated Mandatorily Redeemable Capital Securities of Subsidiary Trusts Holding Solely Debentures of the Corporation

National City has sponsored two trusts, First of America Capital Trust I and Fort Wayne Capital Trust I, of which 100% of the common equity is owned by the Corporation. The trusts were formed for the purpose of issuing corporation-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of the Corporation (the debentures). The debentures held by each trust are the sole assets of that trust. Distributions on the capital securities issued by each trust are payable semi-annually at a rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Corporation has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. The debentures held by the First of America and Fort Wayne capital trusts are first redeemable, in whole or in part, by the Corporation on January 31, 2007 and April 15, 2007, respectively.

In the third quarter of 2003, as a result of applying the provisions of FIN 46, governing when an equity interest should be consolidated, the Corporation was required to deconsolidate these subsidiary trusts from its financial statements. The deconsolidation of the net assets and results of operations of the trusts had virtually no impact on the Corporation's financial statements or liquidity position since the Corporation continues to be obligated to repay the debentures held by the trusts and guarantees repayment of the capital securities issued by the trusts. The consolidated debt obligation related to the trusts increased from \$180 million to \$186 million upon deconsolidation with the difference representing the Corporation's common ownership interest in the trusts.

The capital securities held by the trusts qualify as Tier 1 capital for the Corporation under Federal Reserve Board guidelines. As a result of the issuance of FIN 46, the Federal Reserve Board is currently evaluating whether deconsolidation of the trusts will affect the qualification of the capital securities as Tier 1 capital. If it is determined that the capital securities no longer qualify as Tier 1 capital, the effect would be immaterial.

Consolidated debt obligations related to subsidiary trusts holding solely debentures of the Corporation follows:

(In Thousands)	December 31	
	2003	2002
8.12% junior subordinated debentures owed to First of America Capital Trust I due January 31, 2027	\$154,640	—
9.85% junior subordinated debentures owed to Fort Wayne Capital Trust I due April 15, 2027	30,928	—
Total junior subordinated debentures owed to unconsolidated subsidiary trusts	185,568	—
8.12% capital securities of First of America Capital Trust I due January 31, 2027	—	\$150,000
9.85% capital securities of Fort Wayne Capital Trust I due April 15, 2027	—	30,000
Total capital securities of consolidated subsidiary trusts	—	180,000
Total consolidated debt obligations related to subsidiary trusts	\$185,568	\$180,000

18. Regulatory Restrictions and Capital Ratios

The Corporation and its banking subsidiaries are subject to various regulatory capital requirements of federal banking agencies that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can result in certain mandatory and possible additional discretionary actions by regulators that could have a material effect on financial position and operations.

Regulatory and other capital measures at December 31 follow:

(Dollars in Thousands)	2003		2002	
	Amount	Ratio	Amount	Ratio
Total equity/assets	\$ 9,328,671	8.19%	\$ 8,161,057	6.91%
Total common equity/assets	9,328,671	8.19	8,161,057	6.91
Tangible common equity/tangible assets	8,162,856	7.24	7,008,203	6.00
Tier 1 capital	8,420,382	8.80	7,118,275	7.46
Total risk-based capital	12,561,061	13.12	10,851,740	11.37
Leverage	8,420,382	7.43	7,118,275	6.39

The tangible common equity ratio excludes goodwill and other intangible assets from both the numerator and denominator.

Tier 1 capital consists of total equity plus qualifying capital securities and minority interests, less unrealized gains and losses accumulated in other comprehensive income, certain intangible assets, and adjustments related to the valuation of mortgage servicing assets and

certain equity investments in nonfinancial companies (principal investments).

Total risk-based capital is comprised of Tier 1 capital plus qualifying subordinated debt and allowance for loan losses and a portion of unrealized gains on certain equity securities.

Both the Tier 1 and the total risk-based capital ratios are computed by dividing the respective capital amounts by risk-weighted assets, as defined.

The leverage ratio reflects Tier 1 capital divided by average total assets for the period. Average assets used in the calculation excludes certain intangible and mortgage servicing assets.

National City's Tier 1, total risk-based capital, and leverage ratios for the current period are based on preliminary data. Such ratios are above the required minimum levels of 4.00%, 8.00%, and 3.00%, respectively. The capital levels at all of National City's subsidiary banks are maintained at or above the well-capitalized minimums of 6.00%, 10.00%, and 5.00% for the Tier 1 capital, total risk-based capital, and leverage ratios, respectively. As of the most recent notification from the Federal Deposit Insurance Corporation, which was December 15, 2003, each of the Corporation's subsidiary banks were considered well-capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since these filings were made that management believes have changed any subsidiary bank's capital category. As of December 31, 2003, each of the subsidiary banks were also categorized as well-capitalized.

As discussed in Note 17, the capital securities held by the First of America and Fort Wayne subsidiary trusts qualify as Tier 1 capital for the Corporation under Federal Reserve Board guidelines. As a result of the issuance of FIN 46, the Federal Reserve Board is currently evaluating whether deconsolidation of the trusts will affect the qualification of the capital securities as Tier 1 capital. If it is determined that the capital securities no longer qualify as Tier 1 capital, the effect of such a change would not be material.

The Corporation's subsidiary banks are required to maintain noninterest bearing reserve balances with the Federal Reserve Bank. The required reserve balance was \$153 million at December 31, 2003.

Under current Federal Reserve regulations, the banking subsidiaries are limited in the amount they may loan to the parent company and its nonbank subsidiaries. Loans to a single affiliate may not exceed 10% and loans to all affiliates may not exceed 20% of the bank's capital stock, surplus and undivided profits, plus the allowance for loan losses. Loans from subsidiary banks to nonbank affiliates, including the parent company, are also required to be collateralized.

Dividends paid by subsidiary banks to the parent company are also subject to certain legal and regulatory limitations. The subsidiary banks may pay dividends in 2004 of \$1.2 billion, plus an additional amount equal to their net profits for 2004, as defined by statute, up to the date of any such dividend declaration, without prior regulatory approval.

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The Corporation's mortgage banking and broker/dealer subsidiaries are also required to maintain minimum net worth capital requirements with various governmental agencies. The mortgage banking subsidiaries' net worth requirements are governed by the Department of Housing and Urban Development and the broker/dealer's net worth requirements are governed by the United States Securities and Exchange Commission. As of December 31, 2003, these subsidiaries met their respective minimum net worth capital requirements.

19. Stockholders' Equity

A summary of activity in accumulated other comprehensive income follows:

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Accumulated unrealized gains on securities available for sale at January 1, net of tax	\$ 223,073	\$ 105,656	\$ 60,577
Net unrealized (losses) gains for the period, net of tax (benefit) expense of \$(29,523) in 2003, \$94,720 in 2002, and \$75,002 in 2001	(54,828)	175,908	139,290
Reclassification adjustment for gains included in net income, net of tax expense of \$11,225 in 2003, \$22,601 in 2002, and \$50,730 in 2001	(35,927)	(58,491)	(94,211)
Effect on other comprehensive income for the period	(90,755)	117,417	45,079
Accumulated unrealized gains on securities available for sale at December 31, net of tax	\$ 132,318	\$ 223,073	\$ 105,656
Accumulated unrealized losses on derivatives used in cash flow hedging relationships at January 1, net of tax	\$(155,893)	\$ (33,379)	\$ —
Cumulative effect of change in accounting principle, net of tax benefit of \$13,997	—	—	(25,995)
Net unrealized losses for the period, net of tax benefit of \$18,633 in 2003, \$121,193 in 2002, and \$31,155 in 2001	(34,605)	(225,072)	(57,859)
Reclassification adjustment for losses included in net income, net of tax benefit of \$66,159 in 2003, \$55,223 in 2002, and \$27,179 in 2001	122,867	102,558	50,475
Effect on other comprehensive income for the period	88,262	(122,514)	(33,379)
Accumulated unrealized losses on derivatives used in cash flow hedging relationships at December 31, net of tax	\$ (67,631)	\$(155,893)	\$(33,379)

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Accumulated other comprehensive income at January 1, net of tax	\$ 67,180	\$ 72,277	\$ 60,577
Other comprehensive (loss) income, net of tax	(2,493)	(5,097)	11,700
Accumulated other comprehensive income at December 31, net of tax	\$ 64,687	\$ 67,180	\$ 72,277

The Corporation had two share repurchase authorizations outstanding at December 31, 2003. In February 2003, the Corporation's Board of Directors authorized a share repurchase program for the repurchase of up to 25 million shares of National City common stock, subject to an aggregate purchase limit of \$800 million. In October 1999, the Corporation's Board of Directors authorized the repurchase of up to 30 million shares of National City common stock, subject to an aggregate purchase limit of \$1.0 billion. Shares repurchased under these programs are held for reissue in connection with stock compensation plans and for general corporate purposes. During 2003, 2002, and 2001, the Corporation repurchased 11.5 million, 1.3 million, and 9.3 million shares of its common stock, respectively. As of December 31, 2003, 27.8 million shares remain authorized for repurchase.

On August 30, 2002, the Corporation redeemed all preferred shares outstanding, stated value \$50 per share, at a redemption price of \$50.50137 per share, representing a total cost of \$37 thousand.

On January 1, 2001, the Corporation recorded a transition loss of \$26 million after tax, presented as a cumulative effect of a change in accounting principle, associated with establishing the fair values of derivatives designated into cash flow hedging relationships on the balance sheet in accordance with the adoption of SFAS 133.

20. Net Income per Common Share

Basic and diluted net income per common share calculations follow:

(Dollars in Thousands, Except Per Share Amounts)	For the Calendar Year		
	2003	2002	2001
Basic			
Net income	\$2,117,064	\$1,446,643	\$1,388,108
Less preferred dividends	—	21	1,016
Net income applicable to common stock	\$2,117,064	\$1,446,622	\$1,387,092
Average common shares outstanding	611,205,682	610,186,786	603,611,073
Net income per common share – basic	\$3.46	\$2.37	\$2.30

	For the Calendar Year		
(Dollars in Thousands, Except Per Share Amounts)	2003	2002	2001
Diluted			
Net income	\$2,117,064	\$1,446,643	\$1,388,108
Average common shares outstanding	611,205,682	610,186,786	603,611,073
Stock awards adjustment	5,204,361	5,962,876	7,201,707
Preferred stock adjustment	—	24,576	1,124,126
Average common shares outstanding – diluted	616,410,043	616,174,238	611,936,906
Net income per common share – diluted	\$3.43	\$2.35	\$2.27

Basic net income per common share is calculated by dividing net income, less dividend requirements on outstanding convertible preferred stock, by the weighted-average number of common shares outstanding for the period.

Diluted net income per common share takes into consideration the pro forma dilution assuming outstanding convertible preferred stock and certain unvested restricted stock and unexercised stock option awards were converted or exercised into common shares. For the years ended December 31, 2003, 2002, and 2001, options to purchase 18,136,018, 22,866,306, and 18,731,994 shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock and consequently their inclusion would have had an anti-dilutive effect. Net income is not adjusted for preferred dividend requirements since the preferred shares are assumed to be converted from the beginning of the period.

21. Income Taxes

The composition of income tax expense follows:

	For the Calendar Year		
(In Thousands)	2003	2002	2001
Current:			
Federal	\$1,099,832	\$ 859,130	\$753,727
State	128,450	83,556	22,883
Total current	1,228,282	942,686	776,610
Deferred:			
Federal	(116,239)	(216,955)	(6,230)
State	8,359	(3,573)	8,013
Total deferred	(107,880)	(220,528)	1,783
Income tax expense	\$1,120,402	\$ 722,158	\$778,393
Income tax expense applicable to securities transactions	\$ 11,225	\$ 22,601	\$ 50,681

The effective tax rate differs from the statutory Federal tax rate applicable to corporations as a result of permanent differences between accounting and taxable income as shown in the following table:

	For the Calendar Year		
Rate Reconciliation	2003	2002	2001
Statutory Federal tax rate	35.0%	35.0%	35.0%
Life insurance	(.8)	(1.2)	.7
Tax-exempt income	(.6)	(1.0)	(1.1)
Goodwill	—	—	.9
State taxes	2.7	2.4	.9
Tax credits	(1.1)	(1.2)	(.6)
Other	(.6)	(.7)	.1
Effective tax rate	34.6%	33.3%	35.9%

Income tax expense for 2001 included a \$40 million charge related to tax exposure for corporate-owned life insurance deductions.

Significant components of deferred tax liabilities and assets as of December 31 follow:

(In Thousands)	2003	2002
Deferred tax liabilities:		
Mortgage servicing, net	\$ 361,370	\$ 151,254
Leasing	433,473	599,404
Depreciation	47,849	50,650
Employee benefits	56,979	48,064
Deferred loan fees	54,014	11,610
Mark-to-market adjustments	13,265	34,854
State income taxes	42,842	34,484
Other, net	139,686	195,213
Total deferred tax liabilities	1,149,478	1,125,533
Deferred tax assets:		
Provision for loan losses	429,390	389,836
Deferred compensation	72,786	55,621
Indemnification reserve	55,173	24,715
Federal benefit of state taxes	39,892	41,706
Other, net	157,817	110,153
Total deferred tax assets	755,058	622,031
Net deferred tax liability	\$ 394,420	\$ 503,502

For the years ended 2003, 2002, and 2001, income tax benefits of \$27 million, \$20 million, and \$27 million, respectively, were credited to stockholders' equity related to the exercise of nonqualified employee stock options.

22. Commitments, Contingent Liabilities, Guarantees, and Related Party Transactions

Commitments: A summary of the contractual amount of significant commitments follows:

	December 31	
(In Thousands)	2003	2002
Commitments to extend credit:		
Commercial	\$15,201,047	\$14,462,484
Residential real estate	10,556,066	20,189,885
Revolving home equity and credit card lines	23,936,622	22,138,518
Other	521,813	365,851
Standby letters of credit	3,765,284	3,769,894
Commercial letters of credit	150,640	126,775
Net commitments to sell mortgage loans and mortgage-backed securities	13,126,094	22,366,679
Commitments to fund principal investments	226,793	241,952
Commitments to fund civic and community investments	200,477	206,158

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Commitments to extend credit are agreements to lend. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash-flow requirements. Certain lending commitments for residential mortgage loans to be sold into the secondary market are considered derivative instruments under the guidelines of SFAS 133. The changes in the fair value of these commitments due to changes in mortgage interest rates are recorded on the balance sheet as either derivative assets or derivative liabilities and are included in other loans in the table. Further discussion on derivative instruments is included in Notes 1 and 25.

Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party.

The credit risk associated with loan commitments and standby and commercial letters of credit is essentially the same as that involved in extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's credit assessment of the customer.

The Corporation enters into forward contracts for the future delivery or purchase of fixed-rate residential mortgage loans and mortgage-backed securities at a specified interest rate to reduce the interest rate risk associated with loans held for sale, commitments to fund loans, and mortgage servicing assets. These contracts are also considered derivative instruments under SFAS 133 and the fair value of these contracts due to interest rate risk are recorded on the balance sheet as either derivative assets or derivative liabilities. Further discussion on derivative instruments is included in Notes 1 and 25.

The Corporation has principal investment commitments to provide equity and mezzanine capital financing to private and public companies through either direct investments in specific companies or through investment funds and partnerships. The timing of future cash requirements to fund such commitments is generally dependent on the investment cycle. This cycle, the period over which privately-held companies are funded by private equity investors and ultimately sold, merged, or taken public through an initial offering, can vary based on overall market conditions as well as the nature and type of industry in which the companies operate.

The Corporation invests in low-income housing, small-business commercial real estate, and historic tax credit projects to promote the revitalization of low-to-moderate-income neighborhoods throughout the local communities of its banking subsidiaries. As a limited partner in these unconsolidated projects, the Corporation is allocated tax credits and deductions associated with the underlying projects. The commitments to fund civic and community investments represent funds committed for existing and future projects.

The Corporation and certain of its subsidiaries occupy certain facilities under long-term operating leases and, in addition, lease certain software and data processing and other equipment. The aggregate minimum annual rental commitments under these leases total approximately \$123 million in 2004, \$98 million in 2005, \$84 million in 2006, \$73 million in 2007, \$62 million in 2008, and \$290 million thereafter. The Corporation also subleases and receives rental income on certain leased properties. As of December 31, 2003, aggregate future minimum rentals to be received under noncancelable subleases totaled \$23 million. Total operating lease expense, net of sublease income, recorded under all operating leases was \$131 million, \$132 million, and \$123 million in 2003, 2002, and 2001, respectively.

Contingent Liabilities and Guarantees: The Corporation enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements usually require the Corporation to make certain representations concerning credit information, loan documentation, collateral, and insurability. On occasion, investors have requested the Corporation to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. Upon completion of its own investigation, the Corporation generally repurchases or provides indemnification on certain loans. Indemnification requests are generally received within two years subsequent to sale. Management maintains a liability for estimated losses on loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy of this recourse liability based on trends in repurchase and indemnification requests, actual loss experience, known and inherent risks in the loans, and current economic conditions. Total loans sold, including loans sold with servicing released, were \$117.5 billion, \$72.1 billion, and \$43.1 billion in 2003, 2002, and 2001, respectively. Total loans repurchased or indemnified during 2003, 2002, and 2001 were \$265 million, \$206 million, and \$157 million, respectively. Loans indemnified that remain outstanding as of December 31, 2003 totaled \$171 million. In addition, total loans sold of \$1.6 billion remained uninsured as of December 31, 2003. The volume and balance of uninsured government loans may be affected by processing or notification delays. Management believes the majority of the uninsured loans at December 31, 2003 will become insured during the normal course of business. To the extent insurance is not obtained, the loans may be subject to repurchase. Uninsured government loans, which were ultimately repurchased, have been included in the repurchase totals above. Losses charged against the liability for estimated losses, including uninsured government loans, were \$65 million, \$42 million, and \$10 million for 2003, 2002, and 2001, respectively. At December 31, 2003 and 2002, the liability for estimated losses on repurchase and indemnification was \$167 million and \$95 million, respectively, and was included in other liabilities on the balance sheet.

The Corporation from time to time also enters into financial guarantee contracts whereby a premium is received from another financial institution counterparty to guarantee a portion of credit risk on interest rate swap contracts entered into between the financial

institution counterparty and its customer. The Corporation becomes liable to pay the financial institution only if the financial institution is unable to collect amounts owed to them by their customer. As of December 31, 2003, the current liability, which represents the fair value of the financial guarantee, and the maximum exposure to loss under these contracts totaled \$397 thousand and \$2 million, respectively. As a result of the issuance of SFAS 149, similar contracts entered into after June 30, 2003 are accounted for as derivative instruments.

The guarantee liability for standby letters of credit was \$8 million at December 31, 2003, which was recorded in other liabilities on the balance sheet. The current liability reflects the fair value of the guarantee associated with standby letters of credit originated since January 1, 2003, the implementation date for the recognition provisions of FIN 45. See above for further discussion on standby letters of credit and their associated outstanding commitments.

The Corporation, through its subsidiaries, National Processing, Inc. and National City Bank of Kentucky, provides merchant card processing services. Under the rules of Visa® and MasterCard®, when a merchant processor acquires card transactions, it has certain contingent liabilities for the transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In such a case, the transaction is "charged back" to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Corporation is unable to collect this amount from the merchant's account, and if the merchant refuses or is unable to reimburse the Corporation for the chargeback due to liquidation or other reasons, the Corporation will bear the loss for the amount of the refund paid to the cardholder.

A cardholder, through its issuing bank, generally has until the later of up to four months after the date a transaction is processed or the delivery of the product or service to present a chargeback to the Corporation as the merchant processor. Management believes the maximum potential exposure for chargebacks would not exceed the total amount of merchant transactions processed through Visa® and MasterCard® for the last four months, plus any outstanding delayed-delivery transactions and unresolved chargebacks in the process of resolution. For the last four months of 2003, this amount totaled approximately \$55.9 billion. At December 31, 2003, the Corporation had \$6 million of unresolved chargebacks that were in process of resolution.

During 2003, 2002 and 2001, the Corporation processed \$151 million, \$163 million, and \$168 million, respectively, in chargebacks presented by issuing banks. Actual losses recorded for 2003, 2002, and 2001 were \$3 million, \$3 million and \$4 million, respectively. The Corporation accrues for probable losses based on historical experience and at December 31, 2003 and 2002, had \$1 million and \$2 million, respectively, recorded in accrued expenses and other liabilities for expected losses.

In most cases, a contingent liability for chargebacks is unlikely to arise, as most products or services are

delivered when purchased, and credits are issued on returned items. Where the product or service is not provided, however, until some time after the purchase (delayed-delivery), the potential for this contingent liability increases. In 2003, the Corporation processed approximately \$13.0 billion of merchant transactions related to delayed-delivery purchases.

The Corporation currently processes card transactions for two of the largest airlines in the United States. In May 2002, the Corporation announced its decision to discontinue processing debit and credit card transactions for the airline industry. The Corporation will honor its existing contractual obligations to the two airlines it currently serves but does not intend to renew such contracts when their current terms expire. The contracts currently in effect have expiration dates of April 2004 and November 2005. One of the two continuing airline merchants, United Airlines, Inc., is currently operating under Chapter 11 protection. In the event of liquidation of United Airlines or the Corporation's other airline customer, the Corporation could become financially responsible for refunding tickets purchased through Visa® and MasterCard® under the chargeback rules of those associations. At December 31, 2003, the estimated dollar value of tickets purchased, but as yet unflown, under continuing merchant processing contracts, was approximately \$786 million, of which approximately \$464 million pertained to United Airlines. Based upon available information, these amounts represent management's best estimate of its maximum potential chargeback exposure related to its continuing airline customers. As of December 31, 2003, the Corporation held no significant collateral under these contracts.

During the second quarter of 2003, the Corporation's obligation to process card transactions for two other airline merchants, including U.S. Airways Group, Inc., ceased with these merchants transitioning to new processors. At December 31, 2003, the estimated dollar value of tickets purchased, but as yet unflown, under these concluding contracts was approximately \$5 million. This amount represents management's best estimate of its maximum potential chargeback exposure under these concluded contracts. As of December 31, 2003, the Corporation held cash collateral of \$1 million and third-party indemnifications of \$110 million against this remaining chargeback exposure.

In November 2003, Congress passed the Federal Aviation Administration Reauthorization Act. This legislation included an extension of the airline ticket re-accommodation provision, which requires airlines to honor tickets through November 2004 for other airlines that may suspend, interrupt or discontinue services due to insolvency or liquidation.

Based on current conditions in the airline industry and other information currently available to the Corporation, management believes the risk of a material loss under the chargeback rules is unlikely.

National City and its subsidiaries are also involved in a number of legal proceedings arising out of their businesses and regularly face various claims, including unasserted claims, which may ultimately result in litigation. It is management's opinion that the Corporation's financial position, results of operations, and cash flows would

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not be materially affected by the outcome of any pending or threatened legal proceedings, commitments, or claims.

Related Party Transactions: The Corporation has no material related party transactions which would require disclosure. In compliance with applicable banking regulations, the Corporation may extend credit to certain officers and directors of the Corporation and its banking subsidiaries in the ordinary course of business under substantially the same terms as comparable third-party lending arrangements.

23. Stock Options and Awards

National City maintains various incentive and nonqualified stock option plans and also maintains various restricted stock plans. These plans provide for the granting of stock options, stock appreciation rights, and restricted shares to eligible employees and directors.

Stock Option Plans: The stock option plans under which options may currently be granted authorize the issuance to officers and key employees of up to 92 million options to purchase shares of common stock at the market price of the common stock on the date of grant. These options generally become exercisable to the extent of 25% to 50% annually beginning one year from the date of grant and expire not later than 10 years from the date of grant. In addition, stock options may be granted that include the right to receive additional options if certain criteria are met. The exercise price of an additional option is equal to the market price of the common stock on the date the additional option is granted. Additional options vest six months from the date of grant and have a contractual term equal to the remaining term of the original option.

On January 1, 2003, the Corporation prospectively adopted the fair value method of accounting for stock options under SFAS 123. Further discussion of the impact of the change is included in Notes 1 and 2. Compensation expense recognized related to National City's stock option plans totaled \$12 million in 2003. Compensation expense of \$4 million was recorded in 2002 related to the fair value of stock options for former employees in situations where vesting continued upon a change in employee status.

Restricted Stock Plans: National City's restricted stock plans provide for the issuance of up to 8,000,000 shares of common stock to officers, key employees, and outside directors. In general, restrictions on outside directors' shares expire after nine months and restrictions on shares granted to key employees and officers expire within a four-year period. The Corporation generally recognizes compensation expense over the re-

stricted period. The weighted-average grant-date fair value of restricted share awards granted during 2003, 2002, and 2001 was \$32.38, \$29.69, and \$29.30, respectively. Compensation expense recognized in 2003, 2002, and 2001 totaled \$18 million, \$12 million, and \$8 million, respectively, related to restricted share plans.

Option and Restricted Stock Award Activity:

Stock option and restricted stock award activity follows:

	Shares Outstanding		Weighted-Average Option Price Per Share
	Awards	Options	
December 31, 2000	1,836,639	45,948,044	\$23.29
Cancelled	(104,426)	(825,311)	26.58
Exercised	(520,438)	(6,480,441)	15.94
Granted	611,535	10,156,258	30.87
December 31, 2001	1,823,310	48,798,550	25.79
Cancelled	(118,019)	(853,081)	29.79
Exercised	(391,859)	(5,404,615)	18.35
Granted	1,225,739	10,422,884	27.84
December 31, 2002	2,539,171	52,963,738	26.89
Cancelled	(161,773)	(851,853)	30.06
Exercised	(488,797)	(8,200,758)	22.01
Granted	1,893,040	6,940,115	33.45
December 31, 2003	3,781,641	50,851,242	\$28.52

As of December 31, 2003 and 2002, 16,240,499 and 22,443,809 shares, respectively were available for grant under the various stock option and restricted stock plans.

Cancelled activity includes both forfeited and expired awards and options.

Information about stock options outstanding at December 31, 2003 follows:

Range of Exercise Prices	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price
			(in years)	Exercisable	
\$ 9.17 - 11.99	63,854	\$ 9.49	.8	63,854	\$ 9.49
12.00 - 16.99	1,831,663	14.55	1.1	1,831,663	14.55
17.00 - 21.99	5,744,291	17.78	5.4	5,744,291	17.78
22.00 - 26.99	932,975	25.30	3.2	924,975	25.29
27.00 - 31.99	27,482,968	28.91	6.6	23,046,934	29.17
32.00 - 37.81	14,795,491	33.97	6.3	8,837,247	34.11
Total	50,851,242	\$28.52	6.1	40,448,964	\$27.85

At December 31, 2003, 2002, and 2001, options for 40,448,964, 38,664,840, and 33,723,522 shares of common stock, respectively, were exercisable.

Additional stock option and restricted award information as of December 31, 2003 follows:

	Shares to Be Issued Upon Exercise	Weighted-Average Option Exercise Price	Shares Available for Future Grants
Plans approved by stockholders ^(a)	54,126,883	\$28.66	16,240,499
Plans not approved by stockholders ^(b)	506,000	14.69	—
Total	54,632,883	\$28.52	16,240,499

^(a) Includes plans assumed through various acquisitions. As of December 31, 2003, outstanding options related to these acquired plans totaled 710,692 with a weighted-average exercise price per share of \$17.05.

^(b) In 1995, in commemoration of its 150th anniversary, National City granted to virtually all employees a total of 5.6 million options to purchase common stock at the then market price. The options became exercisable to the extent of 33% per year beginning two years from the grant date. The 506,000 remaining outstanding options at December 31, 2003 are all exercisable.

24. Pension and Other Postretirement Benefit Plans

National City has a noncontributory, defined benefit pension plan covering substantially all employees. Pension benefits are derived from a cash balance formula, whereby credits based on salary, age, and years of service are credited to employee accounts. Actuarially determined pension costs are charged to current operations. The funding policy is to pay at least the minimum amount required by the Employee Retirement Income Security Act of 1974.

National City also has a benefit plan offering postretirement medical and life insurance benefits. The medical portion of the plan is contributory and the life insurance coverage is noncontributory to the participants. The Corporation has no plan assets attributable to the plan and funds the benefits as claims arise. Benefit costs related to this plan are recognized in the periods employees provide service for such benefits. The Corporation reserves the right to terminate or make plan changes at any time.

Using an actuarial measurement date of October 31, plan assets for each of the plans follows:

(In Thousands)	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Change in Fair Value of Plan Assets				
Fair value at beginning of measurement period	\$1,411,343	\$1,585,716	\$ —	\$ —
Actual return on plan assets	268,133	(107,567)	—	—
Employer contribution	—	—	8,691	8,786
Participant contributions	—	—	12,891	11,160
Expenses paid	(5,005)	(4,704)	—	—
Benefits paid	\$ (73,321)	(62,102)	(21,582)	(19,946)
Fair value at end of measurement period	\$1,601,150	\$1,411,343	\$ —	\$ —

The asset allocation for the defined benefit pension plan as of the measurement date, by asset category, is as follows:

Asset Category	Percentage of Plan Assets	
	2003	2002
Equity securities	71%	68%
Debt securities	9	15
Cash and cash equivalents	20	17
Total	100%	100%

The investment objective for the defined benefit pension plan is to maximize total return with tolerance for slightly above average risk. Asset allocation strongly favors equities, with a target allocation of approximately 80% equity securities, 15% fixed income securities, and 5% cash. Due to volatility in the market, the target allocation is not always desirable and asset allocations will fluctuate between the acceptable ranges. A core equity position of large cap stocks will be maintained. However, more aggressive or volatile sectors will be meaningfully represented in the asset mix in pursuit of higher returns. Higher volatility investment strategies such as credit risk, structured finance, and international bonds will be appropriate strategies in conjunction with the core position.

It is management's intent to give the investment managers flexibility within the overall guidelines with respect to investment decisions and their timing. However, certain investments require specific review and approval by management. Management is also informed of anticipated changes in nonproprietary investment managers, significant modifications of any previously approved investment, or anticipated use of derivatives to execute investment strategies.

Equity securities include \$164 million and \$136 million of National City common stock at October 31, 2003 and 2002, respectively. The \$164 million of National City Common stock included in plan assets at October 31, 2003 represented 5,015,808 shares of stock at a closing price of \$32.66 as of that date. During 2003, dividends of \$6 million were paid on the shares included in plan assets.

Using an actuarial measurement date of October 31, benefit obligation activity for each of the plans follows:

(In Thousands)	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Change in Benefit Obligation				
Benefit obligation at beginning of measurement period	\$1,221,479	\$1,069,119	\$ 143,196	\$ 127,391
Service cost	51,162	47,161	2,946	2,487
Interest cost	80,084	72,553	9,342	8,980
Participant contributions	—	—	12,891	11,160
Plan amendments	—	—	312	343
Actuarial losses	85,364	94,748	8,682	12,781
Benefits paid	(73,321)	(62,102)	(21,582)	(19,946)
Benefit obligation at end of measurement period	\$1,364,768	\$1,221,479	\$ 155,787	\$ 143,196

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(In Thousands)	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Funded status	\$ 236,382	\$ 189,864	\$ (155,787)	\$ (143,196)
Unrecognized prior service cost	(35,582)	(40,337)	632	765
Unrecognized net actuarial loss	110,088	145,712	46,044	38,609
Unrecognized net (asset) obligation	—	(207)	10,030	11,433
Contributions/benefits paid subsequent to measurement date	—	—	1,477	1,505
Prepaid (accrued) benefit cost	\$ 310,888	\$ 295,032	\$ (97,604)	\$ (90,884)

The accumulated benefit obligation for the defined benefit pension plan was \$1.3 billion and \$1.2 billion at October 31, 2003 and 2002, respectively.

The weighted-average assumptions used to determine benefit obligations at the measurement date were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Discount rate	6.25%	6.75%	6.25%	6.75%
Rate of compensation increase	2.75-7.50	2.75-7.50	2.75-7.50	2.75-7.50

Using an actuarial measurement date of October 31, components of net periodic benefit and net periodic cost follow:

(In Thousands)	2003	2002	2001
Pension Benefits			
Service cost	\$51,162	\$47,161	\$42,697
Interest cost	80,084	72,553	71,348
Expected return on plan assets	(143,443)	(159,695)	(153,091)
Amortization of prior service cost	(4,755)	(5,123)	(5,934)
Transition benefit	(207)	(2,559)	(5,713)
Recognized net actuarial (gain)/loss	1,303	(9,096)	(14,996)
Net periodic benefit	\$ (15,856)	\$ (56,759)	\$ (65,689)
Other Postretirement Benefits			
Service cost	\$2,946	\$2,487	\$2,332
Interest cost	9,342	8,980	7,930
Amortization of prior service cost	133	187	187
Transition obligation	1,402	1,402	1,564
Recognized net actuarial loss	1,588	1,261	215
Net periodic cost	\$15,411	\$14,317	\$12,228

The weighted-average assumptions used to determine net periodic benefit and net periodic cost for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Discount rate	6.75%	7.00%	6.75%	7.00%
Rate of compensation increase	2.75-7.50	2.75-7.50	2.75-7.50	2.75-7.50
Expected long-term return on plan assets	9.50	10.00	—	—

The expected long-term rate of return was estimated using market benchmarks for equities and bonds applied to the plan's target asset allocation. The expected return on equities was computed utilizing a valuation framework, which projected future returns based on current equity valuations rather than historical returns. Due to active management of the plan's assets, the return on the plan's equity investments historically has exceeded market averages. Management estimated the rate by which the plan assets would outperform the market in the future based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on equities compared to past periods.

National City does not anticipate making a contribution to its defined benefit pension plan in 2004 as the plan is currently overfunded. The 2004 pension plan assumptions used to determine net periodic cost will be a discount rate of 6.25% and an expected long-term return on plan assets of 8.50%.

The assumed health care cost trend rate at the measurement date follows:

	2003	2002
Health care cost trend rate for next year	10%	10%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5%	5%
Year the rate reaches the ultimate trend rate	2009	2008

The health care trend rate assumption affects only those participants retired under the plan prior to April 1, 1989.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rate would have the following effect:

(In Thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	\$ 279	\$ (258)
Effect on postretirement benefit obligation	4,548	(4,195)

In December 2003, President Bush signed into law a bill that expands Medicare benefits, primarily adding a prescription drug benefit for Medicare-eligible retirees beginning in 2006. The law also provides a federal subsidy to companies which sponsor postretirement benefit plans that provide prescription drug coverage. FASB Staff Position 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription*

Drug, Improvement and Modernization Act of 2003 permits deferring the recognition of the new Medicare provisions' impact due to lack of specific authoritative guidance on accounting for the federal subsidy. The Corporation has elected to defer accounting for the effects of this new legislation until the specific authoritative guidance is issued. Accordingly, the postretirement benefit obligations and net periodic costs reported in the accompanying financial statements and notes do not reflect the impact of this legislation. The accounting guidance, when issued, could require changes to previously reported financial information. The Corporation anticipates its benefit costs after 2006 will be somewhat lower as a result of the new Medicare provisions, however, the adoption of this standard is not expected to have a material impact on results of operations, financial position, or liquidity.

The Corporation also maintains nonqualified supplemental retirement plans for certain key employees. All benefits provided under these plans are unfunded, and payments to plan participants are made by the Corporation. At December 31, 2003 and 2002, obligations of \$83 million and \$80 million, respectively, were included in accrued expenses and other liabilities for these plans. For the years ended December 31, 2003, 2002, and 2001, expense related to these plans was \$21 million, \$15 million, and \$15 million, respectively.

Substantially all employees are eligible to contribute a portion of their pretax compensation to a defined contribution plan. The Corporation may make contributions to the plan for employees with one or more years of service in the form of National City common stock in varying amounts depending on participant contribution levels. The Corporation provides up to a 6.9% matching contribution. For the years ended 2003, 2002, and 2001, the expense related to the plan was \$64 million, \$58 million, and \$53 million, respectively.

25. Derivative Instruments and Hedging Activities

The Corporation uses derivative instruments primarily to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. It also executes derivative instruments with its commercial banking customers to facilitate their risk management strategies. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional amount and an underlying as specified in the contract. A notional amount represents the number of units of a specific item, such as currency units or shares. An underlying represents a variable, such as an interest rate, security price, or price index. The amount of cash or other asset delivered from one party to the other is determined based on the interaction of the notional amount of the contract with the underlying. Derivatives are also implicit in certain contracts and commitments.

Market risk is the risk of loss arising from an adverse change in interest rates, exchange rates, or equity prices. The Corporation's primary market risk is interest rate risk. Management uses derivative instruments to

protect against the risk of interest rate movements on the value of certain assets and liabilities and on future cash flows. These instruments include interest rate swaps, interest rate futures, interest rate options, forward agreements, and interest rate caps and floors with indices that relate to the pricing of specific assets and liabilities. The nature and volume of the derivative instruments used to manage interest rate risk depend on the level and type of assets and liabilities on the balance sheet and the risk management strategies for the current and anticipated rate environments.

SFAS 133 requires all derivative instruments to be carried at fair value on the balance sheet. SFAS 133 provides special hedge accounting provisions which permit the change in the fair value of the hedged item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in fair value of the derivative. Note 1 provides further detail on how derivative instruments are accounted for in the financial statements. The Corporation usually designates derivative instruments used to manage interest rate risk into SFAS 133 hedge relationships with the specific assets, liabilities, or cash flows being hedged. Some derivative instruments used for interest rate risk management are not designated in an SFAS 133 hedge relationship. Such will be the case if the derivative instrument is being used to offset risk related to an asset or liability that is accounted for at fair value in the financial statements, if the derivative instrument has been moved out of an SFAS 133 relationship because the hedge was deemed not effective, or if operational or cost constraints make it prohibitive to apply hedge accounting.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk associated with changes in interest rates is managed by establishing and monitoring limits as to the degree of risk that may be undertaken as part of the Corporation's overall market risk monitoring process carried out by the Asset/Liability Management Committee. See further discussion of this process in the Market Risk section of the Financial Review.

Credit risk occurs when a counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Credit risk is managed by limiting the aggregate amount of net unrealized gains in agreements outstanding, monitoring the size and the maturity structure of the derivative portfolio, applying uniform credit standards to all activities with credit risk, and collateralizing gains. The Corporation has established bilateral collateral agreements with its major derivative dealer counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net gains. At December 31, 2003, these collateral agreements covered 99.8% of the notional amount of the total derivative portfolio, excluding futures, forward commitments to sell or purchase mortgage loans or mortgage-backed securities, and customer derivative contracts. At December 31, 2003, the Corporation held cash, U.S. government, and U.S. government-sponsored agency securities with a fair value of \$411 million to collateralize net gains with counterparties and had pledged or delivered to counterparties U.S. government and U.S. government-

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sponsored agency securities with a fair value of \$32 million to collateralize net losses with counterparties. The Corporation typically does not have collateral agreements covering open forward commitments to sell or purchase mortgage loans or mortgage-backed securities due to the fact these contracts usually mature within 90 days. Open futures contracts are also not covered by collateral agreements because the contracts are cash settled with counterparties daily. The credit risk associated with derivative instruments executed with the Corporation's commercial banking customers is essentially the same as that involved in extending loans and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer.

Derivative contracts are valued using observable market prices, if available, or cash flow projection models acquired from third parties. Pricing models used for valuing derivative instruments are regularly validated by testing through comparison with other third parties. The valuations presented in the following tables are based on yield curves, forward yield curves, and implied volatilities that were observable in the cash and derivatives markets on December 31, 2003 and 2002.

Fair Value Hedges: The Corporation primarily uses interest rate swaps, interest rate futures, interest rate caps and floors, interest rate options, interest rate forwards, and forward purchase commitments to hedge the fair values of mortgage servicing assets, certain fixed-rate commercial loans, and U.S. Treasury securities for changes in interest rates.

The Corporation also uses receive-fixed interest rate swaps to hedge the fair values of certain fixed-rate funding products against changes in interest rates. The funding products hedged include purchased certificates of deposit, long-term FHLB advances, corporate and subordinated long-term debt, and senior bank notes.

During 2003, 2002, and 2001, the Corporation recognized total net ineffective fair value hedge gains of \$69.9 million, \$278.0 million, and \$73.5 million, respectively. Of the total gains recognized, net ineffective hedge gains related to servicing assets were \$41.6 million, \$263.5 million, and \$79.1 million in 2003, 2002, and 2001, respectively. Ineffective hedge gains (losses) for these hedged assets are included in mortgage banking revenue on the income statement. Net ineffective hedge gains (losses) related to hedging commercial loans, U.S. Treasury securities, and fixed-rate funding products are included in other noninterest income on the income statement and totaled \$28.3 million, \$14.5 million, and \$(5.6) million in 2003, 2002, and 2001, respectively. There were no components of derivative instruments which were excluded from the assessment of hedge effectiveness during 2003, 2002, and 2001.

Cash Flow Hedges: The Corporation hedges cash flow variability related to variable-rate funding products, specifically FHLB advances and senior bank notes, through the use of pay-fixed interest rate swaps and interest rate caps. The Corporation also uses pay-fixed interest rate swaps and caps to hedge forecasted cash flows associated with debt instruments expected to be issued in subsequent periods.

Pay-fixed interest rate swaps and interest rate futures were entered into in 2001 to hedge the cash flows expected from the forecasted sale through securitization of certain fixed-rate automobile loans classified as held for securitization on the balance sheet as of December 31, 2001. The automobile loans were sold through securitization in the first quarter of 2002. See Note 5 for further discussion of the automobile loan securitization.

During 2003, 2002, and 2001, the Corporation recognized net ineffective cash flow hedge gains (losses) of \$.1 million, \$(.1) million, and \$.2 million, respectively. These gains (losses) are included in other noninterest income on the income statement. There were no components of derivative instruments which were excluded from the assessment of hedge effectiveness during 2003, 2002, and 2001.

Gains and losses on derivative instruments reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged cash flows are recorded. At December 31, 2003 and 2002, accumulated other comprehensive income included a deferred after-tax net loss of \$67.6 million and \$155.9 million, respectively, related to derivatives used to hedge funding cash flows. See Note 19 for further detail of the amounts included in accumulated other comprehensive income. The net after-tax derivative loss included in accumulated other comprehensive income as of December 31, 2003, is projected to be reclassified into interest expense in conjunction with the recognition of interest payments on funding products through November 2008, with \$77.3 million of net loss expected to be reclassified within the next year. During 2003, 2002, and 2001, pretax losses of \$189.0 million, \$159.8 million, and \$77.7 million, respectively, were reclassified into interest expense as adjustments to interest payments on variable-rate funding products. During 2002, pretax gains of \$2.0 million were also reclassified into other noninterest income as part of the gain on the automobile loan securitization. There were no gains or losses reclassified into earnings during 2003, 2002, and 2001 arising from the determination that the original forecasted transaction would not occur.

The table on the following page provides further information regarding derivative instruments designated in fair value and cash flow hedges.

Summary information regarding the interest rate derivatives portfolio used for interest-rate risk management purposes and designated as accounting hedges under SFAS 133 at December 31, 2003 and 2002 follows:

(In Millions)	December 31, 2003				December 31, 2002			2001	
	Notional Amount	Derivative		Net Ineffective Hedge Gains (Losses) ^(a)	Notional Amount	Derivative		Net Ineffective Hedge Gains (Losses) ^(a)	Net Ineffective Hedge Gains (Losses) ^(a)
		Asset	Liability			Asset	Liability		
Fair Value Hedges									
Loans									
Receive-fixed interest rate swaps	\$ 60	\$ 1.4	\$ —		\$ 60	\$ 1.4	\$ —		
Receive-fixed interest rate swaption sold	55	—	.2		55	—	.4		
Pay-fixed interest rate swaps	3,379	3.5	195.0		3,539	—	285.1		
Callable pay-fixed interest rate swaps	43	—	4.0		44	—	5.6		
Extendable pay-fixed interest rate swaps	—	—	—		1	—	—		
Pay-fixed interest rate swaption sold	205	—	7.1		55	—	4.7		
Interest rate caps sold	815	—	1.4		765	—	1.3		
Interest rate floors sold	360	—	7.7		260	—	8.3		
Interest rate futures purchased	2,173	—	—		3,301	—	—		
Interest rate futures sold	3,086	—	—		4,094	—	—		
Total	10,176	4.9	215.4	\$28.3	12,174	1.4	305.4	\$ 10.5	\$ (4.6)
Available for sale securities									
Pay-fixed interest rate swaps	—	—	—		250	—	4.7		
Total	—	—	—	—	250	—	4.7	2.6	(1.1)
Mortgage servicing assets									
Forward commitments to purchase mortgage-backed securities	2,904	31.7	—		4,025	46.5	—		
Receive-fixed interest rate swaps	10,206	376.2	48.2		2,920	376.1	—		
Receive-fixed interest rate swaption purchased	—	—	—		670	34.1	—		
Receive-fixed interest rate swaption sold	415	—	8.6		2,008	—	56.1		
Pay-fixed interest rate swaption purchased	3,515	62.5	—		3,370	55.7	—		
Pay-fixed interest rate swaption sold	1,295	—	76.2		3,908	—	184.3		
Principal-only swaps	123	6.9	.5		726	46.7	.2		
Interest rate caps purchased	30,410	83.5	—		24,340	61.6	—		
Interest rate floors purchased	—	—	—		75	.4	—		
Interest rate futures purchased	—	—	—		1,308	—	—		
Pay-fixed interest rate swaps	30	—	.1		—	—	—		
Total	48,898	560.8	133.6	41.6	43,350	621.1	240.6	263.5	79.1
Funding									
Receive-fixed interest rate swaps	4,550	350.8	35.7		4,395	453.8	—		
Callable receive-fixed interest rate swaps	310	9.2	3.2		545	22.9	—		
Total	4,860	360.0	38.9	—	4,940	476.7	—	1.4	.1
Total derivatives used in fair value hedges	63,934	925.7	387.9	69.9	60,714	1,099.2	550.7	278.0	73.5
Cash Flow Hedges									
Automobile loans held for sale									
	—	—	—	—	—	—	—	—	.1
Funding									
Pay-fixed interest rate swaps	10,945	2.1	52.1		7,150	—	181.2		
Interest rate caps purchased	3,500	3.0	—		8,500	14.9	—		
Total	14,445	5.1	52.1	.1	15,650	14.9	181.2	(.1)	.1
Total derivatives used in cash flow hedges	14,445	5.1	52.1	.1	15,650	14.9	181.2	(.1)	.2
Total derivatives used for interest rate risk management and designated in SFAS 133 relationships	\$78,379	\$930.8	\$440.0	\$70.0	\$76,364	\$1,114.1	\$731.9	\$277.9	\$ 73.7

^(a) Represents net ineffective hedge gain (loss) on hedging strategy for the year.

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Other Derivative Activities: The derivative portfolio also includes derivative financial instruments not included in SFAS 133 hedge relationships. Those derivatives include swaps, futures, and forwards used for interest rate and other risk management purposes, as well as mortgage banking loan commitments defined as derivatives under SFAS 133, and derivatives executed with commercial banking customers, primarily interest rate swaps and options, to facilitate their interest rate risk management strategies. The Corporation generally does not enter into derivative transactions for purely speculative purposes. Gains and losses on mortgage-banking-related derivative financial instruments are included in mortgage banking revenue on the income statement, while gains and losses on other derivative financial instruments are included in other noninterest income. A summary of derivative financial instruments not in SFAS 133 hedge relationships by type of activity follows:

(In Millions)	As of December 31		
	Net Derivative Asset (Liability)		
	2003	2002	
Other derivative instruments			
Mortgage-banking-related:			
Mortgage servicing asset risk management	\$ 36.1	\$ 12.0	
Mortgage loan commitments and commitment and mortgage loan risk management	(72.1)	(181.5)	
Total mortgage-banking related	(36.0)	(169.5)	
Customer risk management	15.0	17.2	
Other	3.7	(5.1)	
Total other	18.7	12.1	
Total other derivative instruments	\$(17.3)	\$(157.4)	

(In Millions)	For the Calendar Year		
	Net Gains (Losses)		
	2003	2002	2001
Other derivative activities			
Mortgage-banking-related:			
Mortgage servicing asset risk management	\$133.7	\$176.5	\$ 66.9
Mortgage loan commitments and commitment and mortgage loan risk management	(24.3)	207.9	222.7
Total mortgage-banking related	109.4	384.4	289.6
Customer risk management	11.5	9.8	15.0
Other	60.6	(.3)	27.2
Total other	72.1	9.5	42.2
Total other derivative activities	\$181.5	\$393.9	\$331.8

26. Fair Value of Financial Instruments

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using an option-adjusted discounted cash flow model or other valuation techniques. These techniques are significantly affected by the assumptions used, including discount rates, market volatility, and estimates of future cash flows. As such, the derived fair value estimates cannot be substantiated by comparison to independent markets and, further, may not be realizable in an immediate settlement of the instruments.

The following table presents the estimates of fair value of financial instruments at December 31, 2003 and 2002. Excluded are certain items not defined as financial instruments, including nonfinancial assets, intangibles, and future business growth, as well as certain liabilities such as obligations for pension and other postretirement benefits, deferred compensation arrangements, and leases. Accordingly, the aggregate fair value amounts presented do not purport to represent the fair value of the Corporation.

(In Thousands)	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 4,985,231	\$ 4,985,231	\$ 5,155,331	\$ 5,155,331
Loans held for sale or securitization	15,367,559	15,475,057	24,501,364	24,779,269
Loans, net of allowance for loan losses	78,153,524	81,613,554	71,035,824	75,820,418
Securities	6,865,616	6,865,616	9,211,268	9,211,268
Derivative assets	1,349,259	1,349,259	1,468,381	1,468,381
Other	595,016	595,016	571,989	571,989
Financial Liabilities				
Deposits	\$(63,930,030)	\$(60,286,820)	\$(65,118,768)	\$(63,859,924)
Short-term borrowings	(13,309,376)	(13,312,267)	(18,022,167)	(18,044,355)
Long-term debt	(23,666,292)	(23,912,084)	(22,730,295)	(22,987,359)
Derivative liabilities	(875,737)	(875,737)	(1,243,544)	(1,243,544)
Other	(325,498)	(325,498)	(340,007)	(340,007)
Other Financial Instruments				
Commitments to extend credit	(57,226)	(57,226)	(66,484)	(66,484)
Standby and commercial letters of credit	(7,181)	(7,181)	(8,075)	(8,075)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents: Due to their short-term nature, the carrying amounts reported in the balance sheet approximate fair value for these assets. For purposes of this disclosure only, cash equivalents include Federal funds sold, security resale agreements, accrued interest receivable, and other short-term investments.

Loans and Loans Held for Sale or Securitization: The fair values of portfolio loans and the automobile and commercial loans held for sale or securitization are estimated using an option-adjusted discounted cash flow model that discounts future cash flows using recent market interest rates, market volatility, and credit spread assumptions. The fair values of mortgage loans held for sale is based either upon observable market prices or prices obtained from third parties.

Securities: The fair values of securities are based primarily upon quoted market prices.

Derivative Assets and Liabilities: Fair values for derivative instruments are based either on cash flow projection models acquired from third parties or observable market prices.

Deposits: The fair values disclosed for demand deposits (e.g., interest and noninterest bearing checking, savings, and certain types of money market accounts) are equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using an option-adjusted discounted cash flow model.

Short-Term Borrowings: The carrying amounts of Federal funds borrowed, security repurchase agreements, commercial paper, and other short-term borrowings approximate their fair values.

Long-Term Debt: The fair values of long-term borrowings (other than deposits) are estimated using an option-adjusted discounted cash flow model that incorporates the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Other Financial Instruments: The amounts shown under carrying value represent deferred fees arising from the related off-balance-sheet financial instruments. These deferred fees approximate the fair value of these instruments taking into account the remaining terms of the agreements and the counterparties' credit standing.

27. Line of Business Results

National City operates five major lines of business: Consumer and Small Business Financial Services, Wholesale Banking, National Consumer Finance, Asset Management, and National Processing.

Consumer and Small Business Financial Services (CSB) provides banking services to consumers and small businesses within National City's six-state footprint. In addition to deposit gathering and direct lending services provided through the retail bank branch network, call centers, and the Internet, CSB's activities also include small business services, dealer finance, education finance, retail brokerage, and lending-related insurance services. Consumer lending products include home equity, automobile, marine, and recreational vehicle installment loans, government or privately guaranteed student loans, and credit cards and other unsecured personal and business lines of credit. Major revenue sources include net interest income on loan and deposit accounts, deposit account service fees, debit and credit

card interchange and service fees, and ATM surcharge and net interchange fees. CSB's expenses are mainly personnel and branch network support costs.

Wholesale Banking provides credit-related and treasury management products, as well as capital markets and international services, to large- and medium-sized corporations. Major products and services include: lines of credit, term loans, leases, investment real estate lending, asset-based lending, structured finance, syndicated lending, equity and mezzanine capital, treasury management services, and international payment and clearing services. The majority of revenue is driven by loans to middle-market companies with annual revenue in the \$5 million to \$500 million range across a diverse group of industries, generally within National City's six-state footprint. Expenses include personnel and support costs, in addition to credit costs.

National Consumer Finance (NCF) originates conforming and nonconforming residential mortgage and home equity loans within National City's six-state footprint and nationally through retail branch offices, correspondent relationships, and a network of brokers, real estate agents, and builders. NCF's activities also include selling and servicing mortgage loans for third-party investors. Conforming mortgage loans, which generally represent loans collateralized by one-to-four-family residential real estate, having loan-to-value collateral ratios of 80% or less, and made to borrowers in good credit standing, are originated through National City Mortgage Co. (NCMC), a business unit within NCF. These loans are typically sold to primary market aggregators (Fannie Mae, Freddie Mac, Ginnie Mae, or the Federal Home Loan Banks) and jumbo loan investors. During 2003, approximately 55% of NCMC mortgage loans were originated through wholesale and correspondent channels, while 45% were originated through retail mortgage branches operated by NCMC nationally, or through CSB bank branches within National City's six-state footprint. First Franklin Financial Corporation, a business unit within NCF, originates nonconforming mortgage loans, which do not meet the above conforming definition due to credit characteristics, the underlying documentation, the loan-to-value ratio, or other factors. First Franklin originates loans primarily through brokers, which are either sold servicing-released to third parties or are retained in portfolio. NCF's National Home Equity business unit originates prime-quality home equity loans outside National City's six-state footprint. Significant revenue streams for NCF include net interest income on loans and fee income related to the origination, sale, and servicing of loans. Expenses include personnel costs, branch office costs, and loan collection expenses.

The Asset Management business includes both institutional asset and personal wealth management. The institutional asset management business provides investment management, custody, retirement planning services, bond administration and other corporate trust services to institutional clients, and acts as the investment advisor for the Armada® mutual funds. The clients served include publicly traded corporations, charitable endowments and foundations, as well as unions, residing primarily in National City's six-state footprint and generally complementing its corporate banking relation-

Notes to Consolidated Financial Statements CONTINUED

ships. Personal wealth management services are provided by three business units — Private Client Group, NatCity Investments, Inc., and Sterling. Products and services include private banking services and tailored credit solutions, customized investment management services, brokerage, estate and tax planning, as well as trust management and administration for affluent individuals and families. Sterling offers financial management services and alternative investments for high net worth clients.

National Processing consists of National Processing, Inc., National City's 84%-owned payment processing subsidiary. National Processing authorizes, processes, and performs financial settlement and reporting of card transactions, including credit and debit transactions and also provides financial settlement and reporting solutions to large and mid-size corporate customers in the travel and health care industries. National Processing is the second largest acquirer of card transactions in the United States.

The business units are identified by the product or services offered and the channel through which the product or service is delivered. The reported results reflect the underlying economics of the businesses. Expenses for centrally provided services are allocated based upon estimated usage of those services. The business units' assets and liabilities are match-funded and interest rate risk is centrally managed as part of

investment funding activities. Asset securitizations related to credit card and automobile loans are also considered funding activities and the effects of such securitizations are included within the Parent and Other category. The credit card and automobile loans sold through securitization continue to be reflected as owned by the business unit that manages those assets. Asset sales and other transactions between business units are primarily conducted at fair value, resulting in gains or losses that are eliminated for reporting consolidated results of operations. Parent and Other is primarily comprised of the results of investment funding activities, intersegment revenue and expense eliminations, and unallocated corporate income and expense. The intersegment revenue and expense amounts presented in the tables relate to either services provided or asset sales between the operating segments. The amounts do not include reimbursements related to expense allocations and the effects of centrally managing interest rate risk. The accounting policies of the individual business units are the same as those of the Corporation. Prior period amounts have been restated to conform with the current period's presentation.

Operating results of the business units are discussed in the Line of Business Results section of the Financial Review. Selected financial information by line of business is included in the following table.

(In Thousands)	Consumer and Small Business Financial Services	Wholesale Banking	National Consumer Finance	Asset Management	National Processing	Parent and Other	Consolidated Total
2003							
Net interest income (expense) ^(a)	\$ 1,983,257	\$ 1,028,331	\$ 1,877,399	\$ 104,642	\$ 3,251	\$ (601,234)	\$ 4,395,646
Provision (benefit) for loan losses	307,328	340,639	66,630	7,635	—	(83,814)	638,418
Net interest income (expense) after provision	1,675,929	687,692	1,810,769	97,007	3,251	(517,420)	3,757,228
Noninterest income	706,538	322,924	1,498,424	346,191	479,875	242,049	3,596,001
Noninterest expense	1,374,950	506,843	1,110,090	292,099	402,044	402,097	4,088,123
Income (loss) before taxes	1,007,517	503,773	2,199,103	151,099	81,082	(677,468)	3,265,106
Income tax expense (benefit) ^(a)	380,842	189,124	861,520	57,115	32,321	(372,880)	1,148,042
Net income (loss)	\$ 626,675	\$ 314,649	\$ 1,337,583	\$ 93,984	\$ 48,761	\$ (304,588)	\$ 2,117,064
Intersegment revenue (expense)	\$ (3,664)	\$ 19,599	\$ 6,578	\$ 6,947	\$ 5,435	\$ (34,895)	\$ —
Average assets (in millions)	26,285	30,654	47,719	2,920	622	10,177	118,377
2002							
Net interest income (expense) ^(a)	\$ 1,984,253	\$ 1,009,232	\$ 1,207,254	\$ 101,776	\$ 5,348	\$ (272,130)	\$ 4,035,733
Provision (benefit) for loan losses	297,271	376,605	65,570	14,052	—	(71,580)	681,918
Net interest income (expense) after provision	1,686,982	632,627	1,141,684	87,724	5,348	(200,550)	3,353,815
Noninterest income	639,800	278,694	617,000	369,368	454,463	215,649	2,574,974
Noninterest expense	1,344,855	507,763	899,307	300,610	376,338	300,761	3,729,634
Income (loss) before taxes	981,927	403,558	859,377	156,482	83,473	(285,662)	2,199,155
Income tax expense (benefit) ^(a)	371,169	152,408	321,027	59,151	32,396	(183,639)	752,512
Net income (loss)	\$ 610,758	\$ 251,150	\$ 538,350	\$ 97,331	\$ 51,077	\$ (102,023)	\$ 1,446,643
Intersegment revenue (expense)	\$ (1,928)	\$ 15,645	\$ 3,141	\$ 12,626	\$ 7,897	\$ (37,381)	\$ —
Average assets (in millions)	24,704	31,230	33,420	2,968	481	10,620	103,423
2001							
Net interest income (expense) ^(a)	\$ 1,994,482	\$ 1,006,819	\$ 585,693	\$ 108,534	\$ 7,250	\$ (230,583)	\$ 3,472,195
Provision (benefit) for loan losses	265,624	218,256	165,487	5,229	—	(49,301)	605,295
Net interest income (expense) after provision	1,728,858	788,563	420,206	103,305	7,250	(181,282)	2,866,900
Noninterest income	598,659	300,683	535,223	384,896	465,366	392,996	2,677,823
Noninterest expense	1,348,199	498,817	680,457	309,257	384,181	123,965	3,344,876
Income before taxes	979,318	590,429	274,972	178,944	88,435	87,749	2,199,847
Income tax expense ^(a)	373,551	222,732	109,357	68,691	35,774	1,634	811,739
Net income	\$ 605,767	\$ 367,697	\$ 165,615	\$ 110,253	\$ 52,661	\$ 86,115	\$ 1,388,108
Intersegment revenue (expense)	\$ (1,661)	\$ 24,422	\$ 4,410	\$ 13,562	\$ 14,807	\$ (55,540)	\$ —
Average assets (in millions)	23,955	31,758	23,352	2,729	409	10,881	93,084

^(a) Includes tax-equivalent adjustment for tax-exempt interest income

Notes to Consolidated Financial Statements CONTINUED

28. Financial Holding Company

Condensed financial statements of the holding company, which include transactions with subsidiaries, follow:

Balance Sheets

(In Thousands)	December 31	
	2003	2002
Assets		
Cash and demand balances due from banks	\$ 1,521	\$ 1,498
Loans to and receivables from subsidiaries	819,115	699,323
Securities	164,179	227,223
Other investments	479,394	556,123
Investments in:		
Subsidiary banks	9,642,417	9,244,024
Nonbank subsidiaries	608,916	545,499
Goodwill	58,566	58,566
Derivative assets	124,901	154,905
Other assets	668,633	644,245
Total Assets	\$12,567,642	\$12,131,406
Liabilities and Stockholders' Equity		
Long-term debt	\$ 2,266,658	\$ 2,005,076
Borrowed funds from subsidiaries	185,568	1,205,568
Derivative liabilities	4,695	7,184
Accrued expenses and other liabilities	782,050	752,521
Total liabilities	3,238,971	3,970,349
Stockholders' equity	9,328,671	8,161,057
Total Liabilities and Stockholders' Equity	\$12,567,642	\$12,131,406

Securities and other investments totaling \$106 million at December 31, 2003, were restricted for use in certain of the Corporation's nonqualified benefit plans. The borrowed funds from subsidiaries balance includes the junior subordinated debt securities payable to the two wholly-owned subsidiary trusts (the trusts) that were deconsolidated as a result of applying the provisions of FIN 46. The holding company continues to guarantee the capital securities issued by the trusts, which totaled \$180 million at December 31, 2003. Refer to Note 17 for further discussion on FIN 46 and the deconsolidation of the trusts. The holding company also guarantees commercial paper issued by its subsidiary National City Credit Corporation, which borrowings totaled \$693 million at December 31, 2003. Additionally, the holding company guarantees National City Bank of Kentucky's financial obligation under this subsidiary's membership with VISA® up to \$600 million and Mastercard® up to \$400 million. Refer to Note 22 for further discussion of contingent liabilities and guarantees related to the Corporation's merchant card processing business.

Statements of Income

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Income			
Dividends from:			
Subsidiary banks	\$1,262,810	\$1,120,334	\$ 775,000
Nonbank subsidiaries	10,000	16,000	8,000
Interest on loans to subsidiaries	1,471	12,369	21,859
Interest and dividends on securities	8,208	12,637	38,176
Securities gains, net	40,575	76,817	123,357
Other income	33,272	745	109,191
Total Income	1,356,336	1,238,902	1,075,583
Expense			
Interest on debt and other borrowings	97,242	113,796	169,072
Other expense	118,749	54,264	9,296
Total Expense	215,991	168,060	178,368
Income before taxes and equity in undistributed net income of subsidiaries	1,140,345	1,070,842	897,215
Income tax (benefit) expense	(25,746)	(27,998)	75,987
Income before equity in undistributed net income of subsidiaries	1,166,091	1,098,840	821,228
Equity in undistributed net income of subsidiaries	950,973	347,803	566,880
Net Income	\$2,117,064	\$1,446,643	\$1,388,108

Statements of Cash Flows

(In Thousands)	For the Calendar Year		
	2003	2002	2001
Operating Activities			
Net income	\$ 2,117,064	\$ 1,446,643	\$ 1,388,108
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(950,973)	(347,803)	(566,880)
Amortization of goodwill	—	—	6,886
Depreciation and amortization of properties and equipment	1,263	793	2,238
Increase in receivables from subsidiaries	(441,126)	(16)	(270,333)
Securities gains, net	(40,575)	(76,817)	(123,357)
Other losses (gains), net	20,614	(2,415)	(94,340)
Amortization of premiums and discounts on securities and debt	(795)	(1,236)	(113)
Increase (decrease) in accrued expenses and other liabilities	2,560	(27,729)	7,486
Other, net	(33,573)	13,272	121,509
Net cash provided by operating activities	674,459	1,004,692	471,204
Investing Activities			
Purchases of securities	(484,371)	(326,598)	(161,050)
Proceeds from sales and maturities of securities	569,726	592,377	506,591
Net decrease (increase) in other investments	76,729	(260,892)	167,255
Principal collected on loans to subsidiaries	1,177,334	167,048	55,550
Loans to subsidiaries	(606,000)	(167,935)	(258,965)
Investments in subsidiaries	(50,857)	(606,483)	(725,000)
Returns of investment from subsidiaries	300,000	345	470,466
Net decrease (increase) in properties and equipment	10,840	(17,951)	(8,014)
Net cash provided by (used in) investing activities	993,401	(620,089)	46,833
Financing Activities			
Net (decrease) increase in borrowed funds	(1,020,000)	388,000	271,500
Issuance of debt	300,000	—	—
Repayment of debt	(880)	(110,880)	(880)
Dividends paid	(764,817)	(732,095)	(701,304)
Redemption of preferred stock	—	(37)	—
Issuances of common stock	170,477	102,936	78,704
Repurchases of common stock	(352,617)	(32,526)	(166,246)
Net cash used in financing activities	(1,667,837)	(384,602)	(518,226)
Increase (decrease) in cash and demand balances due from banks	23	1	(189)
Cash and demand balances due from banks, January 1	1,498	1,497	1,686
Cash and Demand Balances Due from Banks, December 31	\$ 1,521	\$ 1,498	\$ 1,497
Supplemental Information			
Cash paid for interest	\$ 92,916	\$ 114,001	\$ 167,186
Non-cash item:			
Carrying value of securities donated to the National City Charitable Foundation	25,007	36,306	—

At December 31, 2003 and 2002, retained earnings of the holding company included \$6.9 billion and \$5.9 billion, respectively, of equity in undistributed net income of subsidiaries.

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Form 10-K

The Annual Report includes the materials required in Form 10-K filed with the United States Securities and Exchange Commission. The integration of the two documents gives stockholders and other interested parties timely, efficient, and comprehensive information on 2003 results. Portions of the Annual Report are not required by the Form 10-K report and are not filed as part of the Corporation's Form 10-K. Only those portions of the Annual Report referenced in the cross-reference index are incorporated in the Form 10-K. The report has not been approved or disapproved by the United States Securities and Exchange Commission, nor has the Commission passed upon its accuracy or adequacy.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2003
- 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 1-10074

NATIONAL CITY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

_____ Delaware (State or Other Jurisdiction of Incorporation or Organization)	_____ 34-1111088 (I.R.S. Employer Identification No.)
_____ 1900 East Ninth Street, Cleveland, Ohio (Address of Principal Executive Offices)	_____ 44114-3484 (ZIP Code)

Registrant's telephone number, including area code: 216-222-2000

Securities registered pursuant to Section 12(b) of the Act:

National City Corporation Common Stock, \$4.00 Per Share
(Title of Class)

New York Stock Exchange
(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

YES NO

The aggregate market value of the registrant's outstanding voting common stock held by nonaffiliates on June 30, 2003, determined using a per share closing price on that date of \$32.71, as quoted on the New York Stock Exchange, was \$19,904,581,093.

The number of shares outstanding of each of the registrant's classes of common stock, as of December 31, 2003:

Common Stock, \$4.00 Per Share – 605,996,120

Documents Incorporated By Reference:

Portions of the registrant's Proxy Statement (to be dated approximately March 8, 2004) are incorporated by reference into Item 10. Directors and Executive Officers of the Registrant; Item 11. Executive Compensation; Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Item 13. Certain Relationships and Related Transactions; and Item 14. Principal Accounting Fees and Services, of Part III.

Form 10-K CONTINUED

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Reports on Form 8-K filed or furnished during the fourth quarter of 2003 and through the date of this Form 10-K filing:

October 16, 2003 – National City issued a news release announcing its financial results for the three- and nine-month periods ended September 30, 2003 and the availability of the September 30, 2003 Financial Supplement on its Web site at www.NationalCity.com.

October 28, 2003 – National City issued a news release announcing the retirement of Vice Chairman, Robert G. Siefers, effective the end of 2003.

November 20, 2003 – National City issued a news release announcing that it entered into a definitive agreement to acquire Allegiant Bancorp, Inc.

December 9, 2003 – National City announced the posting of its Mid-Quarter Update to Financial Supplement to its Web site.

January 15, 2004 – National City issued a news release announcing its financial results for the fourth quarter and fiscal year ended December 31, 2003 and the availability of the December 31, 2003 Condensed Financial Supplement on its Web site. The news release also announced that National City restated its results for 2001, 2002, and the nine-month period ended September 30, 2003 related to the application of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

January 26, 2004 – National City announced the posting of its December 31, 2003 Financial Supplement to its Web site.

The index of exhibits and any exhibits filed as part of the 2003 Form 10-K are accessible at no cost on the Corporation’s Web site at NationalCity.com or through the United States Securities and Exchange Commission’s Web site at www.sec.gov. Copies of exhibits may also be requested at a cost of 30 cents per page from National City’s investor relations department.

Financial Statement Schedules – Omitted due to inapplicability or because required information is shown in the consolidated financial statements or the notes thereto.

Note (1) – Incorporated by reference from the Corporation’s Proxy Statement to be dated approximately March 8, 2004.

Business

National City Corporation (National City or the Corporation), founded in 1845, is a \$113.9 billion financial holding company headquartered in Cleveland, Ohio. National City operates through an extensive distribution network in Ohio, Michigan, Pennsylvania, Indiana, Kentucky, and Illinois and also conducts selected consumer lending businesses and other financial services on a nationwide basis. Its primary businesses include commercial and retail banking, consumer finance, asset management, mortgage financing and servicing, and payment processing. Operations are primarily conducted through more than 1,100 branch banking offices located within National City's six-state footprint and over 330 retail mortgage offices located throughout the United States. National City and its subsidiaries had 33,331 full-time-equivalent employees at December 31, 2003.

Competition

The financial services business is highly competitive. The banking subsidiaries of National City compete actively with national and state banks, thrift institutions, securities dealers, mortgage bankers, finance companies, insurance companies, and other financial service entities.

Supervision and Regulation

National City is a financial holding company and, as such, is subject to regulation under the Bank Holding Company Act of 1956, as amended (the BHC Act). The BHC Act requires the prior approval of the Federal Reserve Board for a financial holding company to acquire or hold more than a 5% voting interest in any bank, and restricts interstate banking activities. The BHC Act allows interstate bank acquisitions anywhere in the country and interstate branching by acquisition and consolidation in those states that had not opted out by January 1, 1997.

The BHC Act restricts National City's nonbanking activities to those which are determined by the Federal Reserve Board to be financial in nature, incidental to such financial activity, or complementary to a financial activity. The BHC Act does not place territorial restrictions on the activities of nonbank subsidiaries of bank holding companies. National City's banking subsidiaries are subject to limitations with respect to transactions with affiliates.

On July 30, 2002, the Senate and the House of Representatives of the United States (Congress) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. The New York Stock Exchange has also proposed corporate governance rules that were presented to the Securities and Exchange Commission for review and approval. The proposed changes are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors.

Effective August 29, 2002, as directed by Section 302(a) of Sarbanes-Oxley, National City's chief executive officer and chief financial officer are each required to certify that National City's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of National City's internal controls; they have made certain disclosures to National City's auditors and the audit committee of the Board of Directors about National City's internal controls; and they have included information in National City's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in National City's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

At the October 28, 2002 Board of Directors' meeting, the Board of Directors of National City approved a series of actions to strengthen and improve its already strong corporate governance practices. Included in those actions was the adoption of a new Code of Ethics, a Code of Ethics for Senior Financial Officers, Corporate Governance Guidelines and new charters for the Audit, Compensation, and Nominating and Board of Directors' Governance Committees. More information on National City Corporation's corporate governance practices is available on the National City Web site at NationalCity.com.

The enactment of the Graham-Leach-Bliley Act of 1999 (the GLB Act) represented a pivotal point in the history of the financial services industry. The GLB Act removed large parts of a regulatory framework that had its origins in the Depression Era of the 1930s. Effective March 11, 2000, new opportunities became available for

Form 10-K CONTINUED

banks, other depository institutions, insurance companies, and securities firms to enter into combinations that permit a single financial services organization to offer customers a more complete array of financial products and services. The GLB Act provides a new regulatory framework for regulation through the financial holding company, which has as its umbrella regulator the Federal Reserve Board. Functional regulation of the financial holding company's separately regulated subsidiaries is conducted by their primary functional regulator. The GLB Act requires "satisfactory" or higher Community Reinvestment Act compliance for insured depository institutions and their financial holding companies in order for them to engage in new financial activities. The GLB Act provides a federal right to privacy of non-public personal information of individual customers. National City and its subsidiaries are also subject to certain state laws that deal with the use and distribution of non-public personal information.

A substantial portion of the Corporation's cash is derived from dividends paid by its subsidiary banks. These dividends are subject to various legal and regulatory restrictions as summarized in Note 18 to the Corporation's consolidated financial statements.

The subsidiary banks are subject to the provisions of the National Bank Act or the banking laws of their respective states, are under the supervision of, and are subject to periodic examination by, the Comptroller of the Currency (the OCC) or the respective state banking departments, and are subject to the rules and regulations of the OCC, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC).

National City's subsidiary banks are also subject to certain laws of each state in which such bank is located. Such state laws may restrict branching of banks within the state and acquisition or merger involving banks located in other states. Ohio, Kentucky, Illinois, Indiana, Michigan, and Pennsylvania have all adopted nationwide reciprocal interstate banking.

The Financial Reform, Recovery and Enforcement Act of 1989 (FIRREA) provides that a holding company's controlled insured depository institutions are liable for any loss incurred by the FDIC in connection with the default of any FDIC-assisted transaction involving an affiliated insured bank or savings association.

The monetary policies of regulatory authorities, including the Federal Reserve Board and the FDIC, have a significant effect on the operating results of banks and holding companies. The nature of future monetary policies and the effect of such policies on the future business and earnings of National City and its subsidiaries cannot be predicted.

Properties

During 2003, National City purchased its headquarters building, National City Center, located in Cleveland, Ohio. The Corporation also owns freestanding operation centers in Columbus and Cleveland, Ohio, Louisville, Kentucky, and Kalamazoo and Royal Oak, Michigan. Certain of National City's significant subsidiaries occupy their headquarters offices under long-term leases. The Corporation also leases operations centers in Cleveland and Miamisburg, Ohio, Pittsburgh, Pennsylvania, and Chicago, Illinois. Branch office locations are variously owned or leased.

Legal Proceedings

The information contained in Note 22 to the consolidated financial statements of this Annual Report is incorporated herein by reference.

Executive Officers

The Executive Officers of National City (as of January 29, 2004) are as follows:

Name	Age	Position
David A. Daberko	58	Chairman and Chief Executive Officer
William E. MacDonald III	57	Vice Chairman
James R. Bell III	47	Executive Vice President
Paul G. Clark	50	Executive Vice President
John D. Gellhausen	38	Executive Vice President
Thomas W. Golonski	60	Executive Vice President
Jon L. Gorney	53	Executive Vice President
Jeffrey D. Kelly	50	Executive Vice President and Chief Financial Officer
Timothy J. Lathe	48	Executive Vice President
Herbert R. Martens, Jr.	51	Executive Vice President
Robert J. Ondercik	57	Executive Vice President
Ted M. Parker	43	Executive Vice President
J. Armando Ramirez	48	Executive Vice President
Peter E. Raskind	47	Executive Vice President
Philip L. Rice	45	Executive Vice President
Shelley J. Seifert	49	Executive Vice President
Stephen A. Stitle	58	Executive Vice President
David L. Zoeller	54	Executive Vice President, General Counsel, and Secretary
James P. Gulick	45	Senior Vice President and General Auditor
Janis E. Lyons	44	Senior Vice President and Comptroller
Thomas A. Richlovsky	52	Senior Vice President and Treasurer

The term of office for executive officers is one year.

There is no family relationship between any of the executive officers.

Mr. Daberko has been chairman and chief executive officer since 1995.

Mr. MacDonald III was appointed vice chairman in 2001. Prior to that time, he was a senior executive vice president from 1999 to 2001 and an executive vice president from 1993 to 1999.

Mr. Bell has been an executive vice president since 1996. Since 2000, he has been head of the Capital Markets Group.

Mr. Clark was appointed an executive vice president in 1998. Prior to that time he was chief executive officer of National City Bank of Michigan/Illinois from 1998 to 2000.

Mr. Gellhausen was appointed an executive vice president in 2002. Prior to that time, he was president and chief operating officer of National City Mortgage Co. from 2000 to 2002 and senior vice president and comptroller of National City Corporation from 1998 to 2000.

Mr. Golonski was appointed chairman and chief executive officer of National City Bank of Pennsylvania in 1999. Prior to that time, he was president and chief executive officer of National City Bank of Pennsylvania. He has been an executive vice president since 1996.

Mr. Gorney has been an executive vice president since 1993.

Mr. Kelly was appointed chief financial officer in 2000. He has been an executive vice president since 1994.

Mr. Lathe was appointed an executive vice president and president and chief executive officer of National City Bank of Michigan/Illinois in 2000. Prior to that time, he was executive vice president of National City Bank for the Syndications Division from 1998 to 2000.

Mr. Martens was appointed an executive vice president in 1997. He has been chairman of NatCity Investments, Inc. since 1995.

Mr. Ondercik was appointed an executive vice president in 1994.

Mr. Parker was appointed an executive vice president and president and chief executive officer of National City Bank of Kentucky in 2001. Prior to that time, he was senior vice president of National City Bank.

Mr. Ramirez was appointed an executive vice president in 2000. Prior to that time, he was senior vice president since 1994.

Mr. Raskind was appointed an executive vice president in 2000. Prior to that time, he was vice chairman of U.S. Bancorp.

Mr. Rice was appointed an executive vice president and president and chief executive officer of National City Bank in 2000. Prior to that time, he was executive vice president of the Northcoast Region of National City Bank.

Ms. Seifert was appointed an executive vice president in 2000. Prior to that time, she was senior vice president of Corporate Human Resources.

Mr. Stitle was appointed an executive vice president in 1999. Since 1995, he has been chairman of National City Bank of Indiana.

Mr. Zoeller was appointed an executive vice president in 2000. Since 1992, he has been general counsel and secretary.

Mr. Gulick has been senior vice president and general auditor since 1995.

Ms. Lyons was appointed comptroller in 2000. She has been a senior vice president since 1997.

Mr. Richlovsky has been senior vice president and treasurer since 1989.

Form 10-K CONTINUED

Controls and Procedures

National City's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2003, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management concluded that disclosure controls and procedures as of December 31, 2003 were effective in ensuring material information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized, and reported on a timely basis. Additionally, there were no changes in the Corporation's internal control over financial reporting that occurred during the quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Management's responsibilities related to establishing and maintaining effective disclosure controls and procedures include maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in accordance with accounting principles generally accepted in the United States. As disclosed in the Report of Management on page 33 of this Annual Report, management assessed the Corporation's system of internal control over financial reporting as of December 31, 2003, in relation to criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2003, its system of internal control over financial reporting met those criteria.

There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2003.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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, on January 29, 2004.

National City Corporation



David A. Daberko
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on January 29, 2004.



David A. Daberko
Chairman and Chief Executive Officer



William E. MacDonald III
Vice Chairman



Jeffrey D. Kelly
Executive Vice President and Chief Financial Officer



Thomas A. Richlovsky
Senior Vice President and Treasurer

The Directors of National City Corporation executed a power of attorney appointing David L. Zoeller, Carlton E. Langer, and Thomas A. Richlovsky their attorneys-in-fact, empowering them to sign this report on their behalf.



By David L. Zoeller
Attorney-in-fact

Certifications of Chief Executive Officer Sarbanes-Oxley Act Section 302

I, David A. Daberko, certify that:

1. I have reviewed this annual report on Form 10-K of National City Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2004

By: 
David A. Daberko
Chairman and Chief Executive Officer

Sarbanes-Oxley Act Section 906

Pursuant to 18 U.S.C. section 1350, the undersigned officer of National City Corporation (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2004

By: 
David A. Daberko
Chairman and Chief Executive Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

New York Stock Exchange

The undersigned Chief Executive Officer of National City Corporation certifies to the New York Stock Exchange that, as of the date of this certification, he is unaware of any violation by National City Corporation of the New York Stock Exchange's corporate governance listing standards in effect as of the date of this certification.

Date: February 9, 2004

By: 
David A. Daberko
Chairman and Chief Executive Officer

Form 10-K CONTINUED

Certifications of Chief Financial Officer Sarbanes-Oxley Act Section 302

I, Jeffrey D. Kelly, certify that:

1. I have reviewed this annual report on Form 10-K of National City Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

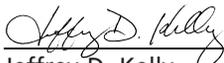
Date: February 9, 2004

By: 
Jeffrey D. Kelly
Executive Vice President and Chief Financial Officer

Sarbanes-Oxley Act Section 906

Pursuant to 18 U.S.C. section 1350, the undersigned officer of National City Corporation (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2004

By: 
Jeffrey D. Kelly
Executive Vice President and Chief Financial Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

C O R P O R A T E I N F O R M A T I O N

Corporate Headquarters

National City Center
1900 East Ninth Street
Cleveland, Ohio 44114-3484
216-222-2000
NationalCity.com

Transfer Agent and Registrar

National City Bank
Corporate Trust Operations
Department 5352
P.O. Box 92301
Cleveland, Ohio 44193-0900
E-mail: shareholder.inquiries@nationalcity.com

Stockholders of record may access their accounts via the Internet to review account holdings and transaction history through National City StockAccess at www.ncstockaccess.com. Stockholders can also download frequently used forms from this Web site. For log-in assistance or other inquiries, call 800-622-6757.

Investor Information

Betsy Figgie
Investor Relations
Department 2101
P.O. Box 5756
Cleveland, Ohio 44101-0756
800-622-4204
E-mail: investor.relations@nationalcity.com

Web Site Access to United States Securities and Exchange Commission Filings

All reports filed electronically by National City Corporation with the United States Securities and Exchange Commission (SEC), including the annual report on Form 10-K, quarterly reports on Form 10-Q, and current event reports on Form 8-K, as well as any amendments to those reports, are accessible at no cost on the Corporation's Web site at NationalCity.com. These filings are also accessible on the SEC's Web site at www.sec.gov.

Corporate Governance

The National City corporate governance practices are described in the following documents, which are available on the Corporation's Web site at NationalCity.com or which may be obtained in print form through the investor relations department: Corporate Governance Guidelines, Code of Ethics, Code of Ethics for Senior Financial Officers, Audit Committee Charter, Nominating and Board of Directors Governance Committee Charter, Compensation Committee Charter, and the Risk and Public Policy Committee Charter.

Common Stock Listing

National City Corporation common stock is traded on the New York Stock Exchange under the symbol **NCC**. The stock is abbreviated in financial publications as **NtlCity**.

The common stock of the National City 84%-owned payment processing subsidiary, National Processing, Inc., is traded on the New York Stock Exchange under the symbol **NAP**. The stock is abbreviated in financial publications as **NtlProc**.

Annual Meeting

The Annual Meeting of Stockholders will be on Tuesday, April 27, 2004 at 10:00 a.m. Eastern time

National City Corporation
National City Center
1900 East Ninth Street
Cleveland, Ohio 44114-3484

Dividend Reinvestment and Stock Purchase Plan

National City Corporation offers stockholders a convenient way to increase their investment through the National City Corporation Amended and Restated Dividend Reinvestment and Stock Purchase Plan (the Plan). Under the Plan, investors can elect to acquire National City shares in the open market by reinvesting dividends and through optional cash payments. National City absorbs the fees and brokerage commissions on shares acquired through the Plan. To obtain a Plan prospectus and authorization card, call 800-622-6757. The Plan prospectus is also available on the Corporation's Web site.

Direct Deposit of Dividends

The direct deposit program, which is offered at no charge, provides for automatic deposit of quarterly dividends directly to a checking or savings account. For information regarding this program, call 800-622-6757.

NAIC

National City is a proud sponsor of the National Association of Investors Corporation (NAIC) and participates in its Low-Cost Investment Plan. To receive more information on NAIC, call 248-583-NAIC.

Debt Ratings

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
National City Corporation	A/B		
Commercial paper	F1+	P-1	A-1
Senior debt	AA-	A1	A
Subordinated debt	A+	A2	A-
Bank Subsidiaries	A/B		
Certificates of deposit	AA	Aa3	A+
Senior bank notes	AA-	Aa3	A+
Subordinated bank notes	A+	A1	A

Common Stock Information

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2003					
Dividends paid	\$.305	\$.305	\$.32	\$.32	\$ 1.25
High	29.45	34.97	34.56	34.44	34.97
Low	26.53	27.72	29.03	29.46	26.53
Close	27.85	32.71	29.46	33.94	33.94
2002					
Dividends paid	\$.295	\$.295	\$.305	\$.305	\$ 1.20
High	31.16	33.75	33.49	29.82	33.75
Low	26.31	29.60	25.58	24.60	24.60
Close	30.76	33.25	28.53	27.32	27.32



1900 East Ninth Street
Cleveland, OH 44114

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PAID
National City
Corporation