SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1 to 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, 2001 | **Commission File No. 0-6032**

Compass Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**63-0593897**
(State of Incorporation)	(I.R.S. Employer Identification No.)

15 South 20th Street
Birmingham, Alabama 35233
(Address of principal executive offices)

(205) 297-3000
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	**Name of each exchange on which registered**
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, $2 par value
(Title of Class)

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. ☐

As of January 31, 2002, the aggregate market value of voting and non-voting common equity held by non-affiliates was $3,475,002,197.

Indicate the number of shares outstanding of the registrant's class of common stock, as of the latest practicable date.

Class	**Outstanding at January 31, 2002**
Common Stock, $2 Par Value	127,071,293

Documents Incorporated by Reference	**Part of 10-K in which incorporated**
Proxy Statement for 2002 annual meeting except for information referred to in Item 402(a)(8) of Regulation S-K	Part III

EXPLANATORY NOTE

This Form 10-K/A amends the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2001 and is being filed to reflect an amendment to Item 8 of Part II. The amendment replaces the independent audit opinion of Arthur Andersen LLP with the opinion of PricewaterhouseCoopers LLP. No other amendments have been made. The disclosures contained herein are as of the date of filing of the Form 10-K.

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Report of Independent Public Accountants

To the Board of Directors and Shareholders of Compass Bancshares, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Compass Bancshares, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Birmingham, Alabama
June 14, 2002

Compass Bancshares, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31	
	2001	**2000**
	(in Thousands)	
Assets		
Cash and due from banks	**$ 715,991**	$ 750,815
Federal funds sold and securities purchased under agreements to resell	**19,201**	163,896
Trading account securities	**21,331**	17,211
Investment securities available for sale	**6,563,705**	5,074,819
Investment securities held to maturity (fair value of $718,694 and $1,431,195 for 2001 and 2000, respectively)	**707,524**	1,434,689
Loans	**13,707,286**	12,258,754
Allowance for loan losses	**(191,393)**	(167,288)
Net loans	**13,515,893**	12,091,466
Premises and equipment, net	**459,901**	468,468
Other assets	**1,011,454**	875,796
Total assets	**$23,015,000**	$20,877,160
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest bearing	**$ 3,576,289**	$ 3,188,969
Interest bearing	**10,158,956**	11,636,408
Total deposits	**13,735,245**	14,825,377
Federal funds purchased and securities sold under agreements to repurchase	**2,922,802**	1,611,905
Other short-term borrowings	**551,307**	163,271
FHLB and other borrowings	**3,708,143**	2,432,363
Guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	**129,307**	152,822
Accrued expenses and other liabilities	**252,555**	181,418
Total liabilities	**21,299,359**	19,367,156
Shareholders' equity:		
Preferred stock (25,000,000 shares authorized)	**—**	—
Common stock of $2 par value:		
Authorized — 200,000,000 shares; Issued — 128,759,887 shares in 2001 and 127,779,021 shares in 2000	**257,520**	255,558
Surplus	**160,441**	145,801
Loans to finance stock purchases	**(3,399)**	(1,777)
Unearned restricted stock	**(2,314)**	(1,923)
Accumulated other comprehensive income (loss)	**69,938**	(16,796)
Treasury stock, at cost (2001 — 1,959,000 shares)	**(50,146)**	—
Retained earnings	**1,283,601**	1,129,141
Total shareholders' equity	**1,715,641**	1,510,004
Total liabilities and shareholders' equity	**$23,015,000**	$20,877,160

See accompanying notes to consolidated financial statements.

Compass Bancshares, Inc. and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31		
	2001	**2000**	**1999**
	(in Thousands Except Per Share Data)		
Interest income:			
Interest and fees on loans	**$1,067,484**	$1,100,909	$ 918,516
Interest on investment securities available for sale	**390,030**	301,133	274,163
Interest on investment securities held to maturity	**57,784**	105,314	115,293
Interest on federal funds sold and securities purchased under agreements to resell	**686**	6,145	4,955
Interest on trading account securities	**1,737**	2,068	4,312
Total interest income	**1,517,721**	1,515,569	1,317,239
Interest expense:			
Interest on deposits	**416,495**	543,342	442,902
Interest on federal funds purchased and securities sold under agreements to repurchase	**99,637**	88,896	64,681
Interest on other short-term borrowings	**7,475**	11,609	9,020
Interest on FHLB and other borrowings	**156,808**	142,016	113,799
Interest on guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	**11,447**	11,194	10,135
Total interest expense	**691,862**	797,057	640,537
Net interest income	**825,859**	718,512	676,702
Provision for loan losses	**106,241**	65,578	35,201
Net interest income after provision for loan losses	**719,618**	652,934	641,501
Noninterest income:			
Service charges on deposit accounts	**155,008**	127,476	104,104
Credit card service charges and fees	**33,495**	29,242	19,587
Retail investment sales income	**23,397**	18,474	21,220
Trading account profits and commissions	**22,263**	8,097	10,117
Asset management fees	**20,614**	20,117	18,586
Investment securities gains, net	**7,583**	4	2,102
Other	**114,018**	101,786	71,299
Total noninterest income	**376,378**	305,196	247,015
Noninterest expense:			
Salaries, benefits and commissions	**346,275**	304,921	279,718
Equipment expense	**60,137**	52,812	45,076
Net occupancy expense	**53,294**	46,199	40,531
Professional services	**46,095**	37,799	39,600
Merger and integration	**7,131**	8,896	6,787
Other	**172,838**	148,658	130,815
Total noninterest expense	**685,770**	599,285	542,527
Net income before income tax expense	**410,226**	358,845	345,989
Income tax expense	**139,829**	117,222	117,021
Net income	**$ 270,397**	$ 241,623	$ 228,968
Basic earnings per share	**$ 2.13**	$ 1.91	$ 1.84
Basic weighted average shares outstanding	**127,617**	126,514	123,482
Diluted earnings per share	**$ 2.11**	$ 1.90	$ 1.82
Diluted weighted average shares outstanding	**129,138**	127,261	124,581

See accompanying notes to consolidated financial statements.

Compass Bancshares, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2001, 2000 and 1999

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Other	Total Shareholders' Equity	Comprehensive Income
				(in Thousands)					
Balance, December 31, 1998	$ 28,750	$164,655	$124,507	$ 925,780	$ —	$ 11,397	$(6,413)	$1,248,676	
Net income — 1999	—	—	—	228,968	—	—	—	228,968	$ 228,968
Change in unrealized gain (loss) on securities available for sale	—	—	—	—	—	(104,931)	—	(104,931)	(104,931)
Comprehensive income									$ 124,037
Common dividends declared ($0.80 per share)	—	—	—	(95,492)	—	—	—	(95,492)	
Preferred dividends declared	—	—	—	(1,601)	—	—	—	(1,601)	
Stock split	—	82,433	—	(82,433)	—	—	—	—	
Exercise of stock options and other issuances	—	500	4,670	(363)	—	—	—	4,807	
Issuance of restricted stock	—	143	2,323	—	—	—	(2,466)	—	
Cancellation of restricted stock	—	(33)	(563)	—	—	—	596	—	
Repayment of loans to finance stock purchases, net of advances	—	—	—	—	—	—	1,226	1,226	
Amortization of restricted stock	—	—	—	—	—	—	2,596	2,596	
Redemption of preferred stock	(28,750)	—	—	(518)	—	—	—	(29,268)	
Cash paid for fractional shares resulting from stock split	—	—	—	(52)	—	—	—	(52)	
Balance, December 31, 1999	—	247,698	130,937	974,289	—	(93,534)	(4,461)	1,254,929	
Net income — 2000	—	—	—	241,623	—	—	—	241,623	$ 241,623
Change in unrealized loss on securities available for sale	—	—	—	—	—	76,738	—	76,738	76,738
Comprehensive income									$ 318,361
Common dividends declared ($0.88 per share)	—	—	—	(106,031)	—	—	—	(106,031)	
Exercise of stock options and other issuances	—	437	4,142	(31)	—	—	—	4,548	
Issuance of restricted stock	—	191	1,419	—	—	—	(1,610)	—	
Cancellation of restricted stock	—	(8)	(90)	—	—	—	98	—	
Issuance of common stock for acquisition	—	7,240	9,393	19,291	—	—	—	35,924	
Advances on loans to finance stock purchases, net of repayments	—	—	—	—	—	—	(62)	(62)	
Amortization of restricted stock	—	—	—	—	—	—	2,335	2,335	
Balance, December 31, 2000	—	255,558	145,801	1,129,141	—	(16,796)	(3,700)	1,510,004	
Net income — 2001	**—**	**—**	**—**	**270,397**	**—**	**—**	**—**	**270,397**	**$ 270,397**
Change in unrealized gain (loss) on securities available for sale and hedging instruments	**—**	**—**	**—**	**—**	**—**	**86,734**	**—**	**86,734**	**86,734**
Comprehensive income									**$ 357,131**
Common dividends declared ($0.92 per share)	**—**	**—**	**—**	**(117,664)**	**—**	**—**	**—**	**(117,664)**	
Exercise of stock options and other issuances	**—**	**1,757**	**12,615**	**(39)**	**—**	**—**	**—**	**14,333**	
Issuance of restricted stock	**—**	**207**	**2,053**	**—**	**—**	**—**	**(2,260)**	**—**	
Cancellation of restricted stock	**—**	**(2)**	**(28)**	**—**	**—**	**—**	**30**	**—**	
Advances on loans to finance stock purchases, net of repayments	**—**	**—**	**—**	**—**	**—**	**—**	**(1,622)**	**(1,622)**	
Repurchase of guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	**—**	**—**	**—**	**1,766**	**—**	**—**	**—**	**1,766**	
Amortization of restricted stock	**—**	**—**	**—**	**—**	**—**	**—**	**1,839**	**1,839**	
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(50,146)**	**—**	**—**	**(50,146)**	
Balance, December 31, 2001	**$ —**	**$257,520**	**$160,441**	**$1,283,601**	**$(50,146)**	**$ 69,938**	**$(5,713)**	**$1,715,641**	

See accompanying notes to consolidated financial statements.

Compass Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31		
	2001	**2000**	**1999**
		(in Thousands)	
Operating Activities:			
Net income	$ 270,397	$ 241,623	$ 228,968
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	99,446	75,095	66,160
Accretion of discount and loan fees	(19,617)	(27,732)	(19,473)
Provision for loan losses	106,241	65,578	35,201
Net change in trading account securities	(4,120)	33,494	76,966
Deferred tax expense (benefit)	(38,826)	37,659	8,786
Gain on sale of investment securities available for sale	(7,583)	(4)	(2,102)
Gain on sale of branches	—	(16,700)	—
Increase in other assets	(48,174)	(186,379)	(16,893)
Increase (decrease) in other liabilities	55,141	(4,505)	(5,270)
Net cash provided by operating activities	412,905	218,129	372,343
Investing Activities:			
Proceeds from maturities/calls of investment securities held to maturity	282,613	152,541	416,181
Purchases of investment securities held to maturity	(31,343)	(22,326)	(786)
Proceeds from sales of investment securities available for sale	781,085	280,124	431,417
Proceeds from maturities/calls of investment securities available for sale	1,847,669	783,307	1,044,729
Purchases of investment securities available for sale	(3,326,269)	(447,987)	(1,096,188)
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	144,695	(24,178)	(34,875)
Net increase in loan portfolio	(1,789,768)	(1,466,061)	(1,813,606)
Net cash received (paid) in acquisitions/dispositions	—	(189,682)	140,790
Purchases of premises and equipment	(38,921)	(67,888)	(75,792)
Proceeds from sales of other real estate owned	8,896	9,758	7,687
Net cash used by investing activities	(2,121,343)	(992,392)	(980,443)
Financing Activities:			
Net increase in demand deposits, NOW accounts and savings accounts	945,347	218,458	167,287
Net increase (decrease) in time deposits	(2,033,900)	541,801	264,421
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	1,310,897	185,765	(391,161)
Net increase (decrease) in other short-term borrowings	388,036	(11,591)	15,013
Proceeds from FHLB advances and other borrowings	1,472,501	1,312,941	1,881,242
Repayment of FHLB advances and other borrowings	(224,913)	(1,367,764)	(1,360,301)
Issuance (repurchase) of guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	(29,044)	17,822	23,000
Cash paid in lieu of fractional shares	—	(1)	(52)
Redemption of preferred stock	—	—	(29,268)
Common and preferred dividends paid	(117,760)	(105,964)	(98,157)
Purchase of treasury stock	(50,146)	—	—
Repayment of loans to finance stock purchases	1,372	578	2,785
Proceeds from exercise of stock options	11,224	3,909	2,565
Net cash provided by financing activities	1,673,614	795,954	477,374
Net increase (decrease) in cash and due from banks	(34,824)	21,691	(130,726)
Cash and due from banks at beginning of the year	750,815	729,124	859,850
Cash and due from banks at end of the year	$ 715,991	$ 750,815	$ 729,124

See accompanying notes to consolidated financial statements.

Compass Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999

(1) Summary of Significant Accounting Policies

The accounting principles followed by Compass Bancshares, Inc. and its subsidiaries (the "Company") and the methods of applying these principles conform with United States generally accepted accounting principles and with general practices within the banking industry. Certain principles which significantly affect the determination of financial position, results of operations and cash flows are summarized below.

Financial institutions acquired by the Company during the past three years and accounted for as purchases are reflected in the financial position and results of operations of the Company since the dates of their acquisition. Prior information has been restated to reflect the acquisition of FirsTier Corporation accounted for under the pooling-of-interests method of accounting.

Basis of Presentation

The consolidated financial statements include the accounts of Compass Bancshares, Inc. and its subsidiaries, Compass Bank, the Company's lead bank subsidiary headquartered in Birmingham, Alabama, ("Compass Bank"), and Central Bank of the South, (collectively, the "Subsidiary Banks"), and Compass Land Holding Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior year amounts to conform with the current year presentation. Such reclassifications had no effect on net income, total assets, total liabilities, or shareholders' equity.

Nature of Operations

Compass Bank operates 341 banking offices in Alabama, Arizona, Colorado, Florida, Nebraska, New Mexico and Texas. The branches in Alabama are located throughout the state while its Florida branches are concentrated in the Jacksonville area and in the Florida panhandle. In Texas, the branches are primarily located in the state's four largest metropolitan areas of Houston, Dallas, San Antonio and Austin. The Arizona operations are primarily located in Tucson and Phoenix. The New Mexico branches are concentrated around the Albuquerque metropolitan area. The Colorado branches are concentrated around the Denver metropolitan area. The Nebraska branches are near the Colorado border. See Note 18, Segment Information, for additional discussion of the Company's business.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period, the most significant of which relates to the allowance for loan losses. Actual results could differ from those estimates.

Stock Split

On February 15, 1999, the Company announced a three-for-two stock split that was effected in the form of a 50 percent stock dividend on April 2, 1999, to shareholders of record as of March 15, 1999. Shareholders' equity, as presented in the Consolidated Statements of Shareholders' Equity, reflects the issuance of 41,216,356 shares of the Company's common stock. Per share information for all periods has been restated to reflect the stock split in accordance with United States generally accepted accounting principles.

Securities

Securities are held in three portfolios: (i) trading account securities, (ii) investment securities held to maturity, and (iii) investment securities available for sale. Trading account securities are stated at fair value. Investment securities held to maturity are stated at cost adjusted for amortization of premiums and accretion of discounts, such amortization and accretion is by the interest method. With regard to investment securities held to maturity, management has the intent and the Company has the ability to hold such securities until maturity. Investment securities available for sale are classified as such due to the fact that management may decide to sell certain securities prior to maturity for liquidity, tax planning or other valid business purposes. Investment securities available for sale are recorded at fair value. Increases and decreases in the net unrealized gain (loss) on the portfolio of investment securities available for sale are reflected as adjustments to the carrying value of the portfolio and, for the tax-effected amounts, as adjustments to accumulated other comprehensive income, a separate component of shareholders' equity.

Fair values of trading account securities, investment securities held to maturity and investment securities available for sale are based primarily on quoted, or other independent, market prices. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

Interest earned on investment securities held to maturity, investment securities available for sale and trading account securities is included in interest income. Net gains and losses on the sale of investment securities available for sale, computed principally on the specific identification method, are shown separately in noninterest income in the Consolidated Statements of Income.

Securities Purchased Under Agreements to Resell

The Company enters into purchases of securities under agreements to resell substantially identical securities. At December 31, 2001, securities purchased under agreements to resell were approximately $1 million. The market value of the securities underlying the agreements was approximately $1 million.

Loans

All loans are stated at principal outstanding. Interest income on loans is recognized primarily on the level yield method. Loan fees, net of direct costs, are reflected as an adjustment to the yield of the related loan over the term of the loan. The Company does not have a concentration of loans to any one industry.

It is the general policy of the Company to stop accruing interest income and place the recognition of interest on a cash basis when any commercial, industrial or real estate loan is 90 days or more past due as to principal or interest and/or the ultimate collection of either is in doubt, unless collection of both principal and interest is assured by way of collateralization, guarantees or other security. Accrual of interest income on consumer installment loans is suspended when any payment of principal or interest, or both, is more than 120 days delinquent. Credit card loans and the related accrued interest are charged off before the end of the month when the loan becomes 180 days past due. When a loan is placed on a nonaccrual status, any interest previously accrued but not collected is reversed against current income unless the collateral for the loan is sufficient to cover the accrued interest or a guarantor assures payment of interest.

Generally, the Company evaluates loans for impairment when a portion of a loan is internally risk rated as substandard or doubtful. All nonaccrual loans not meeting the definition of smaller balance homogeneous loans are considered impaired. Smaller balance homogeneous loans include residential mortgages, credit card receivables, and consumer installment loans, primarily direct and indirect automobile loans. The Company generally measures impairment based upon the present value of the loan's expected future cash flows discounted at the loan's effective interest rate, except where foreclosure or liquidation is probable or when the primary source of repayment is provided by real estate collateral. In these circumstances, impairment is measured based upon the fair value of the collateral. In addition, in certain rare circumstances, impairment may be based on the loan's observable fair value. Impairment with regard to substantially all of the Company's impaired loans has been measured based on the fair value of the underlying collateral. The Company's policy for recognizing interest income on impaired loans is consistent with its nonaccrual policy.

Allowance for Loan Losses

The amount of the provision for loan losses charged to income is determined on the basis of several factors including actual loss experience, identified loan impairment, current economic conditions, and periodic examinations and appraisals of the loan portfolio. Such provisions, less net loan charge-offs, comprise the allowance for loan losses which is deducted from loans and is maintained at a level management considers to be adequate to absorb loss inherent in the portfolio.

The Company generally follows the policy of charging off loans determined to be uncollectible by management, the Company’s loan review department or federal and state supervisory authorities. Subsequent recoveries are credited to the allowance for loan losses.

Merger and Integration Expenses

Merger and integration expenses, as presented in the Consolidated Statements of Income, represent costs associated with business combinations completed by the Company and costs associated with maintaining the Company’s mergers and acquisition department. These costs primarily include compensation expense incurred, data processing systems conversion costs, professional fees and broker fees.

Intangibles

Intangible assets are included in other assets in the Consolidated Balance Sheets. The amortization periods for these assets are dependent upon the type of intangible asset. Goodwill has been amortized over a period not greater than 25 years; core deposit and other identifiable intangibles are amortized over a period based on the life of the intangible that is generally 10 years. Goodwill has been amortized using the straight-line method and other identifiable intangibles are amortized using accelerated methods as appropriate. The Company has periodically reviewed its intangible assets for impairment. See Recently Issued Accounting Standards later in this Note for the effect of the Financial Accounting Standards Board’s (“FASB”) recently issued Statements No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets* and the effect these statements will have on intangible assets.

Premises and Equipment

Premises, equipment, capital leases and leasehold improvements are stated at cost less accumulated depreciation or amortization. Depreciation is computed principally using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lesser of the lease terms or the estimated useful lives of the improvements. Capitalized leases are amortized by the same methods as premises and equipment over the estimated useful lives or the lease term, whichever is less.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect when the differences are anticipated to reverse. 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 change.

Accounting for Derivatives and Hedging Activities

As part of the Company’s overall interest rate risk management, the Company uses derivative instruments, including interest rate swaps, caps and floors. All derivative instruments are recognized on the balance sheet at their fair value. Fair values are estimated using pricing models. On the date the derivative instrument contract is entered into, the Company designates the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value” hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) "held for trading" ("trading" instruments). Changes in the fair value of a derivative instrument that is highly effective as and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in the then-current-period earnings. Changes in the fair value of a derivative instrument that is highly effective as and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income in the shareholders' equity section of the consolidated Balance Sheets, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Changes in the fair value of derivative trading instruments are reported in the then-current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative instrument is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative instrument is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative instrument expires or is sold, terminated, or exercised; (3) the derivative instrument is dedesignated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designation of the derivative instrument as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative instrument no longer qualifies as an effective fair-value hedge, the derivative instrument will continue to be carried on the balance sheet at its fair value, and the hedged asset or liability will no longer be adjusted for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the derivative instrument will continue to be carried on the balance sheet at its fair value, and any asset or liability that was recorded pursuant to recognition of the firm commitment will be removed from the balance sheet and recognized as a gain or loss in the then-current-period earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative instrument will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative instrument will be carried at its fair value on the balance sheet, with changes in its fair value recognized in the then-current-period earnings.

Securitization and Sales of Receivables

When the Company sells receivables in securitizations of automobile loans and residential mortgage loans, it may retain one or more senior tranches, subordinated tranches, servicing rights, and in some cases a cash reserve account and interest-only strips, all of which are retained interests in the securitized receivables. Gains or losses on sale of the receivables depend in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Subsequent to the sales, certain retained interests are carried at fair value as investment securities available for sale. To obtain fair values, quoted market prices are used if available. If quotes are not available for retained interests, the Company generally estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions — credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

Earnings per Share

Basic earnings per share has been computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the year presented. Diluted earnings per share has been computed by dividing net income available to common shareholders and assumed conversions by the weighted average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding using the treasury stock method.

Recently Issued Accounting Standards

Accounting for Derivative Instruments and Hedging Activities

The Company adopted FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* , on January 1, 2001. As part of the adoption of the standard, the Company recorded a net-of-tax cumulative-effect-type adjustment in accumulated other comprehensive income in 2001 of $2.2 million to recognize at fair value all derivatives that are designated as cash-flow hedging instruments. The Company also recorded an asset of $27 million for the fair-value of derivative instruments that have been designated as fair value hedges of the Company's fixed rate long-term debt. The impact of recognizing this asset was offset entirely by the recognition of an adjustment to long-term debt. The adoption of this standard did not affect net income. The Company, upon its adoption of Statement No. 133, also transferred held to maturity securities with an amortized cost of $475 million and an estimated fair value of $474 million into the available for sale category. Under the provisions of Statement No. 133, such a reclassification does not call into question the Company's intent to hold current or future debt securities to their maturity. See Note 9, Off-Balance Sheet Activities, Derivatives and Hedging, for information on derivative instruments and hedging activities.

Accounting for Business Combinations, Goodwill and Other Intangible Assets

In July 2001, the FASB issued Statement No. 141, *Business Combinations*, and Statement No. 142, *Goodwill and Other Intangible Assets*. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Pooling-of-interests business combinations initiated prior to June 30, 2001 were grandfathered. Statement No. 142 requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead an entity must perform an assessment of whether these assets are impaired as of the date of adoption and test for impairment at least annually in accordance with the provisions of Statement No. 142. The new standard also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed annually for impairment. The Company adopted the provisions of Statement No. 141 on July 1, 2001 and Statement No. 142 effective January 1, 2002.

At December 31, 2001, the Company had unamortized goodwill in the amount of $237 million and unamortized identifiable intangible assets in the amount of $38 million, both of which are subject to the transition provisions of Statement No. 142. Goodwill amortization expense was $13.2 million, $11.3 million and $7.7 million for the years ended December 31, 2001, 2000, and 1999. Identifiable intangible amortization expense was $11.5 million, $12.5 million and $8.8 million for the years ended December 31, 2001, 2000, and 1999. $55 million of unamortized goodwill will continue to be subject to amortization. Further, no impairment exists related to goodwill or other intangible assets.

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued Statement No. 143, *Accounting for Asset Retirement Obligations.* This Statement applies to legal obligations associated with the retirement of tangible long-lived assets. The

Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002; earlier application is encouraged. Management does not anticipate that the adoption of this Statement will have a material impact on the Company's consolidated financial position or consolidated results of operations.

Accounting for the Impairment or Disposal of Long-Lived Assets

In October 2001, the FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, that replaces FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Early application is encouraged. Management does not anticipate that the adoption of this Statement will have a material impact on the Company's consolidated financial position or consolidated results of operations.

(2) Investment Securities Held to Maturity and Investment Securities Available for Sale

The following table presents the adjusted cost and approximate fair value of investment securities held to maturity and investment securities available for sale at December 31, 2001 and 2000.

	2001		2000	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(in Thousands)			
Investment securities held to maturity:				
U.S. Treasury and other U.S. Government agencies and corporations	**$ 92**	**$ 96**	$ 61,738	$ 60,875
Mortgage-backed pass-through securities	**43,629**	**45,182**	88,241	88,988
CMOs and other mortgage derivative products	**595,603**	**603,278**	1,202,574	1,197,992
States and political subdivisions	**67,450**	**69,388**	79,871	81,801
Other	**750**	**750**	2,265	1,539
Total	**$707,524**	**$718,694**	$1,434,689	$1,431,195

	2001		2000	
	Fair Value	**Amortized Cost**	Fair **Value**	**Amortized Cost**
	(in Thousands)			
Investment securities available for sale:				
Debt securities:				
U.S. Treasury and other U.S. Government agencies and corporations	**$ 174,568**	**$ 171,638**	$ 353,047	$ 353,334
Mortgage-backed pass-through securities	**2,118,643**	**2,107,356**	420,282	421,494
CMOs and other mortgage derivative products	**3,686,924**	**3,652,496**	3,737,454	3,758,818
States and political subdivisions	**101,490**	**102,742**	113,254	114,541
Asset-backed securities and corporate bonds	**206,053**	**201,727**	264,691	262,842
Other	**77,941**	**81,016**	63,795	66,532
Equity securities	**198,086**	**198,833**	122,296	122,648
Total	**$6,563,705**	**$6,515,808**	$5,074,819	$5,100,209

At December 31, 2001 approximately $4.2 billion of investment securities available for sale and $605 million of investment securities held to maturity were pledged to secure public deposits and Federal Home

Loan Bank advances and for other purposes as required or permitted by law. The following table details unrealized gains and losses on investment securities held to maturity and investment securities available for sale as of December 31, 2001 and 2000.

	2001		2000	
	Unrealized Gains	**Unrealized Losses**	**Unrealized Gains**	**Unrealized Losses**
		(in Thousands)		
Investment securities held to maturity:				
U.S. Treasury and other U.S. Government agencies and corporations	**$ 4**	**$ —**	$ 5	$ 868
Mortgage-backed pass-through securities	**1,564**	**11**	1,119	372
CMOs and other mortgage derivative products	**8,734**	**1,059**	2,629	7,211
States and political subdivisions	**2,092**	**154**	2,062	132
Other	**—**	**—**	—	726
Total	**$12,394**	**$ 1,224**	$ 5,815	$ 9,309
Investment securities available for sale:				
Debt securities:				
U.S. Treasury and other U.S. Government agencies and corporations	**$ 2,930**	**$ —**	$ 2,439	$ 2,726
Mortgage-backed pass-through securities	**20,163**	**8,876**	1,608	2,820
CMOs and other mortgage derivative products	**46,928**	**12,500**	6,598	27,962
States and political subdivisions	**917**	**2,169**	701	1,988
Asset-backed securities and corporate bonds	**4,326**	**—**	1,864	15
Other	**—**	**3,075**	—	2,737
Equity securities	**29**	**776**	389	741
Total	**$75,293**	**$27,396**	$13,599	$38,989

The maturities of the securities portfolios are presented in the following tables.

	2001	
	Carrying Amount	**Fair Value**
	(in Thousands)	
Investment securities held to maturity:		
Maturing within one year	**$ 9,930**	**$ 10,050**
Maturing after one but within five years	**33,935**	**35,318**
Maturing after five but within ten years	**11,183**	**11,712**
Maturing after ten years	**13,244**	**13,154**
	68,292	**70,234**
Mortgage-backed securities and CMOs	**639,232**	**648,460**
Total	**$707,524**	**$718,694**

	Fair Value	Amortized Cost
	(in Thousands)	
Investment securities available for sale:		
Maturing within one year	**$ 543,202**	**$ 538,941**
Maturing after one but within five years	**62,692**	**61,097**
Maturing after five but within ten years	**80,488**	**79,297**
Maturing after ten years	**71,756**	**76,621**
	758,138	**755,956**
Mortgage-backed securities and CMOs	**5,805,567**	**5,759,852**
Total	**$6,563,705**	**$6,515,808**

There were gross gains of $8.8 million and gross losses of $1.2 million on sales of investment securities available-for-sale during 2001. There were gross gains of $4,000 and no gross losses on sales of investment securities available-for-sale in 2000. Gross gains of $2.2 million and gross losses of $100,000 were realized on sales of investment securities available-for-sale during 1999. No securities were transferred to the trading account securities portfolio during either 2001 or 2000.

(3) Loans and Allowance for Loan Losses

The following table presents the composition of the loan portfolio at December 31, 2001 and 2000.

	2001	2000
	(in Thousands)	
Commercial loans:		
Commercial, financial and agricultural	**$ 3,987,419**	$ 4,056,090
Real estate — construction	**1,397,627**	1,519,759
Commercial real estate -mortgage	**2,417,195**	2,140,270
Total commercial loans	**7,802,241**	7,716,119
Consumer loans:		
Real estate — construction	**914,964**	771,821
Real estate — mortgage	**2,831,951**	2,132,053
Consumer credit card	**426,644**	417,002
Consumer installment	**1,731,486**	1,221,759
Total consumer loans	**5,905,045**	4,542,635
Total	**$13,707,286**	$12,258,754

A summary of the activity in the allowance for loan losses for the years ended December 31, 2001, 2000 and 1999 follows:

	2001	2000	1999
		(in Thousands)	
Balance at beginning of year	**$167,288**	$151,211	$141,609
Provision charged to income	**106,241**	65,578	35,201
Allowance for loans acquired (sold)	**(1,050)**	7,560	3,783
Loans charged off	**(94,659)**	(69,193)	(40,440)
Loan recoveries	**13,573**	12,132	11,058
Net charge offs	**(81,086)**	(57,061)	(29,382)
Balance at end of year	**$191,393**	$167,288	$151,211

The recorded investment in impaired loans at December 31, 2001 was $57 million and at December 31, 2000 was $80 million. The Company had specific allowance amounts related to those loans of $10 million and $26 million, respectively. There were no impaired loans without a specific allowance at December 31, 2001 or 2000. The average investment in these loans for the years ended December 31, 2001 and 2000 amounted to $69 million and $71 million, respectively.

Nonperforming assets at December 31, 2001, 2000 and 1999 are detailed in the following table.

	December 31		
	2001	2000	1999
		(in Thousands)	
Nonaccrual loans	**$65,470**	$ 86,168	$75,565
Renegotiated loans	**327**	84	239
Total nonperforming loans	**65,797**	86,252	75,804
Other real estate	**26,478**	15,476	7,341
Total nonperforming assets	**$92,275**	$101,728	$83,145

Details of nonaccrual loans at December 31, 2001 and 2000 appear below:

	2001	2000
	(in Thousands)	
Principal balance	**$65,470**	$86,168
Interest that would have been recorded under original terms	**7,719**	10,242
Interest actually recorded	**3,522**	2,589

(4) Managed Loans

The Company has entered into numerous transactions since 1998 involving its loan portfolio, which includes the securitization of both residential and auto loans. These transactions resulted in certain assets being reclassified from loans to investment securities available for sale and resulted in improved liquidity. During 2001, the Company entered into the participation of commercial real estate loans. This transaction created an alternative funding source and removed lower yielding assets from the Company's balance sheet. The Company continues to manage and service all of these assets. A summary of these transactions follows:

Term Securitizations Retained

To date, the Company has securitized approximately $2.6 billion of residential mortgage loans. During 2001, 2000 and 1999, the Company securitized residential mortgage loans of $250 million, $1.2 billion, and $500 million, respectively. The Company also securitized approximately $500 million of automobile loans in 1999. In all the securitizations, the Company retained nearly all of the securities resulting from the securitizations and no gain or loss was recognized on the transactions. The Company retained senior certificated interests, which are classified on the Consolidated Balance Sheets as investment securities available for sale, with an amortized cost of $1.5 billion, which approximates market value, at December 31, 2001. The Company also retains a subordinate interest in the securitizations, which approximated $115 million at December 31, 2001, is classified in loans and carries the credit risk for the securitizations. The Company retains servicing responsibilities and receives annual servicing fees approximating 0.3 percent (for mortgage loans) and 1.0 percent (for automobile loans) of the outstanding balance. The servicing fees are deemed adequate compensation and no servicing assets have been recorded. The investors and the securitization trusts have no recourse to the Company's other assets for failure of debtors to pay when due.

Term Securitization Sold

In 1998, the Company securitized approximately $400 million of automobile loans and sold the resulting securities to third parties. A pretax gain of $4.3 million was recognized on the securitization. The Company retained an interest-only strip in the transaction. The fair value, and recorded value, of the interest-only strip was $4 million at December 31, 2001. The Company anticipates exercising its "clean up" call option on this securitization in the first quarter of 2002. The assets acquired of approximately $15 million will be reflected in the loan categories. At December 31, 2001, key economic assumptions used to estimate the current fair value of the interest only strip were a 0.75 year weighted-average life, expected credit losses of 0.6 percent, and residual cash flow discount rate of 10 percent. The sensitivity of the current fair value of the interest-only strip to 10 percent and 20 percent adverse changes in those assumptions was not material.

The Company occasionally sells participations in the guaranteed portion of its Small Business Administration ("SBA") loans to third parties or securitizes the loans and sells the securities representing the guaranteed portion. The Company does have recourse related to these sales. The Company retains the unguaranteed portion of the loan or security and classifies this retained portion in loans. The Company retains servicing responsibilities and receives annual servicing fees. The Company recognized gains on the sale of SBA loans of $3 million and $2 million during 2001 and 2000, respectively.

Commercial Real Estate Conduit

During 2001, the Company sold a $500 million participation pool of commercial real estate loans to an unaffiliated third party asset-backed commercial paper conduit. The transaction is revolving, allowing the Company to sell additional participations to the conduit to maintain a $500 million balance. Under the terms of the transaction, the Company remains obligated for any credit related charge-offs. The market value of the assets sold approximated book value resulting in no gain or loss recognition at the date of sale. The assets sold were performing loans. The Company retains servicing responsibilities and receives annual servicing fees approximating 0.15 percent of the outstanding balance. The servicing fee is deemed adequate compensation and no servicing asset has been recorded. See Note 9, Off-Balance Sheet Activities, Derivatives and Hedging, for additional information about the commercial real estate conduit.

Securitization Cash Flows

The table below summarizes certain cash flows received from and paid to securitization trusts (dollars in millions):

	Year Ended December 31		
	2001	**2000**	**1999**
Proceeds from collections	**$775**	$511	$374
Servicing fees received	**6**	5	4

The following table presents quantitative information about delinquencies, net credit losses, and components of securitized financial assets and other assets managed (dollars in thousands):

	Total Principal Amount of Loans	Principal Amount of Nonaccrual and 90 Days or More Past Due Loans	Net Credit Losses
December 31, 2001:			
Loan category:			
Commercial, financial and agricultural	**$ 4,153,778**	**$32,765**	**$43,138**
Commercial real estate — mortgage	**2,917,195**	**11,190**	**680**
Real estate — construction	**2,312,591**	**12,489**	**1,484**
Residential real estate — mortgage	**4,272,124**	**19,870**	**2,784**
Consumer — credit card	**426,644**	**7,690**	**21,289**
Consumer installment	**1,844,088**	**7,881**	**12,043**
Total managed loans	**15,926,420**	**$91,885**	**$81,418**
Loans securitized and sold to third parties	**(683,710)**		
Loans securitized and transferred to investment securities available for sale	**(1,535,424)**		
Loans held in portfolio	**$13,707,286**		
December 31, 2000:			
Loan category:			
Commercial, financial and agricultural	$ 4,056,090	$ 67,621	$26,993
Commercial real estate — mortgage	2,140,270	5,406	173
Real estate — construction	2,291,580	9,609	135
Residential real estate — mortgage	3,966,097	15,561	1,322
Consumer — credit card	417,002	5,234	16,050
Consumer installment	1,521,751	4,590	14,480
Total managed loans	14,392,790	$108,021	$59,153
Loans securitized and sold to third parties	(61,065)		
Loans securitized and transferred to investment securities available for sale	(2,072,971)		
Loans held in portfolio	$12,258,754		

(5) Deposits

Certificates of deposit of less than $100,000 totaled $2.3 billion at December 31, 2001, while certificates of deposit of $100,000 or more totaled $1.1 billion. At December 31, 2001, the scheduled maturities of certificates of deposit were as follows (in thousands):

2002	$2,449,449
2003	536,600
2004	101,761
2005	172,548
2006	28,864
Thereafter	98,244
Total	$3,387,466

(6) Short-Term Borrowings

The short-term borrowings table below shows the distribution of the Company's short-term borrowed funds and average interest rate at year end.

	December 31			
	2001		2000	
	Ending Balance	Average Interest Rate At Year End	Ending Balance	Average Interest Rate At Year End
	(in Thousands)			
Federal funds purchased	**$2,482,595**	**1.38%**	$1,097,171	5.95%
Securities sold under agreements to repurchase	**440,207**	**1.26**	514,734	5.95
Total	**2,922,802**		1,611,905	
Short sales	**3,112**	**1.64**	3,289	4.54
Commercial paper	**95,100**	**1.30**	85,326	6.07
Other short-term borrowings	**453,095**	**1.29**	74,656	5.23
Total	**551,307**		163,271	
Total short-term borrowings	**$3,474,109**		$1,775,176	

Federal funds purchased represent unsecured borrowings from other banks and generally mature daily. Securities sold under agreements to repurchase are borrowings collateralized by securities of the United States Government or its agencies and have maturities ranging from one to ninety days.

(7) Federal Home Loan Bank ("FHLB") and Other Borrowings

The following table details the Company's FHLB advances and other long-term borrowings at December 31, 2001 and 2000, including maturities and interest rates as of December 31, 2001.

	Maturity Dates	December 31 2001	December 31 2000
		(in Thousands)	
FHLB Advances:			
LIBOR-based floating rate (weighted average rate of 4.11%)	2001-2009	**$2,000,000**	$1,500,000
Fixed rate, callable quarterly (weighted average rate of 4.65%)	2001-2011	**1,294,347**	522,129
Total FHLB Advances		**3,294,347**	2,022,129
Subordinated debentures:			
7% subordinated debentures	2003	**75,000**	75,000
8.375% subordinated debentures	2004	**50,000**	50,000
8.10% subordinated debentures	2009	**165,000**	165,000
6.45% subordinated debentures	2009	**96,700**	96,700
Discount		**(1,811)**	(2,121)
Fair value of hedged subordinated debentures		**27,874**	—
Total subordinated debentures		**412,763**	384,579
8.25% mortgages payable	2008	**1,033**	1,154
Note Payable		**—**	24,501
		$3,708,143	$2,432,363

At December 31, 2001, the FHLB advances are secured by first and second real estate mortgage loans and investment securities totaling $4.3 billion.

The following table presents maturity information for the Company's FHLB and other borrowings as of December 31, 2001.

	Subordinated Debentures	Mortgage Payable	FHLB Advances
		(in Thousands)	
Maturing:			
2002	$ —	$ 131	$ —
2003	75,000	143	305,000
2004	50,000	156	500,000
2005	—	170	900,000
2006	—	185	300,000
Thereafter *	287,763	248	1,289,347
Total	$412,763	$1,033	$3,294,347

* Includes the fair value of hedged subordinated debentures.

(8) Capital Securities and Preferred Stock

Capital Securities

Three subsidiary business trusts of the Company (Compass Trust I, MB Capital I, and FW Capital I) have issued mandatorily redeemable preferred capital securities ("Capital Securities"). As guarantor, the Company unconditionally guarantees payment of: accrued and unpaid distributions required to be paid on the capital securities; the redemption price when a capital security is called for redemption; and amounts due if a trust is liquidated or terminated.

The Company owns all of the outstanding common stock of each of the three trusts. The trusts used the proceeds from the issuance of their Capital Securities and common stock to buy debentures issued by the Company. These debentures are the trusts' only assets and the interest payments from the debentures finance the distributions paid on the Capital Securities. The Company's financial statements do not reflect the debentures or the related income effects because they are eliminated in consolidation.

The Capital Securities are summarized for the following periods as follows:

	December 31, 2001	December 31, 2000
	(in Millions)	
Compass Trust I (a)	**$ 73**	$100
MB Capital I	**12**	12
FW Capital I	**19**	23
Fair value of hedged Capital Securities	**7**	—
Total	**$111**	$135

	Interest Rate of Securities and Debentures	Maturity of Securities and Debentures
Compass Trust I	8.23%	2027
MB Capital I	8.75	2028
FW Capital I	9.38	2029

(a) In addition to the Capital Securities, common securities of $3 million were issued and the proceeds used by Compass Trust I to purchase junior subordinated deferrable interest debentures of the Company.

The Capital Securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of Capital Securities carries an interest rate identical to that of the related debenture. The Capital Securities qualify as Tier 1 Capital under guidelines established by the Board of Governors of the Federal Reserve System ("Federal Reserve").

The Company has the right to redeem its debentures: (i) in whole or in part, on or after January 15, 2007 (for debentures owned by Compass Trust I), February 9, 2003 (for debentures owned by MB Capital I), and February 16, 2004 (for debentures owned by FW Capital I); and (ii) in whole at any time within 90 days following the occurrence and during the continuation of a tax event or a capital treatment event (as defined in the offering circulars). If the debentures purchased by Compass Trust I are redeemed before they mature, the redemption price will be the principal amount, plus a premium, plus any accrued but unpaid interest. If the debentures purchased by MB Capital I or FW Capital I are redeemed before they mature, the redemption price will be the principal amount plus any accrued but unpaid interest. When debentures are redeemed in response to tax or capital treatment events, the redemption price is generally slightly more favorable to the Company. During 2001, the Company repurchased approximately $27 million of the Capital Securities of Compass Trust I and $4 million of the Capital Securities of FW Capital I.

Class B Preferred Stock

In December 2000, a subsidiary of the Company issued $21 million of Class B Preferred Stock (the "Preferred Stock"). The Preferred Stock, net of discount, was approximately $18 million at December 31, 2001. The Preferred Stock qualifies as Tier I Capital under Federal Reserve Board guidelines. The Preferred Stock dividends are preferential, non-cumulative and payable semi-annually in arrears on June 15 and December 15 of each year, commencing June 15, 2001, at a rate per annum equal to 9.875 percent of the liquidation preference of $1,000 per share when, and if declared by the Board of Directors of the subsidiary, in its sole discretion, out of funds legally available for such payment.

The Preferred Stock is redeemable for cash, at the option of the subsidiary, in whole or in part, at any time on or after June 15, 2021. Prior to June 15, 2021, the Preferred Stock is not redeemable, except that prior to such date, the Preferred Stock may be redeemed for cash, at the option of the subsidiary, in whole but not in part, only upon the occurrence of certain tax or regulatory events. Any such redemption is subject to the prior approval of the Board of Governors of the Federal Reserve. The Preferred Stock is not redeemable at the option of the holders thereof at any time.

(9) Off-Balance Sheet Activities, Derivatives and Hedging

The Company is a party to derivative instruments in the normal course of business for trading purposes and for purposes other than trading to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. The following table summarizes the contract or notional amount of all derivative instruments, as well as the Company's commitments to extend credit and standby letters of credit, as of December 31, 2001 and 2000.

	2001		**2000**	
	Trading	**Other Than Trading**	**Trading**	**Other Than Trading**
	(in Thousands)			
Commitments to extend credit	**$ —**	**$8,334,321**	$ —	$7,480,362
Standby and commercial letters of credit	**—**	**215,715**	—	240,305
Forward and futures contracts	**383,435**	**—**	324,644	—
Interest rate swap agreements	**1,410,287**	**1,805,551**	326,978	1,786,057
Floors and caps written	**140,385**	**—**	186,407	—
Floors and caps purchased	**87,002**	**1,000,000**	157,797	—

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions, and expire in decreasing amounts. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

Forward and futures contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery of a specified instrument, at a designated future date and at a specific price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in securities' values and interest rates.

The Company enters into a variety of interest rate contracts, including interest rate caps and floors, interest rate options and interest rate swap agreements, in its trading activities. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. Interest rate options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and within a specified period of time from or to the seller, or writer, of the option. As a writer of options, the Company receives a premium at the outset and then bears the risk of the unfavorable change in the price of the financial instrument underlying the option.

Entering into interest rate swap agreements involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts but also the interest rate risk associated with unmatched positions. The Company has credit risk of $27 million related to derivatives instruments in the trading account securities portfolio. The credit risk does not consider the value of any collateral but takes into consideration the effects of legally enforceable master netting agreements. Notional principal amounts often are used to express the volume of these transactions; however, the amounts potentially subject to credit risk are much smaller.

The following table presents the notional, carrying value, and credit risk amounts at December 31, 2001 of the Company's derivative asset positions held for hedging purposes. These derivative positions are primarily executed in the over-the-counter market. The credit risk amounts presented in the following table do not consider the value of any collateral but take into consideration the effects of legally enforceable master netting agreements.

	December 31, 2001		
	Notional	Carrying Value	Credit Risk
		(in Thousands)	
Cash Flow Hedges:			
Interest rate swap agreements	**$1,352,851**	**$51,146**	**$51,923**
Floors and caps purchased	**1,000,000**	**17,746**	**17,746**
Fair Value Hedges:			
Interest rate swap agreements	**452,700**	**33,553**	**35,139**

During the years ended December 31, 2001, 2000 and 1999, there were no credit losses associated with derivative contracts. At December 31, 2001 and December 31, 2000, there were no nonperforming derivative positions.

The Company also has recorded as liabilities certain short-sale transactions amounting to $3.1 million and $3.3 million at December 31, 2001 and 2000, respectively, which could result in losses to the extent the ultimate obligation exceeds the amount of the recorded liability. The amount of the ultimate obligation under such transactions will be affected by movements in the financial markets, which are not determinable, and the point at which securities are purchased to cover the short sales. The short-sale transactions relate principally to United States Government securities for which there is an active, liquid market. The Company does not expect the amount of losses, if any, on such transactions to be material.

Interest-Rate Risk

The Company uses derivative instruments to manage the risk of earnings fluctuations caused by interest rate volatility. The effect of interest rate movements on hedged assets or liabilities will generally be offset by the derivative instrument.

Derivative instruments that are used as part of the Company's interest rate risk-management strategy include interest rate swaps and options contracts with indices that relate to the pricing of specific balance-sheet assets and liabilities. The Company does not use highly leveraged derivative instruments for interest rate risk management. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date. Interest rate options represent contracts that allow the holder of the option to (1) receive cash or (2) purchase, sell, or enter into a financial instrument at a specified price within a specified period of time. Certain of these contracts also provide the Company with the right to enter into interest rate swap, cap and floor agreements with the writer of the option.

The Company also enters into various interest rate derivatives contracts for trading. Trading activities (which include derivative transactions entered into for risk-management purposes and which do not otherwise qualify for hedge accounting) primarily involve providing various derivative products to customers and managing risks in the trading portfolio.

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty owes the Company, and, therefore, creates a credit risk for the Company. When the fair value of a derivative instrument contract is negative, the Company owes the counterparty and, therefore, it has no credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's credit committee. The Company also maintains a policy of requiring that all derivative instrument contracts be governed by an International Swaps and Derivatives Association Master Agreement, which includes a provision for netting; depending on the nature of the derivative transaction, bilateral collateral arrangements may be required as well.

Market risk is the adverse effect that a change in interest rates or implied volatility rates has on the value of a financial instrument. The Company manages the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken.

The Company's derivatives activities are monitored by its Asset/ Liability Committee as part of its risk-management oversight of the Company's treasury functions. The Company's Asset/ Liability Management Committee is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Company's overall interest rate risk management and trading strategies.

Fair-Value Hedges

The Company enters into interest rate swaps to convert its fixed rate long-term debt to floating rate debt. All components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted. These hedges qualified for the short-cut method of accounting as described in FASB Statement No. 133. Therefore, there were no fair value hedging gains and losses, as a result of hedge ineffectiveness, recognized for the year ended December 31, 2001 and periodic effectiveness tests are not required. For the year ended December 31, 2001, the Company recognized a decrease to interest expense of $12 million related to interest rate swaps accounted for as fair value hedges. During 2001, there was approximately $2.6 million in net gains recognized in earnings available to common shareholders as a result of the termination of fair value hedges. The terminated hedges related to the Company's repurchase of Capital Securities, see Note 8 Capital Securities and Preferred Stock.

Cash-Flow Hedges

The Company uses interest rate swaps and options, such as caps and floors, to hedge the repricing characteristics of floating rate assets. All components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted. The initial assessment of expected hedge effectiveness was based on regression analysis. The ongoing periodic measures of hedge ineffectiveness was based on the expected change in cash flows of the hedged asset caused by changes in the benchmark interest rate. There were no cash flow hedging gains and losses, as a result of hedge ineffectiveness, recognized for the year ended December 31, 2001. There were no gains or losses which were reclassified from other comprehensive income to other income as a result of the discontinuance of cash flow hedges related to certain forecasted transactions that are probable of not occurring. For the year ended December 31, 2001, the Company recognized interest income of $22 million related to interest rate swaps and floors accounted for as cash flow hedges. Based on the current interest rate environment, substantially all of the deferred net gains on derivative instruments that are recorded in other comprehensive income are expected to be reclassified to interest income in the next twelve months as net settlements occur.

Off-Balance Sheet Activities

The Company has agreements with two independent asset-backed commercial paper conduits to diversify the Company's funding sources. Assets sold to the conduits include highly rated investment grade debt securities and participation interests in a pool of commercial real estate loans. All asset sold to the conduits were performing and no significant gains or losses were recognized on the sales.

During 2000, the Company sponsored the establishment of Sunbelt Funding Corporation ("Sunbelt"), an asset-backed conduit, created as a wholly-owned subsidiary of an independent third party. Sunbelt was structured as a Qualifying Special Purpose Entity ("QSPE"), as defined by FASB Statement No. 140, with a limited business purpose of purchasing highly rated investment grade debt securities from the Company's trading account securities portfolio and financing its purchases through the issuance of P-1/ F1 rated commercial paper. At December 31, 2001, all securities held by Sunbelt were AAA/ Aaa rated by at least two of the following nationally recognized statistical ratings organizations, Moody's Investor Service, Standard & Poor's or Fitch Ratings. Approximately 97 percent of the securities held by Sunbelt at December 31, 2001 were variable rate. Sunbelt's total assets, which approximated market value, were $1.6 billion and $900 million at December 31, 2001 and 2000, respectively. The Company realized gains on the sale of securitized SBA loans to Sunbelt of $1 million during both 2001 and 2000. The Company realized fee income of $9 million and $1 million for 2001 and 2000, from Sunbelt for providing various services including serving as liquidity provider, investment advisor and administrative agent. At December 31, 2001 and 2000, receivables from Sunbelt were $4 million and $1 million, respectively. There were no outstanding payables to Sunbelt at December 31, 2001 or 2000. The Company, under agreements with Sunbelt, may be required to purchase assets or provide alternative funding to the conduit in certain limited circumstances, including the conduit's inability to place commercial paper or a downgrade in the Company's short-term debt rating. Management believes if an event occurs, the Company has the ability to provide funding without any material adverse effect since the underlying assets, which are all highly rated and primarily variable rate, are eligible investments for Compass Bank and would secure any advance. The commitments, which are renewable annually at the Company's option, are for amounts up to $2 billion. No funding or purchase of assets had occurred as of December 31, 2001.

During 2001, the Company sold a $500 million participation interest in a pool of performing commercial real estate loans to an unaffiliated third party asset-backed commercial paper conduit. This conduit is capable of achieving credit ratings superior to those of the Company. The transaction is revolving which allows the Company to sell additional participations to maintain a $500 million balance. The market value of the assets sold approximated book value resulting in no gain or loss recognition at the date of sale. Under the terms of the transaction, the Company remains obligated for any credit related charge offs. The Company recognized liquidity provider fee income and servicing fee income of $3 million for 2001. At December 31, 2001, the receivable from the conduit was $431,000 and the payable was $42,000. The Company, under agreements with the conduit, may be required to purchase loans or provide alternative funding to the conduit in certain limited circumstances, including the conduit's inability to place commercial paper. Management believes if an event occurs, the Company has the ability to provide funding without any material adverse effect since the loans are performing and primarily floating rate. The commitments, which are renewable annually at the Company's option, are for amounts up to $510 million. At December 31, 2001, all loans were performing.

(10) Commitments and Contingencies

The Company leases certain facilities and equipment for use in their businesses. The leases for facilities generally run for periods of 10 to 20 years with various renewal options, while leases for equipment generally have terms not in excess of 5 years. The majority of the leases for facilities contain rental escalation clauses tied to changes in market lease rates. Certain real property leases contain purchase options. Management expects that most leases will be renewed or replaced with new leases in the normal course of business.

The following is a schedule of future minimum rentals required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2001, for leased facilities (in thousands):

2002	$14,712
2003	12,083
2004	10,713
2005	8,918
2006	7,600
Thereafter	34,479
	$88,505

Minimum rentals for all operating leases charged to earnings totaled $25.1 million, $24.7 million, and $20.7 for years ended December 31, 2001, 2000 and 1999, respectively.

The Company and its subsidiaries are defendants in legal proceedings arising in the ordinary course of business. Some of these proceedings which relate to lending, collections, servicing, investment, trust and other activities seek substantial sums as damages.

Among the actions which are pending from time to time are actions filed as class actions in the State of Alabama. These actions are similar to others that have been brought in recent years in Alabama and Texas against financial institutions in that they seek substantial compensatory and punitive damages in connection with transactions involving relatively small amounts of actual damages. While these cases are expensive to defend and generally receive significant publicity, in recent years, plaintiffs have not enjoyed much success at the appellate level.

It may take a number of years to finally resolve some of these pending legal proceedings due to their complexity and other reasons. It is difficult to determine with any certainty at this time the potential exposure from the proceedings. However, based upon the advice of legal counsel, management is of the opinion that the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company’s financial condition or results of operations.

(11) Regulatory Matters and Dividends from Subsidiaries

The Company and the Subsidiary Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines, the regulatory framework for prompt corrective action, and the Gramm-Leach-Bliley Act, the Company and the Subsidiary Banks must meet specific capital guidelines that involve quantitative measures of each bank’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Subsidiary Banks are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by the regulators to ensure capital adequacy require the Company and the Subsidiary Banks to maintain minimum core capital (“Tier I Capital”) of at least four percent of risk-weighted assets, minimum total capital (“Total Qualifying Capital”) of at least eight percent of risk-weighted assets and a minimum leverage ratio of four percent of adjusted quarterly assets. As of December 31, 2001, the Company and the Subsidiary Banks exceeded all capital adequacy requirements to which they are subject.

At December 31, 2001, the regulatory capital ratios of the Company’s Subsidiary Banks exceeded the minimum ratios required for “well-capitalized” banks as defined by federal banking regulators. To be categorized as “well-capitalized”, the Subsidiary Banks must maintain minimum Total Qualifying Capital, Tier I Capital and leverage ratios of at least 10 percent, 6 percent and 5 percent, respectively. Further, in order to continue its status as a financial holding company as defined by the Gramm-Leach-Bliley Act with the enhanced ability afforded thereby to offer products and services and engage in expanded financial activities, the Subsidiary Banks must each comply with such “well-capitalized” standards. There are no conditions or events that management believes have changed the Subsidiary Banks’ category.

The following table presents the actual capital amounts (in thousands) and ratios of the Company and Compass Bank at December 31, 2001 and 2000.

	Total Qualifying Capital		Tier I Capital		Leverage	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2001:						
Consolidated	**$1,989,075**	**10.94%**	**$1,502,674**	**8.27%**	**$1,502,674**	**6.71%**
Compass Bank	**2,045,797**	**11.27**	**1,534,340**	**8.45**	**1,534,340**	**6.86**
As of December 31, 2000:						
Consolidated	$1,879,401	11.24%	$1,392,402	8.33%	$1,392,402	6.90%
Compass Bank	1,830,074	10.95	1,340,940	8.02	1,340,940	6.66

Dividends paid by the Subsidiary Banks are the primary source of funds available to the Company for payment of dividends to its shareholders and other needs. Applicable federal and state statutes and regulations impose restrictions on the amount of dividends that may be declared by the Subsidiary Banks. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of each bank’s total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Subsidiary Banks. At December 31, 2001, approximately $94 million of the Subsidiary Banks’ net assets were available for payment of dividends without prior regulatory approval. Additionally, the Subsidiary Banks could have paid additional dividends to the parent holding company in the amount of $231 million while continuing to meet the capital requirements for “well-capitalized” banks at December 31, 2001.

The Subsidiary Banks are required to maintain cash balances with the Federal Reserve. The average amounts of those balances for the years ended December 31, 2001 and 2000, were approximately $197 million and $203 million, respectively.

During the fourth quarter of 2001 the federal banking agencies issued a final rule to revise the regulatory capital treatment of recourse, direct credit substitutes and residual interests in asset securitizations. This rule is effective January 1, 2002. For transactions entered into prior to the effective date of the rule, the application of this rule may be delayed to those transactions until December 31, 2002. Bank regulators are currently evaluating this rule and its application to various transactions. This rule could significantly affect risk based capital requirements and thus alter how the Company structures future securitizations and could result in the Company altering the structure of current transactions.

(12) Stock Based Compensation

The Company has two long-term incentive stock option plans for key senior officers of the Company. The stock option plans provide for these key employees to purchase shares of the Company's $2.00 par value common stock at the fair market value at the date of the grant. Pursuant to the 1996 Long Term Incentive Plan, and the 1999 Omnibus Incentive Compensation Plan, shares of the Company's common stock have been reserved for issuance. At December 31, 2001, approximately 2.2 million shares of the Company's common stock were available for issuance. The majority of the options granted under the plans must be exercised within 5 years and 10 years from the date of grant. The incentive stock option agreements state that incentive options may be exercised in whole or in part until the expiration date. The plans also provide for the granting of stock appreciation rights to certain holders of nonqualified stock options. A stock appreciation right allows the holder to surrender an exercisable stock option in exchange for common stock (at fair market value on the date of exercise), cash, or a combination thereof, in an amount equal to the excess of the fair market value of covered shares over the option price of such shares.

The following summary sets forth activity under the plans for the years ended December 31:

	2001		2000		1999	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding, beginning of the year	**5,418,189**	**$20.36**	4,567,905	$21.39	3,558,226	$19.94
Granted	**2,704,839**	**20.60**	1,584,174	16.91	1,680,343	24.04
Exercised	**(884,657)**	**16.24**	(221,940)	11.16	(294,791)	13.59
Forfeited	**(230,189)**	**22.74**	(511,950)	22.92	(375,873)	25.49
Outstanding, end of the year	**7,008,182**	**$20.89**	5,418,189	$20.36	4,567,905	$21.39
Weighted average fair value of options granted during the year	**$ 5.24**		$ 3.96		$ 6.75	
Exercisable, end of the year	**4,727,273**		3,393,074		2,686,057	

Of the 7,008,182 outstanding options at December 31, 2001, 4,727,273 were exercisable, at a weighted average exercise price of $21.33, with the remaining 2,280,909 having a remaining vesting period of up to three years. Exercise prices for options outstanding as of December 31, 2001, ranged from $8.96 to $33.00.

The following table provides certain information with respect to stock options outstanding at December 31, 2001:

Range of Exercise Prices	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Under $10.00	31,647	$ 8.96	0.13
$10.00 — $14.99	468,562	12.70	3.24
$15.00 — $21.99	4,304,836	19.18	7.73
$22.00 or more	2,203,137	26.15	6.75
	7,008,182	20.89	7.09

At December 31, 2001, the shares under option included nonqualified options issued to certain executives to acquire shares of common stock as follows: 2,196,029 shares at year-end 2001, 1,182,478 shares at year-end 2000 and 782,734 shares at year-end 1999.

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related Interpretations in accounting for its employee stock options rather than FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is presented as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2001, 2000 and 1999, respectively: risk-free interest rates of 3.66 percent, 5.05 percent and 6.29 percent; dividend yields of 4.49 percent, 5.23 percent and 3.34 percent; volatility factors of the expected market price of the Company's common stock of 0.427, 0.404 and 0.385; and a weighted-average expected life of the options of 3.5 years, 3.2 years and 3.5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The majority of the Company's options granted in 2001, 2000 and 1999 vest ratably over a period of three years, therefore for purposes of pro forma disclosures, the compensation expense related to these options has been allocated over the vesting period. The Company's actual and pro forma information follows (in thousands except per share data):

	Year Ended December 31		
	2001	**2000**	**1999**
Net income:			
As reported	**$270,397**	$241,623	$228,968
Pro forma	**262,035**	234,418	222,377
Basic earnings per share:			
As reported	**$ 2.13**	$ 1.91	$ 1.84
Pro forma	**2.07**	1.85	1.78
Diluted earnings per share:			
As reported	**$ 2.11**	$ 1.90	$ 1.82
Pro forma	**2.04**	1.84	1.77

During 2001, 2000 and 1999, the Company issued 103,400, 95,670 and 100,600 shares, respectively, of restricted common stock to certain executive officers with a fair value at issuance of $2.3 million , $1.4 million and $2.5 million , respectively. The fair value of the shares issued each of the last three years is expensed over a three year period based on the expected period of vesting. Because the restricted stock is legally issued and outstanding, the fair value of the restricted stock at issuance is reflected in common stock and surplus with a corresponding offset for the amount of unearned compensation expense. During 2001, 2000 and 1999, compensation expense of $1.8 million, $2.3 million and $2.6 million, respectively, was recognized in connection with the restricted stock.

(13) Benefit Plans

The Company sponsors a defined benefit pension plan pursuant to which participants are entitled to an annual benefit upon retirement equal to a percentage of the average base compensation (generally defined as direct cash compensation exclusive of bonuses and commissions) earned in the five consecutive years of benefit service which produce the highest average. The percentage amount of the benefit is determined by multiplying the number of years, up to 30, of a participant's service with the Company by 1.8 percent. Benefits are reduced by Social Security payments at the rate of 1.8 percent of primary Social Security benefits times years of service up to 30 years. All employees of the Company who are over the age of 21 and have worked 1,000 hours or more in their first 12 months of employment or 1,000 hours or more in any calendar year thereafter are eligible to participate, except for project consultants and employees with an insurance affiliate or division. Employees are vested after five years of service. Benefits are payable monthly commencing on the later of age 65 or the participant's date of retirement. Eligible participants may retire at reduced benefit levels after reaching age 55, if they have at least 10 years of service. The Company contributes amounts to the pension fund sufficient to satisfy funding requirements of the Employee Retirement Income Security Act.

The following tables set forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31:

	2001	2000
	(in Thousands)	
Projected benefit obligation, beginning of year	**$ 93,524**	$ 88,078
Service cost	**7,001**	6,880
Interest cost	**7,134**	6,568
Actuarial gain	**(4,047)**	(5,894)
Benefits paid	**(4,374)**	(2,108)
Projected benefit obligation, end of year	**99,238**	93,524
Fair value of plan assets, beginning of year	**103,826**	100,072
Actual return (loss) on plan assets	**(10,542)**	5,862
Employer contributions	**—**	—
Benefits paid	**(4,374)**	(2,108)
Fair value of plan assets, end of year — primarily listed stocks and U.S. bonds	**88,910**	103,826
Funded status of plan	**(10,328)**	10,302
Unrecognized prior service cost	**673**	736
Unrecognized net (gain) loss	**3,937**	(12,742)
Net pension liability	**$ (5,718)**	$ (1,704)
Net pension asset (liability), beginning of year	**$ (1,704)**	$ 2,204
Employer contributions	**—**	—
Net periodic pension cost	**(4,014)**	(3,908)
Net pension liability, end of year	**$ (5,718)**	$ (1,704)

Net pension cost for 2001, 2000 and 1999 included the following components:

	2001	2000	1999
	(in Thousands)		
Service cost	**$ 7,001**	$ 6,880	$ 7,186
Interest cost	**7,134**	6,568	6,242
Amortization of prior service cost	**63**	63	63
Recognized net actuarial gain	**(192)**	(193)	—
Estimated return on plan assets	**(9,992)**	(9,410)	(8,326)
Amortization of unrecognized transitional asset	**—**	—	(28)
Net periodic pension cost	**$ 4,014**	$ 3,908	$ 5,137

The weighted average discount rate was 7.25 percent for 2001 and 7.75 percent for 2000 and 1999. The rate of increase in future compensation levels was 4.25 percent for 2001 and 6.00 percent for 2000 and 1999. Both rates are used in determining the actuarial present value of the projected benefit obligation. The assumed long-term rate of return on plan assets was 9.00 percent for 2001, 9.75 for 2000 and 9.50 for 1999. Prior service cost is amortized on a straight-line basis.

In 1997, the Company established benefit plans for certain key executives that provide additional retirement benefits not otherwise provided in the Company's basic benefit plans. These plans had an unfunded projected benefit obligation of $7.3 million in 2001 and $5.0 million in 2000 and a net plan liability of $4.5 million and $2.8 million, that is reflected in accrued expenses and other liabilities, as of December 31, 2001 and 2000, respectively. Net periodic expenses of the plans were $1.7 million, $1.0 million and $735,000 in 2001, 2000 and 1999, respectively.

The Company has a qualified retirement plan that is both a section 401(k) plan and an employee stock ownership plan ("ESOP") under the Internal Revenue Code. Employees can contribute up to 15 percent of their salaries to the plan on a pretax basis subject to tax law limits and the Company at its discretion can match up to 100 percent of 6 percent of the participants' compensation contributed to the plan. The Company's matching contributions are based on predetermined income levels and totaled $4.9 million in 2001, $2.9 million in 2000, and $3.8 million in 1999. Contributions to the ESOP portion of the plan are made in amounts determined by the Board of Directors of the Company. Such contributions are invested in common stock of the Company that is purchased on the open market and are ordinarily distributed to employees upon their retirement or other termination of employment. Employer matching contributions are vested immediately for those hired before January 1, 2001, and are vested ratably over a three year period for those hired after January 1, 2001. Contributions to the ESOP are allocated to the accounts of the participants based upon their base compensation, with right to such accounts vested after five years of employment. The Company did not make an ESOP contribution in 2001 or 2000. The Company contributed $871,000 in 1999.

During 2001, the Company established the Compass Sharebuilder Plan with the intention that the plan qualify under Section 423(b) of the Internal Revenue Code. The purpose of the plan is to provide employees of the Company with an opportunity to purchase common stock of the Company through accumulated payroll deductions. Under the plan, employees may contribute up to 10 percent of their annual salary to be accumulated for the purchase of the Company's common stock at a 15 percent discount to the market price on the offering date or the exercise date of the offering period, whichever is lower.

The Company has a Director & Executive Stock Purchase Plan, formerly known as the Monthly Investment Plan. The plan was amended during 2001 to change the name and exclude certain employees that would be participating in the Compass Sharebuilder Plan. Prior to the 2001 amendment, employees could contribute up to 10 percent of their salary and the Company matched 30 percent of the employees' contributions toward the purchase of common stock of the Company. Under the amended plan, directors can contribute up to $36,000 per year and certain employees can contribute excess Section 423(b) plan contributions up to 10 percent of their salary. The Company will match 45 percent of director contributions and 30 percent of employee contributions. The common stock is purchased in the open market and brokerage fees and other incidental expenses are absorbed by the Company. Costs incurred by the Company under the plan were $1.9 million in 2001, $2.7 million in 2000, and $2.6 million in 1999 and are reflected in salaries, benefits and commissions expense.

(14) Business Combinations and Divestitures

Business Combinations

On January 4, 2002, the Company completed the acquisition of Horizons Insurance Group, Inc. (“Horizons”), a Dallas, Texas based full-line general insurance brokerage firm with revenues of more than $4 million. Horizons, one of the oldest insurance agencies in North Texas, services commercial and retail customers in the Dallas/ Fort Worth metroplex and the southwestern United States. Horizons specializes in providing property and casualty insurance, personal insurance, employee benefit plans and financial planning for businesses and individuals.

On January 4, 2001, the Company completed the merger with FirsTier Corporation (“FirsTier”). FirsTier was the parent of FirsTier Bank, an approximately $815 million asset bank primarily located in the greater Denver area, and Firstate Bank, an $85 million asset bank in Nebraska. FirsTier shareholders received 6.8 million shares of Compass common stock in exchange for all of the outstanding shares of FirsTier. The transaction was accounted for under the pooling-of-interests method of accounting. All prior-period information has been restated.

On December 14, 2000, the Company completed the acquisition of Texas Insurance Agency, one of the largest independent insurance agencies in Texas with revenues of $5 million. Headquartered in San Antonio, Texas Insurance Agency specializes in providing property and casualty insurance, personal insurance, employee benefit plans and financial planning for businesses and private banking customers as well as home and automobile insurance for retail customers.

On July 17, 2000, the Company completed the acquisition of Founders Bank of Arizona (“Founders”) in Phoenix, with assets of approximately $400 million. The Company acquired all of the outstanding shares of Founders in exchange for approximately $80 million in cash. The transaction was accounted for under the purchase method of accounting. Intangible assets resulting from the purchase totaled approximately $70 million.

On April 3, 2000, the Company completed the merger with MegaBank Financial Corporation in Denver, Colorado, with assets of approximately $300 million. The transaction was accounted for under the pooling-of-interests method of accounting. Prior-period information has not been restated due to immateriality.

On January 13, 2000, the Company completed the merger with Western Bancshares, Inc. in Albuquerque, New Mexico, with assets in excess of $300 million. The transaction was accounted for under the pooling-of-interests method of accounting. All prior-period information has been restated.

Divestitures

During 2000, the Company completed the sale of eight non-strategic branches in Texas with deposits of approximately $205 million. Gains of $16.7 million were realized on the sales and are included in other income on the Consolidated Statements of Income for the year ended December 31, 2000.

(15) Income Taxes

For the years ended December 31, 2001, 2000 and 1999, income tax expense attributable to income from operations consists of:

	2001	2000	1999
		(in Thousands)	
Current income tax expense:			
Federal	**$175,354**	$ 75,204	$104,240
State	**3,301**	4,359	3,995
Total	**178,655**	79,563	108,235
Deferred income tax expense (benefit):			
Federal	**(38,548)**	36,182	7,487
State	**(278)**	1,477	1,299
Total	**(38,826)**	37,659	8,786
Total income tax expense	**$139,829**	$117,222	$117,021

During 2001, the Company made income tax payments of approximately $113.2 million and received cash income tax refunds amounting to approximately $4.4 million. For 2000 and 1999, income tax payments were approximately $84.7 million and $142.4 million, respectively. Cash income tax refunds amounted to approximately $1.5 million for 2000 and $2.8 million for 1999.

Income tax expense attributable to income from operations differed from the amount computed by applying the Federal statutory income tax rate to pretax earnings for the following reasons:

	2001		2000		1999	
	Amount	Percent of Pretax Earnings	Amount	Percent of Pretax Earnings	Amount	Percent of Pretax Earnings
			(in Thousands)			
Income tax expense at Federal statutory rate	**$143,579**	**35.0%**	$125,596	35.0%	$121,096	35.0%
Increase (decrease) resulting from:						
Tax-exempt interest and other income	**(10,385)**	**(2.5)**	(6,801)	(1.9)	(6,650)	(1.9)
Sale of subsidiary stock	**—**	**—**	(7,700)	(2.1)	—	—
State income tax expense net of Federal income tax benefit	**1,965**	**0.5**	3,765	1.0	3,437	0.9
Other	**4,670**	**1.1**	2,362	0.7	(862)	(0.2)
Income tax expense	**$139,829**	**34.1%**	$117,222	32.7%	$117,021	33.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000, are presented below:

	2001	2000
	(in Thousands)	
Deferred tax assets:		
Allowance for loan losses	**$ 70,346**	$ 62,284
Net unrealized losses on securities available for sale	**—**	9,517
Bond discount/premium	**8,288**	—
Other deferred tax assets	**17,749**	12,910
Total assets	**96,383**	84,711
Deferred tax liabilities:		
Premises and equipment	**18,569**	13,704
Lease financing	**55,194**	51,204
Net unrealized gains on securities available for sale and hedging instruments	**43,050**	—
Core deposit and other acquired intangibles	**11,242**	13,960
Bond discount/premium	**—**	27,874
Other deferred tax liabilities	**9,318**	6,115
Total liabilities	**137,373**	112,857
Net deferred tax liability	**$ (40,990)**	$ (28,146)

(16) Parent Company

The condensed financial information for Compass Bancshares, Inc. (Parent Company Only) is presented as follows:

Balance Sheets

	December 31	
	2001	2000
	(in Thousands)	
Assets		
Cash and due from banks	**$ 112,600**	$ 2,005
Investment securities	**1,088**	23,093
Reverse repurchase agreements with affiliates	**—**	182,214
Investment in subsidiaries	**1,935,228**	1,673,812
Other assets	**15,688**	14,177
Total assets	**$2,064,604**	$1,895,301
Liabilities and Shareholders' Equity		
Commercial paper	**$ 95,100**	$ 85,326
Accrued expenses and other liabilities	**17,222**	11,562
Junior subordinated debt payable to subsidiary trusts	**108,365**	139,175
Subordinated debentures and other borrowings	**128,276**	149,234
Total liabilities	**348,963**	385,297
Shareholders' equity	**1,715,641**	1,510,004
Total liabilities and shareholders' equity	**$2,064,604**	$1,895,301

Statements of Income

	Year Ended December 31		
	2001	**2000**	**1999**
		(in Thousands)	
Income:			
Cash dividends from subsidiaries	**$105,000**	$285,204	$284,237
Interest on investments with affiliates	**9,365**	10,867	9,337
Other	**3,031**	6,125	3,096
Total income	**117,396**	302,196	296,670
Expense:			
Interest on commercial paper and other borrowings	**18,568**	27,076	24,004
Other	**5,151**	5,608	6,861
Total expense	**23,719**	32,684	30,865
Income before income tax benefit and equity in undistributed earnings of subsidiaries	**93,677**	269,512	265,805
Applicable income tax benefit	**(4,277)**	(5,880)	(6,890)
	97,954	275,392	272,695
Equity in undistributed earnings (dividends in excess of earnings) of subsidiaries	**172,443**	(33,769)	(43,727)
Net income	**$270,397**	$241,623	$228,968

Statements of Cash Flows

	Year Ended December 31		
	2001	**2000**	**1999**
		(in Thousands)	
Operating Activities:			
Net income	**$ 270,397**	$ 241,623	$ 228,968
Adjustments to reconcile net income to cash provided by operations:			
Depreciation, (accretion) and amortization	**1,931**	(1,073)	2,689
Dividends in excess of earnings (equity in undistributed earnings)	**(172,443)**	33,769	43,727
(Increase) decrease in other assets	**2,055**	(937)	(2,397)
Increase in other liabilities	**5,864**	978	586
Net cash provided by operating activities	**107,804**	274,360	273,573
Investing Activities:			
Proceeds from maturities/calls of investment securities	**—**	67	5,932
Purchase of investment securities	**—**	(103)	—
Proceeds from sales of investment securities available for sale	**21,653**	—	—
Net (increase) decrease in reverse repurchase agreements with affiliates	**182,214**	(94,595)	28,522
Capital contributions made to subsidiaries	**(3,995)**	(76,624)	(169,505)
Payments from (advances) to subsidiaries on notes receivable	**2,000**	(16,133)	(43,461)
Net cash provided (used) by investing activities	**201,872**	(187,388)	(178,512)
Financing Activities:			
Net increase in commercial paper and other borrowings	**9,774**	14,633	16,437
Repayment of other borrowings	**(24,501)**	(800)	(12,573)
Issuance (repurchase) of guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	**(29,044)**	—	23,000
Cash paid in lieu of fractional shares	**—**	(1)	(52)
Redemption of preferred stock	**—**	—	(29,268)
Common and preferred dividends paid	**(117,760)**	(105,964)	(98,157)
Purchase of treasury stock	**(50,146)**	—	—
Repayment of loans to finance stock purchases	**1,372**	578	2,785
Proceeds from exercise of stock options	**11,224**	3,909	2,565
Net cash used by financing activities	**(199,081)**	(87,645)	(95,263)
Net increase (decrease) in cash and due from banks	**110,595**	(673)	(202)
Cash and due from banks at beginning of the year	**2,005**	2,678	2,880
Cash and due from banks at end of the year	**$ 112,600**	$ 2,005	$ 2,678

(17) Fair Value of Financial Instruments

The assumptions used in the estimation of the fair value of the Company's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather represent a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and due from banks: Fair value equals the carrying value of such assets.

Investment securities held to maturity and investment securities available for sale: Fair values for investment securities are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of derivative instruments where pricing models are used.

Trading account securities: Fair value of the Company's trading account securities are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of certain options and swaps where pricing models are used.

Federal funds sold and securities purchased under agreements to resell: Due to the short-term nature of these assets, the carrying values of these assets approximate their fair value.

Loans: Loans were valued using discounted cash flows. The discount rate used to determine the present value of these loans was based on interest rates currently being charged by the Company on comparable loans as to credit risk and term.

Off-balance sheet instruments: During 2001, the Company adopted FASB Statement No. 133. Statement No. 133 requires hedge instruments (forwards, swaps, caps, floors and options written) be recorded on the balance sheet at fair value. During 2000, these hedge instruments were off-balance sheet. The Company's loan commitments are negotiated at current market rates and are relatively short-term in nature and, as a matter of policy, the Company generally makes commitments for fixed rate loans for relatively short periods of time, therefore, the estimated value of the Company's loan commitments approximates carrying amount.

Deposit liabilities: The fair values of demand deposits are equal to the carrying value of such deposits. Demand deposits include noninterest bearing demand deposits, savings accounts, NOW accounts and money market demand accounts. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits having an interest rate floor that has been reached. The discount rate used is based on interest rates currently being offered by the Company on comparable deposits as to amount and term.

Short-term borrowings: The carrying value of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates their carrying values.

FHLB and other borrowings: The fair value of the Company's fixed rate borrowings, which includes the Company's Capital Securities, are estimated using discounted cash flows, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of the Company's variable rate borrowings approximates their fair values.

	At December 31, 2001		At December 31, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in Thousands)			
Financial Instruments:				
Assets:				
Cash and due from banks	**$ 715,991**	**$ 715,991**	$ 750,815	$ 750,815
Investment securities held to maturity	**707,524**	**718,694**	1,434,689	1,431,195
Investment securities available for sale	**6,563,705**	**6,563,705**	5,074,819	5,074,819
Trading account securities	**21,331**	**21,331**	17,211	17,211
Federal funds sold and securities purchased under agreements to resell	**19,201**	**19,201**	163,896	163,896
Loans	**13,707,286**	**13,868,712**	12,258,754	12,224,842
Off-balance sheet instruments	**—**	**—**	9,043	32,213
Liabilities:				
Noninterest bearing deposits	**$ 3,576,289**	**$ 3,576,289**	$ 3,188,969	$ 3,188,969
Interest bearing deposits	**10,158,956**	**10,210,156**	11,636,408	11,555,399
Federal funds purchased and securities sold under agreements to repurchase	**2,922,802**	**2,922,802**	1,611,905	1,611,905
Other short-term borrowings	**551,307**	**551,307**	163,271	163,271
FHLB and other borrowings	**3,837,450**	**3,957,232**	2,585,185	2,568,358

(18) Segment Information

The Company's segment information is presented by line of business. Each line of business is a strategic unit that serves a particular group of customers that have certain common characteristics, through various products and services. The segment results include certain overhead allocations and intercompany transactions. All intercompany transactions have been eliminated to determine the consolidated balances. The Company's reportable operating segments are Corporate Banking, Retail Banking, Asset Management, and Treasury.

The Corporate Banking segment is responsible for providing a full array of banking and investment services to business banking, commercial banking, and other institutional clients in each of the Company's major metropolitan markets. The Corporate Banking segment also includes a National Industries unit that is responsible for serving larger national accounts, principally in targeted industries. In addition to traditional credit and deposit products, the Corporate Banking segment also supports its customers with capabilities in treasury management, leasing, accounts receivable purchasing, asset-based lending, international services, insurance, and interest rate protection and investment products.

The Retail Banking segment serves the Company's consumer customers through its 341 banking offices and through the use of alternative delivery channels such as personal computer banking, the internet and telephone banking. The Retail Banking segment provides individuals with comprehensive products and services, including home mortgages, credit cards, deposit accounts, mutual funds, and brokerage. In addition, Retail Banking serves the Company's small business customers, and is responsible for the indirect automobile portfolio.

The Asset Management segment provides specialized investment portfolio management, traditional credit products, financial counseling, and customized services to the Company's private clients and foundations as well as investment management and retirement services to companies and their employees. The Asset Management segment is also the discretionary investment manager of Expedition Funds®, the Company's family of proprietary mutual funds.

The Treasury segment's primary function is to manage the investment securities portfolio, certain residential real estate loans, public entity deposits, and the liquidity and funding positions of the Company.

Corporate Support and Other includes activities that are not directly attributable to the reportable segments. Included in this category are the activities of the parent company and support functions, i.e., accounting, loan review, etc. and the elimination of intercompany transactions.

The following table presents the segment information for the Company's segments as of and for the year ended December 31, 2001, 2000 and 1999.

For the Year ended December 31, 2001
(in Thousands)

	Corporate Banking	Retail Banking	Asset Management	Treasury	Corporate Support and Other	Consolidated
Income Statement						
Net interest income (expense)	$ 333,479	$ 334,917	$ 50,745	$ 112,818	$ (6,100)	$ 825,859
Noninterest income	69,699	240,607	27,124	28,344	10,604	376,378
Noninterest expense	133,556	318,288	29,062	15,568	189,296	685,770
Segment net income (loss)	$ 269,622	$ 257,236	$ 48,807	$ 125,594	$(184,792)	516,467
Provision for loan losses						106,241
Net income before income tax expense						410,226
Income tax expense						139,829
Net income						$ 270,397
Balance Sheet						
Average assets	$8,095,886	$3,820,446	$ 752,064	$8,342,591	$ 981,600	$21,992,587
Average loans	7,983,147	3,440,315	739,926	739,533	105,840	13,008,761
Average deposits	3,294,087	9,000,393	1,115,328	312,244	39,115	13,761,167
Period-end assets	$8,215,219	$4,289,897	$ 825,421	$8,907,473	$ 776,990	$23,015,000
Period-end loans	8,097,336	3,965,852	814,511	845,238	(15,651)	13,707,286
Period-end deposits	3,549,223	8,679,874	1,219,140	360,887	(73,879)	13,735,245

For the Year ended December 31, 2000
(in Thousands)

	Corporate Banking	Retail Banking	Asset Management	Treasury	Corporate Support and Other	Consolidated
Income Statement						
Net interest income	$ 281,580	$ 316,447	$ 43,606	$ 75,037	$ 1,842	$ 718,512
Noninterest income	40,745	198,467	25,819	8,108	32,057	305,196
Noninterest expense	98,364	267,832	26,263	10,857	195,969	599,285
Segment net income (loss)	$ 223,961	$ 247,082	$ 43,162	$ 72,288	$ (162,070)	424,423
Provision for loan losses						65,578
Net income before income tax expense						358,845
Income tax expense						117,222
Net income						$ 241,623
Balance Sheet						
Average assets	$7,043,194	$3,359,432	$ 646,329	$7,049,965	$1,701,899	$19,800,819
Average loans	6,936,371	2,792,819	635,569	915,768	831,944	12,112,471
Average deposits	3,043,865	9,001,473	967,541	474,692	817,029	14,304,600
Period-end assets	$7,763,454	$3,399,083	$ 717,427	$7,294,568	$1,702,628	$20,877,160
Period-end loans	7,396,152	2,916,525	707,911	471,404	766,762	12,258,754
Period-end deposits	3,296,144	8,946,891	1,149,732	676,587	756,023	14,825,377

For the Year ended December 31, 1999
(in Thousands)

	Corporate Banking	Retail Banking	Asset Management	Treasury	Corporate Support and Other	Consolidated
Income Statement						
Net interest income	$ 227,806	$ 285,117	$ 37,213	$ 99,561	$ 27,005	$ 676,702
Noninterest income	36,673	165,232	22,814	6,943	15,353	247,015
Noninterest expense	92,159	231,923	21,985	12,047	184,413	542,527
Segment net income (loss)	$ 172,320	$ 218,426	$ 38,042	$ 94,457	$ (142,055)	381,190
Provision for loan losses						35,201
Net income before income tax expense						345,989
Income tax expense						117,021
Net income						$ 228,968
Balance Sheet						
Average assets	$5,847,109	$3,091,901	$564,892	$7,515,794	$1,345,462	$18,365,158
Average loans	5,714,381	2,706,289	556,408	1,272,470	585,468	10,835,016
Average deposits	2,303,925	8,804,906	911,625	513,255	661,061	13,194,772
Period-end assets	$6,287,320	$3,617,079	$652,763	$7,110,634	$1,485,052	$19,152,848
Period-end loans	6,162,818	2,726,092	643,951	1,263,843	761,974	11,558,678
Period-end deposits	2,585,237	8,845,806	965,400	540,452	717,074	13,653,969

The financial information presented was derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies which have been developed to reflect the underlying economics of the businesses. The policies address the methodologies applied and include policies related to funds transfer pricing. Funds transfer pricing was used in the determination of net interest income by assigning a standard cost (credit) for funds used (provided) to assets and liabilities based on their maturity, prepayment, and/or repricing characteristics.

The development and application of these methodologies is a dynamic process. Accordingly, financial results have been revised to reflect management accounting enhancements and changes in the Company's organizational structure. The 2000 and 1999 segment information has been revised to conform to the 2001 presentation. In addition, unlike financial accounting, there is no authoritative literature for management accounting similar to generally accepted accounting principles. Consequently, reported results are not necessarily comparable with those presented by other financial institutions.

(19) Earnings Per Share

Presented below is a summary of the components used to calculate basic and diluted earnings per share for the years ended December 31, 2001, 2000 and 1999:

	Year Ended December 31		
	2001	**2000**	**1999**
	(in Thousands Except Per Share Data)		
BASIC EARNINGS PER SHARE:			
Net income	**$270,397**	$241,623	$228,968
Plus: Gain on redemption of guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures	**1,766**	—	—
Less: Dividends on non-convertible and convertible preferred stock	**—**	—	2,119
Net income available to common shareholders	**$272,163**	$241,623	$226,849
Weighted average common shares outstanding	**127,617**	126,514	123,482
Basic earnings per share	**$ 2.13**	$ 1.91	$ 1.84
DILUTED EARNINGS PER SHARE:			
Net income	**$270,397**	$241,623	$228,968
Plus: Gain on redemption of guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures	**1,766**	—	—
Less: Dividends on non-convertible preferred stock	**—**	—	2,119
Net income available to common shareholders and assumed conversions	**$272,163**	$241,623	$226,849
Weighted average common shares outstanding	**127,617**	126,514	123,482
Net effect of nonvested restricted stock and the assumed exercise of stock options — based on the treasury stock method using average market price for the year	**1,521**	747	1,099
Weighted average common shares outstanding used to calculate earnings per common share	**129,138**	127,261	124,581
Diluted earnings per share	**$ 2.11**	$ 1.90	$ 1.82

(20) Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances arising from nonowner sources.

The following is a summary of the components of other comprehensive income:

	Year Ended December 31		
	2001	**2000**	**1999**
		(in Thousands)	
Other comprehensive income, before tax:			
Unrealized holding gain (loss) on investment securities available for sale, net	**$ 81,679**	$124,007	$(165,650)
Less reclassification adjustment for gains on investment securities available for sale	**7,583**	4	2,102
Unrealized holding losses on investment securities transferred to investments available for sale	**(809)**	—	—
Net change in accumulated gains on cash-flow hedging instruments	**68,892**	—	—
Other comprehensive income (loss), before income taxes and cumulative effect adjustment	**142,179**	124,003	(167,752)
Income tax expense (benefit) related to other comprehensive income:			
Unrealized holding gain (loss) on investment securities available for sale	**30,455**	47,266	(62,021)
Less reclassification adjustment for gains on investment securities available for sale	**2,850**	1	800
Unrealized holding losses on investment securities transferred to investments available for sale	**(304)**	—	—
Net change in accumulated gains on cash-flow hedging instruments	**25,897**	—	—
Total income tax expense (benefit) related to other comprehensive income	**53,198**	47,265	(62,821)
Total comprehensive income (loss) before cumulative effect adjustment	**88,981**	76,738	(104,931)
Cumulative effect adjustment for accumulated net losses on hedging instruments, net of tax	**(2,247)**	—	—
Other comprehensive income (loss), after income taxes	**$ 86,734**	$ 76,738	$(104,931)

(21) Supplemental Disclosure for Statement of Cash Flows

The Company paid approximately $732 million, $772 million and $631 million in interest on deposits and other liabilities during 2001, 2000 and 1999, respectively. The following table presents the Company's noncash investing and financing activities for the years ended December 31, 2001, 2000 and 1999.

	December 31		
	2001	**2000**	**1999**
		(in Thousands)	
Schedule of noncash investing and financing activities:			
Transfers of loans to other real estate owned	**$ 23,936**	$ 20,044	$ 8,142
Transfers of investment securities to available for sale securities	**475,087**	—	—
Loans to facilitate the sale of other real estate owned	**597**	2,808	1,096
Assets retained in loan securitizations	**246,014**	1,193,990	1,020,883
Loans to finance stock purchases	**2,994**	640	1,559
Change in unrealized gain (loss) on available-for-sale securities	**73,287**	124,003	(167,752)
Issuance of restricted stock, net of cancellations	**2,230**	1,512	1,870
Business combinations and divestitures:			
Common stock issued	**—**	35,924	—
Assets acquired	**—**	782,015	526,654
Liabilities assumed	**—**	694,135	667,444
Assets sold	**—**	48,692	—
Liabilities sold	**—**	203,118	—

(22) Quarterly Results (Unaudited)

A summary of the unaudited results of operations for each quarter of 2001 and 2000 follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in Thousands Except Per Share Data)			
2001				
Total interest income	**$392,922**	**$385,644**	**$375,001**	**$364,154**
Total interest expense	**205,027**	**184,510**	**165,850**	**136,475**
Net interest income	**187,895**	**201,134**	**209,151**	**227,679**
Provision for loan losses	**12,881**	**21,951**	**32,317**	**39,092**
Net interest income after provision for loan losses	**175,014**	**179,183**	**176,834**	**188,587**
Total noninterest income	**88,719**	**91,132**	**97,314**	**99,213**
Total noninterest expense	**167,921**	**167,843**	**170,506**	**179,500**
Income tax expense	**33,249**	**35,500**	**34,932**	**36,148**
Net income	**62,563**	**66,972**	**68,710**	**72,152**
Net income available to common shareholders	**64,329**	**66,972**	**68,710**	**72,152**
Per common share:				
Basic earnings	**0.50**	**0.53**	**0.53**	**0.57**
Diluted earnings	**0.50**	**0.52**	**0.53**	**0.56**
Cash dividends	**0.23**	**0.23**	**0.23**	**0.23**
Stock price range:				
High	**24.94**	**26.50**	**29.08**	**28.58**
Low	**19.13**	**20.69**	**23.34**	**23.43**
Close	**21.38**	**26.50**	**26.03**	**28.30**
2000				
Total interest income	$352,575	$373,886	$390,009	$399,099
Total interest expense	179,982	192,289	208,853	215,933
Net interest income	172,593	181,597	181,156	183,166
Provision for loan losses	10,388	19,362	10,872	24,956
Net interest income after provision for loan losses	162,205	162,235	170,284	158,210
Total noninterest income	67,019	82,426	77,177	78,574
Total noninterest expense	140,183	148,532	147,358	163,212
Income tax expense	30,702	33,168	34,195	19,157
Net income	58,339	62,961	65,908	54,415
Per common share:				
Basic earnings	0.47	0.50	0.51	0.43
Diluted earnings	0.47	0.49	0.51	0.43
Cash dividends	0.22	0.22	0.22	0.22
Stock price range:				
High	20.50	22.38	19.75	24.28
Low	15.75	17.06	17.88	16.56
Close	19.94	17.06	19.50	23.88

EXHIBIT INDEX

Exhibit Number	Description
23.1	Consent of PricewaterhouseCoopers LLP.

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.

COMPASS BANCSHARES, INC.

Date: June 14, 2002

By /s/ Garrett R. Hegel

Garrett R. Hegel
Chief Financial Officer