

2000

2000 FINANCIAL STATEMENTS

*Restated 2000 Financial Statements Reflecting the
Merger of U.S. Bancorp and Firststar Corporation*

S E L E C T E D F I N A N C I A L D A T A

(Dollars in Millions, Except Per Share Data)

	2000	1999	1998	1997	1996
Condensed Income Statement					
Net interest income (taxable-equivalent basis)	\$ 6,135.0	\$ 5,932.7	\$ 5,676.2	\$ 5,532.0	\$ 5,298.4
Merger and restructuring related gains	—	—	—	—	235.8
Securities gains, net	8.1	13.2	29.1	7.3	18.7
Other noninterest income	4,875.1	4,231.7	3,620.9	2,711.3	2,513.5
Merger and restructuring related charges	348.7	532.8	593.8	633.0	192.4
Other noninterest expense	5,368.3	5,128.5	4,829.6	4,306.7	4,321.6
Provision for credit losses	828.0	646.0	491.3	639.9	429.9
Income before taxes	4,473.2	3,870.3	3,411.5	2,671.0	3,122.5
Taxable-equivalent adjustment	85.4	96.3	111.2	121.1	121.0
Income taxes	1,512.2	1,392.2	1,167.4	950.6	1,082.9
Net income	<u>\$ 2,875.6</u>	<u>\$ 2,381.8</u>	<u>\$ 2,132.9</u>	<u>\$ 1,599.3</u>	<u>\$ 1,918.6</u>
Financial Ratios					
Return on average assets	1.81%	1.59%	1.49%	1.24%	1.57%
Return on average equity	20.0	18.0	17.2	14.7	18.0
Net interest margin (taxable-equivalent basis)	4.36	4.44	4.44	4.72	4.81
Efficiency ratio	51.9	55.7	58.3	59.9	56.1
Banking efficiency ratio*	46.8	52.0	56.1	59.5	55.7
Per Common Share					
Earnings per share	\$ 1.51	\$ 1.25	\$ 1.12	\$ 0.86	\$ 1.02
Diluted earnings per share	1.50	1.23	1.10	.85	1.00
Dividends declared .....	.65	.4625	.33	.27	.21
Selected Financial Ratios Excluding Merger and Restructuring Related Items					
Return on average assets	2.03%	1.94%	1.91%	1.72%	1.73%
Return on average equity	22.4	22.0	22.0	20.5	19.8
Efficiency ratio	48.8	50.5	51.9	52.2	55.3
Banking efficiency ratio*	43.5	46.3	49.4	51.7	54.9
Average Balance Sheet Data					
Loans	\$118,317	\$109,638	\$102,451	\$ 95,149	\$ 87,732
Loans held for sale	1,303	1,450	1,264	549	691
Investment securities	17,311	19,271	21,114	19,123	18,944
Earning assets	140,606	133,757	127,738	117,173	110,172
Assets	158,481	150,167	142,887	129,493	121,967
Noninterest bearing deposits	23,820	23,556	23,011	20,984	19,881
Deposits	103,426	99,920	98,940	93,322	89,786
Short-term borrowings	12,586	11,707	11,102	11,791	12,212
Long-term debt	22,410	20,248	15,732	9,481	6,429
Total shareholders' equity	14,365	13,221	12,383	10,882	10,659
Average shares outstanding	1,906.0	1,907.8	1,898.8	1,841.0	1,861.6
Average diluted shares outstanding	1,918.5	1,930.0	1,930.5	1,872.2	1,898.2
Year-end Balance Sheet Data					
Loans	\$122,365	\$113,229	\$106,958	\$ 99,029	\$ 91,242
Investment securities	17,642	17,449	20,965	20,442	18,671
Assets	164,921	154,318	150,714	137,488	126,610
Deposits	109,535	103,417	104,346	98,323	93,811
Long-term debt	21,876	21,027	18,679	13,181	6,796
Total shareholders' equity	15,168	13,947	12,574	11,402	10,717

*Without investment banking and brokerage activity.

C O N S O L I D A T E D B A L A N C E S H E E T

At December 31 (Dollars in Millions)	2000	1999
Assets		
Cash and due from banks	\$ 8,475	\$ 7,324
Money market investments	657	1,934
Trading account securities	753	617
Investment securities		
Held-to-maturity (fair value \$257 and \$200, respectively)	252	194
Available-for-sale	17,390	17,255
Loans held for sale	764	670
Loans		
Commercial	52,817	45,856
Commercial real estate	26,443	25,142
Residential mortgages	7,753	11,395
Retail	35,352	30,836
Total loans	122,365	113,229
Less allowance for credit losses	1,787	1,710
Net loans	120,578	111,519
Premises and equipment	1,836	1,865
Customers' liability on acceptances	183	167
Goodwill and other intangible assets	5,309	4,825
Other assets	8,724	7,948
Total assets	<u>\$164,921</u>	<u>\$154,318</u>
Liabilities and Shareholders' Equity		
Deposits		
Noninterest-bearing	\$ 26,633	\$ 26,350
Interest-bearing	68,177	66,731
Time deposits greater than \$100,000	14,725	10,336
Total deposits	109,535	103,417
Short-term borrowings	11,833	10,558
Long-term debt	21,876	21,027
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company	1,400	1,400
Acceptances outstanding	183	167
Other liabilities	4,926	3,802
Total liabilities	149,753	140,371
Shareholders' equity		
Common stock, par value \$0.01 a share — authorized 2,000,000,000 shares; issued: 2000 — 1,943,541,593 shares; 1999 — 1,938,856,001 shares	19	19
Capital surplus	4,276	4,259
Retained earnings	11,658	10,050
Less cost of common stock in treasury: 2000 — 41,458,159 shares; 1999 — 10,346,823 shares	(880)	(224)
Other comprehensive income	95	(157)
Total shareholders' equity	<u>15,168</u>	<u>13,947</u>
Total liabilities and shareholders' equity	<u>\$164,921</u>	<u>\$154,318</u>

See Notes to Consolidated Financial Statements.

C O N S O L I D A T E D S T A T E M E N T O F I N C O M E

Year Ended December 31 (Dollars and Shares in Millions, Except Per Share Data)	2000	1999	1998
Interest Income			
Loans	\$10,562.5	\$ 9,122.7	\$ 8,818.3
Loans held for sale	102.1	103.9	91.9
Investment securities			
Taxable	1,008.3	1,047.1	1,179.5
Non-taxable	140.6	150.1	158.2
Money market investments	53.9	44.9	63.0
Trading securities	53.7	45.0	25.6
Other interest income	151.4	113.0	88.2
Total interest income	12,072.5	10,626.7	10,424.7
Interest Expense			
Deposits	3,618.8	2,970.0	3,234.7
Short-term borrowings	781.7	582.4	594.7
Long-term debt	1,510.4	1,126.9	926.5
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company	112.0	111.0	103.8
Total interest expense	6,022.9	4,790.3	4,859.7
Net interest income	6,049.6	5,836.4	5,565.0
Provision for credit losses	828.0	646.0	491.3
Net interest income after provision for credit losses	5,221.6	5,190.4	5,073.7
Noninterest Income			
Credit card and payment processing revenue	992.1	837.8	748.0
Trust and investment management fees	926.2	887.1	788.3
Deposit service charges	551.1	497.2	470.3
Cash management fees	292.4	280.6	242.0
Mortgage banking revenue	189.9	190.4	244.6
Trading account profits and commissions	258.4	222.4	130.3
Investment products fees and commissions	466.6	450.8	306.9
Investment banking revenue	360.3	246.6	100.4
Commercial product revenue	304.4	215.7	121.9
Securities gains, net	8.1	13.2	29.1
Other	533.7	403.1	468.2
Total noninterest income	4,883.2	4,244.9	3,650.0
Noninterest Expense			
Salaries	2,427.1	2,355.3	2,196.7
Employee benefits	399.8	410.1	424.9
Net occupancy	396.9	371.8	356.9
Furniture and equipment	308.2	307.9	314.1
Postage	174.5	170.7	155.4
Goodwill	242.8	177.7	177.2
Other intangible assets	149.5	152.1	124.6
Merger and restructuring related charges	348.7	532.8	593.8
Other	1,269.5	1,182.9	1,079.8
Total noninterest expense	5,717.0	5,661.3	5,423.4
Income before income taxes	4,387.8	3,774.0	3,300.3
Applicable income taxes	1,512.2	1,392.2	1,167.4
Net income	\$ 2,875.6	\$ 2,381.8	\$ 2,132.9
Earnings per share	\$ 1.51	\$ 1.25	\$ 1.12
Diluted earnings per share	\$ 1.50	\$ 1.23	\$ 1.10
Average common shares	1,906.0	1,907.8	1,898.8
Average diluted common shares	1,918.5	1,930.0	1,930.5

See Notes to Consolidated Financial Statements.

C O N S O L I D A T E D S T A T E M E N T O F S H A R E H O L D E R S ' E Q U I T Y

(Dollars in Millions)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other Comprehensive Income	Total Shareholders' Equity
Balance December 31, 1997	\$ 5.3	\$18.8	\$3,970.8	\$ 7,465.0	\$ (175.0)	\$ 117.4	\$11,402.3
Net income				2,132.9			2,132.9
Unrealized gain on securities available for sale						179.9	179.9
Reclassification adjustment for gains realized in net income						(34.0)	(34.0)
Income taxes						(52.6)	(52.6)
Total comprehensive income							2,226.2
Cash dividends declared on common stock				(977.6)			(977.6)
Cash dividends declared on preferred stock				(.1)			(.1)
Conversion of preferred stock into common stock	(5.3)		4.7	.5	.1		
Issuance of common stock and treasury shares .....		.5	423.4	137.7	422.9	2.2	986.7
Purchase of treasury stock					(1,104.0)		(1,104.0)
Purchase and retirement of common stock and treasury stock			(107.0)		106.7		(.3)
Shares reserved to meet deferred compensation obligations			9.1		(7.9)		1.2
Amortization of restricted stock			37.7				37.7
ESOP debt reduction, net					1.8		1.8
Balance December 31, 1998	\$ —	\$19.3	\$4,338.7	\$ 8,758.4	\$ (755.4)	\$ 212.9	\$12,573.9
Net income				2,381.8			2,381.8
Unrealized loss on securities available for sale						(743.9)	(743.9)
Reclassification adjustment for losses realized in net income						163.9	163.9
Income taxes						210.5	210.5
Total comprehensive income							2,012.3
Cash dividends declared on common stock				(1,090.8)			(1,090.8)
Issuance of common stock and treasury shares .....		.2	213.8		1,377.0		1,591.0
Purchase of treasury stock					(1,187.9)		(1,187.9)
Retirement of treasury stock		(.1)	(343.8)		344.0		.1
Shares reserved to meet deferred compensation obligations			2.1		(2.0)		.1
Amortization of restricted stock			47.8				47.8
Balance December 31, 1999	\$ —	\$19.4	\$4,258.6	\$10,049.4	\$ (224.3)	\$(156.6)	\$13,946.5
Net income				2,875.6			2,875.6
Unrealized gain on securities available for sale						436.0	436.0
Foreign currency translation adjustment						(.5)	(.5)
Reclassification adjustment for gains realized in net income						(41.6)	(41.6)
Income taxes						(141.8)	(141.8)
Total comprehensive income							3,127.7
Cash dividends declared on common stock				(1,267.0)			(1,267.0)
Issuance of common stock and treasury shares			(35.0)		534.9		499.9
Purchase of treasury stock					(1,182.2)		(1,182.2)
Shares reserved to meet deferred compensation obligations			8.5		(8.5)		—
Amortization of restricted stock			43.5				43.5
Balance December 31, 2000	\$ —	\$19.4	\$4,275.6	\$11,658.0	\$ (880.1)	\$ 95.5	\$15,168.4

See Notes to Consolidated Financial Statements.

C O N S O L I D A T E D S T A T E M E N T O F C A S H F L O W S

Year Ended December 31 (Dollars in Millions)	2000	1999	1998
Operating Activities			
Net income	\$ 2,875.6	\$ 2,381.8	\$ 2,132.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	828.0	646.0	491.3
Depreciation and amortization of capitalized assets	262.6	270.6	291.4
Amortization of goodwill and other intangibles	392.3	329.8	301.8
Provision for deferred income taxes	357.1	252.9	86.4
Net (increase) decrease in trading securities	(135.6)	65.6	(184.9)
(Gain)/loss on sale of securities and other assets, net	(47.3)	149.9	4.3
Mortgage loans originated for sale in the secondary market	(5,563.3)	(6,117.1)	(8,303.1)
Proceeds from sale of mortgage loans	5,475.0	7,229.3	7,009.8
Other assets and liabilities, net	(1.8)	(242.2)	(354.2)
Net cash provided by operating activities	4,442.6	4,966.6	1,475.7
Investing Activities			
Securities			
Sales	10,194.0	6,819.7	2,806.9
Maturities	2,127.7	5,290.7	7,592.8
Purchases	(12,161.3)	(9,135.8)	(8,967.8)
Loans			
Sales	6,655.8	4,136.0	919.3
Purchases	(658.1)	(254.6)	(1,575.7)
Net increase in loans outstandings	(13,541.3)	(9,002.3)	(4,492.2)
Proceeds from sales of premises and equipment	212.9	64.2	66.7
Purchase of premises and equipment	(382.8)	(289.0)	(370.7)
Acquisitions, net of cash acquired	840.9	(220.5)	(55.0)
Divestitures of branches	(78.2)	(469.0)	16.3
Cash and cash equivalents of acquired subsidiaries	63.5	462.4	—
Other, net	(289.1)	(961.3)	(149.2)
Net cash used in investing activities	(7,016.0)	(3,559.5)	(4,208.6)
Financing Activities			
Net change in			
Deposits	3,403.7	(3,034.9)	1,200.0
Short-term borrowings	702.1	544.9	(1,674.7)
Principal payments on long-term debt	(5,277.5)	(5,706.1)	(4,127.0)
Proceeds from long-term debt	5,862.7	8,067.5	9,213.6
Proceeds from issuance of common stock	210.0	275.5	333.2
Issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company	—	—	350.0
Repurchase of common stock	(1,182.2)	(1,187.9)	(1,104.0)
Cash dividends paid	(1,271.3)	(1,029.7)	(921.5)
Other, net	—	—	1.2
Net cash provided by (used in) financing activities	2,447.5	(2,070.7)	3,270.8
Change in cash and cash equivalents	(125.9)	(663.6)	537.9
Cash and cash equivalents at beginning of year	9,257.5	9,921.1	9,383.2
Cash and cash equivalents at end of year	\$ 9,131.6	\$ 9,257.5	\$ 9,921.1

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 *Significant Accounting Policies*

U.S. Bancorp (the “Company”), formerly known as Firststar Corporation, is the organization created by the acquisition by Firststar Corporation (“Firststar”) of the former U.S. Bancorp (“USBM”). The new Company retained the U.S. Bancorp name. The Company is a multi-state financial services holding company headquartered in Minneapolis, Minnesota. The Company provides a full range of financial services including lending and depository services through banking offices principally in 24 states. The Company also engages in credit card, merchant, and ATM processing, mortgage banking, insurance, trust and investment management, brokerage, leasing and investment banking activities principally in domestic markets.

Basis of Presentation The consolidated financial statements include the accounts of the Company and its subsidiaries. The consolidation eliminates all significant intercompany accounts and transactions. Certain items in prior periods have been reclassified to conform to the current presentation.

Uses of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual experience could differ from those estimates.

BUSINESS SEGMENTS

Within the Company, financial performance is measured by major lines of business based on the products and services provided to customers through its distribution channels. The Company has seven reportable operating segments:

Consumer Banking delivers products and services to the broad consumer market and small businesses through banking offices, telemarketing, on-line services, direct mail and automated teller machines (‘ATM‘). It encompasses community banking, metropolitan banking, small business banking, consumer lending, mortgage banking, ATM banking, workplace banking,

student banking, 24-hour phone banking, and investment sales.

Payment Systems includes consumer and business credit cards, corporate and purchasing card services, consumer lines of credit, ATM processing and merchant processing.

Wholesale Banking offers lending, depository, treasury management and other financial services to middle market, large corporate and public sector clients.

Private Client, Trust and Asset Management provides mutual fund processing services and trust, private banking and financial advisory services through four primary businesses including: the Private Client Group, Corporate Trust, Institutional Trust and Custody and its Mutual Fund Services, LLC. The business segment also offers investment management services to several client segments including mutual funds, institutional customers, and private asset management.

Capital Markets engages in equity and fixed income trading activities, offers investment banking and underwriting services for corporate and public sector customers and provides financial advisory services and securities, mutual funds, annuities and insurance products to consumers and regionally based businesses through a network of brokerage offices.

Treasury manages the Company’s investment and residential mortgage portfolios, funding, capital management and asset securitization activities and the interest rate risk position. It also includes the net effect of transfer pricing related to loan and deposit balances.

Corporate Support primarily represents business activities managed on a corporate basis including income and expenses of enterprise-wide operations and administrative support functions.

Segment Results Accounting policies for the lines of business are the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs and benefits, expenses and other financial elements to each line of business. For detail of these methodologies see “Basis of Presentation” on page 6. Table 1 “Line of Business

Financial Performance” on page 46 provides details of segment results. This information is incorporated by reference into these Notes to the Consolidated Financial Statements.

SECURITIES

Trading Account Securities Debt and equity securities held for resale are classified as trading account securities and reported at fair value. Realized and unrealized gains or losses are recognized currently in noninterest income.

Available-for-Sale Securities These securities are not trading account securities but may be sold before maturity in response to changes in the Company’s interest rate risk profile or demand for collateralized deposits by public entities. They are carried at fair value with unrealized net gains or losses reported within comprehensive income in shareholders’ equity. When sold, the amortized cost of the specific securities is used to compute the gain or loss.

Held-to-Maturity Securities Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at historical cost adjusted for amortization of premiums and accretion of discounts.

LOANS

Loans are reported net of unearned income. Interest income is accrued on the unpaid principal balances as earned. Loan and commitment fees are deferred and recognized over the life of the loan and/or commitment period as yield adjustments.

Allowance for Credit Losses Management determines the adequacy of the allowance based on evaluations of the loan portfolio and related off-balance sheet commitments, recent loss experience, and other pertinent factors, including economic conditions. This evaluation is inherently subjective as it requires estimates, including amounts of future cash collections expected on nonaccrual loans that may be susceptible to significant change. The allowance for credit losses relating to impaired loans is based on the loan’s observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan’s effective interest rate.

The Company determines the amount of the allowance required for certain sectors based on relative risk characteristics of the loan portfolio and other

financial instruments with credit exposure. The allowance recorded for commercial loans is based on quarterly reviews of individual loans outstanding and binding commitments to lend and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of product mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogenous category or group of loans. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

Nonaccrual Loans Generally commercial loans (including impaired loans) are placed on nonaccrual status when the collection of interest or principal has become 90 days past due or is otherwise considered doubtful. When a loan is placed on nonaccrual status, unpaid interest is reversed. Future interest payments are generally applied against principal. Revolving consumer lines and credit cards are charged-off by 180 days and closed-end consumer loans other than residential mortgages are charged-off at 120 days past due and are, therefore, not placed on non-accrual status.

Leases The Company engages in both direct and leveraged lease financing. The net investment in direct financing leases is the sum of all minimum lease payments and estimated residual values less unearned income. Unearned income is added to interest income over the terms of the leases to produce a level yield.

The investment in leveraged leases is the sum of all lease payments (less nonrecourse debt payments) plus estimated residual values, less unearned income. Income from leveraged leases is recognized over the term of the leases based on the unrecovered equity investment.

Loans Held for Sale These loans are carried at the lower of cost or market value as determined on an aggregate basis by type of loan.

Other Real Estate Other real estate (“ORE”), which is included in other assets, is property acquired through foreclosure or other proceedings. ORE is initially recorded at fair value and carried at the lower of cost or fair value, less estimated selling costs. The property is evaluated regularly and any decreases in the carrying amount are included in noninterest expense.

DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps and Contracts The Company uses interest rate swaps and contracts (forwards, options, caps and floors) to manage its interest rate risk and as a financial intermediary. The Company does not enter into these contracts for speculative purposes. The Company utilizes simulation modeling and analysis of repricing mismatches to identify exposure to changes in interest rates and assess the effectiveness of interest rate swaps and contracts in reducing that risk. Interest rate swaps and contracts are designated as hedges of assets or liabilities and the Company evaluates the hedge effectiveness of the derivative instruments relative to the underlying hedged item on a regular basis. Income or expense on swaps and contracts designated as hedges of assets or liabilities is recorded as an adjustment to interest income or expense. If the swap or contract is terminated, the gain or loss is deferred and amortized over the shorter of the remaining life of the swap or the underlying asset or liability. If the hedged instrument is disposed of, the swap or contract agreement is marked to market with any resulting gain or loss included with the gain or loss from the disposition.

The initial bid/offer spread on intermediated swaps is deferred and recognized in trading account profits and commissions over the life of the agreement. Intermediated swaps and all other interest rate contracts are marked to market and resulting gains or losses are recorded in trading account profits and commissions. The Company's derivative trading activities are not material to the consolidated financial statements; the cash flows from these activities are included in operating activities.

OTHER SIGNIFICANT POLICIES

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortized primarily on a straight-line method.

Capital leases, less accumulated amortization, are included in premises and equipment. The lease obligations are included in long-term debt. Capitalized leases are amortized on a straight-line basis over the lease term and the amortization is included in depreciation expense.

Capitalized Software Certain costs incurred in connection with developing or obtaining software for internal use are capitalized and amortized on a straight-line basis over the estimated life of the software.

Mortgage Servicing Rights Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in goodwill and other intangible assets in the consolidated

balance sheet. The value of these capitalized servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue and recorded in noninterest expenses as amortization of intangible assets. The carrying value of these rights is periodically reviewed for impairment based on fair value. For purposes of measuring impairment, the servicing rights are stratified based on the underlying loan type and note rate and compared to a valuation prepared based on a discounted cash flow methodology, current prepayment speeds and discount rate. Impairment is recognized through a valuation allowance for each impaired stratum and charged against amortization of intangible assets.

Intangible Assets Goodwill, the price paid over the net fair value of acquired businesses, is included in other assets and is amortized over periods ranging up to 25 years. Other intangible assets, including core deposit intangibles, are amortized over their estimated useful lives, which range from seven to fifteen years, using straight-line and accelerated methods. The recoverability of goodwill and other intangible assets is evaluated if events or circumstances indicate a possible inability to realize the carrying amount. Such evaluation is based on various analyses, including undiscounted cash flow projections.

Income Taxes Deferred taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end.

Statement of Cash Flows For purposes of reporting cash flows, cash and cash equivalents include cash and money market investments defined as interest bearing amounts due from banks, federal funds sold and securities purchased under agreements to resell.

Stock-Based Compensation The Company grants stock options for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and accordingly recognizes no compensation expense for the stock option grants.

Per Share Calculations Earnings per share is calculated by dividing net income (less preferred stock dividends) by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting income and outstanding shares, assuming conversion of all potentially dilutive securities, using the treasury stock method. All per share amounts have been restated for stock splits.

Note 2 *Accounting Changes*

Accounting for Derivative Instruments and Hedging Activities SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment to FASB Statement No. 133,” establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The changes in the fair value of the derivative are recognized currently in earnings unless specific hedge accounting criteria are met. If the derivative qualifies as a hedge, the accounting treatment varies based on the type of risk being hedged. The Company adopted SFAS 133 as of January 1, 2001. Transition adjustments related to adoption resulted in an after-tax loss of approximately \$4.1 million to net income and an after tax increase of \$5.2 million to other comprehensive income.

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” established accounting and reporting standards for sales and servicing of financial assets, securitization transactions and the extinguishment of liabilities. The statement replaced SFAS 125 and provided clarification of issues related to qualified special purpose entities and additional disclosures about securitizations and residual interests retained. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Disclosures required for financial statements were effective for fiscal years ending after December 15, 2000.

Note 3 *Business Combinations*

On February 27, 2001, Firststar and USBM merged in a pooling-of-interests transaction and accordingly all financial information has been restated to include the historical information of both companies. Each share of Firststar stock was converted into and exchanged for one share of the Company’s common stock while each share of USBM stock was converted into and exchanged for 1.265 shares of the Company’s common stock. The new Company retained the U.S. Bancorp name.

On September 20, 1999, Firststar and Mercantile Bancorporation, Inc., merged in a pooling-of-interests transaction and accordingly all financial information has been restated to include the historical information of both companies. Each share of Mercantile Bancorporation stock was converted into and exchanged for 2.091 shares of Firststar common stock.

On November 20, 1998, Firststar Corporation and Star Banc Corporation merged in a pooling-of-interests transaction and accordingly all financial information has been restated to include the historical information of both companies. Each share of Star Banc Corporation stock was converted into and exchanged for one share of new Firststar common stock while each share of old Firststar Corporation stock was converted into and exchanged for .76 of a share of new Firststar common stock.

Separate results of operations as originally reported on a condensed basis of Firststar, Star Banc Corporation, Mercantile Bancorporation, Inc. and USBM, for the periods prior to the mergers were as follows:

(Dollars in Millions)	Year Ended December 31			Six-Month Period	Nine-Month
	2000	1999	1998	Ended June 30, 1999	Period Ended September 30, 1998
Net interest income					
Firststar	\$ 2,699	\$ 2,643	\$ 1,413	\$ 739	\$ 561
USBM	3,471	3,261	3,061	1,595	2,286
Mercantile Bancorporation, Inc.	—	—	1,123	580	821
Star Banc Corporation	—	—	—	—	483
Total	\$ 6,170	\$ 5,904	\$ 5,597	\$ 2,914	\$ 4,151
Net income					
Firststar	\$ 1,284	\$ 875	\$ 430	\$ 340	\$ 231
USBM	1,592	1,507	1,328	741	978
Mercantile Bancorporation, Inc.	—	—	375	239	285
Star Banc Corporation	—	—	—	—	186
Total	\$ 2,876	\$ 2,382	\$ 2,133	\$ 1,320	\$ 1,680
Total assets at period end					
Firststar	\$ 77,585	\$ 72,788	\$ 38,476	\$ 38,137	\$ 20,666
USBM	87,336	81,530	76,438	77,390	73,884
Mercantile Bancorporation, Inc.	—	—	35,800	35,520	34,597
Star Banc Corporation	—	—	—	—	17,291
Total	\$164,921	\$154,318	\$150,714	\$151,047	\$146,438

During the past three years, the Company has completed several strategic acquisitions to enhance its presence in certain growth markets and businesses. The following table summarizes acquisitions by the Company and its acquirees completed during the past three years, treating Star Banc Corporation as the original acquiring company:

(Dollars in Millions)	Date	Assets	Deposits	Goodwill & Other Intangibles	Cash Paid	Shares Issued	Accounting Method
Scripps Financial Corporation	October 2000	\$ 650	\$ 618	\$113	\$ —	9,406,023	Purchase
Lyon Financial Services, Inc.	September 2000	1,289	—	124	307	—	Purchase
Oliver-Allen Corporation	April 2000	280	—	34	—	3,343,026	Purchase
Peninsula Bank	January 2000	491	452	71	—	5,112,584	Purchase
Western Bancorp	November 1999	2,508	2,105	773	—	35,127,108	Purchase
Mercantile Bancorporation	September 1999	35,520	24,334	—	—	331,772,028	Pooling
Voyager Fleet Systems, Inc.	September 1999	43	—	25	27	—	Purchase
Bank of Commerce	July 1999	638	529	269	—	11,749,269	Purchase
Mellon Network Services' Electronic Funds Transfer Processing Unit	June 1999	—	—	78	170	—	Purchase
Libra Investments, Inc.	January 1999	33	—	4	—	1,299,504	Purchase
Northwest Bancshares, Inc.	December 1998	377	344	90	140	—	Purchase
Firststar Corporation	November 1998	20,688	14,560	—	—	331,737,543	Pooling
First Financial Bancorporation	September 1998	558	478	—	—	6,563,279	Pooling
Financial Services Corporation of the Midwest	August 1998	514	414	—	—	4,331,398	Pooling
Trans Financial, Inc.	August 1998	2,409	1,620	—	—	32,100,000	Pooling
Cargill Leasing Corporation	July 1998	613	—	64	220	—	Purchase
CBT Corporation	July 1998	1,006	696	—	—	10,712,640	Pooling
Firstbank of Illinois Co.	July 1998	2,285	1,970	—	—	27,920,372	Pooling
Piper Jaffray Companies, Inc.	May 1998	1,272	—	555	719	—	Purchase
HomeCorp, Inc.	March 1998	335	309	—	—	1,787,303	Pooling
Horizon Bancorp, Inc.	February 1998	537	454	—	—	5,331,987	Pooling
Great Financial Corporation	February 1998	2,809	2,001	363	135	28,500,000	Purchase
Branches of:							
First Union	December 2000	424	1,779	359	342	—	Purchase
Bank One	June/August 1998	193	1,198	137	137	—	Purchase

Note 4 Merger and Restructuring Charges

The Company recorded merger and restructuring charges of \$348.7 million, \$532.8 million and \$593.8 million in 2000, 1999 and 1998, respectively. These charges were primarily related to the Company's various acquisitions (see Note 3) and included primarily severance and systems conversion costs. Merger and restructuring charges in 1998 includes \$45.1 million of restructuring costs associated with Mercantile Bancorporation's centralization, branch closing and consolidation of operations effort prior to its acquisition by the Company. The components of the charges are shown below:

(Dollars in Millions)	Mercantile	Firstar	USBC*	Other	Total
2000					
Severance	\$ 43.0	\$ 16.3	\$ —	\$.1	\$ 59.4
Systems conversions	115.2	19.0	—	59.3	193.5
Asset writedowns and lease terminations	42.7	4.6	—	—	47.3
Charitable contributions	—	—	—	2.5	2.5
Other merger-related charges	26.1	12.7	—	7.2	46.0
Total 2000	\$227.0	\$ 52.6	\$ —	\$ 69.1	\$348.7
1999					
Severance	\$131.0	\$ 10.6	\$ 8.0	\$ —	\$149.6
Systems conversions	19.5	78.9	4.4	29.7	132.5
Asset writedowns and lease terminations	.2	4.4	1.6	—	6.2
Charitable contributions	35.0	—	—	—	35.0
Loss on sale of securities	177.8	—	—	—	177.8
Other merger-related charges	46.0	2.0	18.6	(34.9)	31.7
Total 1999	\$409.5	\$ 95.9	\$ 32.6	\$ (5.2)	\$532.8
1998					
Severance	\$ —	\$ 80.0	\$ —	\$ 63.1	\$143.1
Systems conversions	—	26.9	229.4	38.5	294.8
Asset writedowns and lease terminations	—	44.4	—	20.0	64.4
Benefit curtailment gains	—	—	(25.6)	—	(25.6)
Charitable contributions	—	20.0	—	3.0	23.0
Other merger-related charges	—	39.7	—	54.4	94.1
Total 1998	\$ —	\$211.0	\$203.8	\$179.0	\$593.8

* Represents the former U.S. Bancorp of Portland acquired in 1997 by USBM.

The Company determines merger-related charges and related accruals based on its integration strategy and formulated plans. These plans are established as of the acquisition date and regularly evaluated during the integration process.

Severance charges include the cost of severance, other benefits and outplacement costs associated with the termination of employees primarily in branch offices and centralized corporate support and data processing functions. The severance amounts are determined based on the Company's existing severance pay programs and are paid out over a benefit period of up to two years from the time of termination. The total number of employees included in severance amounts were approximately 3,635 for USBC, 2,000 for Firstar, 2,400 for Mercantile and 520 for other acquisitions. The adequacy of the accrued severance liability is reviewed periodically taking into consideration actual payments and remaining projected payment liabilities. Adjustments are made to increase or decrease these accruals as needed. Reversals of expenses can reflect a lower utilization of benefits by affected staff, changes in initial assumptions as a result of subsequent mergers and alterations of business plans.

Systems conversion costs are recorded as incurred and are associated with the preparation and mailing of numerous customer communications for the acquisitions and conversion of customer accounts, printing and distribution of training materials and policy and procedure manuals, outside consulting fees, and other expenses related to system conversions and the integration of acquired branches and operations.

Asset writedowns and lease terminations represent lease termination costs and impairment of assets for redundant office space, branches that will be vacated and equipment disposed of as part of the integration plan.

In connection with certain mergers, the Company has made charitable contributions at the time of merger to reaffirm the Company's commitment to a market or as part of specific conditions necessary to achieve regulatory approval. These contributions are generally funded up-front and represent costs that would not have been incurred

had the merger not occurred. Charitable contributions are charged to merger and restructuring expenses or considered in determining the acquisition cost at the applicable closing date.

Other merger-related expenses are recorded as incurred and include investment banking fees, legal fees and stock registration fees. The following table presents a summary of activity with respect to the merger and restructuring related accruals:

(Dollars in Millions)	Mercantile	Firststar	USBC	Other	Total
Balance at December 31, 1997	\$ —	\$ —	\$ 189.0	\$ 87.1	\$ 276.1
Provision charged to operating expense	—	211.0	203.8	179.0	593.8
Additions related to purchase acquisitions	—	—	—	55.3	55.3
Cash outlays	—	(78.7)	(273.6)	(161.0)	(513.3)
Noncash writedowns and other	—	(7.1)	(37.9)	(14.4)	(59.4)
Balance at December 31, 1998	—	125.2	81.3	146.0	352.5
Provision charged to operating expense	409.4	95.8	32.6	(5.0)	532.8
Additions related to purchase acquisitions	—	—	—	70.2	70.2
Cash outlays	(182.8)	(176.5)	(36.0)	(112.5)	(507.8)
Noncash writedowns and other	(27.7)	(44.5)	(28.2)	(32.6)	(133.0)
Loss on sale of securities	(177.7)	—	—	—	(177.7)
Transfer of tax liability*	—	—	(33.8)	—	(33.8)
Balance at December 31, 1999	21.2	—	15.9	66.1	103.2
Provision charged to operating expense	227.0	52.6	—	69.1	348.7
Additions related to purchase acquisitions	—	—	—	46.0	46.0
Cash outlays	(197.9)	(52.6)	(11.2)	(105.9)	(367.6)
Noncash writedowns and other	(50.3)	—	(4.7)	(25.5)	(80.5)
Balance at December 31, 2000	\$ —	\$ —	\$ —	\$ 49.8	\$ 49.8

*The liability relates to certain severance related items.

The components of the merger related accrual were as follows:

(Dollars in Millions)	December 31	
	2000	1999
Severance	\$13.8	\$ 55.8
Other employee-related costs	6.8	16.6
Lease termination and facility costs	8.4	9.5
Contracts and system writeoffs	7.4	6.4
Other	13.4	14.9
Total	\$49.8	\$103.2

The merger related accrual by significant acquisition was as follows:

(Dollars in Millions)	December 31	
	2000	1999
Piper Jaffray Companies, Inc.	\$15.0	\$ 17.5
Western Bancorp.	5.1	20.8
Scripps Financial Corporation	4.6	—
Bank of Commerce	4.1	7.5
Peninsula Bank	3.0	—
Lyon Financial Services, Inc.	2.7	—
Northwest Bancshares, Inc.	2.3	3.5
USBC	—	15.9
Mercantile Bancorporation	—	21.2
Other acquisitions	13.0	16.8
Total	\$49.8	\$103.2

In connection with the merger of Firststar and USBM, management estimates the Company will incur pre-tax merger related charges of approximately \$970 million. These are currently estimated to include \$188 million in employee related costs, \$327 million for conversions of systems and consolidation of operations, \$104 million in

occupancy and equipment charges (elimination of duplicate facilities and write-off of equipment), \$178 million of charges related to credit and other balance sheet restructuring activities and \$173 million in other merger related costs (including investment banking fees, legal fees and other transaction costs of \$59 million and \$76 million of charitable contribution to foundations).

In addition to the estimated expenses of the Firststar and USBM merger, the Company expects to incur an additional \$101 million, pretax, of merger and restructuring related expenses primarily in 2001 as a result of prior years' acquisitions.

Note 5 *Restrictions on Cash and Due from Banks*

Bank subsidiaries are required to maintain minimum average reserve balances with the Federal Reserve Bank. The amount of those reserve balances was approximately \$389 million at December 31, 2000.

Note 6 *Investment Securities*

The detail of the amortized cost, gross unrealized holding gains and losses, and fair value of held-to-maturity and available-for-sale securities at December 31 was as follows:

(Dollars in Millions)	2000				1999			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Held-to-maturity:								
U.S. Treasuries and agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage-backed securities	36	—	—	36	45	—	—	45
Obligations of state and political subdivisions	216	5	—	221	149	6	—	155
Total held-to-maturity securities	\$ 252	\$ 5	\$ —	\$ 257	\$ 194	\$ 6	\$ —	\$ 200
Available-for-sale:								
U.S. Treasuries and agencies	\$ 1,600	\$ 27	\$ (3)	\$ 1,624	\$ 2,370	\$14	\$ (21)	\$ 2,363
Mortgage-backed securities	11,800	128	(35)	11,893	9,625	29	(193)	9,461
Obligations of state and political subdivisions	2,370	41	(2)	2,409	2,731	25	(18)	2,738
Other	1,472	21	(29)	1,464	2,777	4	(88)	2,693
Total available-for-sale securities	\$17,242	\$217	\$(69)	\$17,390	\$17,503	\$72	\$(320)	\$17,255

Securities carried at \$13.3 billion at December 31, 2000, and \$10.7 billion at December 31, 1999, were pledged to secure public, private and trust deposits and for other purposes required by law. Securities sold under agreements to repurchase were collateralized by securities and securities purchased under agreements to resell with an amortized cost of \$1.0 billion and \$1.2 billion at December 31, 2000, and 1999, respectively.

The following table provides information as to the amount of gross gains and (losses) realized through the sales of available-for-sale investment securities. Included in the gross losses below for 1999 is \$177.7 million related to the Mercantile balance sheet restructuring. These losses were included in merger and restructuring related expense.

(Dollars in Millions)	2000	1999	1998
Gross realized gains	\$ 23.1	\$ 31.1	\$36.4
Gross realized losses	(15.0)	(195.6)	(7.3)
Net realized gains (losses)	\$ 8.1	\$(164.5)	\$29.1
Income tax (benefit) on realized gains (losses)	\$ 2.8	\$ (57.9)	\$10.5

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale securities outstanding as of December 31, 2000, see Table 9 from which such information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 7 *Loans and Allowance for Credit Losses*

The composition of the loan portfolio at December 31, 2000 was as follows:

(Dollars in Millions)	2000	1999
Commercial		
Commercial	\$ 47,041	\$ 42,021
Lease financing	5,776	3,835
Total commercial	52,817	45,856
Commercial real estate		
Commercial mortgages	19,466	18,636
Construction and development	6,977	6,506
Total commercial real estate	26,443	25,142
Residential mortgages		
	7,753	11,395
Retail		
Credit card	6,012	5,004
Retail leasing	4,153	2,123
Other retail	25,187	23,709
Total retail	35,352	30,836
Total loans	\$122,365	\$113,229

Loans are presented net of unearned interest which amounted to \$1.1 billion and \$553.2 million at December 31, 2000 and 1999, respectively. The Company had loans of \$7.8 billion at December 31, 2000, and \$3.5 billion at December 31, 1999 pledged at the Federal Home Loan Bank ("FHLB"). Loans of \$3.6 billion at December 31, 2000, and \$3.7 billion at December 31, 1999, were pledged by USBM at the Federal Reserve Bank.

The following table lists information related to nonperforming loans as of December 31.

(Dollars in Millions)	2000	1999
Loans on nonaccrual status	\$765.0	\$518.0
Renegotiated loans	—	2.0
Total nonperforming loans	\$765.0	\$520.0
Interest income that would have been recognized at original contractual terms	72.2	47.2
Amount recognized as interest income	21.4	17.7
Forgone revenue	\$ 50.8	\$ 29.5

Activity in the allowance for credit losses was as follows:

(Dollars in Millions)	2000	1999	1998
Balance at beginning of year	\$1,710.3	\$1,705.7	\$1,665.8
Add:			
Provision charged to operating expense	828.0	646.0	491.3
Deduct:			
Loans charged off	1,017.6	902.8	773.7
Less recoveries of loans charged off	192.2	230.2	228.5
Net loans charged off	825.4	672.6	545.2
Acquisitions and other changes	74.0	31.2	93.8
Balance at end of year	\$1,786.9	\$1,710.3	\$1,705.7

A portion of the allowance for credit losses is allocated to loans deemed impaired. All impaired loans are included in nonperforming assets. A summary of these loans and the related allowance for loan losses is as follows:

(Dollars in Millions)	2000		1999		1998	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired Loans:						
Valuation allowance required	\$198	\$57	\$ 22	\$8	\$ 45	\$10
No valuation allowance required	486	—	397	—	318	—
Total impaired loans	\$684	\$57	\$419	\$8	\$363	\$10
Average balance of impaired loans during year	\$526		\$408		\$362	
Interest income recognized on impaired loans during year	7.8		3.3		4.6	

Commitments to lend additional funds to customers whose loans were classified as nonaccrual or renegotiated at December 31, 2000, totaled \$22.3 million. During 2000, there were no loans that were restructured at market interest rates and returned to a fully performing status.

Note 8 *Transfers and Servicing of Financial Assets*

Receivable Sales When the Company sells receivables or selected financial assets, it may retain interest-only strips, servicing rights and/or other retained interests in the receivables. The gain or loss on sale of the receivables depends 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 values at the date of transfer. Market prices are used to determine retained interest fair values when readily available. However, quotes are generally not available for retained interests, so the Company estimates fair value based on the present value of future expected cash flows using management's best estimates of certain key assumptions including credit losses, prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Retained interests recorded to date have been valued using a discounted cash flow methodology.

At least quarterly, the Company revalues the retained interests by obtaining market prices if available or by calculating the present value of remaining cash flows. When using a present value methodology, key assumptions from the most recent valuation, including asset specific characteristics, are reviewed for appropriateness and updated as necessary.

The Company has established a securitization trust which holds short-term commercial loans that were originated by the Company. These loans totaled \$2.0 billion at December 31, 2000 and included net sales of originated loans to the trust of approximately \$3.7 billion during 2000. The Company received \$18 million in servicing fee revenue from the trust

during 2000. Under a credit enhancement agreement with the trust, the Company may repurchase assets or provide alternative funding to the trust if the credit quality of the assets held falls below certain levels. No funding or repurchase of assets occurred during 2000.

The Company also established a securitization trust which held credit card receivables originated by the Company. This trust was terminated in December 2000 and \$509 million of credit card receivables were transferred from the trust to the Company in exchange for the seller's certificates held by the Company. During the period in 2000 that the trust was in existence, \$665 million of credit card collections were reinvested in the trust. The Company received \$18 million in servicing fee revenue from the trust in 2000 and recorded a \$2.2 million gain upon the termination of the trust.

For the year ended December 31, 2000, the Company sold \$255.7 million of the U.S. government guaranteed portions of loans originated under Small Business Administration (SBA) programs, recognizing a pre-tax gain on sale of \$10.6 million. The SBA covers losses occurring on these guaranteed portions.

Although the Company has no credit recourse relating to these sales, it does continue to own a portion of the non-guaranteed elements of the loans.

The Company continues to service the loans and is required under the SBA programs to retain specified yield amounts. A portion of the yield is recognized as servicing fee income as it occurs, and the remainder is capitalized as an excess servicing asset and is included in the gain on sale calculation.

Servicing Asset Position

(Dollars in Millions)	SBA Loans
Servicing assets at December 31, 1999	\$ 4.3
Servicing assets recognized during the period	4.0
Amortization	(1.4)
Servicing assets at December 31, 2000	\$ 6.9

No valuation allowances were required during 2000. Servicing assets are reported in aggregate but measured on a transaction specific basis. Market values were determined using discounted cash flows, utilizing the assumptions noted in the table below. Key economic assumptions used in valuing servicing assets at the date

of sale resulting from sales completed during 2000 were as follows:

(Dollars in Millions)	2000 SBA Loans ¹
Fair value of assets recognized	\$7.9
Prepayment speed ²	21 CPR
Weighted average life (years)	3.9
Expected credit losses	Not Applicable
Discount rate	12%
Variable returns to transferees	Not Applicable

1. All loans were adjustable based on the Wall Street Journal Prime rate.
2. The Company used a prepayment vector based on loan seasoning for valuation. The given speed was the effective prepayment speed that yields the same weighted average life calculated using the prepayment vector.

Residual Economic Assumptions and Adverse Changes

The Company has retained interests on the following asset sales: \$1.8 billion sale of indirect automobile loans on September 24, 1999, \$420 million sale of corporate and purchasing card receivables on February 27, 1997, and sales of SBA loans since 1988.

At December 31, 2000, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions were as follows:

At December 31, 2000 (Dollars in Millions)	Indirect Automobile Loans	SBA Loans ¹	Corporate Card Receivables ²
Carrying amount/fair value of retained interests	\$46.2	\$4.2	\$8.4
Weighted-average life (in years)	1.0	3.9	.1
Prepayment speed assumption (annual rate)^{3,4}	1.5 ABS	21 CPR	—
Impact on fair value of 10% adverse change	\$(.3)	\$(.3)	—
Impact on fair value of 20% adverse change	\$(.7)	\$(.6)	—
Expected credit losses (Cumulative)	1.6%	—	—
Impact on fair value of 10% adverse change	\$(1.2)	—	—
Impact on fair value of 20% adverse change	\$(2.4)	—	—
Residual cash flows discount rate (annual)	12.0%	12.0%	—
Impact on fair value of 10% adverse change	\$(.6)	\$(.2)	—
Impact on fair value of 20% adverse change	\$(1.2)	\$(.3)	—
Interest rates on variable and adjustable contracts	NA	NA	—
Impact on fair value of 10% adverse change	NA	NA	—
Impact on fair value of 20% adverse change	NA	NA	—

1. Credit losses are covered by the appropriate SBA loan program and are not included in retained interests. Principal reductions caused by defaults are included in the prepayment assumption.
2. Retained interest is effectively a single period receivable that is paid and renewed each month during the revolving period. Therefore, no assumptions are used in its estimate. Losses are recognized in the period they occur.
3. The Company uses prepayment vectors based on loan seasoning for valuation. The given speed is the effective prepayment speed that yields the same weighted average life calculated using the prepayment vector.
4. ABS is the absolute prepayment rate and is the auto industry's standard measure of prepayment speed. CPR is the constant prepayment rate.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; however, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

Other Information

The table below summarizes certain cash flows received from and paid to special purpose entities for the loan sales described above:

(Dollars in Millions)	Year Ended December 31 2000
Proceeds from new sales	\$ 3,966.3
Proceeds from corporate and credit card securitization ¹	8,042.7
Reinvestment in corporate and credit card securitization receivables ²	(7,972.9)
Servicing fees received	52.9
Other cash flows received on retained interests ²	34.2
Purchases of delinquent or foreclosed assets	—

1. The corporate and credit card securitizations are revolving transaction where proceeds are reinvested until its legal termination. The indirect automobile and SBA loan sales are amortizing transaction where the cash flow is used to pay amounts due to investors.

2. This amount represents total cash flows received from retained interests by the Company other than servicing fees. Other cash flows include, for example, all cash flows from interest-only strips and cash above the minimum required level in cash collateral accounts.

Quantitative information relating to loan sales and managed assets is given below:

Asset Type (Dollars in Millions)	December 31, 2000			
	Period Ended		Year Ended	
	Total Principal Balance	Delinquent* Balance	Average Balance	Net Credit Loss
Commercial loans	\$17,382	\$ 50	\$16,796	\$ 46.3
Indirect automobile loans	1,242	21	1,638	37.6
Guaranteed SBA loans	828	11	689	—
Corporate card receivables	815	27	958	8.6
Credit card receivables	2,219	70	2000	96.2
Total loans managed	\$22,486	\$179	\$22,081	\$188.7
Less:				
Loans sold or securitized	3,853		4,588	
Loans held in portfolio	\$18,633		\$17,493	

*Principal amount 60 days or more past due.

Note 9 Premises and Equipment

Premises and equipment at December 31 consisted of the following:

(Dollars in Millions)	2000	1999
Land	\$ 276	\$ 282
Buildings and improvements	1,786	1,960
Furniture, fixtures and equipment	1,888	1,752
Capitalized building and equipment leases	171	108
Construction in progress	48	46
	4,169	4,148
Less accumulated depreciation and amortization	2,333	2,283
Total	\$1,836	\$1,865

Note 10 *Mortgage Servicing Rights*

Changes in capitalized mortgage servicing rights are summarized as follows:

(Dollars in Millions)	2000	1999
Balance at beginning of year	\$ 213	\$ 232
Rights purchased	16	1
Rights capitalized	137	170
Amortization	(35)	(47)
Rights sold	(101)	(144)
Impairment	(1)	—
Balance at end of year	\$ 229	\$ 212

The fair value of capitalized mortgage servicing rights was \$244.8 million on December 31, 2000 and \$269.1 million on December 31, 1999. At December 31, 2000, the reduction in the current fair value of mortgage servicing rights to immediate 25 and 50 basis point adverse interest rate changes would be approximately \$11.2 million and \$25.2 million, respectively. The Company has purchased principal-only securities that act as a partial economic hedge to this possible adverse interest rate change. The Company serviced \$17.0 billion and \$19.5 billion of mortgage loans for other investors as of December 31, 2000 and 1999, respectively.

Note 11 *Intangible Assets*

The following is a summary of intangible assets at December 31, which are included in the consolidated balance sheet:

(Dollars in Millions)	2000	1999
Goodwill	\$4,312	\$3,790
Core deposit benefits	374	407
Mortgage servicing rights	229	212
Other identified intangibles	394	416
Total intangible assets	\$5,309	\$4,825

Note 12 *Short-Term Borrowings*

The following table is a summary of short-term borrowings for the last three years:

(Dollars in Millions)	2000		1999		1998	
	Amount	Rate	Amount	Rate	Amount	Rate
At year end						
Federal funds purchased	\$ 2,849	5.8%	\$ 5,489	4.7%	\$ 4,749	4.7%
Securities sold under agreements to repurchase	3,347	4.6	3,174	3.8	3,176	4.1
Commercial paper	223	6.4	170	4.7	182	5.5
Treasury, tax and loan notes	776	5.2	619	5.0	549	4.2
Other short-term borrowings	4,638	6.1	1,106	5.6	1,355	5.1
Total	\$11,833	5.6%	\$10,558	4.6%	\$10,011	4.5%
Average for the year						
Federal funds purchased	\$ 5,690	6.2%	\$ 5,898	5.0%	\$ 4,688	5.3%
Securities sold under agreements to repurchase	3,028	4.8	3,128	4.0	3,275	4.5
Commercial paper	215	6.3	370	5.1	258	5.6
Treasury, tax and loan notes	912	6.1	577	4.5	761	5.2
Other short-term borrowings	2,741	7.7	1,734	6.9	2,120	6.8
Total	\$12,586	6.2%	\$11,707	5.0%	\$11,102	5.4%
Maximum month-end balance						
Federal funds purchased	\$ 7,807		\$ 7,080		\$ 5,129	
Securities sold under agreements to repurchase	3,415		3,278		3,487	
Commercial paper	300		397		324	
Treasury, tax and loan notes	3,578		1,435		1,567	
Other short-term borrowings	4,920		4,945		2,570	

Note 13 Long-Term Debt

Long-term debt (debt with original maturities of more than one year) at December 31 consisted of the following:

(Dollars in Millions)	2000	1999
U.S. Bancorp (Parent Company)		
Fixed-rate subordinated notes		
7.625% due 2002	\$ 150	\$ 150
8.125% due 2002	150	150
7.00% due 2003	150	150
6.625% due 2003	100	100
8.00% due 2004	125	125
7.625% due 2005	150	150
6.75% due 2005	300	300
6.875% due 2007	250	250
7.30% due 2007	200	200
7.50% due 2026	200	200
7.25% due 2003	32	32
Fixed-rate senior notes		
6.35% due 2001	200	200
6.80% due 2001	150	150
6.50% due 2002	199	199
5.875% due 2003	100	100
7.05% due 2004	150	150
Medium-term notes	3,835	2,654
Capitalized lease obligations, mortgage indebtedness and other	122	71
Subtotal	6,563	5,331
Subsidiaries		
Fixed-rate subordinated notes		
6.00% due 2003	100	100
7.55% due 2004	100	100
8.35% due 2004	100	100
7.30% due 2005	100	100
6.875% due 2006	125	125
6.50% due 2008	300	300
6.30% due 2008	300	300
5.70% due 2008	400	400
6.375% due 2004	75	75
6.375% due 2004	149	149
6.625% due 2006	99	99
7.125% due 2009	495	495
7.80% due 2010	299	—
Fixed-rate senior notes		
6.25% due 2002	249	249
7.13% due 2000	—	25
Federal Home Loan Bank advances	2,753	3,946
Bank notes	9,051	8,459
Euro medium-term notes due 2004	400	400
Floating-rate notes due 2000	—	250
Capitalized lease obligations, mortgage indebtedness and other	218	24
Total	\$21,876	\$21,027

Medium-term notes (“MTNs”) outstanding at December 31, 2000, mature from January 2001 through December 2004. The MTNs bear fixed or floating interest rates ranging from 5.80 percent to 7.50 percent. The weighted average interest rate of MTNs at December 31, 2000, was 6.82 percent. Federal Home Loan Bank advances outstanding at December 31, 2000, mature from 2001 through 2026. The advances bear fixed or floating interest rates ranging from 4.99 percent to 8.25 percent. The Company has an arrangement with the FHLB whereby

based on collateral available (residential and commercial mortgages), the Company could have borrowed an additional \$13.0 billion at December 31, 2000. The weighted average interest rate of FHLB advances at December 31, 2000, was 6.45 percent. Bank notes outstanding at December 31, 2000, mature from January 2001 through 2005. The notes bear fixed or floating interest rates ranging from 5.25 percent to 7.02 percent. The weighted average interest rate of Bank notes at December 31, 2000, was 6.73 percent. Euro medium-term notes outstanding at December 31, 2000, bear floating rate interest at three-month LIBOR plus .15 percent. The interest rate at December 31, 2000, was 6.95 percent.

The Company has a line of credit of \$200 million, of which the total amount was available at December 31, 2000.

Maturities of long-term debt outstanding at December 31, 2000, were:

(Dollars in Millions)	Consolidated	Parent Company
2001	\$ 7,732	\$1,422
2002	4,551	1,468
2003	2,804	1,541
2004	2,069	932
2005	1,426	457
Thereafter	3,294	743
Total	\$21,876	\$6,563

Note 14 *Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Junior Subordinated Debentures of the Parent Company*

The Company issued \$1.4 billion of company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company (the “Trust Preferred Securities”) through six separate issuances by six wholly-owned subsidiary grantor trusts (the “Trusts”). The Trust Preferred Securities accrue and pay distributions periodically at specified rates as provided in the indentures. The Trusts used the net proceeds from the offerings to purchase a like amount of Junior Subordinated Deferrable Interest Debentures (the “Debentures”) of the Company. The Debentures are the sole assets of the Trusts and are eliminated, along with the related income statement effects, in the consolidated financial statements.

The Company’s obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the Trusts. The guarantee covers the

distributions and payments on liquidation or redemption of the Trust Preferred Securities, but only to the extent of funds held by the Trusts.

The Trust Preferred Securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole, (but not in part), on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. The Trust Preferred Securities are redeemable in whole or in part in 2003, 2006 and 2007 in the amounts of \$350 million, \$750 million and \$300 million, respectively.

The Trust Preferred Securities qualify as Tier I capital of the Company for regulatory capital purposes. The Company used the proceeds from the sales of the Debentures for general corporate purposes.

The following table is a summary of the Trust Preferred Securities as of December 31, 2000:

Issuance Trust (Dollars in Millions)	Issuance Date	Debenture Amount	Rate Type	Rate at 12/31/00	Maturity Date	Redemption Date
USB Capital II	03/1998	\$350	Fixed	7.20%	04/2028	04/01/2003
USB Capital I	12/1996	300	Fixed	8.27%	12/2026	12/15/2006
FBS Capital I	11/1996	300	Fixed	8.09%	11/2026	11/15/2006
Star Capital I	06/1997	150	Variable	7.35%	06/2027	06/15/2007
Firstar Capital Trust I	12/1996	150	Fixed	8.32%	12/2026	12/15/2006
Mercantile Capital Trust I	02/1997	150	Variable	7.61%	02/2027	02/01/2007

Note: The variable rate Trust Preferred Securities re-price quarterly.

Note 15 Shareholders' Equity

At December 31, 2000 and 1999, the Company had authority to issue 2.0 billion shares of common stock and 10 million shares of preferred stock. The Company had 1,902.1 million and 1,928.5 million shares of common stock outstanding at December 31, 2000 and 1999, respectively. At December 31, 2000 the Company had 207.2 million shares of common stock reserved for future issuances. These shares are primarily reserved for stock option plans, dividend reinvestment plans and deferred compensation plans. In connection with the merger of Firststar and USBM, the number of authorized common shares for U.S. Bancorp was increased from 2 billion to 4 billion effective February 27, 2001.

Under the U.S. Bancorp Preferred Share Purchase Rights Plan each share of common stock carries a right to purchase one one-thousandth of a share of preferred stock. The rights become exercisable in certain limited circumstances involving a potential business combination transaction or an acquisition of shares of the Company and are exercisable at a price of \$100 per right, subject to adjustment. Following certain other events, each right entitles its holder to purchase for \$100 an amount of common stock of the Company, or, in certain circumstances, securities of the acquiror, having a then-current market value of twice the exercise price of the right. The rights are redeemable and may be amended at the Company's option before they are exercisable. Until a right is exercised, the holder or a right has no rights as a shareholder of the Company. The rights expire on February 27, 2011.

The Company issued 18.2 million and 47.8 million shares of common stock with an aggregate value of \$.3 billion and \$1.3 billion in connection with purchase acquisitions during 2000 and 1999, respectively.

On February 16, 2000, USBM's Board of Directors authorized the repurchase of up to \$2.5 billion of its common stock over a two-year period ending March 31, 2002. This USBM repurchase program replaced a program which was scheduled to expire on March 31, 2000. On April 11, 2000, Firststar's Board of Directors approved a common stock repurchase program of 100 million shares. The stock repurchase programs of Firststar and USBM were rescinded on October 4, 2000 and January 17, 2001, respectively, in connection with the planned merger of the formerly separate companies.

The following table summarizes the Company's common stock repurchases for each of the last three years:

(Dollars and Shares in Millions)	Number of Shares	Value
2000	58.6	\$1,182.2
1999	44.5	1,187.9
1998	37.0	1,104.0

USBM offered employees and directors an Employee Stock Purchase Plan ("ESPP") that permitted all eligible employees with at least one year of service and directors to purchase common stock (see Note 17). In connection with the planned merger with Firststar, the ESPP was terminated effective October 13, 2000.

USBM's Dividend Reinvestment Plan providing for automatic reinvestment of dividends and optional cash purchases was suspended on November 9, 2000, following the announcement of the definitive agreement to merge with Firststar.

A reconciliation of the transactions affecting Other Comprehensive Income included in shareholders' equity for the years ended December 31, is as follows:

(Dollars in Millions)	Pre-tax	Tax-effect	Net-of-tax
2000			
Unrealized gain on securities available for sale	\$ 436.0	\$(157.8)	\$ 278.2
Reclassification adjustment for gains realized in net income	(41.6)	15.8	(25.8)
Foreign currency translation adjustment	(.5)	.2	(.3)
Total	\$ 393.9	\$(141.8)	\$ 252.1
1999			
Unrealized loss on securities available for sale	\$(743.9)	\$ 268.2	\$(475.7)
Reclassification adjustment for losses realized in net income ...	163.9	(57.7)	106.2
Total	\$(580.0)	\$ 210.5	\$(369.5)
1998			
Unrealized gain on securities available for sale	\$ 179.9	\$ (64.8)	\$ 115.1
Reclassification adjustment for gains realized in net income	(34.0)	12.2	(21.8)
Total	\$ 145.9	\$ (52.6)	\$ 93.3

Note 16 *Earnings Per Share*

The components of earnings per share were:

(Dollars in Millions, Except Per Share Data)	2000	1999	1998
Net income	\$2,875.6	\$2,381.8	\$2,132.9
Adjustments to net income:			
Dividends on preferred stock	—	—	(.1)
Net income applicable to common shareholders	\$2,875.6	\$2,381.8	\$2,132.8
Weighted average shares outstanding: (in millions)			
Common shares	1,906.0	1,907.8	1,898.8
Net effect of the assumed purchase of stock based on the treasury stock method:			
Preferred shares	—	—	.6
Options and stock plans	12.5	22.2	31.1
Dilutive common shares outstanding	1,918.5	1,930.0	1,930.5
Earning per share:			
Basic	\$1.51	\$1.25	\$1.12
Diluted	\$1.50	\$1.23	\$1.10

Note 17 *Employee Benefits*

Retirement Plans Pension benefits are provided to substantially all employees based on years of service and employees' compensation while employed with the Company. Employees are fully vested after five years of service. The Company's funding policy is to contribute amounts to its plans sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company determines to be appropriate. The actuarial cost method used to compute the pension liabilities and expense is the projected unit credit method. Prior to their acquisition dates, employees of certain acquired companies were covered by separate, noncontributory pension plans that provided benefits based on years of service and compensation. Plan assets primarily consist of listed stocks, corporate bonds, U.S. Treasury and Agency securities, and mutual funds.

The Company also maintains several unfunded, nonqualified, supplemental executive retirement

programs that provide additional defined pension benefits for certain employees. The assumptions used in computing the present value of the accumulated benefit obligation, the projected benefit obligation and net pension expense are substantially consistent with those assumptions used for the funded qualified plans.

Other Postretirement Plans In addition to providing pension benefits, the Company provides health care and death benefits to certain retired employees. Employees may become eligible for health care benefits by meeting defined age and service requirements. The Company may also subsidize the cost of coverage for employees meeting certain requirements. The plan contains other cost-sharing features such as deductibles and coinsurance. The estimated cost of these retiree benefit payments is accrued during the employees' active service.

Information presented in the tables below reflects a measurement date of September 30. The following table sets forth the components of net periodic benefit cost for the retirement plans.

(Dollars in Millions)	Pension Plans			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Components of net periodic benefit cost						
Service cost	\$ 65.4	\$ 70.1	\$ 68.4	\$ 2.0	\$ 3.8	\$ 3.1
Interest cost	117.3	107.1	109.3	16.3	16.5	16.4
Expected return on plan assets	(201.6)	(177.5)	(145.5)	(.6)	(.5)	(.4)
Net amortization and deferral	(13.2)	1.3	(6.6)	.2	2.0	3.0
Recognized actuarial loss .....	.7	1.9	1.9	(1.4)	.2	—
Net periodic benefit cost	(31.4)	2.9	27.5	16.5	22.0	22.1
Curtailment and settlement (gains) losses	(17.0)	(6.2)	(22.6)	10.3	—	13.9
Net periodic benefit cost after curtailment and settlement (gains)	\$ (48.4)	\$ (3.3)	\$ 4.9	\$26.8	\$22.0	\$36.0

The following tables summarize benefit obligation and plan asset activity for the retirement plans.

(Dollars in Millions)	Pension Plans		Other Postretirement Plans	
	2000	1999	2000	1999
Change in benefit obligation				
Benefit obligation at beginning of measurement period	\$1,580.3	\$1,653.0	\$ 225.0	\$ 251.3
Service cost	65.4	70.1	2.0	3.8
Interest cost	117.4	107.1	16.3	16.5
Plan participants' contributions	—	—	6.8	3.1
Plan amendments	—	23.4	—	(10.9)
Actuarial (gain) loss .....	.1	(144.3)	19.8	(18.7)
Acquisitions and special termination benefits	—	1.9	—	2.9
Benefit payments	(111.8)	(92.0)	(25.8)	(23.0)
Curtailments	(4.4)	(4.0)	—	—
Settlements	(51.6)	(34.9)	—	—
Benefit obligation at end of measurement period	\$1,595.4	\$1,580.3	\$ 244.1	\$ 225.0
Change in fair value of plan assets				
Fair value at beginning of measurement period	\$1,985.3	\$1,808.0	\$ 13.4	\$ 11.2
Actual return on plan assets	443.7	220.3	.9	.6
Employer contributions	18.9	76.0	18.8	15.3
Plan participants' contributions	—	—	6.8	3.1
Acquisition/divestitures	1.1	7.9	—	—
Settlements	(51.6)	(34.9)	—	—
Benefit payments	(111.7)	(92.0)	(18.1)	(16.8)
Fair value at end of measurement period	\$2,285.7	\$1,985.3	\$ 21.8	\$ 13.4
Funded status				
Funded status at end of measurement period	\$ 690.3	\$ 405.0	\$(222.3)	\$(211.6)
Unrecognized transition (asset) obligation	(1.8)	(6.3)	9.0	20.3
Unrecognized prior service cost	(87.6)	(97.9)	(7.8)	(8.4)
Unrecognized net (gain)	(338.6)	(103.0)	(7.6)	(28.7)
Fourth quarter contribution	1.2	.7	14.2	11.4
Net amount recognized	\$ 263.5	\$ 198.5	\$(214.5)	\$(217.0)
Components of Balance Sheet				
Prepaid benefit cost	\$ 433.1	\$ 351.6	\$ —	\$ —
Accrued benefit liability	(169.6)	(153.1)	(214.5)	(217.0)
Net amount recognized	\$ 263.5	\$ 198.5	\$(214.5)	\$(217.0)

The following table sets forth the weighted average plan assumptions and other data:

	USBM			Firststar		
	2000	1999	1998	2000	1999	1998
Pension Plan Actuarial Computations						
Discount rate in determining benefit obligations	7.8%	7.5%	6.5%	7.75%	6.58%	6.59%
Expected long-term return on plan assets	9.5	9.5	9.5	12.15	11.38	9.62
Rate of increase in future compensation	5.6	5.6	5.6	4.00	4.06	4.34
Other Postretirement Plan Actuarial Computations						
Discount rate in determining benefit obligations	7.8%	7.5%	6.5%	7.75%	6.75%	6.49%
Expected long-term return on plan assets	5.0	5.0	5.0	*	*	*
Health care cost trend rate						
Prior to age 65	7.7	7.0	7.0	7.50	7.66	8.06
After age 65	7.7	5.5	6.4	7.50	7.66	8.06
Effect of One Percent Increase in Health Care Cost Trend Rate						
Service and interest costs	\$ 1.0	\$ 1.3	\$ 1.2	\$.4	\$.4	\$.3
Accumulated postretirement benefit obligation	13.1	12.4	13.1	5.2	4.0	4.7
Effect of One Percent Decrease in Health Care Cost Trend Rate						
Service and interest costs	\$ (.9)	\$ (1.0)	\$ (1.0)	\$ (.4)	\$ (.4)	\$ (.3)
Accumulated postretirement benefit obligation	(11.6)	(10.9)	(11.8)	(4.6)	(3.6)	(4.1)

* The Firststar Plan had no assets as of December 31, 2000, 1999 and 1998.

The following table provides information for pension plans with benefit obligations in excess of plan assets:

(Dollars in Millions)	2000	1999
Benefit obligation	\$216.5	\$189.8
Accumulated benefit obligation	193.9	155.0
Fair value of plan assets	—	—

Employee Investment Plan The Company has defined contribution retirement savings plans which allow qualified employees, at their option, to make contributions up to certain percentages of pre-tax base salary through salary deductions under Section 401(k) of the Internal Revenue Code. A portion of these contributions is matched by the Company. All of the Company's matching contributions are invested in the Company's common stock. Employee contributions are

invested, at the employees' direction, among a variety of investment alternatives. Total expense was \$53.6 million, \$57.3 million and \$37.1 million in 2000, 1999 and 1998, respectively.

Employee Stock Purchase Plan The ESPP of USBM permitted all eligible employees with at least one year of service and directors to purchase common stock. Plan participants could purchase stock for 85 percent of the fair market value, which is based on the price at the beginning or the end of the purchase period, whichever is lower. Any discount was determined by a committee of the Board of Directors. In 2000 and 1999, the purchase price was 85 percent of the fair market value. The plan resulted in no compensation expense to the Company. Due to the merger with Firststar, the ESPP was terminated effective October 13, 2000.

Note 18 Stock Options and Compensation Plans

Stock Option and Compensation Plans As part of its employee and director compensation programs, the Company may grant certain stock awards under the provisions of existing stock option and compensation plans. The Company has stock options outstanding under various plans at December 31, including plans assumed in acquisitions. The plans provide for grants of options to purchase shares of common stock generally at the stock's fair market value at the date of grant. In addition, the plans provide for grants of shares of

common stock which are subject to restriction on transfer and to a right of repurchase by the Company.

With respect to stock option and stock compensation plans, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its employee stock incentive and purchase plans. 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. On the date exercised, if new shares are issued, the option proceeds equal to the par value of the shares are credited to common stock and additional proceeds are credited to capital surplus. If treasury shares are issued, the option proceeds equal to the average treasury share price are credited to treasury stock and additional proceeds are credited to capital surplus.

Options granted are generally exercisable up to ten years from the date of grant and vest over three to five years. Restricted shares vest over three to seven years. The vesting of certain options and restricted shares accelerate based on growth in diluted operating earnings per share and on the performance of the Company in comparison to performance of a predetermined group of regional banks. Compensation expense for restricted stock is based on the market price of the Company

stock at the time of the grant and amortized on a straight-line basis over the vesting period. For the performance-based restricted shares, compensation expense is amortized using the estimated vesting period. Compensation expense related to the restricted stock was \$43.4 million, \$69.5 million and \$41.9 million in 2000, 1999 and 1998, respectively.

Stock incentive plans of acquired companies are generally terminated at the merger closing dates. Option holders under such plans receive the Company's common stock, or options to buy the Company's stock, based on the conversion terms of the various merger agreements. The historical option information presented below has been restated to reflect the options originally granted under acquired companies' plans.

At December 31, 2000, there were 40.6 million shares (subject to adjustment for forfeitures) available for grant under various plans.

The following is a summary of stock options outstanding and exercised under various stock options plans of the Company.

	2000		1999		1998	
	Stock Options/ Awards	Weighted- Average Exercise Price	Stock Options/ Awards	Weighted- Average Exercise Price	Stock Options/ Awards	Weighted- Average Exercise Price
Executive stock option plans:						
Number outstanding at beginning of year	153,163,030	\$22.74	107,405,102	\$17.97	104,497,354	\$13.95
Granted	22,633,170	19.64	75,922,950	27.08	36,778,209	25.56
Assumed/converted	447,341	6.85	1,210,738	16.58	1,748,563	12.39
Exercised	(10,017,357)	11.02	(22,332,730)	13.03	(31,722,689)	13.92
Cancelled	(12,829,958)	19.91	(9,043,030)	25.63	(3,896,335)	17.99
Number outstanding at end of year	153,396,226	\$22.80	153,163,030	\$22.74	107,405,102	\$17.97
Exercisable at end of year	68,870,745	\$19.78	70,527,758	\$18.00	64,448,703	\$14.12
Restricted share plans:						
Number outstanding at beginning of year	4,212,954		6,072,217		4,491,132	
Granted	4,110,440		1,379,808		3,668,750	
Cancelled	(1,946,257)		(3,239,071)		(2,087,665)	
Number outstanding at end of year	6,377,137		4,212,954		6,072,217	

Additional information regarding options outstanding as of December 31, 2000 is as follows:

Range of Exercise Prices	Options Outstanding			Exercisable Options	
	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$ 1.44 – \$10.00	11,373,733	3.6	\$ 6.09	11,291,564	\$ 6.08
\$10.01 – \$15.00	9,099,454	5.4	11.61	8,256,582	11.34
\$15.01 – \$20.00	21,459,832	7.4	17.66	12,801,936	18.04
\$20.01 – \$25.00	40,893,167	8.6	22.50	13,133,256	23.22
\$25.01 – \$30.00	62,864,266	8.0	28.14	16,660,189	26.49
\$30.01 – \$35.00	6,704,533	7.4	32.52	5,770,602	32.64
\$35.01 – \$37.20	1,001,241	7.5	35.82	956,616	35.81
	153,396,226	7.6	\$22.80	68,870,745	\$19.78

Pro forma information regarding net income and earnings per share is required by SFAS 123, "Accounting and Disclosure of Stock-Based Compensation" and has been determined as if the Company accounted for its employee stock option plans under the fair value method of SFAS 123. The fair value

of options was estimated at the grant date using a Black-Scholes option pricing model. Option valuation models require the use of highly subjective assumptions. 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, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The pro forma disclosures include options granted in 2000, 1999 and 1998 and are not likely to be representative of the pro forma disclosures for future years. The estimated fair value of the options is amortized to expense over the options' vesting period.

(Dollars in Millions, Except Per-Share Data)	Year Ended December 31		
	2000	1999	1998
Pro forma net income	\$2,752.1	\$2,240.5	\$1,922.1
Pro forma earnings per share:			
Earnings per share	\$ 1.44	\$ 1.17	\$ 1.01
Diluted earnings per share	1.43	1.16	1.00
Weighted average assumptions in option valuation:			
USBM			
Risk-free interest rates	6.1%	5.4%	5.4%
Dividend yields	3.0	3.5	2.3
Stock volatility factor	0.37	0.27	0.25
Expected life of options (in years) ..	4.7	6.1	2.3
Firstar			
Risk-free interest rates	5.4%	5.6%	4.8%
Dividend yields	2.5	2.0	1.6
Stock volatility factor	0.37	0.41	0.38
Expected life of options (in years) ..	2.5-5.5	2.5-5.5	2.5-5.5

Directors and selected senior officers of the Company may participate in deferred compensation plans which may postpone the receipt of compensation. Amounts deferred under the plan may be valued on the basis of an interest index or be used to purchase shares of the Company's common stock. Although the plan is unfunded for tax purposes, a portion of the shares of treasury stock held at December 31, 2000, 1999 and 1998 were acquired to meet obligations arising from these plans and are considered common stock equivalents for the purpose of computing earnings per share.

The Company has entered into agreements with certain officers that provide for the payment of a lump sum benefit to the officer, plus the continuation of certain medical and insurance benefits and immediate exercisability of stock options, in the event that the officer's employment is terminated involuntarily by the Company or voluntarily by the officer for good reason, following a change in control of the Company during the officer's protected period. The benefits payable under the agreements can be up to three times the officer's base salary and incentive bonus.

Note 19 Income Taxes

The components of income tax expense (benefit) were:

(Dollars in Millions)	2000	1999	1998
Federal			
Current	\$ 996.1	\$1,036.0	\$ 913.4
Deferred	324.5	219.5	94.6
Federal income tax	1,320.6	1,255.5	1,008.0
State			
Current	159.0	103.3	167.6
Deferred	32.6	33.4	(8.2)
State income tax	191.6	136.7	159.4
Total income tax provision	\$1,512.2	\$1,392.2	\$1,167.4

The reconciliation between income tax expense and the amount computed by applying the statutory federal income tax rate was as follows:

(Dollars in Millions)	2000	1999	1998
Tax at statutory rate (35%)	\$1,535.8	\$1,320.9	\$1,155.1
State income tax, at statutory rates, net of federal tax benefit	124.5	88.9	103.6
Tax effect of:			
Tax-exempt interest, net	(56.0)	(60.3)	(66.0)
Amortization of nondeductible goodwill	91.6	73.1	61.4
Tax credits	(62.7)	(41.7)	(36.3)
Nondeductible merger charges	4.9	56.4	8.2
Sale of preferred minority interest	(50.0)	—	—
Other items	(75.9)	(45.1)	(58.6)
Applicable income taxes	<u>\$1,512.2</u>	<u>\$1,392.2</u>	<u>\$1,167.4</u>

At December 31, 2000, for income tax purposes, the Company had federal net operating loss carry forwards of \$2.8 million available, which expire in years 2001 through 2009.

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes.

Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

(Dollars in Millions)	2000	1999	1998
Deferred Tax Assets			
Allowance for credit losses	\$ 637.0	\$ 633.4	\$ 626.1
Pension and postretirement benefits	53.5	67.7	73.5
Deferred fees	35.0	56.2	75.3
Real estate and other asset basis differences	31.9	30.2	31.9
State and federal net operating loss carry forwards	25.0	23.8	22.1
Federal AMT credits and capital losses	22.0	22.9	7.6
Charitable contributions	.9	6.5	4.2
Accrued severance, pension and retirement benefits	30.6	70.9	56.0
Other deferred tax assets, net	<u>196.0</u>	<u>186.4</u>	<u>293.8</u>
Gross deferred tax assets	1,031.9	1,098.0	1,190.5
Deferred Tax Liabilities			
Leasing activities	(1,218.1)	(941.0)	(673.6)
Accelerated depreciation	(92.7)	(68.4)	(44.1)
Other investment basis differences	(41.1)	(16.8)	(13.4)
Securities available-for-sale	(52.2)	89.3	(121.3)
Other deferred tax liabilities, net	<u>(124.0)</u>	<u>(107.9)</u>	<u>(104.2)</u>
Gross deferred tax liabilities	(1,528.1)	(1,044.8)	(956.6)
Valuation allowance	<u>(16.6)</u>	<u>(12.7)</u>	<u>(10.9)</u>
Net deferred tax assets (liabilities)	<u>\$ (512.8)</u>	<u>\$ 40.5</u>	<u>\$ 223.0</u>

Realization of the deferred tax assets over time is dependent upon the existence of taxable income in carryback periods or the Company generating sufficient taxable earnings in future periods. In determining that realization of the deferred tax asset was more likely than not, the Company gave consideration to a number of factors, including its taxable income during carryback periods, its recent earnings history, its expectations for earnings in the future and, where applicable, the expiration dates associated with tax carrybacks and carryforwards. A valuation allowance has been established to offset deferred tax assets related to state net operating loss carryforwards totaling approximately \$437 million, which expire at various times within the next 15 years.

Certain events covered by Internal Revenue Code section 593 (e), which was not repealed, will trigger a recapture of base year reserve of acquired thrift institutions. The base year reserve of acquired thrift institutions would be recaptured if an entity ceases to qualify as a bank for federal income tax purposes. The base year reserve of thrift institutions also remain subject to income tax penalty provisions that, in general, require recapture upon certain stock redemptions of, and excess distributions to, stockholders. At December 31, 2000, retained earnings included approximately \$101.8 million of base year reserves for which no deferred federal income tax liability has been recognized.

Note 20 *Financial Instruments With Off-Balance Sheet Risk and Credit Concentrations*

In the normal course of business, the Company uses various off-balance sheet financial instruments to manage its interest rate and market risk and to meet the needs of its customers. These instruments carry varying degrees of credit, interest rate or liquidity risk. The contract or notional amounts of these financial instruments at December 31 were as follows:

(Dollars In Millions)	2000	1999
Commitments to extend credit		
Commercial	\$46,434	\$46,734
Corporate and purchasing cards	21,236	18,503
Consumer credit cards	20,254	19,971
Other consumer	8,580	8,895
Letters of credit		
Standby	6,380	5,832
Commercial	527	587
Interest rate swap contracts		
Hedges	8,758	8,643
Basis swaps	1,000	—
Intermediated	4,007	2,008
Options contracts		
Hedge interest rate floors purchased	500	805
Intermediated interest rate and foreign exchange caps and floors purchased	709	589
Intermediated interest rate and foreign exchange caps and floors written	709	589
Credit derivatives purchased	80	20
Futures and forward contracts	25	34
Recourse on assets sold	2,138	1,927
Foreign currency commitments		
Commitments to purchase	1,717	1,639
Commitments to sell	1,724	1,597
Commitments from securities lending	1,037	717
Commitments to sell residential mortgages	963	589

Commitments to Extend Credit Commitments to extend credit are legally binding and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Company's exposure to credit loss, in the event of default by the borrower. The Company manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment and real estate. Since the Company expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Company's future liquidity

requirements. In addition, the commitments include consumer credit lines that are cancelable upon notification to the consumer.

Letters of Credit Standby letters of credit are conditional commitments the Company issues to guarantee the performance of a customer to a third party. The guarantees frequently support public and private borrowing arrangements, including commercial paper issuances, bond financings and other similar transactions. The Company issues commercial letters of credit on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Company's credit loss exposure is the same as in any extension of

credit, up to the letter's contractual amount. Management assesses the borrower's credit to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Company to fund letters of credit may not occur, the Company expects its liquidity requirements to be less than the total outstanding commitments.

Interest Rate Swaps and Options Interest rate swaps are contracts to exchange fixed- and variable-rate interest payment obligations based on a notional principal amount. The Company enters into swaps to hedge its balance sheet against fluctuations in interest rates and as an intermediary for customers.

At December 31, 2000, and 1999, interest rate swaps with notional values totaling \$8.8 billion and \$8.6 billion, respectively, hedged loans, borrowings, deposits and long-term debt.

The Company received fixed-rate interest and paid floating-rate interest on substantially all swaps in its hedging portfolio as of December 31, 2000. Activity with respect to interest rate swap hedges was as follows:

(Dollars In Millions)	2000	1999	1998
Notional amount outstanding at beginning of year	\$8,643	\$ 8,107	\$ 6,528
Additions	1,720	5,032	3,180
Maturities	(260)	(2,240)	(1,358)
Amortization	(666)	(143)	—
Terminations	(679)	(2,113)	(243)
Notional amount outstanding at end of year	\$8,758	\$ 8,643	\$ 8,107
At December 31:			
Weighted average interest rate paid	6.78%	6.51%	5.72%
Weighted average interest rate received	6.54%	6.38%	6.24%

For the hedging portfolio's notional balances and yields by maturity date as of year-end 2000, see Table 19.

At December 31, 2000, and 1999, LIBOR-based interest rate floors totaling \$500 million with an average remaining maturity of .7 years and \$805 million with an average remaining maturity of 1.1 years, respectively, hedged floating rate commercial loans and deposits. The strike rate on these LIBOR-based floors was 4.63 percent at December 31, 2000 and 4.68 percent at December 31, 1999. The premium on floors is amortized over the life of the contract. The impact of the floors on net interest income was not significant for the years ended December 31, 2000, 1999 and 1998.

For swaps and options used as hedges, the Company recognizes interest income or expense as it is

accrued over the term of the hedge. The gain or loss on a terminated hedge is amortized over the remaining life of the original swap or remaining life of the hedged item, whichever is shorter. The impact of the amortization of deferred gains and losses on hedges on net interest income was not significant for the years ended December 31, 2000, 1999 and 1998. Net unamortized deferred losses were \$18.7 million at December 31, 2000.

In addition to utilizing swaps and options as part of its asset/liability management strategy, the Company acts as an intermediary for swap and option agreements on behalf of its customers. To reduce its market risk exposure, the Company generally enters into offsetting positions. The total notional amount of customer swap agreements, including the offsetting positions, was \$4.0 billion and \$2.0 billion at December 31, 2000 and 1999, respectively. The total notional amount of customer option agreements, including the offsetting positions, was \$1.4 billion and \$1.2 billion at December 31, 2000, and 1999, respectively. Market value changes on intermediated swaps, options and futures contracts are recognized in income in the period of change. Realized gains or losses on intermediated transactions were not significant for the years ended December 31, 2000, 1999 and 1998.

The credit risk related to interest rate swap and option agreements is that counterparties may be unable to meet the contractual terms. The Company estimates this risk by calculating the present value of the cost to replace all outstanding contracts in a gain position at current market rates, reported on a net basis by each counterparty. At December 31, 2000 and 1999, the gain position of these contracts, in the aggregate, was approximately \$167 million and \$53 million, respectively.

The Company manages the credit risk of its interest rate swap and option contracts through bilateral collateral agreements, credit approvals, limits and monitoring procedures. Commercial lending officers perform credit analyses and establish counterparty limits. Senior Credit Administration periodically reviews positions to monitor compliance with the limits. In addition, the Company reduces the assumed counterparty credit risk through master netting agreements that permit the Company to settle multiple interest rate contracts with a given counterparty on a net basis.

Futures and Forward Contracts Futures and forward contracts are agreements for the delayed delivery of securities or cash settlement money market instruments. The Company enters into futures contracts to hedge the

market risk on its fixed income inventory positions. The Company enters into forward contracts to hedge the interest rate risk of its mortgage loans held for sale. At December 31, 2000 and 1999, futures contracts outstanding were \$25 million and \$15 million, respectively. There were no forward contracts outstanding at December 31, 2000. Forward contracts outstanding at December 31, 1999 were \$19 million. At December 31, 2000, net unamortized deferred gains on the forward agreements were not significant. The Company manages its credit risk on forward contracts, which arises from nonperformance by counterparties, through credit approval and limit procedures.

Recourse on Assets Sold The Company is obligated under recourse provisions related to the sale of certain loans. The contract amount of these loans was \$3.5 billion at December 31, 2000, and \$3.8 billion at December 31, 1999. The maximum contractual amount of recourse on these loans was \$2.1 billion at December 31, 2000, and \$1.9 billion at December 31, 1999.

Foreign Currency Commitments The Company uses foreign currency commitments to help customers reduce the risks associated with changes in foreign currency exchange rates. Through these contracts, the Company exchanges currencies at specified rates on specified dates with various counterparties. The Company minimizes the market and liquidity risks by taking offsetting positions. In addition, the Company controls the market risks by limiting the net exposure through policies, procedures, and monitoring. The Company manages its credit risk, or potential risk of loss from default by a counterparty, through credit limit approval and monitoring procedures. The aggregate replacement cost of contracts in a gain position at December 31, 2000, was not significant.

Commitments from Securities Lending The Company participates in securities lending activities by acting as a customer's agent involving the loan or sale of securities. The Company indemnifies customers for the difference between the market value of the securities lent and the market value of the collateral received. These transactions are collateralized by cash.

Credit Concentrations The Company primarily lends to borrowers in the 24 states where it has banking offices. Collateral for commercial loans may include marketable securities, accounts receivable, inventory and equipment. For detail of the Company's commercial portfolio by industry group and geography as of December 31,

2000, and 1999, see Table 9 on page 50, which is incorporated by reference into these Notes to Consolidated Financial Statements.

For detail of the Company's commercial real estate portfolio by property type and geography as of December 31, 2000, and 1999, see Table 10 on page 51, which is incorporated by reference into these Notes to Consolidated Financial Statements. Such loans are collateralized by the related property.

For detail of the company's retail loan portfolio see Table 7 on page 49 under the category "Retail" for the last five years ended December 31, which is incorporated by reference into these Notes to Consolidated Financial Statements.

Residential Mortgage Sale Commitments The Company enters into commitments to sell groups of residential mortgage loans that it originates or purchases as part of its mortgage banking activities. The Company commits to sell the loans at specified prices in a future period typically within 90 days. The risk associated with these commitments consists primarily of loans not closing in sufficient volumes and at appropriate yields to meet the sale commitments. The Company had contracts totaling \$963 million and \$589 million on December 31, 2000 and 1999, respectively. Gains or losses on these contracts are included in the determination of the market value of mortgages held for sale.

Note 21 *Fair Values of Financial Instruments*

Due to the nature of its business and its customers' needs, the Company offers a large number of financial instruments, most of which are not actively traded. When market quotes are unavailable, valuation techniques including discounted cash flow calculations and pricing models or services are used. The Company also uses various aggregation methods and assumptions, such as the discount rate and cash flow timing and amounts. As a result, the fair value estimates can neither be substantiated by independent market comparisons, nor realized by the immediate sale or settlement of the financial instrument. Also, the estimates reflect a point in time and could change significantly based on changes in economic factors, such as interest rates. Furthermore, the disclosure of certain financial and nonfinancial assets and liabilities are not required. Finally, the fair value disclosure is not intended to estimate a market value of the Company as a whole. A summary of the Company's valuation techniques and assumptions follows.

Cash and Cash Equivalents The carrying value of cash, amounts due from banks, federal funds sold and securities purchased under resale agreements was assumed to approximate fair value.

Securities Generally, trading account securities and available-for-sale securities were valued using available market quotes. In some instances, for securities that are not widely traded, market quotes for comparable securities were used.

Loans The loan portfolio consists of both floating and fixed-rate loans, the fair value of which was estimated using discounted cash flow analyses and other valuation techniques. To calculate discounted cash flows, the loans were aggregated into pools of similar types and expected repayment terms. The expected cash flows of loans considered historical prepayment experiences and estimated credit losses for nonperforming loans and were discounted using current rates offered to borrowers of similar credit characteristics.

Deposit Liabilities The fair value of demand deposits, savings accounts and certain money market deposits is equal to the amount payable on demand at year-end. The fair value of fixed-rate certificates of deposit was estimated by discounting the contractual cash flow using the discount rates implied by the high-grade corporate bond yield curve.

Short-term Borrowings Federal funds purchased, securities sold under agreements to repurchase and other

short-term funds borrowed are at floating rates or have short-term maturities. Their carrying value is assumed to approximate their fair value.

Long-term Debt and Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Junior Subordinated Debentures of the Parent Company Medium-term notes, Euro medium-term notes, bank notes, Federal Home Loan Bank Advances, capital lease obligations and mortgage note obligations estimated fair value was determined using a discounted cash flow analysis based on current market rates of similar maturity debt securities to discount cash flows. Other long-term debt instruments and company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company were valued using available market quotes.

Interest Rate Swaps, Basis Swaps and Options The interest rate options and swap cash flows were estimated using a third party pricing model and discounted based on appropriate LIBOR, Eurodollar futures, swap and Treasury Note yield curves.

Loan Commitments, Letters of Credit and Guarantees The Company's commitments have floating rates and do not expose the Company to interest rate risk. No premium or discount was ascribed to the loan commitments because virtually all funding would be at current market rates.

The estimated fair values of the Company's financial instruments are shown in the table below.

(Dollars in Millions)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 9,132	\$ 9,132	\$ 9,258	\$ 9,258
Trading account securities	753	753	617	617
Investment securities	17,642	17,647	17,449	17,455
Loans held for sale	764	764	670	670
Loans	120,578	121,139	111,519	112,150
Total financial assets	148,869	\$149,435	139,513	\$140,150
Nonfinancial assets	16,052		14,805	
Total assets	\$164,921		\$154,318	
Financial Liabilities				
Deposits	\$109,535	\$109,593	\$103,417	\$103,847
Short-term borrowings	11,833	11,833	10,558	10,558
Long-term debt	21,876	22,006	21,027	20,948
Company-obligated mandatorily redeemable preferred securities	1,400	1,351	1,400	1,284
Total financial liabilities	144,644	\$144,783	136,402	\$136,637
Nonfinancial liabilities	5,109		3,969	
Shareholders' equity	15,168		13,947	
Total liabilities and shareholders' equity	\$164,921		\$154,318	
Off-balance sheet financial instruments				
Hedge swaps				
Gain		140		\$ 4
Loss		(33)		(247)
Trading swaps				
Interest rate contracts				
Gain	27	27	42	42
Loss	(21)	(21)	(38)	(38)
Foreign exchange contracts				
Gain	13	13	7	7
Loss	(9)	(9)	(5)	(5)

Note 22 Commitments and Contingent Liabilities

Rental expense for operating leases amounted to \$219.3 million in 2000, \$193.8 million in 1999, and \$197.8 million in 1998. Future minimum payments, net of sublease rentals, under capitalized leases and noncancelable operating leases with initial or remaining terms of one year or more, consisted of the following at December 31, 2000:

(Dollars in Millions)	Capitalized Leases	Operating Leases
2001	\$ 11.4	\$ 196.5
2002	10.3	180.3
2003	8.7	155.7
2004	7.9	122.3
2005	6.6	101.7
Thereafter	56.5	564.7
Total minimum lease payments	\$101.4	\$1,321.2
Less amount representing interest	42.3	
Present value of net minimum lease payments	\$ 59.1	

Various legal proceedings are currently pending against the Company. Due to their complex nature, it may be years before some matters are resolved. In the opinion of management, the aggregate liability, if any, will not have a material adverse effect on the Company's financial position, liquidity or results of operations.

Note 23 *U.S. Bancorp (Parent Company)***Condensed Balance Sheet**

December 31 (Dollars in Millions)	2000	1999
Assets		
Deposits with subsidiary banks, principally interest-bearing	\$ 1,714	\$ 1,046
Available-for-sale securities	325	340
Investments in:		
Bank affiliates	15,019	14,625
Nonbank affiliates	1,059	796
Advances to:		
Bank affiliates	1,071	1,016
Nonbank affiliates	2,858	1,927
Other assets	2,179	2,180
Total assets	<u>\$24,225</u>	<u>\$21,930</u>
Liabilities and Shareholders' Equity		
Short-term funds borrowed	\$ 224	\$ 170
Advances from subsidiaries	97	111
Long-term debt	6,563	5,331
Junior subordinated debentures issued to subsidiary trusts	1,443	1,434
Other liabilities	730	937
Shareholders' equity	15,168	13,947
Total liabilities and shareholders' equity	<u>\$24,225</u>	<u>\$21,930</u>

Condensed Statement of Income

Year Ended December 31 (Dollars in Millions)	2000	1999	1998
Income			
Dividends from subsidiaries (including \$3,010.5, \$1,661.0 and \$2,093.2 from bank subsidiaries)	\$3,027.8	\$1,704.3	\$2,206.6
Interest from subsidiaries	234.8	177.2	159.3
Service and management fees from subsidiaries	246.0	229.1	322.9
Other income	217.0	202.0	162.9
Total income	<u>3,725.6</u>	<u>2,312.6</u>	<u>2,851.7</u>
Expenses			
Interest on short-term funds borrowed	19.3	26.8	26.6
Interest on long-term debt	441.7	296.4	249.9
Interest on junior subordinated debentures issued to subsidiary trusts	111.3	110.3	103.5
Merger-related charges	21.3	103.8	158.3
Other expenses	225.2	307.7	429.7
Total expenses	<u>818.8</u>	<u>845.0</u>	<u>968.0</u>
Income before income taxes and equity in undistributed income of subsidiaries	2,906.8	1,467.6	1,883.7
Income tax credit	(34.0)	(36.9)	(152.0)
Income of parent company	2,940.8	1,504.5	2,035.7
Equity (deficiency) in undistributed income of subsidiaries	(65.2)	877.3	97.2
Net income	<u>\$2,875.6</u>	<u>\$2,381.8</u>	<u>\$2,132.9</u>

Condensed Statement of Cash Flows

Year Ended December 31 (Dollars in Millions)	2000	1999	1998
Operating Activities			
Net income	\$ 2,875.6	\$ 2,381.8	\$ 2,132.9
Adjustments to reconcile net income to net cash provided by operating activities:			
(Equity) deficiency in undistributed income of subsidiaries	65.2	(877.3)	(97.2)
Losses (gains) on available-for-sale securities	4.1	(7.0)	(12.8)
Depreciation and amortization of premises and equipment	51.7	76.2	76.2
Other — net	(391.1)	(3.2)	(198.4)
Net cash provided by operating activities	2,605.5	1,570.5	1,900.7
Investing Activities			
Available-for-sale securities			
Sales and maturities	92.2	128.9	94.6
Purchases	(59.4)	(334.3)	(70.5)
Investments in subsidiaries	(4.6)	(26.0)	(1,325.6)
Equity distributions from subsidiaries	—	145.0	325.0
Net decrease (increase) in short-term advances to affiliates	(829.0)	58.1	(597.1)
Other — net	(113.7)	(421.3)	13.7
Net cash used in investing activities	(914.5)	(449.6)	(1,559.9)
Financing Activities			
Net (decrease) increase in short-term advances from subsidiaries	(15.6)	62.6	21.4
Net (decrease) increase in short-term funds borrowed	53.3	(11.5)	78.1
Net change in long-term debt	1,183.7	824.8	1,091.4
Issuance of junior subordinated debentures to subsidiary trusts	—	—	360.8
Proceeds from dividend reinvestment, stock option and stock purchase plans	210.0	277.6	340.8
Repurchase of common stock	(1,182.2)	(1,187.9)	(1,104.0)
Shares reserved to meet deferred compensation obligations	—	—	1.2
Cash dividends	(1,271.3)	(1,029.7)	(910.9)
Net cash used in financing activities	(1,022.1)	(1,064.1)	(121.2)
Change in cash and cash equivalents	668.9	56.8	219.6
Cash and cash equivalents at beginning of year	1,045.5	988.7	769.1
Cash and cash equivalents at end of year	\$ 1,714.4	\$ 1,045.5	\$ 988.7

Transfer of funds (dividends, loans or advances) from bank subsidiaries to the Company is restricted. Federal law prohibits loans unless they are secured and generally limits any loan to the Company or individual affiliate to 10 percent of the bank's equity. In aggregate, loans to the Company and all affiliates cannot exceed 20 percent of the bank's equity.

Dividend payments to the Company by its subsidiary banks are subject to regulatory review and statutory limitations and, in some instances, regulatory approval. The approval of the Comptroller of the Currency is required if total dividends by a national

bank in any calendar year exceed the bank's net income for that year combined with its retained net income for the preceding two calendar years or if the bank's retained earnings are less than zero. Furthermore, dividends are restricted by the Comptroller of the Currency's minimum capital constraints for all national banks. Within these guidelines, all bank subsidiaries have the ability to pay dividends without prior regulatory approval. The amount of dividends available to the parent company from the bank subsidiaries at December 31, 2000 was \$504 million.

Note 24 *Supplemental Disclosures to the Consolidated Financial Statements*

Consolidated Statement of Cash Flows

Listed below are supplemental disclosures to the Consolidated Statement of Cash Flows:

Year Ended December 31 (Dollars in Millions)	2000	1999	1998
Income taxes paid	\$ 1,046.5	\$ 901.1	\$ 816.1
Interest paid	5,686.3	4,697.6	4,888.9
Net noncash transfers to foreclosed property	94.3	102.9	86.2
Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$141.5 in 2000, \$210.6 in 1999 and \$52.0 in 1998	252.4	(369.5)	93.3
Acquisitions and divestitures			
Assets acquired	\$ 3,314.6	\$ 4,229.3	\$ 7,840.8
Liabilities (assumed)	(3,755.9)	(2,610.0)	(7,097.5)
Net	\$ (441.3)	\$ 1,619.3	\$ 743.3

Regulatory Capital The measures used to assess capital include the capital ratios established by bank regulatory agencies, including the specific ratios for the “well capitalized” designation. For a description of the regulatory capital requirements and the actual ratios as of December 31, 2000 and 1999 for the Company and its significant bank subsidiaries, see Table 21.

Money Market Investments are included with cash and due from banks as part of cash and cash equivalents. Money market investments are comprised of the following components at December 31:

(Dollars in Millions)	2000	1999
Interest-bearing deposits	\$ 82	\$ 56
Federal funds sold	203	1,100
Securities purchased under agreements to resell	372	778
Total money market investments	\$657	\$1,934

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of U.S. Bancorp:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of U.S. Bancorp and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of Firststar Corporation and the former U.S. Bancorp on February 27, 2001 in a transaction accounted for as a pooling of interests, as described in Notes 1 and 3 to the consolidated financial statements. 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
April 13, 2001

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CONSOLIDATED BALANCE SHEET – FIVE-YEAR SUMMARY

December 31 (Dollars in Millions)	2000	1999	1998	1997	1996	% Change 1999-2000
Assets						
Cash and due from banks	\$ 8,475	\$ 7,324	\$ 8,882	\$ 7,972	\$ 8,295	15.7%
Money market investments	657	1,934	1,039	1,411	1,555	(66.0)
Trading account securities	753	617	666	268	276	22.0
Held-to-maturity securities	252	194	233	2,942	3,872	29.9
Available-for-sale securities	17,390	17,255	20,732	17,500	14,799	.8
Loans held for sale	764	670	1,794	743	185	14.0
Loans						
Commercial	52,817	45,856	41,068	36,329	33,141	15.2
Commercial real estate	26,443	25,142	21,808	19,798	18,904	5.2
Residential mortgages	7,753	11,395	13,980	15,892	13,919	(32.0)
Retail	35,352	30,836	30,102	27,010	25,278	14.6
Total loans	122,365	113,229	106,958	99,029	91,242	8.1
Less allowance for credit losses	1,787	1,710	1,706	1,666	1,600	4.5
Net loans	120,578	111,519	105,252	97,363	89,642	8.1
Other assets	16,052	14,805	12,116	9,289	7,986	8.4
Total assets	<u>\$164,921</u>	<u>\$154,318</u>	<u>\$150,714</u>	<u>\$137,488</u>	<u>\$126,610</u>	6.9%
Liabilities and Shareholders' Equity						
Deposits						
Noninterest-bearing	\$ 26,633	\$ 26,350	\$ 27,479	\$ 24,062	\$ 23,417	1.1%
Interest-bearing	82,902	77,067	76,867	74,261	70,394	7.6
Total deposits	109,535	103,417	104,346	98,323	93,811	5.9
Short-term borrowings	11,833	10,558	10,011	10,385	11,641	12.1
Long-term debt	21,876	21,027	18,679	13,181	6,796	4.0
Company-obligated mandatorily redeemable preferred securities	1,400	1,400	1,400	1,050	750	—
Other liabilities	5,109	3,969	3,704	3,147	2,895	28.7
Total liabilities	149,753	140,371	138,140	126,086	115,893	6.7
Shareholders' equity	15,168	13,947	12,574	11,402	10,717	8.8
Total liabilities and shareholders' equity	<u>\$164,921</u>	<u>\$154,318</u>	<u>\$150,714</u>	<u>\$137,488</u>	<u>\$126,610</u>	6.9%

CONSOLIDATED STATEMENT OF INCOME – FIVE-YEAR SUMMARY

Year Ended December 31 (Dollars in Millions)	2000	1999	1998	1997	1996	% Change 1999-2000
Interest Income						
Loans	\$10,562.5	\$ 9,122.7	\$ 8,818.3	\$8,419.0	\$7,794.9	15.7%
Loans held for sale	102.1	103.9	91.9	40.0	43.1	(1.7)
Investment securities						
Taxable	1,008.3	1,047.1	1,179.5	1,060.7	1,038.6	(3.7)
Non-taxable	140.6	150.1	158.2	158.0	159.3	(6.3)
Money market investments	53.9	44.9	63.0	63.6	72.9	20.0
Trading securities	53.7	45.0	25.6	16.8	16.9	19.3
Other interest income	151.4	113.0	88.2	42.6	41.1	34.0
Total interest income	12,072.5	10,626.7	10,424.7	9,800.7	9,166.8	13.5
Interest Expense						
Deposits	3,618.8	2,970.0	3,234.7	3,084.2	2,921.5	21.8
Short-term borrowings	781.7	582.4	594.7	643.3	657.3	34.2
Long-term debt	1,510.4	1,126.9	926.5	586.0	407.3	34.0
Company-obligated mandatorily redeemable preferred securities	112.0	111.0	103.8	76.3	3.3	0.9
Total interest expense	6,022.9	4,790.3	4,859.7	4,389.8	3,989.4	25.7
Net interest income	6,049.6	5,836.4	5,565.0	5,410.9	5,177.4	3.5
Provision for credit losses	828.0	646.0	491.3	639.9	429.9	28.2
Net interest income after provision for credit losses	5,221.6	5,190.4	5,073.7	4,771.0	4,747.5	0.4
Noninterest Income						
Credit card and payment processing revenue	992.1	837.8	748.0	611.8	548.6	18.4
Trust and investment management fees	926.2	887.1	788.3	686.1	592.9	4.4
Deposit service charges	551.1	497.2	470.3	450.6	627.0	10.8
Cash management fees	292.4	280.6	242.0	214.2	*	4.2
Mortgage banking revenue	189.9	190.4	244.6	137.9	95.7	(0.3)
Trading account profits and commissions	258.4	222.4	130.3	44.8	31.5	16.2
Investment products fees and commissions	466.6	450.8	306.9	110.4	86.1	3.5
Investment banking revenue	360.3	246.6	100.4	—	—	46.1
Commercial product revenue	304.4	215.7	121.9	97.9	*	51.2
Securities gains, net	8.1	13.2	29.1	7.3	18.7	(38.6)
Other	533.7	403.1	468.2	357.6	767.5	32.4
Total noninterest income	4,883.2	4,244.9	3,650.0	2,718.6	2,768.0	15.4
Noninterest Expense						
Salaries	2,427.1	2,355.3	2,196.7	1,892.0	1,773.9	3.0
Employee benefits	399.8	410.1	424.9	424.0	405.2	(2.5)
Net occupancy	396.9	371.8	356.9	335.0	326.3	6.8
Furniture and equipment	308.2	307.9	314.1	312.3	322.8	0.1
Postage	174.5	170.7	155.4	106.6	144.0	2.2
Goodwill	242.8	177.7	177.2	115.3	190.8	36.6
Other intangible assets	149.5	152.1	124.6	92.1	*	(1.7)
Merger and restructuring related charges	348.7	532.8	593.8	633.0	192.4	(34.6)
Other	1,269.5	1,182.9	1,079.8	1,029.4	1,158.6	7.7
Total noninterest expense	5,717.0	5,661.3	5,423.4	4,939.7	4,514.0	1.1
Income before income taxes	4,387.8	3,774.0	3,300.3	2,549.9	3,001.5	16.3
Applicable income taxes	1,512.2	1,392.2	1,167.4	950.6	1,082.9	8.6
Net income	\$ 2,875.6	\$ 2,381.8	\$ 2,132.9	\$1,599.3	\$1,918.6	20.7
Net income applicable to common equity	\$ 2,875.6	\$ 2,381.8	\$ 2,132.8	\$1,588.2	\$1,899.3	20.7

*Information not available, amounts included in other line items above.

QUARTERLY CONSOLIDATED FINANCIAL DATA

	2000				1999			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
(Dollars in Millions, Except Per Share Data)								
Interest Income								
Loans	\$2,787.9	\$2,710.7	\$2,591.8	\$2,472.1	\$2,379.4	\$2,322.3	\$2,235.8	\$2,185.2
Loans held for sale	22.2	32.7	35.2	12.0	24.6	25.6	22.6	31.1
Investment securities								
Taxable	251.3	250.4	255.6	251.0	246.8	263.8	262.8	273.7
Non-taxable	33.4	34.8	33.5	38.9	35.9	38.3	37.5	38.4
Money market investments	10.8	14.5	15.0	13.6	10.3	10.9	12.6	11.1
Trading securities	14.0	12.8	12.6	14.3	10.9	10.9	12.0	11.2
Other interest income	39.4	37.7	37.0	37.3	32.5	28.7	27.1	24.7
Total interest income	3,159.0	3,093.6	2,980.7	2,839.2	2,740.4	2,700.5	2,610.4	2,575.4
Interest Expense								
Deposits	975.7	954.0	875.9	813.2	775.0	734.2	722.0	738.8
Short-term borrowings	220.7	191.2	198.7	171.1	144.2	167.8	140.4	130.0
Long-term debt	398.3	403.9	371.3	336.9	315.6	291.8	261.8	257.7
Company-obligated mandatorily redeemable preferred securities	22.8	31.5	29.3	28.4	27.1	28.0	28.0	27.9
Total interest expense	1,617.5	1,580.6	1,475.2	1,349.6	1,261.9	1,221.8	1,152.2	1,154.4
Net interest income	1,541.5	1,513.0	1,505.5	1,489.6	1,478.5	1,478.7	1,458.2	1,421.0
Provision for credit losses	229.5	214.0	201.3	183.2	173.7	178.9	150.3	143.1
Net interest income after provision for credit losses	1,312.0	1,299.0	1,304.2	1,306.4	1,304.8	1,299.8	1,307.9	1,277.9
Noninterest Income								
Credit card and payment processing revenue ...	264.7	261.2	247.3	218.9	234.6	227.9	201.8	173.6
Trust and investment management fees	233.8	231.1	230.4	230.9	229.9	219.5	219.0	218.7
Deposit service charges	145.4	144.3	138.0	123.4	131.2	126.6	124.7	114.7
Cash management fees	71.8	74.7	74.1	71.8	73.2	72.3	67.6	67.5
Mortgage banking revenue	54.4	44.7	48.1	42.7	35.3	45.4	54.7	55.0
Trading account profits and commissions	62.4	50.9	59.8	85.3	66.7	49.7	51.8	54.2
Investment products fees and commissions ...	108.9	107.8	109.1	140.8	115.3	105.7	118.0	111.8
Investment banking revenue	92.8	100.6	72.9	94.0	89.0	60.8	60.5	36.3
Commercial product revenue	85.2	86.0	71.6	61.6	57.6	53.4	48.9	55.8
Securities gains (losses), net	7.0	1.1	.3	(.3)	2.1	(4.9)	3.1	12.9
Other	138.5	131.2	151.7	112.3	102.3	126.0	82.7	92.0
Total noninterest income	1,264.9	1,233.6	1,203.3	1,181.4	1,137.2	1,082.4	1,032.8	992.5
Noninterest Expense								
Salaries	593.7	602.4	601.4	629.6	610.4	574.7	590.9	579.3
Employee benefits	98.2	89.4	100.3	111.9	91.6	98.1	100.7	119.7
Net occupancy	104.2	99.8	95.7	97.2	95.7	92.8	90.1	93.2
Furniture and equipment	76.2	79.6	75.7	76.7	79.6	77.4	77.1	73.8
Postage	44.2	43.1	42.6	44.6	41.4	42.4	41.9	45.0
Goodwill	64.2	60.4	59.8	58.4	51.7	44.0	40.4	41.6
Other intangible assets	37.8	37.3	37.0	37.4	35.5	37.6	38.6	40.4
Merger-related charges	84.1	117.7	81.9	65.0	90.5	379.3	45.1	17.9
Other	329.3	321.7	316.7	301.8	336.2	300.4	290.7	255.6
Total noninterest expense	1,431.9	1,451.4	1,411.1	1,422.6	1,432.6	1,646.7	1,315.5	1,266.5
Income before income taxes	1,145.0	1,081.2	1,096.4	1,065.2	1,009.4	735.5	1,025.2	1,003.9
Applicable income taxes	376.3	370.9	386.6	378.4	372.4	310.7	359.6	349.5
Net income	\$ 768.7	\$ 710.3	\$ 709.8	\$ 686.8	\$ 637.0	\$ 424.8	\$ 665.6	\$ 654.4
Earnings per share	\$.41	\$.37	\$.37	\$.36	\$.33	\$.22	\$.35	\$.34
Diluted earnings per share	\$.40	\$.37	\$.37	\$.36	\$.33	\$.22	\$.34	\$.34

CONSOLIDATED DAILY AVERAGE BALANCE

Year Ended December 31

2000

(Dollars in Millions)	Balance	Interest	Yields and Rates
Assets			
Money market investments	\$ 931	\$ 53.9	5.79%
Trading account securities	779	57.6	7.39
Taxable securities	14,567	1,008.3	6.92
Nontaxable securities	2,744	203.1	7.40
Loans held for sale	1,303	102.1	7.84
Loans			
Commercial	50,062	4,257.2	8.50
Commercial real estate	26,040	2,305.5	8.85
Residential mortgage	9,578	723.4	7.55
Retail	32,637	3,295.4	10.10
Total loans	<u>118,317</u>	10,581.5	8.94
Other earning assets	1,965	151.4	7.70
Allowance for credit losses	1,781		
Total earning assets*	140,606	12,157.9	8.65
Other assets	19,656		
Total assets	<u>\$158,481</u>		
Liabilities and Shareholders' Equity			
Noninterest-bearing deposits	\$ 23,820		
Interest-bearing deposits			
Interest checking	13,035	270.4	2.07
Money market accounts	22,774	1,000.0	4.39
Savings accounts	5,027	74.0	1.47
Time certificates of deposit less than \$100,000	25,861	1,458.3	5.64
Time deposits greater than \$100,000	12,909	816.1	6.32
Total interest-bearing deposits	79,606	3,618.8	4.55
Short-term borrowings	12,586	781.7	6.21
Long-term debt	22,410	1,510.4	6.74
Company-obligated mandatorily redeemable preferred securities	1,400	112.0	8.00
Total interest-bearing liabilities	116,002	6,022.9	5.19
Other liabilities	4,294		
Shareholders' equity	14,365		
Total liabilities and shareholders' equity	<u>\$158,481</u>		
Net interest income		<u>\$ 6,135.0</u>	
Gross interest margin			<u>3.46%</u>
Gross interest margin without taxable-equivalent increments			<u>3.40%</u>
Percent of Earning Assets			
Interest income			8.65%
Interest expense			4.29
Net interest margin			<u>4.36</u>
Net interest margin without taxable-equivalent increments			<u>4.30%</u>

Interest and rates are presented on a fully taxable-equivalent basis under a tax rate of 35 percent.

Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

**Before deducting the allowance for credit losses and excluding the unrealized (loss) gain on available-for-sale securities.*

S H E E T A N D R E L A T E D Y I E L D S A N D R A T E S

1999			1998			1999-2000
Balance	Interest	Yields and Rates	Balance	Interest	Yields and Rates	% Change Average Balance
\$ 1,082	\$ 44.9	4.15%	\$ 1,170	\$ 63.0	5.38%	(13.96)%
630	47.8	7.59	428	27.6	6.45	23.65
16,301	1,047.1	6.42	17,977	1,179.5	6.56	(10.64)
2,970	220.6	7.43	3,137	238.2	7.59	(7.61)
1,450	103.9	7.17	1,264	91.9	7.27	(10.14)
43,328	3,288.3	7.59	38,983	3,110.4	7.98	15.54
23,076	1,940.3	8.41	20,458	1,784.1	8.72	12.84
12,680	953.7	7.52	15,160	1,170.5	7.72	(24.46)
30,554	2,963.4	9.70	27,850	2,782.5	9.99	6.82
<u>109,638</u>	9,145.7	8.34	<u>102,451</u>	8,847.5	8.64	7.92
1,686	113.0	6.70	1,311	88.2	6.73	16.55
1,709			1,688			4.21
<u>133,757</u>	10,723.0	8.02	<u>127,738</u>	10,535.9	8.25	5.12
18,119			16,837			
<u>\$150,167</u>			<u>\$142,887</u>			
\$ 23,556			\$ 23,011			1.12
12,898	231.0	1.79	12,263	230.9	1.88	1.06
22,534	842.2	3.74	20,337	825.1	4.06	1.07
5,961	111.9	1.88	6,504	146.7	2.26	(15.67)
26,296	1,322.6	5.03	29,583	1,622.7	5.49	(1.65)
8,675	462.3	5.33	7,242	409.3	5.65	48.81
<u>76,364</u>	2,970.0	3.89	<u>75,929</u>	3,234.7	4.26	4.25
11,707	582.4	4.97	11,102	594.7	5.36	7.51
20,248	1,126.9	5.57	15,732	926.5	5.89	10.68
1,400	111.0	7.93	1,314	103.8	7.90	0.00
<u>109,719</u>	4,790.3	4.37	<u>104,077</u>	4,859.7	4.67	5.73
3,671			3,416			16.97
13,221			12,383			8.65
<u>\$150,167</u>			<u>\$142,887</u>			5.54
	<u>\$ 5,932.7</u>			<u>\$ 5,676.2</u>		
		3.65%			3.58%	
		<u>3.58%</u>			<u>3.49%</u>	
		8.02%			8.25%	
		3.58			3.80	
		<u>4.44</u>			<u>4.44</u>	
		4.37%			4.36%	

S U P P L E M E N T A L F I N A N C I A L D A T A

Earnings Per Share Summary

	2000	1999	1998	1997	1996
Earnings per share	\$1.51	\$1.25	\$1.12	\$.86	\$1.02
Diluted earnings per share	\$1.50	\$1.23	\$1.10	\$.85	\$1.00

Ratios

Return on average assets	1.81%	1.59%	1.49%	1.24%	1.57%
Return on average common equity	20.0	18.0	17.2	14.7	18.0
Average total equity to average assets	9.1	8.8	8.7	8.4	8.7
Dividends per share to net income per share	43.0	37.0	29.5	31.4	20.6

Other Statistics

(Shares in Millions)

Common shares outstanding — year end *	1,902.0	1,982.5	1,903.5	1,864.0	1,847.9
Average common shares outstanding and common stock equivalents					
Earnings per share	1,906.0	1,907.8	1,898.8	1,841.0	1,861.6
Diluted earnings per share	1,918.5	1,930.0	1,930.5	1,872.2	1,898.2
Common dividends declared (millions)	\$1,267.0	\$1,090.8	\$977.6	\$801.9	\$635.2

*Defined as total common shares less common stock held in treasury.

Stock Price Range and Dividends

	2000			1999		
	Sales Price		Dividends Declared	Sales Price		Dividends Declared
	High	Low		High	Low	
First quarter	\$24.63	\$17.00	\$.1625	\$31.85	\$27.42	\$.1000
Second quarter	27.75	21.06	.1625	34.56	26.25	.1000
Third quarter	25.00	19.75	.1625	29.44	22.31	.1000
Fourth quarter	24.25	15.63	.1625	29.38	20.25	.1625
Closing price — December 31	23.25			21.13		

The common stock of U.S. Bancorp is traded on the New York Stock Exchange, under the ticker symbol, "USB."

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Table 1 *Line of Business Financial Performance*

Operating segments are components of the Company about which financial information is available and is evaluated regularly in deciding how to allocate resources and assess performance. Prior to the merger, the Company operated its business units separately in 2000 and 1999 as Firststar and USBM and the basis of financial presentation differed significantly. Accordingly, the presentation of comparative business line results is not practicable at this time.

At the date of the merger of Firststar and USBM, the Company has reorganized into the following operating

segments: Consumer Banking; Payment Systems; Wholesale Banking; Private Client, Trust and Asset Management; Capital Markets; Treasury; and Corporate Support. For descriptions of these operating segments see "BUSINESS SEGMENTS" in Note 1 on page 6.

The following table provides restated financial results during 2000 for the Company's primary operating segments:

(Dollars in Millions)	Year Ended December 31, 2000							
	Consumer Banking	Payment Systems	Wholesale Banking	Private Client, Trust and Asset Management	Capital Markets	Treasury	Corporate Support	Consolidated Company
Net interest income	\$ 3,123.3	\$ 515.2	\$ 1,780.1	\$ 227.6	\$ 28.9	\$ 1,322.7	\$ (862.8)	\$ 6,135.0
Noninterest income	1,128.8	867.4	495.7	906.2	1,098.2	218.1	168.8	4,883.2
Total revenue	4,252.1	1,382.6	2,275.8	1,133.8	1,127.1	1,540.8	(694.0)	11,018.2
Noninterest expense	1,677.6	357.6	382.2	478.3	909.1	18.7	1,152.5	4,976.0
Other intangible amortization	62.3	23.7	1.3	19.9	—	—	42.3	149.5
Goodwill amortization	4.4	11.4	8.0	1.2	1.0	—	216.8	242.8
Total noninterest expense	1,744.3	392.7	391.5	499.4	910.1	18.7	1,411.6	5,368.3
Operating income	2,507.8	989.9	1,884.3	634.4	217.0	1,522.1	(2,105.6)	5,649.9
Provision for credit losses	368.7	400.8	141.4	7.0	—	1.0	(90.9)	828.0
Income before taxes	2,139.1	589.1	1,742.9	627.4	217.0	1,521.1	(2,014.7)	4,821.9
Income taxes and taxable-equivalent adjustment	760.9	209.5	619.9	223.2	77.2	541.1	(716.8)	1,715.0
Operating earnings, before merger-related charges	\$ 1,378.2	\$ 379.6	\$ 1,123.0	\$ 404.2	\$ 139.8	\$ 980.0	\$ (1,297.9)	\$ 3,106.9
Net merger-related charges (after-tax)*								(231.3)
Net income								<u>\$ 2,875.6</u>
Average Balance Sheet Data								
Loans	\$ 41,016	\$ 8,871	\$ 55,763	\$ 3,802	\$ 263	\$ 11,923	\$ (3,321)	\$ 118,317
Assets	46,706	9,400	60,254	5,255	3,392	24,417	9,057	158,481
Noninterest-bearing deposits	11,483	184	9,436	2,267	155	255	40	23,820
Interest-bearing deposits	62,156	1	4,847	4,754	—	10,793	(2,945)	79,606
Total Deposits	\$ 73,639	\$ 185	\$ 14,283	\$ 7,021	\$ 155	\$ 11,048	\$ (2,905)	\$ 103,426

*Merger-related charges are not allocated to the business lines.

Table 2 *Reconciliation of Operating Earnings* to Net Income in Accordance with GAAP*

(Dollars in Millions)	2000	1999	1998
Operating earnings, before merger and restructuring items	\$3,106.9	\$2,799.0	\$2,519.3
Merger and restructuring related items			
Other merger — related charges	(348.7)	(355.1)	(593.8)
Securities losses	—	(177.7)	—
Provision for credit losses	—	(7.5)	(37.9)
Gain on sale of branches	—	—	48.1
Applicable tax benefit	117.4	123.1	197.2
Net income in accordance with GAAP	<u>\$2,875.6</u>	<u>\$2,381.8</u>	<u>\$2,132.9</u>

*The Company analyzes its performance on a net income basis in accordance with accounting principles generally accepted in the United States, as well as on an operating basis before merger and restructuring related charges referred to as "operating earnings." Operating earnings are presented as supplemental information to enhance the readers' understanding of, and highlight trends in, the Company's core financial results excluding the impact of discrete business acquisitions and restructuring activities. Operating earnings should not be viewed as a substitute for net income and earning per share as determined in accordance with accounting principles generally accepted in the United States.

Table 3 *Analysis of Net Interest Income*

(Dollars in Millions)	2000	1999	1998
Components of net interest income			
Income on earning assets	\$12,157.9	\$10,723.0	\$10,535.9
Expenses on interest bearing liabilities	6,022.9	4,790.3	4,859.7
Net interest income — (taxable-equivalent basis)	<u>\$ 6,135.0</u>	<u>\$ 5,932.7</u>	<u>\$ 5,676.2</u>
Net interest income, as reported	<u>\$ 6,049.6</u>	<u>\$ 5,836.4</u>	<u>\$ 5,565.0</u>
Average yields and rates paid — (taxable-equivalent basis)			
Earning assets yield	8.65%	8.02%	8.25%
Rate paid on interest-bearing liabilities	5.19	4.37	4.67
Gross interest margin	<u>3.46%</u>	<u>3.65%</u>	<u>3.58%</u>
Net interest margin	<u>4.36%</u>	<u>4.44%</u>	<u>4.44%</u>
Net interest margin — (without taxable-equivalent increments)	<u>4.30%</u>	<u>4.37%</u>	<u>4.36%</u>
Average balances:			
Investment securities	\$ 17,311	\$ 19,271	\$ 21,114
Loans	118,317	109,638	102,451
Earning assets	140,606	133,757	127,738
Interest bearing liabilities	116,002	109,719	104,077
Net free funds*	24,604	24,038	23,661

*Represents noninterest-bearing deposits, other non-earning assets and liabilities and equity.

Table 4 *Net Interest Income — Changes Due to Rate and Volume*

(Dollars in Millions)	2000 Compared with 1999			1999 Compared with 1998		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Increase (decrease) in						
Interest income						
Commercial loans	\$ 511.1	\$457.8	\$ 968.9	\$ 346.7	\$(168.8)	\$ 177.9
Commercial real estate	249.2	116.0	365.2	228.3	(72.1)	156.2
Residential mortgages	(233.3)	3.0	(230.3)	(191.5)	(25.3)	(216.8)
Retail loans	202.0	130.0	332.0	270.2	(89.3)	180.9
Total loans	729.0	706.8	1,435.8	653.7	(355.5)	298.2
Loans held for sale	(10.5)	8.7	(1.8)	13.5	(1.5)	12.0
Investment securities	(128.2)	71.9	(56.3)	(122.7)	(27.3)	(150.0)
Money market investments	(6.3)	15.3	9.0	(4.7)	(13.4)	(18.1)
Trading securities	11.3	(1.5)	9.8	13.0	7.2	20.2
Other earning assets	18.7	19.7	38.4	25.2	(0.4)	24.8
Total	614.0	820.9	1,434.9	578.0	(390.9)	187.1
Interest expense						
Interest checking	2.5	36.9	39.4	12.0	(11.9)	0.1
Money market accounts	9.0	148.8	157.8	89.1	(72.0)	17.1
Other savings accounts	(17.5)	(20.4)	(37.9)	(12.2)	(22.6)	(34.8)
Savings certificates	(21.9)	157.6	135.7	(180.3)	(119.8)	(300.1)
Certificates over \$100,000	225.6	128.2	353.8	81.0	(28.0)	53.0
Total interest-bearing deposits	197.7	451.1	648.8	(10.4)	(254.3)	(264.7)
Short-term borrowings	43.7	155.6	199.3	32.4	(44.7)	(12.3)
Long-term debt	120.3	263.2	383.5	266.0	(65.6)	200.4
Mandatorily redeemable preferred securities of subsidiary trusts	—	1.0	1.0	6.8	0.4	7.2
Total	361.7	870.9	1,232.6	294.8	(364.2)	(69.4)
Increase (decrease) in net interest income	\$ 252.3	\$ (50.0)	\$ 202.3	\$ 283.2	\$ (26.7)	\$ 256.5

This table shows the components of the change in net interest income by volume and rate on a taxable-equivalent basis. The effect of changes in rates on volume changes is allocated based on the percentage relationship of changes in volume and changes in rate. This table does not take into account the level of noninterest-bearing funding, nor does it fully reflect changes in the mix of assets and liabilities.

Table 5 *Noninterest Income*

(Dollars in Millions)	2000	1999	1998
Credit card and payment processing revenue	\$ 992.1	\$ 837.8	\$ 748.0
Trust and investment management fees	926.2	887.1	788.3
Deposit service charges	551.1	497.2	470.3
Cash management fees	292.4	280.6	242.0
Mortgage banking revenue	189.9	190.4	244.6
Trading account profits and commissions	258.4	222.4	130.3
Investment products fees and commissions	466.6	450.8	306.9
Investment banking revenue	360.3	246.6	100.4
Insurance product revenue	145.3	105.3	82.5
Commercial product revenue	304.4	215.7	121.9
Retail product revenue	69.1	78.0	25.9
Securities gains, net	8.1	13.2	29.1
Other	319.3	219.8	359.8
Total noninterest income	\$4,883.2	\$4,244.9	\$3,650.0

Table 6 *Noninterest Expense*

(Dollars in Millions)	2000	1999	1998
Salaries	\$2,427.1	\$2,355.3	\$2,196.7
Employee benefits	399.8	410.1	424.9
Net occupancy	396.9	371.8	356.9
Furniture and equipment	308.2	307.9	314.1
Professional services	109.0	95.7	105.3
Advertising and marketing	122.1	124.1	126.9
Other personnel costs	107.0	88.4	73.7
Software	111.9	72.2	51.5
Data Processing	149.7	133.7	120.0
Communication	138.8	123.4	114.2
Postage	174.5	170.7	155.4
Printing	86.5	90.7	89.6
Goodwill	242.8	177.7	177.2
Other intangible assets	149.5	152.1	124.6
Other	444.5	454.7	398.6
Total operating noninterest expense	5,368.3	5,128.5	4,829.6
Merger and restructuring-related charges	348.7	532.8	593.8
Total noninterest expense	\$5,717.0	\$5,661.3	\$5,423.4
Efficiency ratio*	51.9%	55.7%	58.3%
Efficiency ratio, before merger and restructuring-related charges	48.8	50.5	51.9
Banking efficiency ratio, before merger and restructuring-related charges**	43.5	46.3	49.4

*Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.

**Without investment banking and brokerage activity.

Table 7 *Loan Portfolio Distribution*

At December 31 (Dollars in Millions)	2000		1999		1998		1997		1996	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial										
Commercial	\$ 47,041	38.5%	\$ 42,021	37.1%	\$ 37,777	35.3%	\$33,662	34.0%	\$30,790	33.7%
Lease financing	5,776	4.7	3,835	3.4	3,291	3.1	2,667	2.7	2,351	2.6
Total commercial	52,817	43.2	45,856	40.5	41,068	38.4	36,329	36.7	33,141	36.3
Commercial real estate										
Commercial mortgages	19,466	15.9	18,636	16.5	16,602	15.5	15,739	15.9	15,363	16.8
Construction and development	6,977	5.7	6,506	5.7	5,206	4.9	4,059	4.1	3,541	3.9
Total commercial real estate ..	26,443	21.6	25,142	22.2	21,808	20.4	19,798	20.0	18,904	20.7
Residential mortgages	7,753	6.3	11,395	10.1	13,980	13.1	15,892	16.0	13,919	15.3
Retail										
Credit card	6,012	4.9	5,004	4.4	4,856	4.5	4,993	5.1	5,089	5.6
Retail leasing	4,153	3.4	2,123	1.9	1,621	1.5	1,087	1.1	787	0.8
Other retail	25,187	20.6	23,709	20.9	23,625	22.1	20,930	21.1	19,402	21.3
Total retail	35,352	28.9	30,836	27.2	30,102	28.1	27,010	27.3	25,278	27.7
Total loans	\$122,365	100.0%	\$113,229	100.0%	\$106,958	100.0%	\$99,029	100.0%	\$91,242	100.0%

Table 8 *Selected Loan Maturity Distribution*

At December 31, 2000 (Dollars in Millions)	One Year or Less	Over One Through Five Years	Over Five Years	Total
Commercial	\$23,498	\$24,673	\$ 4,646	\$ 52,817
Commercial real estate	7,645	13,261	5,537	26,443
Residential mortgages	526	892	6,335	7,753
Retail	16,974	11,399	6,979	35,352
Total loans	\$48,643	\$50,225	\$23,497	\$122,365
Total of loans due after one year with:				
Predetermined interest rates				\$ 36,953
Floating interest rates				\$ 36,769

Table 9 *Commercial Loan Exposure by Industry Group and Geography*

Industry Group (Dollars in Millions)	December 31, 2000		December 31, 1999	
	Loans	%	Loans	%
Consumer products and services	\$ 9,791	18.4%	\$ 8,197	17.9%
Capital goods	6,984	13.2	5,668	12.4
Financials	5,438	10.3	4,577	10.0
Consumer staples	5,427	10.3	4,424	9.6
Agriculture	4,177	7.9	3,813	8.3
Transportation	2,775	5.3	2,389	5.2
Private investors	2,405	4.6	2,517	5.5
Paper and forestry products, mining and basic materials	2,249	4.3	1,884	4.1
Health care	1,631	3.1	1,544	3.4
Technology	1,223	2.3	1,175	2.6
Mortgage banking	961	1.8	1,051	2.3
Energy	742	1.4	661	1.4
Other	9,014	17.1	7,956	17.3
Total	\$52,817	100.0%	\$45,856	100.0%
Geography				
California	\$ 3,174	6.0%	\$ 2,366	5.2%
Colorado	2,661	5.0	2,272	5.0
Illinois	3,336	6.3	3,128	6.8
Minnesota	8,724	16.5	7,969	17.4
Missouri	2,163	4.1	1,697	3.7
Ohio	2,269	4.3	1,698	3.7
Oregon	2,769	5.2	2,647	5.8
Washington	4,860	9.2	4,846	10.6
Wisconsin	3,153	6.0	2,671	5.8
Other banking regions:				
Midwest	4,547	8.6	4,230	9.2
Mideast	2,230	4.2	2,074	4.5
Mountain	1,316	2.5	1,331	2.9
Southwestern	1,460	2.8	1,299	2.8
Total banking regions	42,662	80.8	38,228	83.4
Other regions	10,155	19.2	7,628	16.6
Total	\$52,817	100.0%	\$45,856	100.0%

Table 10 *Commercial Real Estate Exposure by Property Type and Geography*

Property Type (Dollars in Millions)	December 31, 2000		December 31, 1999	
	Loans	%	Loans	%
Business owner occupied	\$ 7,329	27.7%	\$ 5,663	22.5%
Multi-family	3,908	14.8	3,538	14.1
Commercial property:				
Industrial	1,923	7.3	2,343	9.3
Office	2,761	10.4	2,979	11.8
Retail	2,537	9.6	2,769	11.0
Other	2,755	10.4	2,846	11.3
Homebuilders	1,521	5.8	1,399	5.6
Hotel/motel	1,916	7.2	1,404	5.6
Other	1,793	6.8	2,201	8.8
Total	\$26,443	100.0%	\$25,142	100.0%
Geography				
California	\$ 3,255	12.3%	\$ 1,859	7.4%
Colorado	855	3.2	800	3.2
Illinois	836	3.2	682	2.7
Minnesota	1,088	4.1	1,120	4.5
Missouri	2,842	10.7	2,801	11.1
Ohio	2,425	9.2	2,427	9.7
Oregon	1,638	6.2	1,613	6.4
Washington	2,937	11.1	2,808	11.2
Wisconsin	2,113	8.0	2,102	8.4
Other banking regions:				
Midwest	2,982	11.3	2,551	10.1
Mideast	1,798	6.8	1,513	6.0
Mountain	573	2.2	544	2.2
Southwestern	1,264	4.8	1,201	4.8
Total banking regions	24,606	25.1	22,021	23.1
Other regions	1,837	6.9	3,121	12.3
Total	\$26,443	100.0%	\$25,142	100.0%

Table 11 *Investment Securities*

December 31, 2000 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Average Maturity in Years	Weighted Average Yield	Amortized Cost	Fair Value	Average Maturity in Years	Weighted Average Yield
U.S. Treasuries and agencies	\$ 498	\$ 500	0.32	6.46%	\$ —	\$ —	—	—%
Within one year	1,030	1,050	2.74	6.36	—	—	—	—
One through five years	63	65	6.81	7.11	—	—	—	—
Five through ten years	9	9	14.96	7.48	—	—	—	—
Over	—	—	—	—	—	—	—	—
Total	\$ 1,600	\$ 1,624	2.22	6.43	\$ —	\$ —	—	—
Mortgage-backed securities								
Within one year	\$ 379	\$ 379	0.54	6.83	\$ —	\$ —	—	—
One through five years	1,679	1,687	2.96	6.87	36	36	4.63	7.92
Five through ten years	2,235	2,255	6.74	6.67	—	—	—	—
Over	7,507	7,572	15.28	7.63	—	—	—	—
Total	\$11,800	\$11,893	11.44	7.31	\$ 36	\$ 36	4.63	7.92
Obligations of state and political subdivisions								
Within one year	\$ 347	\$ 348	0.50	7.34	\$ 40	\$ 39	0.41	5.78
One through five years	1,265	1,284	3.10	7.50	58	51	3.21	5.61
Five through ten years	600	614	7.39	7.49	64	68	7.8	5.55
Over	158	163	15.13	7.93	54	63	15.38	5.68
Total	\$ 2,370	\$ 2,409	4.61	7.50	\$216	\$221	7.09	5.64
Other								
Within one year	\$ 15	\$ 15	0.46	6.50	\$ —	\$ —	—	—
One through five years	655	658	2.78	6.72	—	—	—	—
Five through ten years	8	8	7.30	4.68	—	—	—	—
Over	269	256	26.18	7.58	—	—	—	—
Total	\$ 947	\$ 937	9.44	6.94	\$ —	\$ —	—	—
Other equity securities	\$ 274	\$ 276	—	—	\$ —	\$ —	—	—
Money market funds	251	251	—	—	—	—	—	—
Total investment securities	\$17,242	\$17,390	9.47	7.23%	\$252	\$257	—	—%

Note: Information related to mortgage-backed securities included above is presented based upon weighted average maturities anticipating future prepayments. Average yields are presented on a fully-taxable equivalent basis. Yields on available-for-sale securities are computed based on historical cost balances.

Table 12 *Net Charge-offs as a Percentage of Average Loans Outstanding*

	2000	1999	1998	1997	1996
Commercial					
Commercial .....	.56%	.41%	*%	*%	*%
Lease financing .....	.46	.24	*	*	*
Total commercial .....	.55	.40	.31	.50	.21
Commercial real estate					
Commercial mortgages .....	.03	.02	*	*	*
Construction and development .....	.11	.03	*	*	*
Total commercial real estate .....	.05	.02	(.04)	(.05)	(.03)
Residential mortgages .....	.13	.12	.08	.06	.05
Retail					
Credit card	3.68	3.50	3.53	4.05	3.93
Retail leasing .....	.41	.28	*	*	*
Other retail	1.27	1.23	*	*	*
Total retail	1.60	1.57	1.51	1.65	1.42
Total loans .....	.70%	.61%	.53%	.63%	.45%

*Information not available

Table 13 *Nonperforming Assets**

(Dollars in Millions)	December 31				
	2000	1999	1998	1997	1996
Commercial					
Commercial	\$470.4	\$219.0	\$230.4	\$263.9	\$ ***
Lease financing	70.5	31.5	17.7	9.8	***
Total commercial	540.9	250.5	248.1	273.7	238.7
Commercial real estate					
Commercial mortgages	105.5	138.2	86.9	94.9	***
Construction and development	38.2	31.6	28.4	19.5	***
Total commercial real estate	143.7	169.8	115.3	114.4	123.5
Residential mortgages	56.9	72.8	98.7	95.0	90.5
Retail					
Credit card	8.8	5.0	2.6	***	***
Retail leasing	—	.4	.5	.5	.3
Other retail	15.0	21.1	30.4	17.1	17.1
Total retail	23.8	26.5	33.5	17.6	17.4
Total nonperforming loans	765.3	519.6	495.6	500.7	470.1
Other real estate	61.1	40.0	35.1	57.0	69.9
Other assets	40.6	28.9	16.9	17.4	12.3
Total nonperforming assets	\$867.0	\$588.5	\$547.6	\$575.1	\$552.3
Accruing loans 90 days or more past due**	\$385.2	\$248.6	\$252.9	\$213.7	\$234.6
Nonperforming loans to total loans .....	.63%	.46%	.46%	.51%	.52%
Nonperforming assets to total loans plus other real estate .....	.71	.52	.51	.58	.60
Net interest lost on nonperforming loans	\$ 50.8	\$ 29.5	\$ 21.3	\$ 32.1	\$ 37.0

*Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.

**These loans are not included in nonperforming assets and continue to accrue interest because they are secured by collateral and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status.

***Information not available

Table 14 *Summary of Allowance for Credit Losses*

(Dollars in Millions)

	2000	1999	1998	1997	1996
Balance at beginning of year	\$1,710.3	\$1,705.7	\$1,665.8	\$1,600.1	\$1,487.3
Charge-offs					
Commercial					
Commercial	319.8	250.1	*	*	*
Lease financing	27.9	12.4	*	*	*
Total commercial	347.7	262.5	202.3	232.8	143.4
Commercial real estate					
Commercial mortgages	15.8	19.1	*	*	*
Construction and development	10.3	2.6	*	*	*
Total commercial real estate	26.1	21.7	23.6	27.3	30.4
Residential mortgages	13.7	16.2	14.4	11.1	12.8
Retail					
Credit card	235.8	220.2	223.9	258.3	237.1
Retail leasing	14.8	6.2	*	*	*
Other retail	379.5	376.0	*	*	*
Total retail	630.1	602.4	533.4	522.4	426.4
Total charge-offs	1,017.6	902.8	773.7	793.6	613.0
Recoveries					
Commercial					
Commercial	64.0	84.8	*	*	*
Lease financing	7.2	4.0	*	*	*
Total commercial	71.2	88.8	81.9	59.3	75.4
Commercial real estate					
Commercial mortgages	10.8	15.1	*	*	*
Construction and development	2.6	1.0	*	*	*
Total commercial real estate	13.4	16.1	31.0	37.7	35.8
Residential mortgages	1.3	1.4	3.0	2.5	5.3
Retail					
Credit card	27.5	34.6	36.9	38.3	29.5
Retail leasing	2.0	1.1	*	*	*
Other retail	76.8	88.2	*	*	*
Total retail	106.3	123.9	112.6	93.1	80.8
Total recoveries	192.2	230.2	228.5	192.6	197.3
Net Charge-offs					
Commercial					
Commercial	255.8	165.3	*	*	*
Lease financing	20.7	8.4	*	*	*
Total commercial	276.5	173.7	120.4	173.5	68.0
Commercial real estate					
Commercial mortgages	5.0	4.0	*	*	*
Construction and development	7.7	1.6	*	*	*
Total commercial real estate	12.7	5.6	(7.4)	(10.4)	(5.4)
Residential mortgages	12.4	14.8	11.4	8.6	7.5
Retail					
Credit card	208.3	185.6	187.0	220.0	207.6
Retail leasing	12.8	5.1	*	*	*
Other retail	302.7	287.8	*	*	*
Total retail	523.8	478.5	420.8	429.3	345.6
Total net charge-offs	825.4	672.6	545.2	601.0	415.7
Provision for credit losses	828.0	646.0	491.3	639.9	429.9
Acquisitions and other changes	74.0	31.2	93.8	26.8	98.6
Balance at end of year	\$1,786.9	\$1,710.3	\$1,705.7	\$1,665.8	\$1,600.1
Allowance as a percentage of:					
Period-end loans	1.46%	1.51%	1.59%	1.68%	1.75%
Nonperforming loans	233	329	344	333	340
Nonperforming assets	206	291	312	290	290
Net charge-offs	216	254	313	277	385

*Information not available

Table 15 *Delinquent Loan Ratios**

90 days or more past due	December 31				
	2000	1999	1998	1997	1996
Commercial					
Commercial	1.11%	.57%	.69%	***	***%
Lease financing	1.24	.82	.57	**	**
Total commercial	1.13	.59	.68	.84	.83
Commercial real estate					
Commercial mortgages .....	.61	.82	.59	**	**
Construction and development .....	.57	.53	.60	**	**
Total commercial real estate .....	.60	.74	.59	.67	.82
Residential mortgages	1.49	1.11	1.26	.90	.95
Retail					
Credit card	1.85	1.33	1.07	**	**
Retail leasing .....	.20	.14	.13	**	**
Other retail .....	.64	.47	.47	**	**
Total retail .....	.79	.59	.55	.42	.47
Total .....	.94%	.68%	.70%	.72%	.77%

* Ratios include nonperforming loans and are expressed as a percent of ending loan balances.

** Information not available

Table 16 *Allocation of Allowance for Credit Losses*

(Dollars in Millions)	Allocation Amount At December 31					Allocation as a Percent of Loans Outstanding				
	2000	1999	1998	1997	1996	2000	1999	1998	1997	1996
Commercial										
Commercial	\$ 626.5	\$ 408.3	\$ 343.7	\$ 370.5	\$ 341.5	1.33%	.97%	.91%	1.10%	1.11%
Lease financing	26.7	20.2	21.5	16.4	13.7	.46	.53	.65	.62	.58
Total commercial	653.2	428.5	365.2	386.9	355.2	1.24	.93	.89	1.06	1.07
Commercial real estate										
Commercial mortgages	59.2	110.4	105.2	105.6	149.3	.30	.59	.63	.67	.97
Construction and development ...	23.6	22.5	25.9	27.7	24.1	.34	.35	.50	.68	.68
Total commercial real estate ..	82.8	132.9	131.1	133.3	173.4	.31	.53	.60	.67	.92
Residential mortgages	9.6	18.6	27.2	36.9	30.9	.12	.16	.19	.23	.22
Retail										
Credit card	265.6	320.8	304.3	217.4	234.5	4.42	6.41	6.27	4.35	4.61
Retail leasing	27.2	18.6	6.5	4.9	2.4	.65	.87	.40	.45	.31
Other retail	358.9	389.2	365.6	257.9	201.0	1.43	1.64	1.55	1.23	1.04
Total retail	651.7	728.6	676.4	480.2	437.9	1.84	2.36	2.25	1.78	1.73
Total allocated allowance	1,397.3	1,308.6	1,199.9	1,037.3	997.4	1.14	1.16	1.12	1.05	1.09
Unallocated portion	389.6	401.7	505.8	628.5	602.7	.32	.35	.47	.63	.66
Total allowance	\$1,786.9	\$1,710.3	\$1,705.7	\$1,665.8	\$1,600.1	1.46%	1.51%	1.59%	1.68%	1.75%

Table 17 *Deposits by Type*

December 31 (Dollars in Millions)	2000	1999	1998	1997	1996
Noninterest-bearing deposits	\$ 26,633	\$ 26,350	\$ 27,479	\$24,062	\$23,417
Interest-bearing deposits					
Savings accounts	4,516	5,445	6,352	6,414	6,807
Interest checking	13,982	13,141	13,385	12,212	11,529
Money market accounts	23,899	22,751	22,086	18,672	17,416
Time certificates of deposit less than \$100,000	25,780	25,394	27,935	29,548	27,587
Time deposits greater than \$100,000					
Domestic	11,221	9,348	6,261	6,622	6,572
Foreign	3,504	988	848	793	483
Total deposits	\$109,535	\$103,417	\$104,346	\$98,323	\$93,811
Percent of deposits by type					
Noninterest-bearing deposits	24.3%	25.4%	26.3%	24.4%	25.0%
Interest-bearing deposits					
Savings accounts	4.1	5.3	6.1	6.5	7.2
Interest checking	12.8	12.6	12.8	12.4	12.3
Money market accounts	21.8	22.0	21.2	19.0	18.6
Time certificates of deposit less than \$100,000	23.5	24.6	26.8	30.2	29.4
Time deposits greater than \$100,000					
Domestic	10.3	9.1	6.0	6.7	7.0
Foreign	3.2	1.0	.8	.8	.5
Total deposits	100.0%	100.0%	100.0%	100.0%	100.0%

The maturity of time deposits greater than \$100,000 is as follows:

December 31, 2000 (Dollars in Millions)

Three months or less	\$ 9,466
Over three months through six months	1,727
Over six months through twelve months	1,850
Over twelve months	1,682
Total	\$14,725

Table 18 *Interest Rate Sensitivity Gap Analysis*

December 31, 2000 (Dollars in Millions)	Repricing Maturities					Total
	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	
Earning Assets						
Loans	\$64,299	\$ 7,246	\$ 9,900	\$32,911	\$ 8,009	\$122,365
Loans held for sale	764	—	—	—	—	764
Investment securities	2,357	1,028	1,644	8,401	4,212	17,642
Other	2,420	7	13	21	890	3,351
Total earning assets	\$69,840	\$ 8,281	\$11,557	\$41,333	\$13,111	\$144,122
Interest-Bearing Liabilities						
Deposits	\$43,813	\$ 7,714	\$ 9,443	\$21,865	\$ 67	\$ 82,902
Short-term borrowings	9,394	25	2,406	1	7	11,833
Long-term debt	13,825	389	839	4,825	1,998	21,876
Company-obligated mandatorily redeemable preferred securities	300	—	—	—	1,100	1,400
Total interest-bearing liabilities	\$67,332	\$ 8,128	\$12,688	\$26,691	\$ 3,172	\$118,011
Effect of off-balance sheet hedging instruments						
Receiving fixed	\$ 811	\$ 423	\$ 568	\$ 4,416	\$ 2,040	\$ 8,258
Receiving floating	1,500	—	—	—	—	1,500
Paying fixed	—	—	(500)	—	—	(500)
Paying floating	(9,093)	(150)	—	(15)	—	(9,258)
Total effect of off-balance sheet hedging instruments	\$ (6,782)	\$ 273	\$ 68	\$ 4,401	\$ 2,040	\$ —
Repricing gap	\$ (4,274)	\$ 426	\$ (1,063)	\$19,043	\$11,979	\$ 26,111
Cumulative repricing gap	(4,274)	(3,848)	(4,911)	14,132	26,111	

The estimates of the Company's assets, liabilities, and hedging instruments are based upon the Company's assessment of the repricing characteristics of contractual and non-contractual instruments. Non-contractual deposit liabilities are subject to immediate withdrawal. For purposes of the above analysis these accounts are reported based upon a historical analysis of the Company's accounts.

Table 19 *Interest Rate Swap Hedging Portfolio Notional Balances and Yields by Maturity Date*

Maturity Date	Notional Amount	Weighted Average Interest Rate Received	Weighted Average Interest Rate Paid
2001	\$1,465	6.76%	6.84%
2002	544	6.22	6.74
2003	1,674	6.02	6.69
2004	1,475	6.60	6.72
2005	1,000	6.88	6.87
Thereafter	2,600	6.66	6.82
Total	\$8,758	6.54%	6.78%

At December 31, 2000 the Company had \$1.0 billion in basis swaps maturing in 2002.

Table 20 *Debt Ratings*

At December 31, 2000	Moody's	Standard & Poors	Fitch
U.S. Bancorp			
Short-term borrowings			F1
Senior debt and medium-term notes	A1	A	A+
Subordinated debt	A2	A-	A
Preferred stock	a1	BBB+	A
Commercial paper	P-1	A-1	F1
U.S. Bank, NA			
Short-term time deposits	P-1	A-1	F1+
Long-term time deposits	Aa3	A+	AA-
Bank notes	Aa3/P-1	A+/A-	A+/F1+
Subordinated debt	A1	A	A
Firstar Bank, NA			
Short-term time deposits	P-1	A-1	F1+
Long-term time deposits	Aa3	A+	AA-
Bank notes	Aa3/P-1	A+/A-	A+/F1+
Subordinated debt	A1	A	A

Table 21 *Regulatory Capital Ratios*

At December 31 (Dollars in Millions)	2000	1999
U.S. Bancorp		
Tangible common equity*	\$10,856	\$10,137
As a percent of tangible assets	6.76%	6.74%
Tier 1 Capital	\$11,602	\$10,936
As a percent of risk-weighted assets	7.21%	7.35%
As a percent of adjusted quarterly average assets (Leverage ratio)	7.39%	7.50%
Total Risk-based capital	\$17,038	\$16,342
As a percent of risk-weighted assets	10.59%	10.99%
Significant Bank Subsidiaries**		
U.S. Bank N.A.:		
Tier 1 Capital	7.29%	6.89%
Total Risk-based Capital	11.21	11.08
Leverage	7.89	7.67
Firstar Bank, N.A.		
Tier 1 Capital	6.58%	7.43%
Total Risk-based Capital	10.39	10.22
Leverage	6.43	7.30
Bank Regulatory Capital Requirements		
	<u>Minimum</u>	<u>Well-Capitalized</u>
Tier 1 Capital	4.00%	6.00%
Total Risk-based Capital	8.00	10.00
Leverage	3.00	5.00

* Defined as shareholders' equity less goodwill

** These balances and ratios were prepared in accordance with regulatory accounting principles as disclosed in the subsidiaries' regulatory reports.

Table 22 *Fourth Quarter Summary*

	Three Months Ended December 31	
	2000	1999
(Dollars in Millions, Except Per Share Data)		
Condensed Income Statement		
Net interest income (taxable-equivalent basis)	\$1,562.5	\$1,501.4
Securities gains, net	7.0	2.1
Other noninterest income	1,257.9	1,135.1
Merger-related charges	84.1	90.5
Other noninterest expense	1,347.8	1,342.1
Provision for credit losses	229.5	173.7
Income before income taxes	1,166.0	1,032.3
Taxable-equivalent adjustment	21.0	22.9
Income taxes	376.3	372.4
Net income	<u>\$ 768.7</u>	<u>\$ 637.0</u>
Financial Ratios		
Return on average assets	1.89%	1.66%
Return on average common equity	20.7	18.3
Net interest margin (taxable-equivalent basis)	4.33	4.49
Efficiency ratio	50.8	54.6
Banking efficiency ratio*	44.9	50.3
Per Common Share		
Earnings per share	\$.41	\$.33
Diluted earnings per share .....	.40	.33
Dividends declared .....	.1625	.1625
Selected Financial Ratios Excluding Merger-Related Charges		
Return on average assets	2.02%	1.88%
Return on average equity	22.2	20.7
Efficiency ratio	47.9	51.2
Banking efficiency ratio*	42.0	46.5

*Without investment banking and brokerage activity

Exhibit 12

Computation of Ratio of Earnings to Fixed Charges

Year Ended December 31 (Dollars in Millions)

	2000	1999	1998	1997	1996
Earnings					
1. Net income	\$ 2,875.6	\$2,381.8	\$2,132.9	\$1,599.3	\$1,918.6
2. Applicable income taxes	1,512.2	1,392.2	1,167.4	950.6	1,082.9
3. Income before taxes (1 + 2)	\$ 4,387.8	\$3,774.0	\$3,300.3	\$2,549.9	\$3,001.5
4. Fixed charges:					
a. Interest expense excluding interest on deposits	\$ 2,404.1	\$1,820.3	\$1,625.0	\$1,305.6	\$1,067.9
b. Portion of rents representative of interest and amortization of debt expense ...	86.7	78.9	73.3	68.0	68.5
c. Fixed charges excluding interest on deposits (4a + 4b)	2,490.8	1,899.2	1,698.3	1,373.6	1,136.4
d. Interest on deposits	3,618.8	2,970.0	3,234.7	3,084.2	2,921.5
e. Fixed charges including interest on deposits (4c + 4d)	\$ 6,109.6	\$4,869.2	\$4,933.0	\$4,457.8	\$4,057.9
5. Amortization of interest capitalized	\$ —	\$ —	\$ —	\$ —	\$ —
6. Earnings excluding interest on deposits (3 + 4c + 5)	6,878.6	5,673.2	4,998.6	3,923.5	4,137.9
7. Earnings including interest on deposits (3 + 4e + 5)	10,497.4	8,643.2	8,233.3	7,007.7	7,059.4
8. Fixed charges excluding interest on deposits (4c)	2,490.8	1,899.2	1,698.3	1,373.6	1,136.4
9. Fixed charges including interest on deposits (4e)	6,109.6	4,869.2	4,933.0	4,457.8	4,057.9
Ratio of Earnings to Fixed Charges					
10. Excluding interest on deposits (line 6/line 8)	2.76	2.99	2.94	2.86	3.64
11. Including interest on deposits (line 7/line 9)	1.72	1.78	1.67	1.57	1.74

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- 4 Community Outreach and Fair Lending Committee
- 5 Governance Committee

Corporate Information

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Firststar Bank, N.A., a subsidiary of U.S. Bancorp, acts as transfer agent and registrar, dividend paying agent and dividend reinvestment plan agent for U.S. Bancorp and maintains all shareholder records for the corporation. Inquiries related to shareholder records, stock transfers, changes of ownership, changes of address and dividend payment should be sent to the transfer agent at the following address:

Firststar Bank, N.A.
1555 North River Center Drive, Suite 301
Milwaukee, WI 53212
Phone: 1-800-637-7549
Fax: 414-276-4226
Email: firststarinvestorservice@firststar.com

Independent Public Accountants

The independent public accountants of U.S. Bancorp are PricewaterhouseCoopers LLP.

Common Stock Listing and Trading

U.S. Bancorp common stock is listed and traded on the New York Stock Exchange under the ticker symbol USB.

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Financial Information

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