

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM (NOT APPLICABLE)

COMMISSION FILE NUMBER 1-6880

U.S. BANCORP  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

41-0255900  
(I.R.S. Employer  
Identification No.)

U.S. BANK PLACE  
601 SECOND AVENUE SOUTH  
MINNEAPOLIS, MINNESOTA 55402-4302  
(Address of principal executive offices and Zip Code)

612-973-1111  
(Registrant's telephone number, including area code)

(NOT APPLICABLE)  
(Former name, former address and former fiscal year,  
if changed since last report).

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

YES    X    NO    \_\_\_\_\_

Indicate the number of shares outstanding of each of the Registrant's  
classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 31, 2000
Common Stock, \$1.25 Par Value	751,560,810 shares

## FINANCIAL SUMMARY

(Dollars in Millions, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
Income before merger-related charges and available-for-sale securities transactions.....	\$ 410.9	\$ 409.0	\$1,201.1	\$1,161.4
Merger-related charges and available-for-sale securities transactions.....	(9.6)	(12.6)	(27.7)	(23.9)
Net income.....	\$ 401.3	\$ 396.4	\$1,173.4	\$1,137.5
PER COMMON SHARE BEFORE MERGER-RELATED CHARGES AND AVAILABLE-FOR-SALE SECURITIES TRANSACTIONS				
Earnings per share.....	\$ .55	\$ .56	\$ 1.61	\$ 1.60
Diluted earnings per share.....	.55	.56	1.61	1.59
Earnings on a cash basis (diluted)*.....	.63	.62	1.84	1.75
SELECTED FINANCIAL RATIOS BEFORE MERGER-RELATED CHARGES AND AVAILABLE-FOR-SALE SECURITIES TRANSACTIONS				
Return on average assets.....	1.92%	2.09%	1.92%	2.04%
Return on average common equity.....	20.4	24.6	20.4	24.5
Efficiency ratio.....	51.7	49.2	52.5	49.8
Banking efficiency ratio**.....	43.1	42.3	44.3	42.7
PER COMMON SHARE				
Earnings per share.....	\$ .54	\$ .55	\$ 1.58	\$ 1.57
Diluted earnings per share.....	.54	.54	1.57	1.56
Earnings on a cash basis (diluted)*.....	.62	.60	1.80	1.72
Dividends paid.....	.215	.195	.645	.585
Common shareholders' equity.....	10.95	9.20		
FINANCIAL RATIOS				
Return on average assets.....	1.88%	2.02%	1.87%	1.99%
Return on average common equity.....	19.9	23.9	19.9	24.0
Efficiency ratio.....	52.7	50.2	53.3	50.6
Net interest margin (taxable-equivalent basis).....	4.64	4.84	4.73	4.84

	September 30 2000	December 31 1999
PERIOD END		
Loans.....	\$ 68,266	\$ 62,885
Allowance for credit losses.....	1,059	995
Assets.....	86,349	81,530
Total shareholders' equity.....	8,142	7,638
Tangible common equity to total assets***.....	6.5%	6.5%
Tier 1 capital ratio.....	6.7	6.8
Total risk-based capital ratio.....	10.7	11.1
Leverage ratio.....	7.3	7.4

\*Calculated by adding amortization of goodwill and other intangible assets to operating earnings (net income excluding merger-related charges and available-for-sale securities transactions) and net income, respectively.

\*\*Without investment banking and brokerage activity.

\*\*\*Defined as common equity less goodwill as a percentage of total assets less goodwill.

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## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, anticipated future expenses and revenues, the future prospects of the Company's consumer banking business and estimated spending on growth initiatives. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ

materially from those anticipated, including the following, in addition to those contained elsewhere in this Form 10-Q and in the Company's other reports on file with the SEC: (i) the Company's investments in its consumer banking, payment systems and wealth management businesses and in its Internet development could require additional incremental spending, and might not produce expected deposit and loan growth and anticipated contributions to Company earnings; (ii) general economic or industry conditions could be less favorable than expected, resulting in a deterioration in credit quality, a change in the allowance for credit losses, or a reduced demand for credit or fee-based products and services; (iii) changes in the domestic interest rate environment could reduce net interest income and could increase credit losses; (iv) the conditions of the securities markets could change, adversely affecting revenues from capital markets businesses, the value or credit quality of the Company's on-balance sheet and off-balance sheet assets, or the availability and terms of funding necessary to meet the Company's liquidity needs; (v) changes in the extensive laws, regulations and policies governing financial services companies could alter the Company's business environment or affect operations; (vi) the potential need to adapt to industry changes in information technology systems, on which the Company is highly dependent, could present operational issues or require significant capital spending; (vii) competitive pressures could intensify and affect the Company's profitability, including as a result of continued industry consolidation, the increased availability of financial services from non-banks, technological developments such as the Internet, or bank regulatory reform; and (viii) acquisitions may not produce revenue enhancements or cost savings at levels or within time frames originally anticipated, or may result in unforeseen integration difficulties. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them in light of new information or future events.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

**EARNINGS SUMMARY** U.S. Bancorp (the "Company") reported third quarter of 2000 operating earnings (net income excluding merger-related charges and available-for-sale securities transactions) of \$410.9 million, compared with \$409.0 million for the third quarter of 1999. On a diluted share basis, operating earnings were \$.55 in the third quarter of 2000, compared with \$.56 in the third quarter of 1999, a decrease of 2 percent. Operating earnings on a cash basis increased to \$.63 per diluted share in the third quarter of 2000, compared with \$.62 per diluted share in the third quarter of 1999, an increase of 2 percent. Return on average assets and return on average common equity, excluding merger-related charges and available-for-sale securities transactions, were 1.92 percent and 20.4 percent, respectively, in the third quarter of 2000, compared with returns of 2.09 percent and 24.6 percent, respectively, in the third quarter of 1999. The reduction in the Company's return on average common equity from the third quarter of 1999 reflects the impact of recent acquisitions, which were accounted for using the purchase method of accounting. Excluding merger-related charges, the efficiency ratio (the ratio of expenses to revenues) was 51.7 percent in the third quarter of 2000, compared with 49.2 percent in the third quarter of 1999. The banking efficiency ratio (the ratio of expenses to revenues without the impact of investment banking and brokerage activity), before merger-related charges, was 43.1 percent in the third quarter of 2000, compared with 42.3 percent in the third quarter of 1999.

Total revenue on a taxable-equivalent basis, before available-for-sale securities transactions, grew by \$148.0 million, or 9 percent, over the third quarter of 1999. The increase in total revenue was driven by core loan growth, credit card fee revenue, investment banking and brokerage activity and acquisitions. Excluding the impact of acquisitions and divestitures, total revenue on a taxable-equivalent basis, before available-for-sale securities transactions, in the third quarter of 2000 would have been approximately 7 percent higher than the third quarter of 1999. Offsetting the growth in total revenue were increases in noninterest expense, before merger-related charges, of \$117.0 million and provision for credit losses of \$31.0 million over the third quarter of 1999. The growth in noninterest expense was primarily due to acquisitions, investment banking and brokerage activity and additional investments in sales, service quality and technology. In addition to the growth in the Company's ongoing technology investment in Internet-related products and services, the third quarter of 2000 included approximately \$10.8 million of Internet infrastructure-related expense. Relative to the second quarter of 2000, total revenue growth was 2 percent (7 percent on an annualized basis). On the same basis, noninterest expense increased 1 percent (approximately 4 percent annualized).

Net charge-offs in the third quarter of 2000 were \$172.9 million, compared with second quarter of 2000 net charge-offs of \$163.2 million and the third quarter of 1999 net charge-offs of \$141.8 million. A portion of the increase in net charge-offs over the third quarter of 1999 was due to an expected increase in losses on the growing credit-scored small business lending portfolio. The increase in net charge-offs over the second quarter of 2000 was also partially due to higher losses on the credit-scored small business lending portfolio, as well as an increase in consumer fraud losses. The provision for credit losses of \$173.0 million in the third quarter of 2000 approximated net charge-offs for the period. Nonperforming assets increased from \$404.4 million at June 30, 2000, to \$425.3 million at September 30, 2000, due to one commercial credit. The ratio of allowance for credit losses to nonperforming loans was 272 percent at September 30, 2000, compared with 285 percent at June 30, 2000, and 321 percent at December 31, 1999.

Net income was \$401.3 million in the third quarter of 2000, or \$.54 per diluted share, compared with \$396.4 million, or \$.54 per diluted share, in the third quarter of 1999. Return on average assets and return on average common equity were 1.88 percent and 19.9 percent, respectively, in the third quarter of 2000, compared with returns of 2.02 percent and 23.9 percent in the third quarter of 1999. Net income reflects merger-related charges and available-for-sale securities transactions of \$9.6 million (\$14.7 million on a pre-tax basis) in the third quarter of 2000 and \$12.6 million (\$20.2 million on a pre-tax basis) in the third quarter of 1999.

Operating earnings in the first nine months of 2000 were \$1.20 billion compared with \$1.16 billion in the

TABLE 1  
SUMMARY OF CONSOLIDATED INCOME

(Taxable-equivalent Basis; Dollars In Millions, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
<b>CONDENSED INCOME STATEMENT</b>				
Interest income.....	\$1,737.8	\$1,462.1	\$4,990.5	\$4,220.4
Interest expense.....	854.8	617.1	2,365.4	1,758.7
Net interest income.....	883.0	845.0	2,625.1	2,461.7
Provision for credit losses.....	173.0	142.0	490.0	385.0
Net interest income after provision for credit losses....	710.0	703.0	2,135.1	2,076.7
Available-for-sale securities gains (losses).....	1.0	(3.4)	1.0	(3.4)
Other noninterest income.....	826.0	716.0	2,423.1	1,998.2
Merger-related charges.....	15.7	16.8	43.8	34.7
Other noninterest expense.....	884.4	767.4	2,648.9	2,221.1
Income before income taxes.....	636.9	631.4	1,866.5	1,815.7
Taxable-equivalent adjustment.....	17.5	10.3	51.9	31.7
Income taxes.....	218.1	224.7	641.2	646.5
Net income.....	\$ 401.3	\$ 396.4	\$1,173.4	\$1,137.5
<b>FINANCIAL RATIOS</b>				
Return on average assets.....	1.88%	2.02%	1.87%	1.99%
Return on average common equity.....	19.9	23.9	19.9	24.0
Net interest margin (taxable-equivalent basis).....	4.64	4.84	4.73	4.84
Efficiency ratio.....	52.7	50.2	53.3	50.6
Efficiency ratio before merger-related charges.....	51.7	49.2	52.5	49.8
Banking efficiency ratio before merger-related charges*.....	43.1	42.3	44.3	42.7
<b>PER COMMON SHARE</b>				
Earnings per share.....	\$ .54	\$ .55	\$ 1.58	\$ 1.57
Diluted earnings per share.....	.54	.54	1.57	1.56
Dividends paid.....	.215	.195	.645	.585

\*Without investment banking and brokerage activity.

first nine months of 1999. On a diluted per share basis, operating earnings were \$1.61 in the first nine months of 2000, compared with \$1.59 in the first nine months of 1999, an increase of 1 percent. On a diluted per share basis, cash operating earnings were \$1.84 in the first nine months of 2000, compared with \$1.75 in the first nine months of 1999, an increase of 5 percent. Year-to-date return on average assets and return on average common equity, excluding merger-related charges and available-for-sale securities transactions, were 1.92 percent and 20.4 percent, respectively, compared with returns of 2.04 percent and 24.5 percent, respectively, in the first nine months of 1999. Excluding merger-related charges, the efficiency ratio was 52.5 percent in the first nine months of 2000, compared with 49.8 percent in the first nine months of 1999. On a similar basis, the banking efficiency ratio was 44.3 percent in the first nine months of 2000, compared with 42.7 percent in the first nine months of 1999.

Net income in the first nine months of 2000 was \$1.17 billion, or \$1.57 per diluted share, compared with \$1.14 billion, or \$1.56 per diluted share, in the first nine months of 1999. Return on average assets and return on average common equity were 1.87 percent and 19.9 percent, respectively, in the first nine months of 2000, compared with returns of 1.99 percent and 24.0 percent, respectively, in the same period of 1999. Net income reflects merger-related charges and available-for-sale securities transactions of \$27.7 million (\$42.8 million on a pre-tax basis) in the first nine months of 2000, compared with \$23.9 million (\$38.1 million on a pre-tax basis) in the first nine months of 1999.

**ACQUISITION AND DIVESTITURE ACTIVITY** Operating results in the first nine months of 2000 reflect purchase and divestiture transactions from or to the date of completion.

On September 28, 2000, the Company acquired Lyon Financial Services, Inc., a wholly owned subsidiary of the privately held Schwan's Sales Enterprises Inc. in Marshall, Minnesota. Lyon Financial specializes in small-ticket lease transactions and has \$1.3 billion in assets.

TABLE 2  
LINE OF BUSINESS FINANCIAL PERFORMANCE

For the Three Months Ended September 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2000	1999	Percent Change	2000	1999	Percent Change
CONDENSED INCOME STATEMENT						
Net interest income						
(taxable-equivalent basis).....	\$ 416.3	\$ 366.2	13.7%	\$ 341.8	\$ 335.3	1.9%
Provision for credit losses.....	31.5	26.8	17.5	52.2	58.9	(11.4)
Noninterest income.....	116.8	99.5	17.4	131.3	137.9	(4.8)
Noninterest expense.....	221.8	187.6	18.2	224.0	208.4	7.5
Goodwill and other intangible assets expense...	23.1	16.4	40.9	15.1	11.0	37.3
Income taxes and taxable-equivalent adjustment.....	95.0	86.9	9.3	67.3	72.1	(6.7)
Income before merger-related charges and available-for-sale securities transactions...	\$ 161.7	\$ 148.0	9.3	\$ 114.5	\$ 122.8	(6.8)
Net merger-related charges and available-for-sale securities transactions (after-tax)*.....						
Net income.....						
AVERAGE BALANCE SHEET DATA						
Loans.....	\$ 41,981	\$ 35,768	17.4	\$ 11,200	\$ 12,873	(13.0)
Assets.....	46,193	39,194	17.9	12,735	14,023	(9.2)
Deposits.....	11,803	10,845	8.8	31,289	29,902	4.6
Common equity.....	4,877	3,764	29.6	1,246	1,141	9.2
Return on average assets.....	1.39%	1.50%		3.58%	3.47%	
Return on average common equity ("ROCE").....	13.2	15.6		36.6	42.7	
Efficiency ratio.....	45.9	43.8		50.5	46.4	
Efficiency ratio on a cash basis**.....	41.6	40.3		47.3	44.0	

For the Nine Months Ended September 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2000	1999	Percent Change	2000	1999	Percent Change
CONDENSED INCOME STATEMENT						
Net interest income						
(taxable-equivalent basis).....	\$1,232.4	\$1,071.8	15.0%	\$1,014.3	\$ 987.7	2.7%
Provision for credit losses.....	92.8	78.3	18.5	151.1	156.8	(3.6)
Noninterest income.....	353.3	309.8	14.0	378.2	353.5	7.0
Noninterest expense.....	641.9	562.2	14.2	663.8	623.0	6.5
Goodwill and other intangible assets expense...	69.1	47.6	45.2	45.5	32.2	41.3
Income taxes and taxable-equivalent adjustment.....	289.3	256.6	12.7	196.9	195.8	.6
Income before merger-related charges and available-for-sale securities transactions.....	\$ 492.6	\$ 436.9	12.7	\$ 335.2	\$ 333.4	.5
Net merger-related charges and available-for-sale securities transactions (after-tax)*.....						
Net income.....						
AVERAGE BALANCE SHEET DATA						
Loans.....	\$ 41,241	\$ 34,862	18.3	\$ 10,858	\$ 12,846	(15.5)
Assets.....	45,363	38,148	18.9	12,408	13,989	(11.3)
Deposits.....	11,640	10,808	7.7	31,080	30,461	2.0
Common equity.....	4,797	3,590	33.6	1,227	1,142	7.4
Return on average assets.....	1.45%	1.53%		3.61%	3.19%	
Return on average common equity ("ROCE").....	13.7	16.3		36.5	39.0	
Efficiency ratio.....	44.8	44.1		50.9	48.9	
Efficiency ratio on a cash basis**.....	40.5	40.7		47.7	46.5	

\*Merger-related charges and available-for-sale securities transactions are not allocated to the business lines. All ratios are calculated without the effect of merger-related charges and available-for-sale securities transactions.

\*\*Calculated by excluding the amortization of goodwill and other intangibles.

\*\*\*Not meaningful.

Payment Systems			Wealth Management and Capital Markets			Corporate Support		Consolidated Company		
2000	1999	Percent Change	2000	1999	Percent Change	2000	1999	2000	1999	Percent Change
\$ 91.7	\$ 94.3	(2.8%)	\$ 49.4	\$ 42.9	15.2%	(\$ 16.2)	\$ 6.3	\$ 883.0	\$ 845.0	4.5%
83.9	73.9	13.5	1.5	1.2	25.0	3.9	(18.8)	173.0	142.0	21.8
208.5	168.7	23.6	335.9	278.9	20.4	33.5	31.0	826.0	716.0	15.4
110.7	91.7	20.7	302.8	244.7	23.7	(33.8)	(6.6)	825.5	725.8	13.7
14.6	10.0	46.0	6.1	4.2	45.2	--	--	58.9	41.6	41.6
33.7	32.3	4.3	27.7	26.5	4.5	17.0	24.8	240.7	242.6	(.8)
\$ 57.3	\$ 55.1	4.0	\$ 47.2	\$ 45.2	4.4	\$ 30.2	\$ 37.9	410.9	409.0	.5
								(9.6)	(12.6)	***
								\$ 401.3	\$ 396.4	1.2
\$ 9,001	\$8,011	12.4	\$ 3,061	\$2,422	26.4	\$ 1,990	\$ 2,275	\$ 67,233	\$ 61,349	9.6
9,644	8,647	11.5	7,083	5,793	22.3	9,453	10,043	85,108	77,700	9.5
165	141	17.0	3,821	3,326	14.9	3,834	3,502	50,912	47,716	6.7
1,024	802	27.7	1,317	1,176	12.0	(432)	(295)	8,032	6,588	21.9
2.36%	2.53%		2.65%	3.10%				1.92%	2.09%	
22.3	27.3		14.3	15.2				20.4	24.6	
41.7	38.7		80.2	77.3				51.7	49.2	
36.9	34.9		78.6	76.0				48.3	46.5	

Payment Systems			Wealth Management and Capital Markets			Corporate Support		Consolidated Company		
2000	1999	Percent Change	2000	1999	Percent Change	2000	1999	2000	1999	Percent Change
\$ 273.8	\$264.1	3.7%	\$ 144.9	\$122.1	18.7%	(\$ 40.3)	\$ 16.0	\$ 2,625.1	\$2,461.7	6.6%
240.5	227.9	5.5	4.2	3.3	27.3	1.4	(81.3)	490.0	385.0	27.3
572.8	446.4	28.3	1,057.6	845.7	25.1	61.2	42.8	2,423.1	1,998.2	21.3
308.4	248.1	24.3	918.1	723.9	26.8	(57.2)	(52.1)	2,475.0	2,105.1	17.6
41.0	24.2	69.4	18.3	12.0	52.5	--	--	173.9	116.0	49.9
95.0	77.8	22.1	96.9	84.6	14.5	30.1	77.6	708.2	692.4	2.3
\$ 161.7	\$132.5	22.0	\$ 165.0	\$144.0	14.6	\$ 46.6	\$ 114.6	1,201.1	1,161.4	3.4
								(27.7)	(23.9)	***
								\$ 1,173.4	\$1,137.5	3.2
\$ 8,566	\$7,859	9.0	\$ 2,933	\$2,276	28.9	\$ 2,054	\$ 2,416	\$ 65,652	\$ 60,259	8.9
9,175	8,357	9.8	6,915	5,475	26.3	9,799	10,334	83,660	76,303	9.6
125	97	28.9	3,729	3,244	15.0	3,766	3,162	50,340	47,772	5.4
934	709	31.7	1,307	1,147	13.9	(393)	(257)	7,872	6,331	24.3
2.35%	2.12%		3.19%	3.52%				1.92%	2.04%	
23.1	25.0		16.9	16.8				20.4	24.5	
41.3	38.3		77.9	76.0				52.5	49.8	
36.4	34.9		76.3	74.8				49.0	47.2	

On April 7, 2000, the Company acquired Oliver-Allen Corporation, Inc., a privately held information technology leasing company with total assets of \$280 million. On January 14, 2000, the Company acquired Peninsula Bank of San Diego, which had 11 branches in San Diego county and total assets of \$491 million. On November 15, 1999, the Company completed the acquisition of Western Bancorp. Western Bancorp had \$2.5 billion in total assets with 31 branches in southern California in Los Angeles, Orange and San Diego counties. The purchase price of approximately \$932 million was allocated to assets acquired and liabilities assumed based on their fair market values at the date of acquisition. On September 17, 1999, the Company completed its acquisition of the investment banking division of The John Nuveen Company, which became part of the U.S. Bancorp Piper Jaffray Fixed Income Capital Markets division. On September 13, 1999, the Company completed its acquisition of Voyager Fleet Systems Inc., which is now part of the Payment Systems business unit. On July 15, 1999, the Company completed its acquisition of the San Diego-based Bank of Commerce, one of the nation's largest U.S. Small Business Administration ("SBA") lenders. On June 30, 1999, the Company completed its acquisition of Mellon Network Services' electronic funds transfer processing unit. These transactions were all accounted for as purchase acquisitions.

With respect to divestiture transactions, the Company completed the sale of 28 branches in Kansas and Iowa on September 24, 1999, with aggregate deposits of \$364 million. On September 23, 1999, the Company sold \$1.8 billion of indirect automobile loans and is in the process of exiting this business.

On October 13, 2000, the Company acquired Scripps Financial Corporation of San Diego, which has ten branches in San Diego county and total assets of \$650 million.

On October 4, 2000, the Company announced that it had signed a definitive agreement to be acquired by Firststar Corporation of Milwaukee, Wisconsin in a tax-free exchange of shares. U.S. Bancorp shareholders will receive 1.265 shares of the combined company stock for every share of U.S. Bancorp stock. Pending all regulatory and shareholder approvals, the transaction is expected to close in the first quarter of 2001 and be accounted for as a pooling-of-interests.

#### LINE OF BUSINESS FINANCIAL REVIEW

Within the Company, financial performance is measured by major lines of business, which include: Wholesale Banking, Consumer Banking, Payment Systems, Wealth Management and Capital Markets, and Corporate Support. These segments are determined based on the products and services provided to respond effectively to the needs of a diverse customer base. Business line results are derived from the Company's business unit profitability reporting system. Designations, assignments and allocations may change from time to time as management accounting systems are enhanced or product lines change. During 2000 certain organization and methodology changes were made and 1999 results are presented on a consistent basis.

**WHOLESALE BANKING** Wholesale Banking includes lending, treasury management, corporate trust and other financial services to middle market, large corporate and public sector clients. The business line contributed operating earnings of \$161.7 million in the third quarter of 2000, an increase of 9 percent over the third quarter of 1999, and \$492.6 million in the first nine months of 2000, a 13 percent increase over the same period of 1999. Strong revenue growth, primarily due to core loan growth and bank acquisitions, was partially offset by an increase in provision for credit losses and higher noninterest expense. Return on average assets was 1.39 percent in the third quarter of 2000 and 1.45 percent in the first nine months of 2000, compared with 1.50 percent and 1.53 percent for the same periods of 1999. Return on average common equity was 13.2 percent in the third quarter of 2000 and 13.7 percent in the first nine months of 2000, compared with 15.6 percent and 16.3 percent for the same periods of 1999.

Net interest income increased 14 percent in the third quarter and 15 percent in the first nine months of 2000, compared with the same periods of 1999. Strong growth in net interest income was primarily due to core commercial loan growth and bank acquisitions. The increase in the provision for credit losses of 18 percent for the third quarter and 19 percent for the first nine months of 2000 also reflected growth in the loan portfolio. Noninterest income increased 17 percent in the third quarter and 14 percent in the first nine months of 2000, compared with the same periods of the prior year. The increase in noninterest income was primarily due to leasing activities, the timing of ongoing sales of SBA loans and acquisitions. Noninterest expense (including amortization of intangible assets) increased 20 percent in the third quarter and 17 percent in the first nine months of 2000, compared with the same periods of 1999. The increase in noninterest expense was primarily due to acquisitions and SBA lending activities. The efficiency ratio on a cash basis was

41.6 percent in the third quarter and 40.5 percent in the first nine months of 2000, compared with 40.3 percent and 40.7 percent in the same periods of 1999.

**CONSUMER BANKING** Consumer Banking delivers products and services to the broad consumer market and small-businesses through branch offices, telemarketing, online services, direct mail and automated teller machines ("ATMs"). The business line contributed operating earnings of \$114.5 million during the third quarter of 2000, a 7 percent decrease from the third quarter of 1999, and \$335.2 million for the first nine months of 2000, a slight increase compared with the same period of 1999. Third quarter and year-to-date return on average assets improved to 3.58 percent and 3.61 percent, respectively, compared with 3.47 percent and 3.19 percent in the same periods of the prior year. Return on average common equity was 36.6 percent for the third quarter and 36.5 percent for the first nine months of 2000, compared with 42.7 percent and 39.0 percent in the same periods of 1999.

Total revenue in the third quarter of 2000 was essentially equal to total revenue in the third quarter of 1999, primarily due to the expected reduction in the indirect automobile portfolio, a gain from the sale of student loans in the third quarter of 1999 and a third quarter of 2000 loss on the Company's equity investment in New Century Financial Corporation accounted for under the equity method based on New Century's reported earnings. After consideration of the timing of revenues derived from student loan sales and the loss associated with New Century, the growth in revenue would have approximated prior quarters' revenue growth. For the first nine months of 2000 total revenue improved 4 percent over the same period in 1999. A reduction in the business line's provision for credit losses, primarily due to improved deposit fraud management and the divestiture of the indirect automobile portfolio, was more than offset by an increase in noninterest expense. Noninterest expense (including intangible expense) increased 9 percent for the third quarter of 2000 and 8 percent the first nine months of 2000 compared with the same periods of 1999. The Company is currently investing in a number of customer service quality initiatives and enhanced technology designed to improve the earnings growth of the Consumer Banking business line. As with any investment, successful achievement of the anticipated deposit and loan growth and related contribution to earnings is subject to a number of uncertainties.

**PAYMENT SYSTEMS** Payment Systems includes consumer and business credit cards, corporate and purchasing card services, consumer lines of credit, ATM processing and merchant processing. The business line contributed operating earnings of \$57.3 million in the third quarter of 2000, an increase of 4 percent over the third quarter of 1999, and \$161.7 million for the first nine months of 2000, representing a 22 percent increase over the same period of 1999. Third quarter and year-to-date return on average assets were 2.36 percent and 2.35 percent, respectively, compared with 2.53 percent and 2.12 percent in the same periods of the prior year. Return on average common equity was 22.3 percent and 23.1 percent in the third quarter and first nine months of 2000, respectively, compared with 27.3 percent and 25.0 percent in the same periods of 1999.

Total revenue increased 14 percent and 19 percent over the third quarter and first nine months of 1999, respectively. Strong growth in corporate and retail card product fees and ATM processing-related revenue was partially offset by a slight reduction in net interest income, reflecting the growth in the business line's noninterest-bearing corporate-card loans. Payment Systems' revenue growth was partially offset by increases in provision for credit losses and noninterest expense over the third quarter and first nine months of 1999, reflecting continued growth in investments in key strategic co-brand partnerships, new products and technology, as well as transaction volume.

**WEALTH MANAGEMENT AND CAPITAL MARKETS** Wealth Management and Capital Markets engages in equity and fixed income trading activities, offers investment banking and underwriting services for corporate and public sector customers and provides securities, mutual funds, annuities and insurance products to consumers and regionally-based businesses through a network of banking centers and brokerage offices. It also offers institutional trust, investment management services, and private banking and personal trust services. The business line contributed operating earnings of \$47.2 million in the third quarter of 2000, an increase of 4 percent compared with the third quarter of 1999, and \$165.0 million for the first nine months of 2000, a 15 percent increase over the first nine months of 1999. Return on average common equity for the third quarter of 2000 decreased to 14.3 percent, compared with 15.2 percent in the third quarter of the prior year. The return on average common equity improved slightly to 16.9 percent from 16.8 percent in the first nine months of 2000 compared with the same period of 1999.

During the third quarter of 2000, total revenue grew by 20 percent over the third quarter of 1999 and 24 percent over the first nine months of 1999 primarily due to increases in investment banking, trading account profits and commissions, trust fees and growth in loans and deposits in Private Financial Services. Offsetting the

TABLE 3  
ANALYSIS OF NET INTEREST INCOME

(Dollars In Millions)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
Net interest income, as reported.....	\$865.5	\$834.7	\$2,573.2	\$2,430.0
Taxable-equivalent adjustment.....	17.5	10.3	51.9	31.7
Net interest income (taxable-equivalent basis).....	\$883.0	\$845.0	\$2,625.1	\$2,461.7
Average yields and weighted average rates (taxable-equivalent basis)				
Earning assets yield.....	9.13%	8.37%	8.99%	8.30%
Rate paid on interest-bearing liabilities.....	5.67	4.45	5.37	4.35
Gross interest margin.....	3.46%	3.92%	3.62%	3.95%
Net interest margin.....	4.64%	4.84%	4.73%	4.84%
Net interest margin without taxable-equivalent increments...	4.55%	4.78%	4.64%	4.78%

positive impact of revenue growth, noninterest expense (including amortization of intangible assets) increased 24 percent in the third quarter and 27 percent in the first nine months of 2000, compared with the same periods of 1999. The increases were primarily due to the increase in investment banking and brokerage activity, office expansion and other growth initiatives.

**CORPORATE SUPPORT** Corporate Support includes the net effect of support units after internal revenue and expense allocations, treasury and other corporate activities. Operating earnings in the third quarter declined \$7.7 million and \$68 million during the first nine months of 2000 as compared with the same periods of 1999. The reductions primarily reflect the change in the residual allocations associated with provision for credit losses, planned declines in the residential real estate portfolio, noninterest expenses from operational activities and the effect of a rising rate environment.

#### STATEMENT OF INCOME ANALYSIS

**NET INTEREST INCOME** Third quarter net interest income on a taxable-equivalent basis was \$883.0 million compared with \$845.0 million in the third quarter of 1999. Year-to-date net interest income on a taxable-equivalent basis was \$2.63 billion, compared with \$2.46 billion in the first nine months of 1999. For the third quarter and on a year-to-date basis, average earning assets increased 9 percent compared with the same periods of 1999. The increase was primarily driven by core commercial and home equity and second mortgage loan growth and acquisitions, partially offset by reductions in securities, indirect automobile loans and residential mortgage loans. The net interest margin decreased from 4.84 percent in both the third quarter and first nine months of 1999 to 4.64 percent and 4.73 percent in the third quarter and first nine months of 2000. The decrease reflects lagging core deposit growth relative to the growth in total earning assets which has increased the Company's incremental cost of funding.

Average loans for the third quarter and first nine months of 2000 increased 10 percent and 9 percent, respectively, compared with the same periods of the prior year. Excluding indirect automobile and residential mortgage loans, average loans for both the third quarter and first nine months of 2000 were higher by approximately \$8.05 billion (14 percent) and \$7.91 billion (14 percent), respectively, than the third quarter and first nine months of 1999. The decline in indirect automobile loans reflects a \$1.8 billion loan sale completed in the third quarter of 1999. The Company is in the process of exiting this business. Without acquisitions, average loans, excluding indirect automobile and residential mortgage loans, were higher than the third quarter and first nine months of 1999 by 10 percent for both periods. Average available-for-sale securities for the third quarter and first nine months of 2000 decreased by \$659 million and \$454 million, respectively, from the third quarter and first nine months of 1999, reflecting both maturities and sales of securities.

**PROVISION FOR CREDIT LOSSES** In the third quarter of 2000, the provision for credit losses was \$173.0 million, an increase of \$31 million (22 percent) from \$142.0 million in the same quarter of 1999. The provision for credit losses in the first nine months of 2000 was \$490.0 million, an increase of \$105 million (27 percent) from \$385.0 million in the same period of 1999. Third quarter and year-to-date net charge-offs totaled \$172.9 million and \$490.1 million, respectively, up from \$141.8 million and \$421.7 million in the same periods of 1999. The increase in net charge-offs during 2000 was primarily due to commercial loan charge-offs including the growing credit-scored small business

TABLE 4  
NONINTEREST INCOME

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
Credit card fee revenue.....	\$ 192.8	\$ 161.3	\$ 529.4	\$ 436.8
Trust and investment management fees.....	119.9	113.8	354.0	343.2
Service charges on deposit accounts.....	120.8	112.2	347.3	323.1
Investment products fees and commissions.....	81.3	79.5	279.3	259.7
Investment banking revenue.....	97.3	60.1	264.1	156.6
Trading account profits and commissions.....	50.0	48.4	191.8	150.4
Other.....	163.9	140.7	457.2	328.4
Total operating noninterest income.....	826.0	716.0	2,423.1	1,998.2
Available-for-sale securities gains (losses).....	1.0	(3.4)	1.0	(3.4)
Total noninterest income.....	\$ 827.0	\$ 712.6	\$2,424.1	\$1,994.8

lending portfolio. On a year-to-date basis, this increase was partially offset by lower consumer loan charge-offs. Refer to "Corporate Risk Management" for further information on credit quality.

NONINTEREST INCOME Third quarter 2000 noninterest income was \$827.0 million, an increase of \$114.4 million (16 percent) from the third quarter of 1999. Noninterest income in the first nine months of 2000 was \$2.42 billion, an increase of \$429.3 million (22 percent) from \$1.99 billion in the first nine months of 1999. Noninterest income in the third quarter of 2000 included net gains from available-for-sale securities transactions of \$1.0 million as compared with net losses of \$3.4 million in the same period of 1999. Excluding the impact of acquisitions and divestitures, noninterest income, before available-for-sale securities transactions, in the third quarter and first nine months of 2000 would have been approximately 14 percent higher than the third quarter of 1999 and 19 percent higher than the first nine months of 1999.

Credit card fee revenue was higher for the third quarter and first nine months of 2000 by \$31.5 million (20 percent) and \$92.6 million (21 percent), respectively, reflecting continued growth in corporate and retail card product fees, ATM processing-related revenue and acquisitions. Investment banking revenue was higher in the third quarter and first nine months of 2000 compared with the same periods of 1999 by \$37.2 million (62 percent) and \$107.5 million (69 percent), respectively, due to strong equity capital markets activity at U.S. Bancorp Piper Jaffray. Other income increased by \$23.2 million, or 16 percent, over the third quarter of 1999 and \$128.8 million, or 39 percent, over the first nine months of 1999. The increases reflect the impact of acquisitions, U.S. Bancorp Piper Jaffray managed account fees, revenues associated with equity investments, and the timing of sales of SBA loans, partially offset by the third quarter of 1999 gain-on-sale of branches in Kansas and Iowa. Year-to-date results also reflect the second quarter \$35 million gain on the disposal of the Company's ownership interests in a Portland office building, and a \$10.8 million first quarter gain on the sale of a Boise building.

NONINTEREST EXPENSE Third quarter 2000 noninterest expense, before merger-related charges, totaled \$884.4 million, an increase of \$117.0 million (15 percent) from \$767.4 million in the third quarter of 1999. Year-to-date noninterest expense, before merger-related charges, was \$2.65 billion, an increase of \$427.8 million (19 percent) from \$2.22 billion in the first nine months of 1999. The increase in noninterest expense over the third quarter and first nine months of 1999 was primarily the result of acquisitions, the increase in investment banking and brokerage activity and the Company's continuing investment in sales, service quality and technology. In addition to ongoing investments in Internet-related products and services, the third quarter and first nine months of 2000 included approximately \$10.8 million and \$31.0 million, respectively, of incremental spending on Internet infrastructure-related initiatives. As with any such investment, the anticipated benefits are subject to a number of uncertainties.

The banking efficiency ratio, excluding merger-related charges, was 43.1 percent and 44.3 percent for the third quarter and first nine months of 2000, respectively, compared with 42.3 percent and 42.7 percent for the same periods of 1999. The overall efficiency ratio increased slightly due to the planned investments in Internet technology and other customer-related initiatives. The Company has accelerated the development of its capabilities to deliver its products and services over the Internet.

Third quarter of 2000 noninterest expense was \$900.1 million, compared with \$784.2 million in the third quarter of 1999. Year-to-date noninterest expense

TABLE 5  
NONINTEREST EXPENSE

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
Salaries.....	\$ 417.5	\$ 352.4	\$1,263.7	\$1,063.2
Employee benefits.....	63.0	59.8	208.4	183.4
Net occupancy.....	59.5	51.9	171.8	151.8
Furniture and equipment.....	43.7	40.9	125.3	118.0
Professional services.....	23.3	17.0	66.8	47.6
Telephone.....	22.9	20.3	66.0	55.7
Advertising and marketing.....	20.5	18.5	58.3	46.2
Other personnel costs.....	20.8	16.7	52.3	49.2
Goodwill and other intangible assets.....	58.9	41.6	173.9	116.0
Other.....	154.3	148.3	462.4	390.0
Total operating noninterest expense.....	884.4	767.4	2,648.9	2,221.1
Merger-related charges.....	15.7	16.8	43.8	34.7
Total noninterest expense.....	\$ 900.1	\$ 784.2	\$2,692.7	\$2,255.8
Efficiency ratio*.....	52.7%	50.2%	53.3%	50.6%
Efficiency ratio before merger-related charges.....	51.7	49.2	52.5	49.8
Banking efficiency ratio before merger-related charges**.....	43.1	42.3	44.3	42.7
Average number of full-time equivalent employees.....	29,047	26,907	28,803	26,871

\*Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding available-for-sale securities gains and losses.

\*\*Without investment banking and brokerage activity.

was \$2.69 billion, compared with \$2.26 billion in the first nine months of 1999. Noninterest expense in the third quarter and first nine months of 2000 included nonrecurring merger-related charges of \$15.7 million and \$43.8 million, compared with merger-related charges of \$16.8 million and \$34.7 million in the third quarter and first nine months of 1999. The merger-related charges incurred in 2000 were related to the integration of the Company's various acquisitions, including Mellon Network Services, Western Bancorp and Peninsula Bank of San Diego.

**INCOME TAX EXPENSE** The provision for income taxes was \$218.1 million (an effective rate of 35.2 percent) in the third quarter and \$641.2 million (an effective rate of 35.3 percent) in the first nine months of 2000, compared with \$224.7 million (an effective rate of 36.2 percent) and \$646.5 million (an effective rate of 36.2 percent) in the same periods of 1999.

#### BALANCE SHEET ANALYSIS

**LOANS** The Company's loan portfolio was \$68.3 billion at September 30, 2000, compared with \$62.9 billion at December 31, 1999. Commercial loans totaled \$48.4 billion at September 30, 2000, up \$5.4 billion (13 percent) from December 31, 1999. The increase was primarily attributable to continued growth in core commercial loans and acquisitions. Total consumer outstandings were \$19.9 billion both at September 30, 2000 and at December 31, 1999. Excluding indirect automobile loans and residential mortgage loans, consumer loans were \$17.0 billion at September 30, 2000, and \$16.6 billion at December 31, 1999.

**SECURITIES** At September 30, 2000, available-for-sale securities totaled \$4.4 billion, compared with \$4.9 billion at December 31, 1999, reflecting both maturities and sales of securities.

**DEPOSITS** Noninterest-bearing deposits were \$14.5 billion at September 30, 2000, compared with \$16.1 billion at December 31, 1999. The decrease was primarily due to seasonality of business deposits. The decline was offset by an increase in interest-bearing deposits which totaled \$36.8 billion at September 30, 2000, compared with \$35.5 billion at December 31, 1999.

**BORROWINGS** Short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings, increased to \$3.4 billion at September 30, 2000, compared with \$2.3 billion at December 31, 1999, primarily due to increased federal funds purchased.

Long-term debt was \$19.4 billion at September 30, 2000, up from \$16.6 billion at December 31, 1999. The Company issued \$4.8 billion of debt with an average original maturity of 1.9 years under its medium-term and bank note programs to fund core asset growth and replace wholesale funding maturities during 2000. In

TABLE 6  
NET CHARGE-OFFS AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING

	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
<b>COMMERCIAL</b>				
Commercial.....	.74%	.37%	.73%	.44%
Real estate				
Commercial mortgage.....	--	.25	(.05)	.03
Construction.....	.44	.02	.10	.02
Lease financing.....	.49	.55	.48	.25
Total commercial.....	.54	.32	.48	.30
<b>CONSUMER</b>				
Credit card.....	4.48	3.50	4.31	4.42
Other.....	1.86	1.97	1.90	1.83
Subtotal.....	2.50	2.30	2.48	2.39
Residential mortgage.....	.03	.12	.17	.10
Total consumer.....	2.18	2.03	2.18	2.09
Total.....	1.02%	.92%	1.00%	.94%

addition, Federal Home Loan Bank advances, net of maturities, increased by \$309 million during 2000.

#### CORPORATE RISK PROFILE

**CREDIT MANAGEMENT** The Company's strategy for credit risk management includes stringent, centralized credit policies, and uniform underwriting criteria for all loans including specialized lending categories such as mortgage banking, real estate construction and consumer credit. The strategy also emphasizes diversification on both a geographic and customer level, regular credit examinations, and quarterly management reviews of large loans and loans experiencing deterioration of credit quality. The Company strives to identify potential problem loans early, take any necessary charge-offs promptly and maintain strong reserve levels. Commercial banking operations rely on a strong credit culture that combines prudent credit policies and individual lender accountability. In addition, the commercial lenders generally focus on middle market companies within their regions. In the Company's retail banking operations, standard credit scoring systems are used to assess consumer credit risks and to price consumer products accordingly.

In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage, and macroeconomic factors. Generally, the domestic economy of the nation is considered strong, though financial markets have been volatile. Approximately 55 percent of the Company's loan portfolio consists of credit to businesses and consumers in Minnesota, Oregon, Washington and California.

**NET CHARGE-OFFS AND ALLOWANCE FOR CREDIT LOSSES** Net loan charge-offs totaled \$172.9 million and \$490.1 million in the third quarter and first nine months of 2000, respectively, compared with \$141.8 million and \$421.7 million in the same periods of 1999. The ratio of total net charge-offs to average loans was 1.02 percent and 1.00 percent in the third quarter and first nine months of 2000, respectively, compared with .92 and .94 percent in the same periods in 1999. Commercial loan net charge-offs were \$63.9 million and \$166.2 million in the third quarter and first nine months of 2000, respectively, compared with \$32.7 million and \$86.5 million in the same periods of 1999. The increase reflects the impact of acquisitions, the current economic conditions and growth in small business and corporate payment systems portfolios. Excluding net charge-offs of credit-scored small business and corporate payment systems products, commercial loan net charge-offs were \$36.4 million, or .33 percent of the associated average loans outstanding, compared with \$34.4 million, or .32 percent on the same basis, in the second quarter of 2000.

Consumer loan net charge-offs for the quarter and year-to-date were \$109.0 million and \$323.9 million, respectively, compared with \$109.1 million and \$335.2 million for the same periods of 1999. Consumer loan net charge-offs as a percent of average loans

TABLE 7  
SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
Balance at beginning of period.....	\$1,039.4	\$ 968.2	\$ 995.4	\$1,000.9
CHARGE-OFFS				
Commercial				
Commercial.....	62.2	35.4	179.3	126.2
Real estate				
Commercial mortgage.....	.4	6.5	2.1	7.1
Construction.....	5.1	.2	5.2	.6
Lease financing.....	3.6	3.4	10.3	6.0
Total commercial.....	71.3	45.5	196.9	139.9
Consumer				
Credit card.....	50.7	40.5	144.4	146.9
Other.....	74.2	88.6	229.9	250.7
Subtotal.....	124.9	129.1	374.3	397.6
Residential mortgage.....	.8	.9	4.3	2.7
Total consumer.....	125.7	130.0	378.6	400.3
Total.....	197.0	175.5	575.5	540.2
RECOVERIES				
Commercial				
Commercial.....	6.7	11.5	21.8	46.1
Real estate				
Commercial mortgage.....	.3	1.0	6.0	5.4
Construction.....	.2	--	1.9	.1
Lease financing.....	.2	.3	1.0	1.8
Total commercial.....	7.4	12.8	30.7	53.4
Consumer				
Credit card.....	3.2	5.1	10.0	14.6
Other.....	12.9	15.7	43.7	50.0
Subtotal.....	16.1	20.8	53.7	64.6
Residential mortgage.....	.6	.1	1.0	.5
Total consumer.....	16.7	20.9	54.7	65.1
Total.....	24.1	33.7	85.4	118.5
NET CHARGE-OFFS				
Commercial				
Commercial.....	55.5	23.9	157.5	80.1
Real estate				
Commercial mortgage.....	.1	5.5	(3.9)	1.7
Construction.....	4.9	.2	3.3	.5
Lease financing.....	3.4	3.1	9.3	4.2
Total commercial.....	63.9	32.7	166.2	86.5
Consumer				
Credit card.....	47.5	35.4	134.4	132.3
Other.....	61.3	72.9	186.2	200.7
Subtotal.....	108.8	108.3	320.6	333.0
Residential mortgage.....	.2	.8	3.3	2.2
Total consumer.....	109.0	109.1	323.9	335.2
Total.....	172.9	141.8	490.1	421.7
Provision charged to operating expense.....	173.0	142.0	490.0	385.0
Acquisitions and other changes.....	19.5	(2.1)	63.7	2.1
Balance at end of period.....	\$1,059.0	\$ 966.3	\$1,059.0	\$ 966.3
Allowance as a percentage of:				
Period-end loans.....	1.55%	1.60%		
Nonperforming loans.....	272	327		
Nonperforming assets.....	249	297		
Annualized net charge-offs.....	154	172		

TABLE 8  
DELINQUENT LOAN RATIOS\*

	September 30 2000	December 31 1999
90 days or more past due		
-----		
COMMERCIAL		
Commercial.....	.79%	.57%
Real estate		
Commercial mortgage.....	.70	.84
Construction.....	.68	.59
Lease financing.....	1.07	.81
	-----	-----
Total commercial.....	.78	.65
CONSUMER		
Credit card.....	1.16	.96
Other.....	.60	.57
	-----	-----
Subtotal.....	.74	.67
Residential mortgage.....	1.56	1.57
	-----	-----
Total consumer.....	.84	.79
	-----	-----
Total.....	.80%	.69%
-----		

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

TABLE 9  
NONPERFORMING ASSETS\*

(Dollars in Millions)	September 30 2000	December 31 1999
-----		
COMMERCIAL		
Commercial.....	\$ 216.2	\$ 142.4
Real estate		
Commercial mortgage.....	63.4	78.9
Construction.....	28.5	25.3
Lease financing.....	39.4	18.8
	-----	-----
Total commercial.....	347.5	265.4
CONSUMER		
Residential mortgage.....	33.7	36.0
Other.....	8.0	8.6
	-----	-----
Total consumer.....	41.7	44.6
	-----	-----
Total nonperforming loans.....	389.2	310.0
OTHER REAL ESTATE.....	22.8	20.7
OTHER NONPERFORMING ASSETS.....	13.3	16.8
	-----	-----
Total nonperforming assets.....	\$ 425.3	\$ 347.5
	-----	-----
Accruing loans 90 days or more past due**.....	\$ 155.8	\$ 125.8
Nonperforming loans to total loans.....	.57%	.49%
Nonperforming assets to total loans plus other real estate.....	.62	.55
-----		

\*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.

outstanding were 2.18 in both the third quarter and first nine months of 2000, compared with 2.03 and 2.09 for the same periods of 1999.

The allowance for credit losses increased to \$1,059.0 million at September 30, 2000, from \$995.4 million at December 31, 1999, due to additions related to bank acquisitions and portfolio purchases. As a percentage of nonperforming loans, the allowance was 272 percent at September 30, 2000, compared with 285 percent at June 30, 2000 and 321 percent at December 31, 1999.

NONPERFORMING ASSETS Nonperforming assets include nonaccrual loans, restructured loans, other real estate and other nonperforming assets owned by the Company. Nonperforming assets at September 30, 2000, totaled \$425.3 million, compared with \$347.5 million at December 31, 1999. The ratio of nonperforming assets to loans and other real estate was

TABLE 10

## INTEREST RATE SWAP HEDGING PORTFOLIO NOTIONAL BALANCES AND YIELDS BY MATURITY DATE

At September 30, 2000 (Dollars in Millions)

Maturity Date	Notional Amount	Weighted Average Interest Rate Received	Weighted Average Interest Rate Paid
2000.....	\$ 10	6.23%	6.62%
2001.....	290	6.56	6.62
2002.....	545	6.22	6.62
2003.....	2,318	6.20	6.71
2004.....	1,475	6.60	6.63
Thereafter.....	2,610	6.42	6.62
Total.....	\$7,248	6.38%	6.65%

\*At September 30, 2000, the Company received fixed-rate interest and paid variable-rate interest on substantially all swaps in its hedging portfolio.

.62 percent at September 30, 2000, compared with .60 percent at June 30, 2000 and .55 percent at December 31, 1999.

Accruing loans 90 days or more past due at September 30, 2000, totaled \$155.8 million, compared with \$125.8 million at December 31, 1999. 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. Consumer loans 30 days or more past due increased to 2.72 percent of the portfolio at September 30, 2000, compared with 2.58 percent at June 30, 2000, and 2.65 percent at December 31, 1999. The percentage of consumer loans 90 days or more past due of the total consumer loan portfolio was .84 percent at September 30, 2000, compared with .80 percent at June 30, 2000, and .79 percent at December 31, 1999.

INTEREST RATE RISK MANAGEMENT The Company's policy is to maintain a low interest rate risk position. The Company limits the exposure of net interest income associated with interest rate movements through asset/liability management strategies. The Company's Asset and Liability Management Committee ("ALCO") uses three methods for measuring and managing consolidated interest rate risk: Net Interest Income Simulation Modeling, Market Value Simulation Modeling, and Repricing Mismatch Analysis.

NET INTEREST INCOME SIMULATION MODELING: The Company uses a net interest income simulation model to estimate near-term (next 24 months) risk due to changes in interest rates. The model, which is updated monthly, incorporates substantially all of the Company's assets and liabilities and off-balance sheet instruments, together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. ALCO uses the model to simulate the effect of immediate and sustained parallel shifts in the yield curve of 1 percent, 2 percent and 3 percent, as well as the effect of immediate and sustained flattening or steepening of the yield curve. ALCO also calculates the sensitivity of the simulation results to changes in key assumptions, such as the Prime/LIBOR spread or core deposit repricing. The results from the simulation are reviewed by ALCO monthly and are used to guide ALCO's hedging strategies. ALCO guidelines, approved by the Company's Board of Directors, limit the estimated change in net interest income to 1.5 percent of forecasted net interest income over the succeeding 12 months and 3 percent of forecasted net interest income over the second 12 months given a 1 percent change in interest rates. At September 30, 2000, forecasted net interest income for the next 12 months would decrease \$16 million from an immediate 100 basis point upward parallel shift in rates and would increase \$20 million from a downward shift of similar magnitude. Forecasted net interest income for the second 12 months would decrease \$15 million from an immediate 100 basis point upward parallel shift in rates and would increase \$6 million from a downward shift of similar magnitude.

MARKET VALUE SIMULATION MODELING: The net interest income simulation model is somewhat limited by its dependence upon accurate forecasts of future business activity and the resulting effect on balance sheet assets and liabilities. As a result, its usefulness is greatly diminished for periods beyond one or two years. To better measure all interest rate risk, both short-term and long-term, the Company uses a market value simulation model. This model estimates the effect of 1 percent, 2 percent and 3 percent rate shocks on the present value of substantially all future cash flows of the Company's outstanding assets, liabilities and off-balance sheet

instruments. ALCO also calculates the sensitivity of the simulation results to changes in key assumptions, such as core deposit repricing and core deposit life. The amount of market value risk is subject to a limit, approved by the Company's Board of Directors, of .5 percent of assets for an immediate 100 basis point rate shock. The Company's market value risk position continues to be substantially lower than its limits.

**REPRICING MISMATCH ANALYSIS:** A traditional gap analysis provides a static measurement of the relationship between the amounts of interest rate sensitive assets and liabilities repricing in a given time period. While the analysis provides a useful snapshot of interest rate risk, it does not capture all aspects of interest rate risk. As a result, ALCO uses the repricing mismatch analysis primarily for managing intermediate-term interest rate risk and has established limits, approved by the Company's Board of Directors, for the two- to three-year gap position of 5 percent of assets.

**USE OF DERIVATIVES TO MANAGE INTEREST RATE RISK:** While each of the interest rate risk measurements has limitations, taken together they represent a comprehensive view of the magnitude of the Company's interest rate risk over various time intervals. The Company manages its interest rate risk by entering into off-balance sheet transactions, primarily receive fixed interest rate swaps and, to a lesser degree, basis swaps and interest rate caps and floors.

During the third quarter of 2000, the Company added \$60 million of receive fixed interest rate swaps. In the first nine months of 2000, the Company added \$245 million of receive fixed interest rate swaps and \$500 million of pay fixed interest rate swaps and terminated \$674 million of receive fixed interest rate swaps to reduce interest income at risk. Interest rate swap agreements involve the exchange of fixed- and variable-rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. As of September 30, 2000, the Company received and made payments on \$7.2 billion notional amount of interest rate swap agreements. These swaps had a weighted average interest rate received of 6.38 percent and a weighted average interest rate paid of 6.65 percent. The remaining maturity of these agreements ranges from 1 month to 14.8 years with an average remaining maturity of 4.4 years. For the quarter and nine months ended September 30, 2000, interest rate swap agreements decreased net interest income by \$7.8 million and \$9.6 million, respectively, and for the quarter and nine months ended September 30, 1999, interest rate swap agreements increased net interest income by \$15.2 million and \$52.3 million, respectively.

The Company also purchases interest rate caps, floors and basis swaps to minimize the impact of fluctuating interest rates on earnings. To hedge against rising interest rates, the Company uses interest rate caps. Counterparties to these interest rate cap agreements pay the Company based on the notional amount and the difference between current rates and strike rates. There were no caps outstanding at September 30, 2000. To hedge against falling interest rates, the Company uses interest rate floors. Like caps, counterparties to interest rate floor agreements pay the Company based on the notional amount and the difference between current rates and strike rates. The total notional amount of floor agreements purchased as of September 30, 2000, all of which were LIBOR-indexed, was \$500 million. Basis swaps help the Company reduce the monthly interest income at risk related to mismatches in underlying repricing indices of financial instruments. During the third quarter of 2000, the Company entered into \$1.0 billion of basis swaps where the Company receives 3 month LIBOR and pays 1 month LIBOR. The impact of basis swaps, caps and floors on net interest income was not significant for the nine months ended September 30, 2000, and 1999.

**MARKET RISK MANAGEMENT** Market risk is subject to regular monitoring by management. The Company uses a value-at-risk ("VaR") model to measure and manage market risk in its broker/dealer activities. The VaR model uses an estimate of volatility appropriate to each instrument and a ninety-ninth percentile adverse move in the underlying markets. Market risk limits are established subject to approval by the Company's Board of Directors. The Company's VaR limit was \$40 million at September 30, 2000. The market valuation risk inherent in its broker/dealer activities, including equities, fixed income, high yield securities and foreign exchange, as estimated by the VaR analysis, was \$15.5 million at September 30, 2000.

In addition to the VaR analysis, the Company imposes stop loss limits and position limits. A stress-test model is used to provide management with perspective on market events that a VaR model does not capture. In each case, the historical worst performance of each asset class is observed and applied to current trading positions.

TABLE 11  
CAPITAL RATIOS

(Dollars in Millions)	September 30 2000	December 31 1999
Tangible common equity*.....	\$ 5,434	\$ 5,134
As a percent of assets.....	6.5%	6.5%
Tier 1 capital.....	\$ 5,937	\$ 5,631
As a percent of risk-adjusted assets.....	6.7%	6.8%
Total risk-based capital.....	\$ 9,476	\$ 9,281
As a percent of risk-adjusted assets.....	10.7%	11.1%
Leverage ratio.....	7.3	7.4

\*Defined as common equity less goodwill.

CAPITAL MANAGEMENT At September 30, 2000, tangible common equity (common equity less goodwill) was \$5.4 billion, or 6.5 percent of assets, compared with \$5.1 billion, or 6.5 percent, at December 31, 1999. Tier 1 and total risk-based capital ratios were 6.7 percent and 10.7 percent at September 30, 2000, compared with 6.8 percent and 11.1 percent at December 31, 1999. The September 30, 2000, leverage ratio was 7.3 percent, compared with 7.4 percent at December 31, 1999.

On February 16, 2000, the Company announced a share repurchase program of up to \$2.5 billion of common stock over the period ending March 31, 2002. The new share repurchase program replaced a program that was scheduled to expire on March 31, 2000. During the first nine months of 2000, the Company repurchased 20.2 million shares under these programs for a total dollar value of \$432.2 million.

#### ACCOUNTING CHANGES

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES Statement of Financial Accounting Standards No. ("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. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and the resulting designation. The effective date has been deferred for one year with the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," which amended SFAS 133. SFAS 133, as amended, is effective for all fiscal years beginning after June 15, 2000, with earlier application permitted. We have evaluated the impact of the adoption of SFAS 133 and have determined, based on current market information, that it will not have a material impact on the Company.

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 the residual interests retained. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The additional disclosures are required in financial statements for fiscal years ending after December 15, 2000. The adoption of SFAS 140 is not expected to have a material impact on the Company.

## CONSOLIDATED BALANCE SHEET

	September 30 2000	December 31 1999
(Dollars in Millions)		
(Unaudited)		
<b>ASSETS</b>		
Cash and due from banks.....	\$ 3,666	\$ 4,036
Federal funds sold.....	110	713
Securities purchased under agreements to resell.....	449	324
Trading account securities.....	693	617
Available-for-sale securities.....	4,446	4,871
Loans.....	68,266	62,885
Less allowance for credit losses.....	1,059	995
Net loans.....	67,207	61,890
Premises and equipment.....	860	862
Interest receivable.....	540	433
Customers' liability on acceptances.....	214	152
Goodwill and other intangible assets.....	3,254	3,066
Other assets.....	4,910	4,566
Total assets.....	\$ 86,349	\$ 81,530
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest-bearing.....	\$ 14,544	\$ 16,050
Interest-bearing.....	30,351	29,671
Time certificates of deposit greater than \$100,000.....	6,497	5,809
Total deposits.....	51,392	51,530
Federal funds purchased.....	1,324	297
Securities sold under agreements to repurchase.....	1,084	1,235
Other short-term funds borrowed.....	944	724
Long-term debt.....	19,400	16,563
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company.....	950	950
Acceptances outstanding.....	214	152
Other liabilities.....	2,899	2,441
Total liabilities.....	78,207	73,892
<b>Shareholders' equity</b>		
Common stock, par value \$1.25 a share -- authorized 1,500,000,000 shares; issued: 9/30/00 -- 758,194,161 shares; 12/31/99 -- 754,368,668 shares.....	948	943
Capital surplus.....	1,465	1,399
Retained earnings.....	6,080	5,389
Accumulated other comprehensive income.....	(33)	(62)
Less cost of common stock in treasury: 9/30/00 -- 14,799,833 shares; 12/31/99 -- 1,038,456 shares.....	(318)	(31)
Total shareholders' equity.....	8,142	7,638
Total liabilities and shareholders' equity.....	\$ 86,349	\$ 81,530

## CONSOLIDATED STATEMENT OF INCOME

(Dollars in Millions, Except Per Share Data) (Unaudited)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
<b>INTEREST INCOME</b>				
Loans.....	\$1,582.9	\$1,333.3	\$4,527.3	\$3,844.0
Securities				
Taxable.....	56.7	64.2	175.5	188.6
Exempt from federal income taxes.....	13.5	14.2	41.3	43.2
Other interest income.....	67.2	40.1	194.5	112.9
Total interest income.....	1,720.3	1,451.8	4,938.6	4,188.7
<b>INTEREST EXPENSE</b>				
Deposits.....	442.0	318.7	1,217.1	939.1
Federal funds purchased and repurchase agreements.....	37.0	48.4	126.5	131.4
Other short-term funds borrowed.....	12.9	12.9	41.5	37.9
Long-term debt.....	343.5	217.8	922.3	592.3
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company.....	19.4	19.3	58.0	58.0
Total interest expense.....	854.8	617.1	2,365.4	1,758.7
Net interest income.....	865.5	834.7	2,573.2	2,430.0
Provision for credit losses.....	173.0	142.0	490.0	385.0
Net interest income after provision for credit losses.....	692.5	692.7	2,083.2	2,045.0
<b>NONINTEREST INCOME</b>				
Credit card fee revenue.....	192.8	161.3	529.4	436.8
Trust and investment management fees.....	119.9	113.8	354.0	343.2
Service charges on deposit accounts.....	120.8	112.2	347.3	323.1
Investment products fees and commissions.....	81.3	79.5	279.3	259.7
Investment banking revenue.....	97.3	60.1	264.1	156.6
Trading account profits and commissions.....	50.0	48.4	191.8	150.4
Available-for-sale securities gains (losses).....	1.0	(3.4)	1.0	(3.4)
Other.....	163.9	140.7	457.2	328.4
Total noninterest income.....	827.0	712.6	2,424.1	1,994.8
<b>NONINTEREST EXPENSE</b>				
Salaries.....	417.5	352.4	1,263.7	1,063.2
Employee benefits.....	63.0	59.8	208.4	183.4
Net occupancy.....	59.5	51.9	171.8	151.8
Furniture and equipment.....	43.7	40.9	125.3	118.0
Goodwill and other intangible assets.....	58.9	41.6	173.9	116.0
Merger-related charges.....	15.7	16.8	43.8	34.7
Other.....	241.8	220.8	705.8	588.7
Total noninterest expense.....	900.1	784.2	2,692.7	2,255.8
Income before income taxes.....	619.4	621.1	1,814.6	1,784.0
Applicable income taxes.....	218.1	224.7	641.2	646.5
Net income.....	\$ 401.3	\$ 396.4	\$1,173.4	\$1,137.5
Earnings per share.....	\$ .54	\$ .55	\$ 1.58	\$ 1.57
Diluted earnings per share.....	\$ .54	\$ .54	\$ 1.57	\$ 1.56

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in Millions) (Unaudited)	Common Shares Outstanding*	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock**	Total
BALANCE DECEMBER 31, 1998.....	725,761,718	\$931.0	\$1,247.2	\$4,455.8	\$ 71.8	\$(735.8)	\$5,970.0
Common dividends declared.....				(426.0)			(426.0)
Purchase of treasury stock.....	(9,418,262)					(310.6)	(310.6)
Issuance of common stock							
Acquisitions.....	10,315,236		(33.0)			386.3	353.3
Dividend reinvestment.....	551,169		(2.9)			20.5	17.6
Stock option and stock purchase plans.....	3,174,870		(49.7)			126.4	76.7
	730,384,731	931.0	1,161.6	4,029.8	71.8	(513.2)	5,681.0
Comprehensive income							
Net income.....				1,137.5			1,137.5
Other comprehensive income							
Change in net unrealized losses on securities of \$100.3 (net of \$61.5 tax benefit) net of reclassification adjustment for losses included in net income of \$.6 (net of \$.3 tax benefit).....					(99.7)		(99.7)
Total comprehensive income.....							1,037.8
BALANCE SEPTEMBER 30, 1999.....	730,384,731	\$931.0	\$1,161.6	\$5,167.3	\$(27.9)	\$(513.2)	\$6,718.8
BALANCE DECEMBER 31, 1999.....	753,330,212	\$943.0	\$1,398.8	\$5,389.2	\$(61.8)	\$ (31.5)	\$7,637.7
Common dividends declared.....				(482.9)			(482.9)
Purchase of treasury stock.....	(20,248,002)					(432.2)	(432.2)
Issuance of common stock							
Acquisitions.....	6,969,658	4.0	55.7			86.3	146.0
Dividend reinvestment.....	894,599		(.4)			19.1	18.7
Stock option and stock purchase plans.....	2,447,861	.7	10.7			40.5	51.9
	743,394,328	947.7	1,464.8	4,906.3	(61.8)	(317.8)	6,939.2
Comprehensive income							
Net income.....				1,173.4			1,173.4
Other comprehensive income							
Change in net unrealized losses on securities of \$30.1 (net of \$18.6 tax expense) net of reclassification adjustment for gains included in net income of \$.3 (net of \$.2 tax expense).....					29.8		29.8
Foreign currency translation adjustments.....					(.8)		(.8)
Total comprehensive income.....							1,202.4
BALANCE SEPTEMBER 30, 2000.....	743,394,328	\$947.7	\$1,464.8	\$6,079.7	\$(32.8)	\$(317.8)	\$8,141.6

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

\*\*Ending treasury shares were 14,799,833 at September 30, 2000; 1,038,456 at December 31, 1999; 14,413,126 at September 30, 1999; and 19,036,139 at December 31, 1998.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Millions) (Unaudited)	Nine Months Ended	
	September 30 2000	September 30 1999
<b>OPERATING ACTIVITIES</b>		
Net cash provided by operating activities.....	\$1,922.6	\$1,900.5
<b>INVESTING ACTIVITIES</b>		
Net cash (used) provided by:		
Loans outstanding.....	(4,323.4)	(3,060.5)
Securities purchased under agreements to resell.....	(125.6)	128.7
Available-for-sale securities		
Sales.....	157.0	146.0
Maturities.....	503.3	1,154.5
Purchases.....	(108.8)	(916.6)
Proceeds from sales of other real estate.....	19.2	25.9
Net purchases of bank premises and equipment.....	(5.8)	(69.3)
Sales of loans.....	475.6	1,720.0
Purchases of loans.....	(592.9)	(254.6)
Divestitures of branches.....	--	(352.0)
Acquisitions, net of cash received.....	(296.0)	(220.5)
Cash and cash equivalents of acquired subsidiaries.....	24.0	107.4
Other -- net.....	(301.8)	(339.9)
Net cash used by investing activities.....	(4,575.2)	(1,930.9)
<b>FINANCING ACTIVITIES</b>		
Net cash (used) provided by:		
Deposits.....	(591.1)	(2,183.5)
Federal funds purchased and securities sold under agreements to repurchase.....	312.1	(1,026.0)
Short-term borrowings.....	219.8	246.9
Proceeds from long-term debt.....	5,241.9	4,465.1
Principal payments on long-term debt.....	(2,658.6)	(2,091.7)
Proceeds from dividend reinvestment, stock option and stock purchase plans.....	70.6	94.3
Repurchase of common stock.....	(432.2)	(310.6)
Cash dividends.....	(482.9)	(426.0)
Net cash provided (used) by financing activities.....	1,679.6	(1,231.5)
Change in cash and cash equivalents.....	(973.0)	(1,261.9)
Cash and cash equivalents at beginning of period.....	4,748.8	4,855.3
Cash and cash equivalents at end of period.....	\$3,775.8	\$3,593.4

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A  
BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flow activity required under accounting principles generally accepted in the United States. In the opinion of management of the Company, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results have been made, and the Company believes such presentation is adequate to make the information presented not misleading. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally 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. Table 2 "Line of Business Financial Performance" on pages 4 through 8 provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

NOTE B  
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. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and the resulting designation. The effective date has been deferred for one year with the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which amended SFAS 133. SFAS 133, as amended, is effective for all fiscal years beginning after June 15, 2000, with earlier application permitted. We have evaluated the impact of the adoption of SFAS 133 and have determined, based on current market information, that it will not have a material impact on the Company.

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 the residual interests retained. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The additional disclosures are required in financial statements for fiscal years ending after December 15, 2000. The adoption of SFAS 140 is not expected to have a material impact on the Company.

NOTE C  
BUSINESS COMBINATIONS

FIRSTAR CORPORATION On October 4, 2000, the Company announced that it had signed a definitive agreement to be acquired by Firststar Corporation of Milwaukee, Wisconsin in a tax-free exchange of shares. U.S. Bancorp shareholders will receive 1.265 shares of the combined company stock for every share of U.S. Bancorp stock. On a proforma basis, the Firststar / U.S. Bancorp combination would create the 8th largest bank holding company in the United States, with assets of more than \$160 billion, deposits of \$107 billion, assets under management of \$145 billion and a market capitalization of approximately \$40 billion. The franchise will span 24 midwestern and western states with 2,200 branches. Pending all regulatory and shareholder approvals, the transaction is expected to close in the first quarter of 2001 and be accounted for as a pooling-of-interests.

The following table summarizes acquisitions by the Company completed during the past two years:

(Dollars in Millions)	Date	Assets	Deposits	Goodwill & Intangibles Recorded	Shares Issued	Accounting Method
Scripps Financial Corporation.....	10/13/00	\$ 650	\$ 618	\$113	7,435,591	Purchase
Lyon Financial Services, Inc.....	9/28/00	1,289	--	124	--	Purchase
Oliver-Allen Corporation.....	4/7/00	280	--	34	2,642,708	Purchase
Peninsula Bank.....	1/14/00	491	452	71	4,041,568	Purchase
Western Bancorp.....	11/15/99	2,508	2,105	773	27,768,465	Purchase
Voyager Fleet Systems, Inc.....	9/13/99	43	--	25	--	Purchase
Bank of Commerce.....	7/15/99	638	529	269	9,287,960	Purchase
Mellon Network Services' Electronic Funds Transfer Processing Unit.....	6/30/99	--	--	78	--	Purchase
Libra Investments, Inc.....	1/4/99	33	--	4	1,027,276	Purchase

NOTE D  
AVAILABLE-FOR-SALE SECURITIES

The detail of the amortized cost and fair value of available-for-sale securities consisted of the following:

(Dollars in Millions)	September 30, 2000		December 31, 1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury.....	\$ 370	\$ 368	\$ 388	\$ 381
U.S. agencies and other mortgage-backed.....	2,642	2,598	2,971	2,906
Other U.S. agencies.....	167	171	195	196
State and political.....	1,078	1,084	1,132	1,135
Other.....	239	225	288	253
Total.....	\$4,496	\$4,446	\$4,974	\$4,871

NOTE E  
LOANS

The composition of the loan portfolio was as follows:

(Dollars in Millions)	September 30 2000	December 31 1999
-----		
COMMERCIAL		
Commercial.....	\$30,014	\$26,491
Real estate		
Commercial mortgage.....	10,119	9,784
Construction.....	4,426	4,322
Lease financing.....	3,817	2,372
	-----	-----
Total commercial.....	48,376	42,969
-----		
CONSUMER		
Home equity and second mortgage.....	9,262	8,681
Credit card.....	4,172	4,313
Revolving credit.....	1,776	1,815
Installment.....	1,108	1,245
Student.....	676	563
	-----	-----
Subtotal.....	16,994	16,617
Indirect automobile.....	388	638
Residential mortgage.....	2,508	2,661
	-----	-----
Total consumer *.....	19,890	19,916
	-----	-----
Total loans.....	\$68,266	\$62,885
-----		

\*Loans held for sale were \$698 at September 30, 2000, and \$608 at December 31, 1999. This included residential mortgages held for sale and the student loan portfolio that may be sold when the repayment periods begin.

At September 30, 2000, the Company had \$348 million in loans considered impaired under SFAS 114 included in its nonaccrual loans. The carrying value of the impaired loans was less than or equal to the appraised collateral value or the present value of expected future cash flows and, accordingly, no allowance for credit losses was specifically allocated to impaired loans. For the quarter ended September 30, 2000, the average recorded investment in impaired loans was approximately \$335 million. No interest income was recognized on impaired loans during the quarter.

NOTE F  
LONG-TERM DEBT

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

(Dollars in Millions)	September 30 2000	December 31 1999
-----		
Fixed-rate subordinated notes (5.70% to 8.35%) -- maturities to June 2026.....	\$ 2,850	\$ 2,850
Step-up subordinated notes -- due August 15, 2005.....	100	100
Floating-rate notes -- due February 27, 2000.....	--	250
Federal Home Loan Bank advances (5.54% to 8.25%) -- maturities to October 2026.....	2,307	1,998
Medium-term notes (6.00% to 7.50%) -- maturities to December 2004.....	3,642	2,310
Bank notes (5.25% to 6.98%) -- maturities to November 2005.....	9,662	8,459
Euro medium-term notes -- due April 13, 2004.....	400	400
Other.....	439	196
	-----	-----
Total.....	\$ 19,400	\$ 16,563
-----		

NOTE G  
INCOME TAXES

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
FEDERAL				
Current tax.....	\$ 203.4	\$ 177.9	\$ 541.3	\$ 492.4
Deferred tax (credit) provision.....	(21.0)	18.5	(2.6)	56.7
Federal income tax.....	182.4	196.4	538.7	549.1
STATE				
Current tax.....	37.1	23.8	99.4	85.3
Deferred tax (credit) provision.....	(1.4)	4.5	3.1	12.1
State income tax.....	35.7	28.3	102.5	97.4
Total income tax provision.....	\$ 218.1	\$ 224.7	\$ 641.2	\$ 646.5

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
Tax at statutory rate (35%).....	\$ 216.8	\$ 217.4	\$ 635.1	\$ 624.4
State income tax, at statutory rates, net of federal tax benefit.....	23.2	18.4	66.6	63.3
Tax effect of				
Tax-exempt interest				
Loans.....	(1.9)	(2.2)	(5.7)	(6.8)
Securities.....	(6.0)	(5.5)	(18.0)	(16.9)
Amortization of nondeductible goodwill.....	15.6	10.3	45.5	29.1
Tax credits and other items.....	(29.6)	(13.7)	(82.3)	(46.6)
Applicable income taxes.....	\$ 218.1	\$ 224.7	\$ 641.2	\$ 646.5

The Company's net deferred tax asset was \$88.0 million at September 30, 2000, and \$158.4 million at December 31, 1999.

NOTE H  
MERGER AND INTEGRATION CHARGES

During 2000, the Company recorded \$43.8 million of nonrecurring expense related to the integration of the Company's various acquisitions. The following table presents a summary of activity with respect to the Company's merger and integration accrual:

(Dollars in Millions)	Nine Months Ended September 30, 2000
Balance at December 31, 1999.....	\$ 71.9
Provision charged to operating expense, net.....	43.8
Cash outlays.....	(74.6)
Additions related to purchase acquisitions...	39.1
Noncash writedowns and other.....	(21.9)
Balance at September 30, 2000.....	\$ 58.3

The components of the merger and integration accrual were as follows:

(Dollars in Millions)	September 30 2000	December 31 1999
Severance.....	\$ 20.6	\$ 34.6
Other employee related costs.....	12.1	16.6
Lease terminations and facility costs.....	8.5	9.5
Contracts and system writeoffs.....	7.6	6.4

Other.....	9.5	4.8
	-----	
Total.....	\$ 58.3	\$ 71.9
	-----	

Employee termination plans were developed in connection with the acquisitions of Bank of Commerce, Western Bancorp, Peninsula Bank of San Diego, and other acquisitions. The severance amounts are determined based on the Company's existing severance pay programs under which benefits are paid out over a period of up to two years from the time of termination. With respect to completed acquisitions, additional merger-related charges of approximately \$20.0 million on a pre-tax basis, are expected to be incurred in 2000.

NOTE I  
SHAREHOLDERS' EQUITY

The Company issued 6,969,658 shares of common stock with an aggregate value of \$146.0 million in conjunction with acquisitions during the nine months ended September 30, 2000.

On February 16, 2000, the Company announced a share repurchase program of up to \$2.5 billion of common stock over the period ending March 31, 2002. The new share repurchase program replaced a program that was scheduled to expire on March 31, 2000. The shares will be repurchased in the open market or through negotiated transactions. Under these programs, the Company has repurchased 20.2 million shares for \$432.2 million during the nine months ended September 30, 2000.

NOTE J  
EARNINGS PER SHARE

The components of earnings per share were:

(Dollars in Millions, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30 2000	September 30 1999	September 30 2000	September 30 1999
EARNINGS PER SHARE:				
Net income to common stockholders.....	\$401.3	\$396.4	\$1,173.4	\$1,137.5
Average shares outstanding.....	740,484,419	726,506,673	744,724,042	724,141,996
Earnings per share.....	\$ .54	\$ .55	\$ 1.58	\$ 1.57
DILUTED EARNINGS PER SHARE:				
Net income to common stockholders.....	\$401.3	\$396.4	\$1,173.4	\$1,137.5
Average shares outstanding.....	740,484,419	726,506,673	744,724,042	724,141,996
Net effect of the assumed purchase of stock under the stock option and stock purchase plans -- based on the treasury stock method using average market price.....	2,123,548	5,088,017	2,250,249	5,534,580
Dilutive common shares outstanding.....	742,607,967	731,594,690	746,974,291	729,676,576
Diluted earnings per share.....	\$ .54	\$ .54	\$ 1.57	\$ 1.56

NOTE K  
COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET FINANCIAL  
INSTRUMENTS

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

(Dollars in Millions)	September 30 2000	December 31 1999
-----		
Commitments to extend credit		
Commercial.....	\$27,553	\$28,222
Corporate and purchasing cards.....	20,561	18,503
Consumer credit cards.....	15,182	14,991
Other consumer.....	5,911	6,388
Letters of credit		
Standby.....	3,489	3,222
Commercial.....	417	317
Swap contracts		
Interest rate hedges.....	7,248	7,743
Equity hedges.....	80	--
Basis swaps.....	1,000	--
Intermediated.....	484	556
Options contracts		
Hedge interest rate floors purchased.....	500	500
Intermediated interest rate and foreign exchange caps and floors purchased.....	358	453
Intermediated interest rate and foreign exchange caps and floors written.....	358	453
Futures and forward contracts.....	71	34
Recourse on assets sold.....	82	117
Foreign currency commitments		
Commitments to purchase.....	1,767	1,137
Commitments to sell.....	1,758	1,141
Commitments from securities lending.....	730	717
-----		

The Company received fixed-rate interest and paid variable-rate interest on substantially all swaps in its hedging portfolio as of September 30, 2000. Activity for the nine months ended September 30, 2000, with respect to interest rate swaps which the Company uses to hedge loans, deposits and long-term debt was as follows:

(Dollars in Millions)	
-----	
Notional amount outstanding at December 31, 1999.....	\$ 7,743
Additions.....	745
Terminations.....	(674)
Amortization.....	(521)
Maturities.....	(45)
	-----
Notional amount outstanding at September 30, 2000.....	\$ 7,248
-----	
Weighted average interest rate paid.....	6.65%
Weighted average interest rate received.....	6.38
-----	

LIBOR-based interest rate floors totaling \$500 million with an average remaining maturity of 1.0 years and 1.7 years at September 30, 2000 and December 31, 1999, respectively, hedged floating rate commercial loans. The strike rate on these LIBOR-based floors was 4.63 percent both at September 30, 2000, and December 31, 1999.

Net unamortized deferred losses relating to swaps, options and futures were \$24.4 million at September 30, 2000.

## NOTE L

## SUPPLEMENTAL DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS Listed below are supplemental disclosures to the Consolidated Statement of Cash Flows.

(Dollars in Millions)	Nine Months Ended	
	September 30 2000	September 30 1999
Income taxes paid.....	\$ 530.3	\$ 429.5
Interest paid.....	2,169.4	1,708.8
Net noncash transfers to foreclosed property.....	19.5	26.7
Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$18.4 in 2000 and \$61.2 in 1999.....	29.8	(99.7)
Cash acquisitions of businesses		
Fair value of noncash assets acquired.....	\$ 945.1	\$ 250.3
Liabilities assumed.....	(649.1)	(29.8)
Net.....	\$ 296.0	\$ 220.5
Stock acquisitions of businesses		
Fair value of noncash assets acquired.....	\$ 810.7	\$ 798.2
Net cash acquired.....	24.0	107.4
Liabilities assumed.....	(688.7)	(552.3)
Net value of common stock issued.....	\$ 146.0	\$ 353.3

## CONSOLIDATED DAILY AVERAGE BALANCE SHEET AND RELATED YIELDS AND RATES

	For the Three Months Ended September 30 2000			1999			
(Dollars in Millions) (Unaudited)	Balance	Interest	Yields and Rates	Balance	Interest	Yields and Rates	% Change Average Balance
ASSETS							
Available-for-sale securities							
U.S. Treasury.....	\$ 374	\$ 5.3	5.64%	\$ 397	\$ 5.6	5.60%	(5.8)%
U.S. agencies and other mortgage-backed.....	2,696	45.8	6.76	3,173	53.1	6.64	(15.0)
State and political.....	1,081	20.2	7.43	1,118	21.4	7.59	(3.3)
U.S. agencies and other.....	415	5.5	5.27	537	5.1	3.77	(22.7)
	-----			-----			
Total available-for-sale securities.....	4,566	76.8	6.69	5,225	85.2	6.47	(12.6)
Unrealized loss on available-for-sale securities.....	(82)			(36)			**
	-----			-----			
Net available-for-sale securities.....	4,484			5,189			(13.6)
Trading account securities.....	866	13.9	6.39	659	10.5	6.32	31.4
Federal funds sold and resale agreements.....	614	9.5	6.16	501	5.6	4.43	22.6
Loans							
Commercial							
Commercial.....	29,996	664.7	8.82	25,360	491.3	7.69	18.3
Real estate							
Commercial mortgage.....	10,180	227.3	8.88	8,654	183.7	8.42	17.6
Construction.....	4,434	108.2	9.71	3,734	83.3	8.85	18.7
Lease financing.....	2,749	52.3	7.57	2,254	40.2	7.08	22.0
	-----			-----			
Total commercial.....	47,359	1,052.5	8.84	40,002	798.5	7.92	18.4
Consumer							
Home equity and second mortgage...	9,155	223.7	9.72	8,258	197.5	9.49	10.9
Credit card.....	4,214	148.8	14.05	4,009	136.9	13.55	5.1
Other.....	3,945	109.7	11.06	6,398	152.2	9.44	(38.3)
	-----			-----			
Subtotal.....	17,314	482.2	11.08	18,665	486.6	10.34	(7.2)
Residential mortgage.....	2,560	50.6	7.86	2,682	51.1	7.56	(4.5)
	-----			-----			
Total consumer.....	19,874	532.8	10.67	21,347	537.7	9.99	(6.9)
	-----			-----			
Total loans.....	67,233	1,585.3	9.38	61,349	1,336.2	8.64	9.6
Allowance for credit losses.....	1,071			993			7.9
	-----			-----			
Net loans.....	66,162			60,356			9.6
Other earning assets.....	2,434	52.3	8.55	1,537	24.6	6.35	58.4
	-----			-----			
Total earning assets*.....	75,713	1,737.8	9.13	69,271	1,462.1	8.37	9.3
Other assets.....	10,548			9,458			11.5
	-----			-----			
Total assets.....	\$85,108			\$77,700			9.5%
LIABILITIES AND SHAREHOLDERS' EQUITY							
Noninterest-bearing deposits.....	\$14,158			\$13,655			3.7%
Interest-bearing deposits							
Interest checking.....	6,382	39.6	2.47	6,028	28.2	1.86	5.9
Money market accounts.....	12,638	144.5	4.55	11,990	104.0	3.44	5.4
Other savings accounts.....	1,873	8.1	1.72	2,241	10.5	1.86	(16.4)
Savings certificates.....	9,454	144.0	6.06	9,432	117.8	4.96	.2
Certificates over \$100,000.....	6,407	105.8	6.57	4,370	58.2	5.28	46.6
	-----			-----			
Total interest-bearing deposits.....	36,754	442.0	4.78	34,061	318.7	3.71	7.9
Short-term borrowings.....	2,646	49.9	7.50	4,309	61.3	5.64	(38.6)
Long-term debt.....	19,592	343.5	6.97	15,733	217.8	5.49	24.5
Company-obligated mandatorily redeemable preferred securities.....	950	19.4	8.12	950	19.3	8.06	--
	-----			-----			
Total interest-bearing liabilities.....	59,942	854.8	5.67	55,053	617.1	4.45	8.9
Other liabilities.....	2,976			2,404			23.8
Common equity.....	8,080			6,611			22.2
Accumulated other comprehensive income.....	(48)			(23)			**
	-----			-----			
Total liabilities and shareholders' equity.....	\$85,108			\$77,700			9.5%
	-----			-----			
Net interest income.....		\$ 883.0			\$ 845.0		
	-----			-----			
Gross interest margin.....			3.46%			3.92%	
	-----			-----			
Gross interest margin without taxable-equivalent increments.....			3.37%			3.86%	
	-----			-----			

Net interest margin.....	4.64%	4.84%
	-----	-----
Net interest margin without taxable-equivalent increments.....	4.55%	4.78%
-	-----	-----

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 on available-for-sale securities.

\*\*Not meaningful.

## CONSOLIDATED DAILY AVERAGE BALANCE SHEET AND RELATED YIELDS AND RATES

	For the Nine Months Ended September 30 2000			1999			
(Dollars in Millions) (Unaudited)	Balance	Interest	Yields and Rates	Balance	Interest	Yields and Rates	% Change Average Balance
ASSETS							
Available-for-sale securities							
U.S. Treasury.....	\$ 379	\$ 16.0	5.64%	\$ 438	\$ 18.6	5.68%	(13.5)%
U.S. agencies and other mortgage-backed.....	2,806	142.6	6.79	3,180	156.1	6.56	(11.8)
State and political.....	1,099	61.8	7.51	1,146	65.1	7.59	(4.1)
U.S. agencies and other.....	456	16.2	4.75	430	13.0	4.04	6.0
	-----			-----			
Total available-for-sale securities.....	4,740	236.6	6.67	5,194	252.8	6.51	(8.7)
Unrealized (loss) gain on available-for-sale securities..	(121)			45			**
	-----			-----			
Net available-for-sale securities.....	4,619			5,239			(11.8)
Trading account securities.....	774	42.9	7.40	600	29.5	6.57	29.0
Federal funds sold and resale agreements.....	614	24.9	5.42	515	16.1	4.18	19.2
Loans							
Commercial							
Commercial.....	28,733	1,848.7	8.59	24,598	1,389.8	7.55	16.8
Real estate							
Commercial mortgage.....	10,086	662.7	8.78	8,427	532.0	8.44	19.7
Construction.....	4,407	315.7	9.57	3,529	232.2	8.80	24.9
Lease financing.....	2,569	142.9	7.43	2,243	120.3	7.17	14.5
	-----			-----			
Total commercial.....	45,795	2,970.0	8.66	38,797	2,274.3	7.84	18.0
Consumer							
Home equity and second mortgage...	8,945	647.2	9.66	7,852	554.2	9.44	13.9
Credit card.....	4,164	434.9	13.95	4,003	387.8	12.95	4.0
Other.....	4,145	330.2	10.64	6,773	473.0	9.34	(38.8)
	-----			-----			
Subtotal.....	17,254	1,412.3	10.93	18,628	1,415.0	10.16	(7.4)
Residential mortgage.....	2,603	152.1	7.81	2,834	163.6	7.72	(8.2)
	-----			-----			
Total consumer.....	19,857	1,564.4	10.52	21,462	1,578.6	9.83	(7.5)
	-----			-----			
Total loans.....	65,652	4,534.4	9.23	60,259	3,852.9	8.55	8.9
Allowance for credit losses.....	1,049			994			5.5
	-----			-----			
Net loans.....	64,603			59,265			9.0
Other earning assets.....	2,360	151.7	8.59	1,437	69.1	6.43	64.2
	-----			-----			
Total earning assets*.....	74,140	4,990.5	8.99	68,005	4,220.4	8.30	9.0
Other assets.....	10,690			9,247			15.6
	-----			-----			
Total assets.....	\$83,660			\$76,303			9.6%
	-----			-----			
LIABILITIES AND SHAREHOLDERS' EQUITY							
Noninterest-bearing deposits.....	\$14,168			\$13,585			4.3%
Interest-bearing deposits							
Interest checking.....	6,357	108.2	2.27	6,051	80.3	1.77	5.1
Money market accounts.....	12,550	399.6	4.25	12,100	310.7	3.43	3.7
Other savings accounts.....	1,979	26.1	1.76	2,244	30.0	1.79	(11.8)
Savings certificates.....	9,355	404.7	5.78	9,733	359.7	4.94	(3.9)
Certificates over \$100,000.....	5,931	278.5	6.27	4,059	158.4	5.22	46.1
	-----			-----			
Total interest-bearing deposits.....	36,172	1,217.1	4.49	34,187	939.1	3.67	5.8
Short-term borrowings.....	3,249	168.0	6.91	4,224	169.3	5.36	(23.1)
Long-term debt.....	18,438	922.3	6.68	14,712	592.3	5.38	25.3
Company-obligated mandatorily redeemable preferred securities.....	950	58.0	8.16	950	58.0	8.16	--
	-----			-----			
Total interest-bearing liabilities.....	58,809	2,365.4	5.37	54,073	1,758.7	4.35	8.8
Other liabilities.....	2,811			2,314			21.5
Common equity.....	7,944			6,303			26.0
Accumulated other comprehensive income.....	(72)			28			**
	-----			-----			
Total liabilities and shareholders' equity.....	\$83,660			\$76,303			9.6%
	-----			-----			
Net interest income.....		\$2,625.1			\$2,461.7		
		-----			-----		
Gross interest margin.....			3.62%			3.95%	
			-----			-----	
Gross interest margin without taxable-equivalent increments.....			3.53%			3.89%	
			-----			-----	
Net interest margin.....			4.73%			4.84%	

Net interest margin without	-----	-----
taxable-equivalent increments.....	4.64%	4.78%
-	-----	-----

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.

\*\*Not meaningful.

## PART II -- OTHER INFORMATION

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (A) EXHIBITS

2 Agreement and Plan of Merger, dated October 3, 2000, by and between Firststar Corporation and U.S. Bancorp; Amendment No. 1 to Agreement and Plan of Merger, dated October 23, 2000, by and between Firststar Corporation and U.S. Bancorp; and Stock Option Agreements, dated October 3, 2000, by and between Firststar Corporation and U.S. Bancorp. Filed as Exhibits 2.1, 2.2, 2.3 and 2.4 to Registration Statement on Form S-4, File No. 333-48532, and incorporated herein by reference.

12 Computation of Ratio of Earnings to Fixed Charges.

27 Article 9 Financial Data Schedule.\*.

\* Copies of this exhibit will be furnished upon request and payment of the Company's reasonable expenses in furnishing the exhibit.

## (B) REPORTS ON FORM 8-K

During the three months ended September 30, 2000, the Company filed the following Current Reports on Form 8-K:

- Form 8-K dated July 20, 2000, relating to the announcement of the Company's second quarter and anticipated full year 2000 earnings.
- Form 8-K dated August 22, 2000, relating to the announcement of changes in the Company's management.

## SIGNATURE

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

U.S. BANCORP

By: /s/ TERRANCE R. DOLAN

-----  
Terrance R. Dolan

Senior Vice President and Controller

(Chief Accounting Officer and Duly  
Authorized Officer)

DATE: November 13, 2000

## EXHIBIT 12

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended September 30 ----- 2000	Nine Months Ended September 30 ----- 2000
(Dollars in Millions)		
-----		
EARNINGS		
1. Net income.....	\$ 401.3	\$1,173.4
2. Applicable income taxes.....	218.1	641.2
	-----	-----
3. Net income before taxes (1 + 2).....	\$ 619.4	\$1,814.6
	-----	-----
4. Fixed charges:		
a. Interest expense excluding interest on deposits.....	\$ 412.8	\$1,148.3
b. Portion of rents representative of interest and amortization of debt expense.....	13.4	41.2
	-----	-----
c. Fixed charges excluding interest on deposits (4a + 4b).....	426.2	1,189.5
d. Interest on deposits.....	442.0	1,217.1
	-----	-----
e. Fixed charges including interest on deposits (4c + 4d).....	\$ 868.2	\$2,406.6
	-----	-----
5. Amortization of interest capitalized.....	\$ --	\$ --
6. Earnings excluding interest on deposits (3 + 4c + 5)....	1,045.6	3,004.1
7. Earnings including interest on deposits (3 + 4e + 5)....	1,487.6	4,221.2
8. Fixed charges excluding interest on deposits (4c).....	426.2	1,189.5
9. Fixed charges including interest on deposits (4e).....	868.2	2,406.6
	-----	-----
RATIO OF EARNINGS TO FIXED CHARGES		
10. Excluding interest on deposits (line 6/line 8).....	2.45	2.53
11. Including interest on deposits (line 7/line 9).....	1.71	1.75
-----		

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#### SHAREHOLDER INQUIRIES

##### COMMON STOCK TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company of New York, a division of EquiServe, acts as transfer agent and registrar and dividend paying agent for U.S. Bancorp and maintains all shareholder records for the corporation. For information about U.S. Bancorp stock, or if you have questions regarding your stock certificates (including transfers), address or name changes, lost dividend checks, lost stock certificates, or Form 1099s, please call First Chicago Trust's Shareholder Services Center at (800) 446-2617. Representatives are available weekdays 8:30 a.m. to 7:00 p.m. Eastern time, and the interactive voice response system is available 24 hours a day, seven days a week. The TDD telephone number for the hearing impaired is (201) 222-4955.

First Chicago Trust Company of New York  
 C/O EquiServe  
 Mailing address: P.O. Box 2500  
 Jersey City, New Jersey 07303-2500.

Telephone: (201) 324-0498  
 Fax: (201) 222-4892  
 Internet address: [www.equiserve.com](http://www.equiserve.com)  
 E-mail address: [fctc@em.fcncd.com](mailto:fctc@em.fcncd.com)

If you own shares in a book-entry or plan account maintained by First Chicago Trust, you can access your account information on the Internet through First Chicago Trust's Web site. To obtain a password that provides you secured access to your account, please call First Chicago Trust toll free at (877) THE-WEB7 (outside North America call (201) 536-8071).

##### 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.

##### DIVIDENDS

U.S. Bancorp currently pays quarterly dividends on its Common Stock on or about the 15th of March, June, September and December, subject to prior Board approval. Shareholders may choose to have dividends electronically deposited directly into their bank accounts. For enrollment information, please call First Chicago Trust at (800) 446-2617.

##### INVESTMENT COMMUNITY CONTACTS

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Judith T. Murphy  
 Vice President, Investor Relations  
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[judith.murphy@usbank.com](mailto:judith.murphy@usbank.com)

##### FINANCIAL INFORMATION

U.S. Bancorp news and financial results are available through the Company's Web site, fax and mail.

Web site. For information about U.S. Bancorp, including news and financial results, product information, and service locations, access our home page on the Internet at [www.usbank.com](http://www.usbank.com).

Fax. To access our fax-on-demand service, call (800) 758-5804. When asked, enter U.S. Bancorp's extension number, "312402." Enter "1" for the most current new release or "2" for a menu of news releases. Enter your fax and telephone numbers as directed. The information will be faxed to you promptly.

Mail. At your request, we will mail to you our quarterly earnings news releases, quarterly financial data on Form 10-Q and additional annual reports. To be added to U.S. Bancorp's mailing list for quarterly earnings news releases, or to request other information, please contact:

Investor Relations  
 U.S. Bancorp  
 601 Second Avenue South  
 Minneapolis, Minnesota 55402-4302  
 (612) 973-2263  
[corprelations@usbank.com](mailto:corprelations@usbank.com)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE U.S. BANCORP SEPTEMBER 30, 2000, 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS	
	DEC-31-2000
	JAN-01-2000
	SEP-30-2000
	3,666,000
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	559,000
	693,000
4,446,000	0
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	68,266,000
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	51,392,000
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	19,400,000
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	7,194,000
86,349,000	
	4,527,300
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	194,500
	4,938,600
	1,217,100
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	2,573,200
	490,000
	1,000
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1,814,600	
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	1.57
	4.73
	389,200
	155,800
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	0
	995,400
	575,500
	85,400
	1,059,000
	0
	0
	0