

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 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).  
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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 July 31, 2000
Common Stock, \$1.25 Par Value	745,804,608 shares

## FINANCIAL SUMMARY

	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
(Dollars in Millions, Except Per Share Data)				
Income before merger-related charges and available-for-sale securities transactions.....	\$ 402.6	\$ 383.8	\$790.2	\$752.4
Merger-related charges and available-for-sale securities transactions.....	(9.5)	(9.5)	(18.1)	(11.3)
Net income.....	\$ 393.1	\$ 374.3	\$772.1	\$741.1
PER COMMON SHARE BEFORE MERGER-RELATED CHARGES AND AVAILABLE-FOR-SALE SECURITIES TRANSACTIONS				
Earnings per share.....	\$ .54	\$ .53	\$ 1.06	\$ 1.04
Diluted earnings per share.....	.54	.53	1.05	1.03
Earnings on a cash basis (diluted)*.....	.62	.58	1.21	1.13
SELECTED FINANCIAL RATIOS BEFORE MERGER-RELATED CHARGES AND AVAILABLE-FOR-SALE SECURITIES TRANSACTIONS				
Return on average assets.....	1.93%	2.02%	1.92%	2.01%
Return on average common equity.....	20.5	24.4	20.4	24.5
Efficiency ratio.....	52.1	49.9	52.8	50.1
Banking efficiency ratio**.....	44.7	42.4	45.0	42.9
PER COMMON SHARE				
Earnings per share.....	\$ .53	\$ .52	\$ 1.03	\$ 1.03
Diluted earnings per share.....	.52	.51	1.03	1.02
Earnings on a cash basis (diluted)*.....	.60	.56	1.18	1.12
Dividends paid.....	.215	.195	.43	.39
Common shareholders' equity.....	10.62	8.70		
FINANCIAL RATIOS				
Return on average assets.....	1.88%	1.97%	1.87%	1.98%
Return on average common equity.....	20.1	23.8	19.9	24.1
Efficiency ratio.....	53.0	50.9	53.7	50.8
Net interest margin (taxable-equivalent basis).....	4.75	4.86	4.78	4.84

	June 30 2000	December 31 1999
PERIOD END		
Loans.....	\$67,384	\$ 62,885
Allowance for credit losses.....	1,039	995
Assets.....	86,174	81,530
Total shareholders' equity.....	7,931	7,638
Tangible common equity to total assets***.....	6.4%	6.5%
Tier 1 capital ratio.....	6.6	6.8
Total risk-based capital ratio.....	10.7	11.1
Leverage ratio.....	7.2	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 U.S. Bancorp's (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

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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 second quarter of 2000 operating earnings (net income excluding merger-related charges and available-for-sale securities transactions) of \$402.6 million, compared with \$383.8 million for the second quarter of 1999. On a diluted share basis, operating earnings were \$.54 in the second quarter of 2000, compared with \$.53 in the second quarter of 1999, an increase of 2 percent. Operating earnings on a cash basis were \$.62 per diluted share in the second quarter of 2000, compared with \$.58 per diluted share in the second quarter of 1999, an increase of 7 percent. Return on average assets and return on average common equity, excluding merger-related charges and available-for-sale securities transactions, were 1.93 percent and 20.5 percent, respectively, in the second quarter of 2000, compared with returns of 2.02 percent and 24.4 percent, respectively, in the second quarter of 1999. The reduction in the Company's return on average common equity from the second 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 52.1 percent in the second quarter of 2000, compared with 49.9 percent in the second quarter of 1999. The change in the efficiency ratio was related to continuing investments in sales, service quality and technology. The banking efficiency ratio (the ratio of expenses to revenues without the impact of investment banking and brokerage activity) before merger-related charges was 44.7 percent in the second quarter of 2000, compared with 42.4 percent in the second quarter of 1999.

Total revenue on a taxable-equivalent basis, before available-for-sale securities transactions, grew by \$202.0 million, or 14 percent, over the second quarter of 1999. The increase in total revenue was driven by core loan growth, credit card fee revenue and acquisitions. Excluding the impact of acquisitions and divestitures, total revenue on a taxable-equivalent basis, before available-for-sale securities transactions, in the second quarter of 2000 would have been approximately 9 percent higher than the second quarter of 1999. Offsetting the growth in total revenue were increases in noninterest expense of \$138.8 million and provision for credit losses of \$37.0 million over the second quarter of 1999. The growth in expense was primarily due to an increase in expense related 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 second quarter of 2000 included approximately \$11.2 million of Internet infrastructure-related expense. As anticipated, the Internet infrastructure-related expense was more than offset in the second quarter by a \$35 million gain on the disposal of the Company's ownership interest in a Portland office building.

Net charge-offs in the second quarter of 2000 were \$163.2 million, compared with the first quarter of 2000 net charge-offs of \$154.0 million and the second quarter of 1999 net charge-offs of \$140.3 million. Nearly one-half of the increase in net charge-offs from the first quarter of 2000 and second quarter of 1999 was due to an expected increase in losses on the growing credit-scored small business lending portfolio. The provision for credit losses of \$163.0 million in the second quarter of 2000 essentially equaled net charge-offs for the period. Nonperforming assets increased from \$366.6 million at March 31, 2000, to \$404.4 million at June 30, 2000, principally due to one commercial credit. The ratio of allowance for credit losses to nonperforming loans was 285 percent at June 30, 2000, compared with 310 percent at March 31, 2000 and 321 percent at December 31, 1999.

Net income was \$393.1 million in the second quarter of 2000, or \$.52 per diluted share, compared with \$374.3 million, or \$.51 per diluted share, in the second quarter of 1999. Return on average assets and return on average common equity were 1.88 percent and 20.1 percent, respectively, in the second quarter of 2000, compared with returns of 1.97 percent and 23.8 percent in the second quarter of 1999. Net income reflects merger-related charges and available-for-sale securities transactions of \$9.5 million (\$14.7 million on a pre-tax basis) in the second quarter of 2000 and \$9.5 million (\$15.0 million on a pre-tax basis) in the second quarter of 1999.

TABLE 1  
SUMMARY OF CONSOLIDATED INCOME

(Taxable-equivalent Basis; Dollars In Millions, Except Per Share Data)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
<b>CONDENSED INCOME STATEMENT</b>				
Interest income.....	\$1,672.2	\$1,395.6	\$3,252.7	\$2,758.3
Interest expense.....	792.4	572.3	1,510.6	1,141.6
Net interest income.....	879.8	823.3	1,742.1	1,616.7
Provision for credit losses.....	163.0	126.0	317.0	243.0
Net interest income after provision for credit losses....	716.8	697.3	1,425.1	1,373.7
Available-for-sale securities gains.....	.3	--	--	--
Other noninterest income.....	801.4	655.9	1,597.1	1,282.2
Merger-related charges.....	15.0	15.0	28.1	17.9
Other noninterest expense.....	876.6	737.8	1,764.5	1,453.7
Income before income taxes.....	626.9	600.4	1,229.6	1,184.3
Taxable-equivalent adjustment.....	17.5	10.7	34.4	21.4
Income taxes.....	216.3	215.4	423.1	421.8
Net income.....	\$ 393.1	\$ 374.3	\$ 772.1	\$ 741.1
<b>FINANCIAL RATIOS</b>				
Return on average assets.....	1.88%	1.97%	1.87%	1.98%
Return on average common equity.....	20.1	23.8	19.9	24.1
Net interest margin (taxable-equivalent basis).....	4.75	4.86	4.78	4.84
Efficiency ratio.....	53.0	50.9	53.7	50.8
Efficiency ratio before merger-related charges.....	52.1	49.9	52.8	50.1
Banking efficiency ratio before merger-related charges*.....	44.7	42.4	45.0	42.9
<b>PER COMMON SHARE</b>				
Earnings per share.....	\$ .53	\$ .52	\$ 1.03	\$ 1.03
Diluted earnings per share.....	.52	.51	1.03	1.02
Dividends paid.....	.215	.195	.43	.39

\*Without investment banking and brokerage activity.

Operating earnings in the first six months of 2000 were \$790.2 million compared with \$752.4 million in the first six months of 1999. On a diluted per share basis, operating earnings were \$1.05 in the first half of 2000, compared with \$1.03 in the first half of 1999, an increase of 2 percent. On a diluted per share basis, cash operating earnings were \$1.21 in the first six months of 2000, compared with \$1.13 in the first six months of 1999, an increase of 7 percent. Year-to-date return on average assets and return on average common equity, excluding merger-related charges, were 1.92 percent and 20.4 percent, respectively, compared with returns of 2.01 percent and 24.5 percent, respectively, in the first half of 1999. Excluding merger-related charges, the efficiency ratio was 52.8 percent in the first six months of 2000, compared with 50.1 percent in the first six months of 1999. On a similar basis, the banking efficiency ratio was 45.0 percent in the first six months of 2000, compared with 42.9 percent in the first six months of 1999.

Net income in the first six months of 2000 was \$772.1 million, or \$1.03 per diluted share, compared with \$741.1 million, or \$1.02 per diluted share, in the first six 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 six months of 2000, compared with returns of 1.98 percent and 24.1 percent, respectively, in the same period of 1999. Net income reflects merger-related charges of \$18.1 million (\$28.1 million on a pre-tax basis) in the first half of 2000, compared with \$11.3 million (\$17.9 million on a pre-tax basis) in the first half of 1999.

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

On April 7, 2000, the Company acquired Oliver-Allen Corporation, Inc., a privately held information technology leasing company. On January 14, 2000, the Company acquired Peninsula Bank of San Diego, which had 11 branches in San Diego county and total assets of \$456 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

U.S. Bancorp

TABLE 2  
LINE OF BUSINESS FINANCIAL PERFORMANCE

	Wholesale Banking			Consumer Banking		
For the Three Months Ended June 30 (Dollars in Millions)	2000	1999	Percent Change	2000	1999	Percent Change
CONDENSED INCOME STATEMENT						
Net interest income (taxable-equivalent basis)....	\$ 414.5	\$ 353.7	17.2%	\$ 338.6	\$ 329.3	2.8%
Provision for credit losses.....	30.9	26.1	18.4	45.7	50.1	(8.8)
Noninterest income.....	135.1	104.6	29.2	131.5	114.7	14.6
Noninterest expense.....	212.4	184.5	15.1	223.2	206.8	7.9
Goodwill and other intangible assets expense.....	26.8	15.6	71.8	13.8	9.7	42.3
Income taxes and taxable-equivalent adjustment....	104.1	87.3	19.2	69.8	66.8	4.5
Income before merger-related charges and available-for-sale securities transactions.....	\$ 175.4	\$ 144.8	21.1	\$ 117.6	\$ 110.6	6.3
Net merger-related charges and available-for-sale securities transactions (after-tax)*.....						
Net income.....						
AVERAGE BALANCE SHEET DATA						
Loans.....	\$ 41,264	\$ 34,896	18.2	\$11,158	\$ 12,850	(13.2)
Assets.....	45,536	38,238	19.1	12,688	13,955	(9.1)
Deposits.....	11,664	10,627	9.8	31,069	30,524	1.8
Common equity.....	4,865	3,574	36.1	1,256	1,121	12.0
Return on average assets.....	1.55%	1.52%		3.73%	3.18%	
Return on average common equity ("ROCE").....	14.5	16.3		37.7	39.6	
Efficiency ratio.....	43.5	43.7		50.4	48.8	
Efficiency ratio on a cash basis**.....	38.6	40.3		47.5	46.6	

	Wholesale Banking			Consumer Banking		
For the Six Months Ended June 30 (Dollars in Millions)	2000	1999	Percent Change	2000	1999	Percent Change
CONDENSED INCOME STATEMENT						
Net interest income (taxable-equivalent basis).....	\$ 814.7	\$ 700.6	16.3%	\$ 672.3	\$ 652.3	3.1%
Provision for credit losses.....	60.6	51.6	17.4	98.4	98.2	.2
Noninterest income.....	237.5	208.3	14.0	249.5	218.4	14.2
Noninterest expense.....	419.4	365.3	14.8	444.7	420.6	5.7
Goodwill and other intangible assets expense....	52.5	31.4	67.2	27.3	19.3	41.5
Income taxes and taxable-equivalent adjustment.....	193.2	172.3	12.1	130.6	124.5	4.9
Income before merger-related charges and available-for-sale securities transactions.....	\$ 326.5	\$ 288.3	13.3	\$ 220.8	\$ 208.1	6.1
Net merger-related charges and available-for-sale securities transactions (after-tax)*.....						
Net income.....						
AVERAGE BALANCE SHEET DATA						
Loans.....	\$ 40,422	\$ 34,409	17.5	\$11,129	\$ 12,832	(13.3)
Assets.....	44,652	37,737	18.3	12,654	13,974	(9.4)
Deposits.....	11,606	10,790	7.6	30,921	30,745	.6
Common equity.....	4,779	3,560	34.2	1,254	1,143	9.7
Return on average assets.....	1.47%	1.54%		3.51%	3.00%	
Return on average common equity ("ROCE").....	13.7	16.3		35.4	36.7	
Efficiency ratio.....	44.8	43.6		51.2	50.5	
Efficiency ratio on a cash basis**.....	39.9	40.2		48.2	48.3	

\*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
\$ 86.2	\$ 87.4	(1.4)%	\$ 48.1	\$ 41.7	15.3%	\$ (7.6)	\$ 11.2	\$ 879.8	\$ 823.3	6.9%
81.7	73.0	11.9	1.4	1.1	27.3	3.3	(24.3)	163.0	126.0	29.4
205.9	158.6	29.8	321.6	294.2	9.3	7.3	(16.2)	801.4	655.9	22.2
113.7	94.6	20.2	289.3	250.7	15.4	(20.4)	(35.4)	818.2	701.2	16.7
11.0	5.9	86.4	6.8	5.4	25.9	--	--	58.4	36.6	59.6
31.9	27.3	16.8	26.9	29.6	(9.1)	6.3	20.6	239.0	231.6	3.2
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\$ 53.8	\$ 45.2	19.0	\$ 45.3	\$ 49.1	(7.7)	\$ 10.5	\$ 34.1	402.6	383.8	4.9
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								(9.5)	(9.5)	***
								\$ 393.1	\$ 374.3	5.0
								-----		
\$ 8,554	\$ 7,895	8.3	\$ 2,945	\$ 2,287	28.8	\$ 2,077	\$ 2,393	\$ 65,998	\$ 60,321	9.4
9,220	8,341	10.5	6,965	5,419	28.5	9,676	10,119	84,085	76,072	10.5
88	88	--	3,788	3,319	14.1	3,790	3,421	50,399	47,979	5.0
947	674	40.5	1,325	1,145	15.7	(509)	(202)	7,884	6,312	24.9
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2.35%	2.17%		2.62%	3.63%				1.93%	2.02%	
22.8	26.9		13.8	17.2				20.5	24.4	
42.7	40.9		80.1	76.2				52.1	49.9	
38.9	38.5		78.3	74.6				48.7	47.4	

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
\$ 181.1	\$ 169.5	6.8%	\$ 95.1	\$ 82.8	14.9%	\$ (21.1)	\$ 11.5	\$1,742.1	\$1,616.7	7.8%
156.4	149.2	4.8	2.7	2.1	28.6	(1.1)	(58.1)	317.0	243.0	30.5
383.2	298.4	28.4	721.4	567.3	27.2	5.5	(10.2)	1,597.1	1,282.2	24.6
224.5	186.0	20.7	617.3	478.4	29.0	(56.4)	(71.0)	1,649.5	1,379.3	19.6
20.6	11.5	79.1	14.6	12.2	19.7	--	--	115.0	74.4	54.6
60.5	45.4	33.3	67.6	58.9	14.8	15.6	48.7	467.5	449.8	3.9
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\$ 102.3	\$ 75.8	35.0	\$ 114.3	\$ 98.5	16.0	\$ 26.3	\$ 81.7	790.2	752.4	5.0
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								(18.1)	(11.3)	***
								\$ 772.1	\$ 741.1	4.2
								-----		
\$ 8,365	\$ 7,782	7.5	\$ 2,863	\$ 2,201	30.1	\$ 2,074	\$ 2,481	\$ 64,853	\$ 59,705	8.6
8,976	8,224	9.1	6,824	5,313	28.4	9,821	10,345	82,927	75,593	9.7
85	75	13.3	3,677	3,200	14.9	3,762	2,991	50,051	47,801	4.7
896	665	34.7	1,302	1,132	15.0	(441)	(300)	7,790	6,200	25.6
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2.29%	1.86%		3.37%	3.74%				1.92%	2.01%	
23.0	23.0		17.7	17.5				20.4	24.5	
43.4	42.2		77.4	75.5				52.8	50.1	
39.8	39.8		75.6	73.6				49.4	47.6	

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 the business.

On June 27, 2000, the Company announced an agreement to acquire Scripps Financial Corporation which has nine branches in San Diego county and total assets of \$650 million. Pending approvals from regulators and Scripps' shareholders, the acquisition is expected to close in the fourth quarter of 2000.

#### 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 \$175.4 million in the second quarter of 2000, an increase of 21 percent over the second quarter of 1999, and \$326.5 million in the first six months of 2000, a 13 percent increase over the same period of 1999. Return on average assets was 1.55 percent in the second quarter of 2000 and 1.47 percent in the first six months of 2000, compared with 1.52 percent and 1.54 percent for the same periods of 1999. Return on average common equity was 14.5 percent in the second quarter of 2000 and 13.7 in the first six months of 2000, compared with 16.3 percent for both of the same periods of 1999.

Net interest income increased 17 percent in the second quarter and 16 percent in the first six 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 18.4 percent for the second quarter of 2000 and 17.4 percent for the first six months also reflects growth in the loan portfolio. Noninterest income increased 29 percent in the second quarter and 14 percent in the first six months of 2000, compared with the same periods of the prior year. The increase in noninterest income is primarily due to bank acquisitions. Noninterest expense (including intangible expense) increased 20 percent in the second quarter and 19 percent in the first six months of 2000, compared with the same periods of 1999. The efficiency ratio on a cash basis improved to 38.6 percent in the second quarter and 39.9 percent in the first six months of 2000, compared with 40.3 percent and 40.2 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 \$117.6 million during the second quarter of 2000 and \$220.8 million for the first six months of 2000, increases of 6 percent over the same periods of 1999. Second quarter and year-to-date return on average assets improved to 3.73 percent and 3.51 percent, respectively, compared with 3.18 percent and 3.00 percent in the same periods of the prior year. Return on average common equity was 37.7 percent in the second quarter and 35.4 percent in the first half of 2000, compared with 39.6 percent and 36.7 percent in the same periods of 1999.

Total revenue grew 6 percent in both the second quarter and first six months of 2000 compared with the same periods in 1999. The increased value of deposits in a rising interest rate environment and growth in fee income and home equity lending more than offset the

reduction in the indirect automobile loan portfolio. 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, also contributed to the increase in operating earnings over the second quarter and first six months of 1999. Noninterest expense (including intangible expense) for the second quarter of 2000 increased 9 percent over the second quarter of 1999, and 7 percent for the first six months of 2000 compared with the same period of 1999. The Company is currently investing in a number of customer service initiatives and enhanced technology designed to improve the earnings growth of the Consumer Banking business line. These initiatives include incremental investment in technology and processes and the hiring of additional sales and customer service employees. 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 \$53.8 million in the second quarter of 2000, an increase of 19 percent over the second quarter of 1999, and \$102.3 million for the first six months of 2000, representing a 35 percent increase over the same period of 1999. Second quarter and year-to-date return on average assets improved to 2.35 percent and 2.29 percent, respectively, compared with 2.17 percent and 1.86 percent in the same periods of the prior year. Return on average common equity was 22.8 percent and 23.0 percent in the second quarter and first half of 2000, respectively, compared with 26.9 percent and 23.0 percent in the same periods of 1999.

Total revenue grew 19 percent and 21 percent over the second quarter and first six 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 the provision for credit losses and noninterest expense, reflecting continued growth in transaction volume, marketing and investments in new products and technology.

**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 \$45.3 million in the second quarter of 2000, a decrease of 8 percent compared with the second quarter of 1999, and \$114.3 million for the first six months of 2000, a 16 percent increase over the first six months of 1999. Return on average common equity decreased to 13.8 percent, compared with 17.2 percent in the second quarter of the prior year. The return on average common equity improved slightly to 17.7 percent from 17.5 percent in the first six months of 2000, compared with the same period of 1999.

During the second quarter of 2000, total revenue grew by 10 percent over the second quarter of 1999 and 26 percent over the first six months of 1999 due to increases in investment banking, trading account profits and commissions, and growth in loans and deposits in Private Financial Services. Offsetting the positive impact of revenue growth, noninterest expense (including intangible assets) increased 16 percent in the second quarter and 29 percent in the first six months of 2000, compared with the same periods of 1999. The increases are primarily due to the increase in investment banking and brokerage revenue, incremental office expansion and other growth initiatives.

**CORPORATE SUPPORT** Corporate Support includes the net effect of support units after internal revenue and expense allocations, balance sheet management and other corporate activities. The variance in operating earnings in the second quarter and first six months of 2000, compared with these periods of 1999, primarily reflects the change in the provision for credit losses from a year ago and residual allocations. The variance also reflects the reduction in net interest income due to planned declines in the residential real estate portfolio and the effect of a rising rate environment.

TABLE 3  
ANALYSIS OF NET INTEREST INCOME

(Dollars In Millions)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
Net interest income, as reported.....	\$862.3	\$812.6	\$1,707.7	\$1,595.3
Taxable-equivalent adjustment.....	17.5	10.7	34.4	21.4
Net interest income (taxable-equivalent basis).....	\$879.8	\$823.3	\$1,742.1	\$1,616.7
Average yields and weighted average rates (taxable-equivalent basis)				
Earning assets yield.....	9.02%	8.23%	8.92%	8.26%
Rate paid on interest-bearing liabilities.....	5.38	4.25	5.22	4.30
Gross interest margin.....	3.64%	3.98%	3.70%	3.96%
Net interest margin.....	4.75%	4.86%	4.78%	4.84%
Net interest margin without taxable-equivalent increments...	4.65%	4.79%	4.68%	4.78%

#### STATEMENT OF INCOME ANALYSIS

NET INTEREST INCOME Second quarter net interest income on a taxable-equivalent basis was \$879.8 million compared with \$823.3 million in the second quarter of 1999. Year-to-date net interest income on a taxable-equivalent basis was \$1.7 billion, compared with \$1.6 billion in the first six months of 1999. The second quarter and year-to-date average earning assets increased 10 percent and 9 percent, respectively, compared with the same periods of 1999. The increase was primarily driven by core commercial, home equity and second mortgage loan growth and bank acquisitions, partially offset by reductions in securities, indirect automobile loans and residential mortgage loans. The net interest margin decreased from 4.86 percent and 4.84 percent in the second quarter and first six months of 1999 to 4.75 percent and 4.78 percent in the second quarter and first six months of 2000. The decrease reflects margin compression on consumer asset products and lagging deposit growth relative to the growth in earning assets.

Average loans for both the second quarter and first six months of 2000 increased 9 percent compared with the same periods of the prior year. Excluding indirect automobile and residential mortgage loans, average loans for the second quarter and first six months of 2000 were higher by approximately \$8.2 billion (15 percent) and \$7.8 billion (15 percent), respectively, than the second quarter and first half 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 the bank acquisitions, average loans, excluding indirect automobile and residential mortgage loans, were higher than the second quarter and first six months of 1999 by 10 percent for both periods. Average available-for-sale securities for the second quarter and first six months of 2000 decreased by \$378 million and \$351 million, respectively, from the second quarter and first half of 1999, reflecting both maturities and sales of securities.

TABLE 4  
NONINTEREST INCOME

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
Credit card fee revenue.....	\$177.1	\$148.7	\$ 336.6	\$ 275.5
Trust and investment management fees.....	117.0	112.2	234.1	229.4
Service charges on deposit accounts.....	117.5	107.5	226.5	210.9
Investment products fees and commissions.....	81.8	91.6	198.0	180.2
Investment banking revenue.....	72.8	60.3	166.8	96.5
Trading account profits and commissions.....	58.2	50.5	141.8	102.0
Other.....	177.0	85.1	293.3	187.7
Total operating noninterest income.....	801.4	655.9	1,597.1	1,282.2
Available-for-sale securities gains.....	.3	--	--	--
Total noninterest income.....	\$801.7	\$655.9	\$1,597.1	\$1,282.2



TABLE 5  
NONINTEREST EXPENSE

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
Salaries.....	\$414.1	\$356.7	\$ 846.2	\$ 710.8
Employee benefits.....	69.3	53.6	145.4	123.6
Net occupancy.....	55.2	49.9	112.3	99.9
Furniture and equipment.....	40.5	39.0	81.6	77.1
Professional services.....	24.4	16.6	43.5	30.6
Telephone.....	21.8	17.4	43.1	35.4
Advertising and marketing.....	22.0	12.7	37.8	27.7
Other personnel costs.....	19.2	19.8	31.5	32.5
Goodwill and other intangible assets.....	58.4	36.6	115.0	74.4
Other.....	151.7	135.5	308.1	241.7
Total operating noninterest expense.....	876.6	737.8	1,764.5	1,453.7
Merger-related charges.....	15.0	15.0	28.1	17.9
Total noninterest expense.....	\$891.6	\$752.8	\$1,792.6	\$1,471.6
Efficiency ratio*.....	53.0%	50.9%	53.7%	50.8%
Efficiency ratio before merger-related charges.....	52.1	49.9	52.8	50.1
Banking efficiency ratio before merger-related charges**....	44.7	42.4	45.0	42.9
Average number of full-time equivalent employees.....	28,675	26,667	28,681	26,854

\*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.

**PROVISION FOR CREDIT LOSSES** In the second quarter of 2000, the provision for credit losses was \$163.0 million, an increase of \$37 million (29 percent) from \$126.0 million in the same quarter of 1999. The provision for credit losses in the first six months of 2000 was \$317.0 million, an increase of \$74 million (30 percent) from \$243 million in the same period of 1999. Second quarter and year-to-date net charge-offs totaled \$163.2 million and \$317.2 million, respectively, up from \$140.3 million and \$279.9 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 lending portfolio. This was partially offset by lower year-to-date net charge-offs on credit card portfolios. Refer to "Corporate Risk Management" for further information on the credit quality.

**NONINTEREST INCOME** Second quarter 2000 noninterest income was \$801.7 million, an increase of \$145.8 million (22 percent) from the second quarter of 1999. Noninterest income in the first six months of 2000 was \$1.60 billion, an increase of \$314.9 million (25 percent) from \$1.28 billion in the first six months of 1999. Noninterest income in the second quarter of 2000 included net gains from available-for-sale securities transactions of \$.3 million. Excluding the impact of acquisitions and divestitures, noninterest income, before available-for-sale securities transactions, in the second quarter and first six months of 2000 would have been approximately 17 percent higher than the second quarter of 1999 and 20 percent higher than the first half of 1999.

Investment banking revenue, trading account profits and commissions and investment products fees and commissions were higher in the first six months of 2000 compared with the same period of 1999, due to growth in Wealth Management and Capital Markets. Credit card fee revenue was higher for the second quarter and first six months of 2000, reflecting continued growth in corporate and retail card product fees and ATM processing-related revenue. Service charges on deposit accounts increased \$10.0 million (9 percent) in the second quarter of 2000 compared with the second quarter of 1999, and \$15.6 million (7 percent) in the first six months of 2000 compared with the same period of a year ago. The increase in other income in 2000 included a \$35.0 million second quarter gain on the disposal of the Company's ownership interest in a Portland office building and a \$10.8 million first quarter gain on the sale of a Boise building, in addition to growth due to acquisitions and on-going business line initiatives.

**NONINTEREST EXPENSE** Second quarter 2000 noninterest expense, before merger-related charges, totaled \$876.6 million, an increase of \$138.8 million (19 percent) from \$737.8 million in the second quarter of 1999. Year-to-date noninterest expense, before merger-related charges, was \$1.76 billion, an increase of

\$310.8 million (21 percent) from \$1.45 billion in the first half of 1999. The increase in noninterest expense over the second quarter and first half of 1999 was primarily the result of growth in investment banking, acquisitions and the Company's continuing investment in sales, service quality and technology. In addition to on-going investments in Internet-related products and services, the second quarter and first six months of 2000 included approximately \$11.2 million and \$20.2 million, respectively, of incremental spending on Internet infrastructure-related initiatives.

The banking efficiency ratio, excluding merger-related charges, was 44.7 percent and 45.0 percent for the second quarter and first six months of 2000, respectively, compared with 42.4 percent and 42.9 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.

Second quarter of 2000 noninterest expense was \$891.6 million, an increase of \$138.8 million (18 percent) from \$752.8 million in the second quarter of 1999. Year-to-date noninterest expense was \$1.79 billion, an increase of \$321.0 million (22 percent) from \$1.47 billion in the first half of 1999. Noninterest expense in the second quarter and first half of 2000 included nonrecurring merger-related charges of \$15.0 million and \$28.1 million, compared with merger-related charges of \$15.0 million and \$17.9 million in the second quarter and first half of 1999. The merger-related charges incurred in 2000 were related to the integration of the Company's various acquisitions, including Western Bancorp and Peninsula Bank of San Diego.

**INCOME TAX EXPENSE** The provision for income taxes was \$216.3 million (an effective rate of 35.5 percent) in the second quarter and \$423.1 million (an effective rate of 35.4 percent) in the first six months of 2000, compared with \$215.4 million (an effective rate of 36.5 percent) and \$421.8 million (an effective rate of 36.3 percent) in the same periods of 1999.

#### BALANCE SHEET ANALYSIS

**LOANS** The Company's loan portfolio was \$67.4 billion at June 30, 2000, compared with \$62.9 billion at December 31, 1999. Commercial loans totaled \$47.6 billion at June 30, 2000, up \$4.6 billion (11 percent) from December 31, 1999. The increase was primarily attributable to continued growth in core commercial and commercial real estate loans and bank acquisitions. Total consumer outstandings were \$19.8 billion at June 30, 2000, compared with \$19.9 billion at December 31, 1999. Excluding indirect automobile loans and residential mortgage loans, consumer loans were \$16.7 billion at June 30, 2000, and \$16.6 billion at December 31, 1999.

**SECURITIES** At June 30, 2000, available-for-sale securities totaled \$4.5 billion, compared with \$4.9 billion at December 31, 1999, reflecting both maturities and sales of securities.

**DEPOSITS** Noninterest-bearing deposits were \$16.2 billion at June 30, 2000, compared with \$16.1 billion at December 31, 1999. Interest-bearing deposits totaled \$36.3 billion at June 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, decreased to \$2.0 billion at June 30, 2000, compared with \$2.3 billion at December 31, 1999.

Long-term debt was \$19.8 billion at June 30, 2000, up from \$16.6 billion at December 31, 1999. To fund core asset growth and replace wholesale funding maturities during 2000, the Company issued \$4.1 billion of debt with an average original maturity of 2.3 years under its medium-term and bank note programs. In addition, Federal Home Loan Bank advances increased by \$400 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 56 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 \$163.2 million and \$317.2 million in the second quarter and first six months of 2000, respectively, compared with \$140.3 million and \$279.9 million in the same periods of 1999. The ratio of total net charge-offs to average loans was .99 percent and .98 percent in the second quarter and first half of 2000, respectively, compared with .93 and .95 percent in the same periods in 1999. Commercial loan net charge-offs were \$57.5 million and \$102.3 million in the second quarter and first half of 2000, respectively, compared with \$29.9 million and \$53.8 million in the same periods of 1999. Commercial loan net charge-offs, excluding net charge-offs of credit-scored small business and commercial payment systems products, were \$34.5 million, or .32 percent of average loans outstanding for the second quarter of 2000, and \$58.6 million, or .28 percent of average loans outstanding in the first half of 2000.

Consumer loan net charge-offs for the quarter and year-to-date were \$105.7 million and \$214.9 million, respectively, compared with \$110.4 million and \$226.1 million for the same periods of 1999. Consumer loan net charge-offs as a percent of average loans outstanding were 2.13 and 2.18 in the second quarter and first half of 2000, respectively, compared with 2.06 and 2.12 for the same periods of 1999.

The allowance for credit losses increased to \$1,039.4 million at June 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 285 percent at June 30, 2000, compared with 310 percent at March 31, 2000 and 321 percent at December 31, 1999.

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

	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
<b>COMMERCIAL</b>				
Commercial.....	.80%	.52%	.73%	.47%
Real estate				
Commercial mortgage.....	(.14)	(.11)	(.08)	(.09)
Construction.....	(.12)	.01	(.07)	.02
Lease financing.....	.69	.07	.48	.10
Total commercial.....	.50	.31	.46	.28
<b>CONSUMER</b>				
Credit card.....	4.59	4.69	4.22	4.88
Other.....	1.75	1.73	1.92	1.76
Subtotal.....	2.44	2.36	2.47	2.43
Residential mortgage.....	.12	.09	.24	.10
Total consumer.....	2.13	2.06	2.18	2.12
Total.....	.99%	.93%	.98%	.95%

TABLE 7  
SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
Balance at beginning of period.....	\$1,011.1	\$982.5	\$ 995.4	\$1,000.9
CHARGE-OFFS				
Commercial				
Commercial.....	62.7	49.0	117.1	90.8
Real estate				
Commercial mortgage.....	.7	.3	1.7	.6
Construction.....	.1	.2	.1	.4
Lease financing.....	4.8	.9	6.7	2.6
Total commercial.....	68.3	50.4	125.6	94.4
Consumer				
Credit card.....	51.6	51.3	93.7	106.4
Other.....	71.8	80.9	155.7	162.1
Subtotal.....	123.4	132.2	249.4	268.5
Residential mortgage.....	1.0	.8	3.5	1.8
Total consumer.....	124.4	133.0	252.9	270.3
Total.....	192.7	183.4	378.5	364.7
RECOVERIES				
Commercial				
Commercial.....	4.9	17.2	15.1	34.6
Real estate				
Commercial mortgage.....	4.2	2.7	5.7	4.4
Construction.....	1.4	.1	1.7	.1
Lease financing.....	.3	.5	.8	1.5
Total commercial.....	10.8	20.5	23.3	40.6
Consumer				
Credit card.....	3.8	4.7	6.8	9.5
Other.....	14.7	17.7	30.8	34.3
Subtotal.....	18.5	22.4	37.6	43.8
Residential mortgage.....	.2	.2	.4	.4
Total consumer.....	18.7	22.6	38.0	44.2
Total.....	29.5	43.1	61.3	84.8
NET CHARGE-OFFS				
Commercial				
Commercial.....	57.8	31.8	102.0	56.2
Real estate				
Commercial mortgage.....	(3.5)	(2.4)	(4.0)	(3.8)
Construction.....	(1.3)	.1	(1.6)	.3
Lease financing.....	4.5	.4	5.9	1.1
Total commercial.....	57.5	29.9	102.3	53.8
Consumer				
Credit card.....	47.8	46.6	86.9	96.9
Other.....	57.1	63.2	124.9	127.8
Subtotal.....	104.9	109.8	211.8	224.7
Residential mortgage.....	.8	.6	3.1	1.4
Total consumer.....	105.7	110.4	214.9	226.1
Total.....	163.2	140.3	317.2	279.9
Provision charged to operating expense.....	163.0	126.0	317.0	243.0
Acquisitions and other changes.....	28.5	--	44.2	4.2
Balance at end of period.....	\$1,039.4	\$968.2	\$1,039.4	\$ 968.2
Allowance as a percentage of:				
Period-end loans.....	1.54%	1.59%		
Nonperforming loans.....	285	327		
Nonperforming assets.....	257	302		
Annualized net charge-offs.....	158	172		

TABLE 8  
DELINQUENT LOAN RATIOS\*

	June 30 2000	December 31 1999
90 days or more past due		
-----		
COMMERCIAL		
Commercial.....	.74%	.57%
Real estate		
Commercial mortgage.....	.61	.84
Construction.....	.72	.59
Lease financing.....	1.50	.81
	-----	-----
Total commercial.....	.76	.65
CONSUMER		
Credit card.....	1.06	.96
Other.....	.56	.57
	-----	-----
Subtotal.....	.69	.67
Residential mortgage.....	1.53	1.57
	-----	-----
Total consumer.....	.80	.79
	-----	-----
Total.....	.77%	.69%
-----		

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

NONPERFORMING ASSETS Nonperforming assets include nonaccrual loans, restructured loans, other real estate and other nonperforming assets owned by the Company. Nonperforming assets at June 30, 2000, totaled \$404.4 million, compared with \$347.5 million at December 31, 1999. The ratio of nonperforming assets to loans and other real estate was .60 percent at June 30, 2000, compared with .55 percent at December 31, 1999.

Accruing loans 90 days or more past due at June 30, 2000, totaled \$153.4 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

TABLE 9  
NONPERFORMING ASSETS\*

(Dollars in Millions)	June 30 2000	December 31 1999
-----		
COMMERCIAL		
Commercial.....	\$ 204.2	\$ 142.4
Real estate		
Commercial mortgage.....	58.9	78.9
Construction.....	19.8	25.3
Lease financing.....	39.4	18.8
	-----	-----
Total commercial.....	322.3	265.4
CONSUMER		
Residential mortgage.....	35.3	36.0
Other.....	7.6	8.6
	-----	-----
Total consumer.....	42.9	44.6
	-----	-----
Total nonperforming loans.....	365.2	310.0
OTHER REAL ESTATE.....	22.7	20.7
OTHER NONPERFORMING ASSETS.....	16.5	16.8
	-----	-----
Total nonperforming assets.....	\$ 404.4	\$ 347.5
	-----	-----
Accruing loans 90 days or more past due**.....	\$ 153.4	\$ 125.8
Nonperforming loans to total loans.....	.54%	.49%
Nonperforming assets to total loans plus other real estate.....	.60	.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.

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 decreased to 2.58 percent of the portfolio at June 30, 2000, compared with 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 .80 percent at June 30, 2000, compared with .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 June 30, 2000, forecasted net interest income for the next 12 months would not be affected from an immediate 100 basis point upward parallel shift in rates and would decrease \$4 million from a downward shift of similar magnitude. Forecasted net interest income for the second 12 months would decrease \$2 million from an immediate 100 basis point upward parallel shift in rates and would decrease \$7 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 repricings and core deposit life. The amount of market value risk is subject to a limit,

TABLE 10  
INTEREST RATE SWAP HEDGING PORTFOLIO NOTIONAL BALANCES AND YIELDS BY  
MATURITY DATE

At June 30, 2000 (Dollars in Millions)

Maturity Date	Notional Amount	Weighted Average Interest Rate Received	Weighted Average Interest Rate Paid
2000.....	\$ 135	5.99%	6.70%
2001.....	290	6.56	6.65
2002.....	545	6.22	6.66
2003.....	2,481	6.13	6.74
2004.....	1,475	6.60	6.64
Thereafter.....	2,450	6.37	6.65
Total.....	\$7,376	6.32%	6.68%

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

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 interest rate swaps and, to a lesser degree, interest rate caps and floors.

During the second quarter of 2000, the Company added \$145 million of receive fixed interest rate swaps. In the first six months of 2000, the Company added \$185 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 June 30, 2000, the Company received and made payments on \$7.4 billion notional amount of interest rate swap agreements. These swaps had a weighted average interest rate received of 6.32 percent and a weighted average interest rate paid of 6.68 percent. The remaining maturity of these agreements ranges from 1 month to 15 years with an average remaining maturity of 4.6 years. For the quarter and six months ended June 30, 2000, interest rate swap agreements decreased net interest income by \$3.5 million and \$1.8 million, respectively, and for the quarter and six months ended June 30, 1999, interest rate swap agreements increased net interest income by \$19.7 million and \$37.1 million, respectively.

The Company also purchases interest rate caps and floors 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 June 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 June 30, 2000, all of which were LIBOR-indexed, was \$500 million. The impact of caps and floors on net interest income was not significant for the six months ended June 30, 2000, and 1999.

**MARKET RISK MANAGEMENT** Market valuation 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 for a 10-day holding period and a ninety-ninth percentile adverse move in the underlying markets. Market valuation risk limits are established subject to approval by the Company's Board of Directors. The Company's VaR limit was \$40 million

TABLE 11  
CAPITAL RATIOS

(Dollars in Millions)	June 30 2000	December 31 1999
Tangible common equity*.....	\$5,306	\$5,134
As a percent of assets.....	6.4%	6.5%
Tier 1 capital.....	\$5,822	\$5,631
As a percent of risk-adjusted assets.....	6.6%	6.8%
Total risk-based capital.....	\$9,386	\$9,281
As a percent of risk-adjusted assets.....	10.7%	11.1%
Leverage ratio.....	7.2	7.4

\*Defined as common equity less goodwill.

at June 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 \$15.1 million at June 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.

CAPITAL MANAGEMENT At June 30, 2000, tangible common equity (common equity less goodwill) was \$5.3 billion, or 6.4 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 6.6 percent and 10.7 percent at June 30, 2000, compared with 6.8 percent and 11.1 percent at December 31, 1999. The June 30, 2000, leverage ratio was 7.2 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 six months of 2000, the Company repurchased 16.2 million shares under these programs for a total dollar value of \$348.7 million. During the same period, the Company issued 6.6 million shares related to acquisitions.

#### 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. The adoption of SFAS 133 is not expected to have a material impact on the Company.

## CONSOLIDATED BALANCE SHEET

	June 30 2000	December 31 1999
(Dollars in Millions)		
(Unaudited)		
<b>ASSETS</b>		
Cash and due from banks.....	\$ 3,775	\$ 4,036
Federal funds sold.....	653	713
Securities purchased under agreements to resell.....	384	324
Trading account securities.....	765	617
Available-for-sale securities.....	4,526	4,871
Loans.....	67,384	62,885
Less allowance for credit losses.....	1,039	995
Net loans.....	66,345	61,890
Premises and equipment.....	855	862
Interest receivable.....	493	433
Customers' liability on acceptances.....	166	152
Goodwill and other intangible assets.....	3,188	3,066
Other assets.....	5,024	4,566
Total assets.....	\$ 86,174	\$ 81,530
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest-bearing.....	\$ 16,223	\$ 16,050
Interest-bearing.....	29,842	29,671
Time certificates of deposit greater than \$100,000.....	6,480	5,809
Total deposits.....	52,545	51,530
Federal funds purchased.....	209	297
Securities sold under agreements to repurchase.....	998	1,235
Other short-term funds borrowed.....	827	724
Long-term debt.....	19,762	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.....	166	152
Other liabilities.....	2,786	2,441
Total liabilities.....	78,243	73,892
<b>Shareholders' equity</b>		
Common stock, par value \$1.25 a share -- authorized 1,500,000,000 shares; issued: 6/30/00 -- 758,194,161 shares; 12/31/99 -- 754,368,668 shares.....	948	943
Capital surplus.....	1,457	1,399
Retained earnings.....	5,839	5,389
Accumulated other comprehensive income.....	(71)	(62)
Less cost of common stock in treasury: 6/30/00 -- 11,137,222 shares; 12/31/99 -- 1,038,456 shares.....	(242)	(31)
Total shareholders' equity.....	7,931	7,638
Total liabilities and shareholders' equity.....	\$ 86,174	\$ 81,530

## CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended		Six Months Ended	
(Dollars in Millions, Except Per Share Data) (Unaudited)	June 30 2000	June 30 1999	June 30 2000	June 30 1999
<b>INTEREST INCOME</b>				
Loans.....	\$1,517.5	\$1,272.2	\$2,944.4	\$2,510.7
Securities				
Taxable.....	58.5	59.8	118.8	124.4
Exempt from federal income taxes.....	13.8	14.3	27.8	29.0
Other interest income.....	64.9	38.6	127.3	72.8
Total interest income.....	1,654.7	1,384.9	3,218.3	2,736.9
<b>INTEREST EXPENSE</b>				
Deposits.....	402.2	308.8	775.1	620.4
Federal funds purchased and repurchase agreements.....	45.7	43.6	89.5	83.0
Other short-term funds borrowed.....	15.0	12.1	28.6	25.0
Long-term debt.....	310.2	188.4	578.8	374.5
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company.....	19.3	19.4	38.6	38.7
Total interest expense.....	792.4	572.3	1,510.6	1,141.6
Net interest income.....	862.3	812.6	1,707.7	1,595.3
Provision for credit losses.....	163.0	126.0	317.0	243.0
Net interest income after provision for credit losses.....	699.3	686.6	1,390.7	1,352.3
<b>NONINTEREST INCOME</b>				
Credit card fee revenue.....	177.1	148.7	336.6	275.5
Trust and investment management fees.....	117.0	112.2	234.1	229.4
Service charges on deposit accounts.....	117.5	107.5	226.5	210.9
Investment products fees and commissions.....	81.8	91.6	198.0	180.2
Investment banking revenue.....	72.8	60.3	166.8	96.5
Trading account profits and commissions.....	58.2	50.5	141.8	102.0
Available-for-sale securities gains.....	.3	--	--	--
Other.....	177.0	85.1	293.3	187.7
Total noninterest income.....	801.7	655.9	1,597.1	1,282.2
<b>NONINTEREST EXPENSE</b>				
Salaries.....	414.1	356.7	846.2	710.8
Employee benefits.....	69.3	53.6	145.4	123.6
Net occupancy.....	55.2	49.9	112.3	99.9
Furniture and equipment.....	40.5	39.0	81.6	77.1
Goodwill and other intangible assets.....	58.4	36.6	115.0	74.4
Merger-related charges.....	15.0	15.0	28.1	17.9
Other.....	239.1	202.0	464.0	367.9
Total noninterest expense.....	891.6	752.8	1,792.6	1,471.6
Income before income taxes.....	609.4	589.7	1,195.2	1,162.9
Applicable income taxes.....	216.3	215.4	423.1	421.8
Net income.....	\$ 393.1	\$ 374.3	\$ 772.1	\$ 741.1
Earnings per share.....	\$ .53	\$ .52	\$ 1.03	\$ 1.03
Diluted earnings per share.....	\$ .52	\$ .51	\$ 1.03	\$ 1.02

## 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.....				(283.6)			(283.6)
Purchase of treasury stock.....	(4,417,940)					(147.7)	(147.7)
Issuance of common stock							
Acquisitions.....	1,027,276		(3.6)			40.0	36.4
Dividend reinvestment.....	351,915		(1.5)			13.4	11.9
Stock option and stock purchase plans.....	2,299,875		(39.3)			92.6	53.3
	725,022,844	931.0	1,202.8	4,172.2	71.8	(737.5)	5,640.3
Comprehensive income							
Net income.....				741.1			741.1
Other comprehensive income							
Change in net unrealized losses on securities of \$118.7 (net of \$45.1 tax benefit).....					(73.6)		(73.6)
Total comprehensive income.....							667.5
BALANCE JUNE 30, 1999.....	725,022,844	\$931.0	\$1,202.8	\$4,913.3	\$ (1.8)	\$(737.5)	\$6,307.8
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.....				(322.8)			(322.8)
Purchase of treasury stock.....	(16,233,000)					(348.7)	(348.7)
Issuance of common stock							
Acquisitions.....	6,969,658	4.0	55.7			86.3	146.0
Dividend reinvestment.....	611,389		(.6)			13.0	12.4
Stock option and stock purchase plans.....	2,378,680	.7	3.7			38.9	43.3
	747,056,939	947.7	1,457.6	5,066.4	(61.8)	(242.0)	7,167.9
Comprehensive income							
Net income.....				772.1			772.1
Other comprehensive income							
Foreign currency translation adjustments.....					.7		.7
Change in net unrealized losses on securities of \$15.8 (net of \$5.9 tax benefit).....					(9.9)		(9.9)
Total comprehensive income.....							762.9
BALANCE JUNE 30, 2000.....	747,056,939	\$947.7	\$1,457.6	\$5,838.5	\$(71.0)	\$(242.0)	\$7,930.8

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

\*\*Ending treasury shares were 11,137,222 at June 30, 2000; 1,038,456 at December 31, 1999; 19,775,013 at June 30, 1999; and 19,036,139 at December 31, 1998.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Millions) (Unaudited)	Six Months Ended	
	June 30 2000	June 30 1999
<hr/>		
OPERATING ACTIVITIES		
Net cash provided by operating activities.....	\$ 1,150.7	\$ 1,233.2
<hr/>		
INVESTING ACTIVITIES		
Net cash (used) provided by:		
Loans outstanding.....	(3,845.9)	(1,960.4)
Securities purchased under agreements to resell.....	(60.2)	79.6
Available-for-sale securities		
Sales.....	146.9	93.9
Maturities.....	344.2	868.3
Purchases.....	(87.9)	(830.1)
Proceeds from sales of other real estate.....	13.1	18.2
Net sales (purchases) of bank premises and equipment.....	37.3	(45.0)
Sales of loans.....	197.0	--
Purchases of loans.....	(592.9)	(127.7)
Acquisitions, net of cash received.....	--	(156.4)
Cash and cash equivalents of acquired subsidiaries.....	24.0	3.6
Other - net.....	(321.1)	(323.1)
Net cash used by investing activities.....	(4,145.5)	(2,379.1)
<hr/>		
FINANCING ACTIVITIES		
Net cash provided (used) by:		
Deposits.....	562.3	(730.9)
Federal funds purchased and securities sold under agreements to repurchase.....	(324.7)	(634.4)
Short-term borrowings.....	103.0	463.7
Proceeds from long-term debt.....	4,516.9	2,613.0
Principal payments on long-term debt.....	(1,567.9)	(1,167.3)
Proceeds from dividend reinvestment, stock option and stock purchase plans.....	55.7	65.2
Repurchase of common stock.....	(348.7)	(147.7)
Cash dividends.....	(322.8)	(283.6)
Net cash provided by financing activities.....	2,673.8	178.0
Change in cash and cash equivalents.....	(321.0)	(967.9)
Cash and cash equivalents at beginning of period.....	4,748.8	4,855.3
Cash and cash equivalents at end of period.....	\$ 4,427.8	\$ 3,887.4
<hr/>		

## 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 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 7 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. The adoption of SFAS 133 is not expected to have a material impact on the Company.

NOTE C  
BUSINESS COMBINATIONS AND DIVESTITURES

SCRIPPS FINANCIAL CORPORATION On June 27, 2000, the Company announced an agreement to acquire Scripps Financial Corporation. With \$650 million in assets, Scripps Financial Corporation operates nine branches in San Diego county, California. The acquisition, which is pending regulatory and shareholder approval, will be accounted for as a purchase and is expected to close in the fourth quarter of 2000.

PENINSULA BANK OF SAN DIEGO On January 14, 2000, the Company completed its acquisition of Peninsula Bank of San Diego. With \$456 million in assets, Peninsula Bank operated 11 branches in San Diego county, California. The transaction was accounted for as a purchase acquisition.

WESTERN BANCORP On November 15, 1999, the Company completed its acquisition of Western Bancorp. With \$2.5 billion in assets, Western Bancorp had 31 branches in southern California in Los Angeles, Orange and San Diego counties. The transaction was accounted for as a purchase acquisition, and accordingly, 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.

BANK OF COMMERCE On July 15, 1999, the Company completed its acquisition of San Diego-based Bank of Commerce, one of the nation's largest SBA lenders. The transaction was accounted for as a purchase acquisition.

OTHER ACQUISITIONS AND DIVESTITURES On April 7, 2000, the Company acquired Oliver-Allen Corporation, Inc., a privately held information technology leasing company.

On September 24, 1999, the Company completed the sale of 28 branches in Kansas and Iowa representing

\$364 million of deposits. On September 23, 1999, the Company sold \$1.8 billion of indirect automobile loans and is in the process of exiting this business.

On September 17, 1999, the Company completed its acquisition of the investment banking division of The John Nuveen Company, based in Chicago. The division, which focuses on fixed income investment banking, 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. On June 30, 1999, the Company completed its acquisition of Mellon Network Services' electronic funds transfer processing unit. The businesses are now part of the Payment Systems business unit.

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)	June 30, 2000		December 31, 1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury.....	\$ 377	\$ 371	\$ 388	\$ 381
U.S. agencies and other mortgage-backed.....	2,749	2,663	2,971	2,906
Other U.S. agencies.....	175	180	195	196
State and political.....	1,097	1,097	1,132	1,135
Other.....	248	215	288	253
Total.....	\$4,646	\$4,526	\$4,974	\$4,871

NOTE E  
LOANS

The composition of the loan portfolio was as follows:

(Dollars in Millions)	June 30 2000	December 31 1999
COMMERCIAL:		
Commercial.....	\$30,333	\$26,491
Real estate		
Commercial mortgage.....	10,041	9,784
Construction.....	4,461	4,322
Lease financing.....	2,770	2,372
Total commercial.....	47,605	42,969
CONSUMER:		
Home equity and second mortgage.....	9,027	8,681
Credit card.....	4,190	4,313
Revolving credit.....	1,760	1,815
Installment.....	1,139	1,245
Student.....	601	563
Subtotal.....	16,717	16,617
Indirect automobile.....	459	638
Residential mortgage.....	2,603	2,661
Total consumer*.....	19,779	19,916
Total loans.....	\$67,384	\$62,885

\*Loans held for sale were \$685 at June 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 June 30, 2000, the Company had \$322 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 June 30, 2000, the average recorded investment in impaired loans was approximately \$301 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)	June 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.....	2,385	1,998
Medium-term notes (6.00% to 7.50%) -- maturities to December 2004.....	3,577	2,310
Bank notes (5.25% to 7.16%) -- maturities to November 2005.....	10,004	8,459
Euro medium-term notes -- due April 13, 2004.....	400	400
Other.....	446	196
Total.....	\$ 19,762	\$ 16,563

NOTE G  
INCOME TAXES

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
FEDERAL				
Current tax.....	\$ 170.5	\$ 160.3	\$ 337.9	\$ 314.5
Deferred tax provision.....	11.3	20.3	18.4	38.2
Federal income tax.....	181.8	180.6	356.3	352.7
STATE				
Current tax.....	32.2	30.9	62.3	61.5
Deferred tax provision.....	2.3	3.9	4.5	7.6
State income tax.....	34.5	34.8	66.8	69.1
Total income tax provision.....	\$ 216.3	\$ 215.4	\$ 423.1	\$ 421.8

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		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
Tax at statutory rate (35%).....	\$ 213.3	\$ 206.4	\$ 418.3	\$ 407.0
State income tax, at statutory rates, net of federal tax benefit.....	22.4	22.6	43.4	44.9
Tax effect of				
Tax-exempt interest				
Loans.....	(1.9)	(2.3)	(3.8)	(4.6)
Securities.....	(6.0)	(5.7)	(12.0)	(11.4)
Amortization of nondeductible goodwill.....	15.0	9.2	29.9	18.8
Tax credits and other items.....	(26.5)	(14.8)	(52.7)	(32.9)
Applicable income taxes.....	\$ 216.3	\$ 215.4	\$ 423.1	\$ 421.8

The Company's net deferred tax asset was \$104.5 million at June 30, 2000, and \$158.4 million at December 31, 1999.

NOTE H  
MERGER AND INTEGRATION CHARGES

During 2000, the Company recorded \$28.1 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)	Six Months Ended June 30, 2000
-----	
Balance at December 31, 1999.....	\$ 71.9
Provision charged to operating expense.....	28.1
Cash outlays.....	(58.8)
Additions related to purchase acquisitions....	35.5
Noncash writedowns.....	(19.4)
-----	
Balance at June 30, 2000.....	\$ 57.3
-----	
-----	

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

(Dollars in Millions)	June 30 2000	December 31 1999
-----		
Severance.....	\$ 26.7	\$ 34.6
Other employee related costs.....	12.8	16.6
Lease terminations and facility costs....	8.5	9.5
Contracts and system writeoffs.....	6.4	6.4
Other.....	2.9	4.8
-----		
Total.....	\$ 57.3	\$ 71.9
-----		
-----		

Employee termination plans were developed in connection with the acquisitions of U.S. Bancorp of Portland, Oregon, Piper Jaffray Companies Inc., Northwest Bancshares, Inc., Zappco, Inc., Bank of Commerce, Western Bancorp, Peninsula Bank of San Diego, and other restructurings. 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 \$34.1 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 six months ended June 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 16.2 million shares for \$348.7 million for the six months ended June 30, 2000.

NOTE J  
EARNINGS PER SHARE

The components of earnings per share were:

(Dollars in Millions, Except Per Share Data)	Three Months Ended		Six Months Ended	
	June 30 2000	June 30 1999	June 30 2000	June 30 1999
-----				
EARNINGS PER SHARE:				
Net income to common stockholders.....	\$393.1	\$374.3	\$772.1	\$741.1
-----				
Average shares outstanding.....	746,011,809	723,239,415	747,175,679	722,940,060
-----				
Earnings per share.....	\$ .53	\$ .52	\$ 1.03	\$ 1.03
-----				
DILUTED EARNINGS PER SHARE:				
Net income to common stockholders.....	\$393.1	\$374.3	\$772.1	\$741.1
-----				

Average shares outstanding.....	746,011,809	723,239,415	747,175,679	722,940,060
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.....	2,883,021	6,024,282	2,706,218	5,892,992
Dilutive common shares outstanding.....	748,894,830	729,263,697	749,881,897	728,833,052
Diluted earnings per share.....	\$ .52	\$ .51	\$ 1.03	\$ 1.02
-				
-				

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 manage its interest rate and market risk and to meet the needs of its customers. These instruments carry varying degrees of credit, interest rate or liquidity risk. The contract or notional amounts of these financial instruments were as follows:

(Dollars in Millions)	June 30 2000	December 31 1999
Commitments to extend credit		
Commercial.....	\$26,886	\$28,222
Corporate and purchasing cards.....	19,778	18,503
Consumer credit cards.....	15,540	14,991
Other consumer.....	6,359	6,388
Letters of credit		
Standby.....	3,410	3,222
Commercial.....	480	317
Swap contracts		
Interest rate hedges.....	7,376	7,743
Equity hedges.....	43	--
Intermediated.....	485	556
Options contracts		
Hedge interest rate floors purchased.....	500	500
Intermediated interest rate and foreign exchange caps and floors purchased.....	394	453
Intermediated interest rate and foreign exchange caps and floors written.....	394	453
Futures and forward contracts.....	15	34
Recourse on assets sold.....	94	117
Foreign currency commitments		
Commitments to purchase.....	1,373	1,137
Commitments to sell.....	1,370	1,141
Commitments from securities lending.....	790	717

The Company received fixed-rate interest and paid variable-rate interest on substantially all swaps in its hedging portfolio as of June 30, 2000. Activity for the six months ended June 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.....	685
Terminations.....	(674)
Amortization.....	(358)
Maturities.....	(20)
Notional amount outstanding at June 30, 2000.....	\$ 7,376
Weighted average interest rate paid.....	6.68%
Weighted average interest rate received.....	6.32

LIBOR-based interest rate floors totaling \$500 million with an average remaining maturity of 1.2 years and 1.7 years at June 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 June 30, 2000, and December 31, 1999.

Net unamortized deferred losses relating to swaps, options and futures were \$27.9 million at June 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)	Six Months Ended	
	June 30 2000	June 30 1999
Income taxes paid.....	\$ 264.3	\$ 218.4
Interest paid.....	1,431.0	1,118.7
Net noncash transfers to foreclosed property.....	13.8	16.2
Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$5.9 in 2000 and \$45.1 in 1999.....	(9.9)	(73.6)
Cash acquisitions of businesses		
Fair value of noncash assets acquired.....	\$ --	\$ 156.4
Liabilities assumed.....	--	--
Net.....	\$ --	\$ 156.4
Stock acquisitions of businesses		
Fair value of noncash assets acquired.....	\$ 810.7	\$ 42.3
Net cash acquired.....	24.0	3.6
Liabilities assumed.....	(688.7)	(9.5)
Net value of common stock issued.....	\$ 146.0	\$ 36.4

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

	For the Three Months Ended June 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.....	\$ 378	\$ 5.3	5.64%	\$ 434	\$ 6.2	5.73%	(12.9)%
U.S. agencies and other mortgage-backed.....	2,808	47.5	6.80	3,129	49.6	6.36	(10.3)
State and political.....	1,098	20.6	7.55	1,146	21.5	7.52	(4.2)
U.S. agencies and other.....	464	5.4	4.68	417	3.8	3.66	11.3
	-----			-----			
Total available-for-sale securities.....	4,748	78.8	6.68	5,126	81.1	6.35	(7.4)
Unrealized (loss) gain on available-for-sale securities.....	(139)			67			**
	-----			-----			
Net available-for-sale securities....	4,609			5,193			(11.2)
Trading account securities.....	755	13.7	7.30	582	9.8	6.75	29.7
Federal funds sold and resale agreements.....	659	8.8	5.37	525	5.7	4.35	25.5
Loans							
Commercial							
Commercial.....	28,952	621.8	8.64	24,629	458.4	7.47	17.6
Real estate							
Commercial mortgage.....	10,055	220.8	8.83	8,387	174.8	8.36	19.9
Construction.....	4,429	107.5	9.76	3,595	77.9	8.69	23.2
Lease financing.....	2,629	49.6	7.59	2,245	40.3	7.20	17.1
	-----			-----			
Total commercial.....	46,065	999.7	8.73	38,856	751.4	7.76	18.6
Consumer							
Home equity and second mortgage.....	8,934	214.4	9.65	7,804	182.3	9.37	14.5
Credit card.....	4,184	144.0	13.84	3,988	127.6	12.83	4.9
Other.....	4,200	111.0	10.63	6,873	159.1	9.28	(38.9)
	-----			-----			
Subtotal.....	17,318	469.4	10.90	18,665	469.0	10.08	(7.2)
Residential mortgage.....	2,615	50.8	7.81	2,800	54.8	7.85	(6.6)
	-----			-----			
Total consumer.....	19,933	520.2	10.50	21,465	523.8	9.79	(7.1)
	-----			-----			
Total loans.....	65,998	1,519.9	9.26	60,321	1,275.2	8.48	9.4
Allowance for credit losses.....	1,047			993			5.4
	-----			-----			
Net loans.....	64,951			59,328			9.5
Other earning assets.....	2,385	51.0	8.60	1,425	23.8	6.70	67.4
	-----			-----			
Total earning assets*.....	74,545	1,672.2	9.02	67,979	1,395.6	8.23	9.7
Other assets.....	10,726			9,019			18.9
	-----			-----			
Total assets.....	\$84,085			\$76,072			10.5%
	-----			-----			
LIABILITIES AND SHAREHOLDERS' EQUITY							
Noninterest-bearing deposits.....	\$14,254			\$13,553			5.2%
Interest-bearing deposits							
Interest checking.....	6,478	36.3	2.25	6,098	26.6	1.75	6.2
Money market accounts.....	12,421	130.3	4.22	12,132	100.9	3.34	2.4
Other savings accounts.....	1,970	8.6	1.76	2,211	9.5	1.72	(10.9)
Savings certificates.....	9,359	134.9	5.80	9,652	116.6	4.85	(3.0)
Certificates over \$100,000.....	5,917	92.1	6.26	4,333	55.2	5.11	36.6
	-----			-----			
Total interest-bearing deposits....	36,145	402.2	4.48	34,426	308.8	3.60	5.0
Short-term borrowings.....	3,515	60.7	6.95	4,257	55.7	5.25	(17.4)
Long-term debt.....	18,627	310.2	6.70	14,416	188.4	5.24	29.2
Company-obligated mandatorily redeemable preferred securities	950	19.3	8.17	950	19.4	8.19	--
	-----			-----			
Total interest-bearing liabilities.....	59,237	792.4	5.38	54,049	572.3	4.25	9.6
Other liabilities.....	2,710			2,158			25.6
Common equity.....	7,965			6,271			27.0
Accumulated other comprehensive income.....	(81)			41			**
	-----			-----			
Total liabilities and shareholders' equity.....	\$84,085			\$76,072			10.5%
	-----			-----			
	-----			-----			
Net interest income.....		\$ 879.8			\$ 823.3		
		-----			-----		

Gross interest margin.....	3.64%	3.98%
	-----	-----
	-----	-----
Gross interest margin without taxable-equivalent increments.....	3.55%	3.92%
	-----	-----
	-----	-----
Net interest margin.....	4.75%	4.86%
	-----	-----
	-----	-----
Net interest margin without taxable-equivalent increments.....	4.65%	4.79%
	-----	-----
	-----	-----
- - - - -		
- - - - -		

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.

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

	For the Six Months Ended June 30						% Change Average Balance
	2000			1999			
(Dollars in Millions) (Unaudited)	Balance	Interest	Yields and Rates	Balance	Interest	Yields and Rates	
<b>ASSETS</b>							
Available-for-sale securities							
U.S. Treasury.....	\$ 381	\$ 10.7	5.65%	\$ 458	\$ 13.0	5.72%	(16.8)%
U.S. agencies and other mortgage-backed.....	2,862	96.8	6.80	3,184	103.0	6.52	(10.1)
State and political.....	1,107	41.6	7.56	1,161	43.7	7.59	(4.7)
U.S. agencies and other.....	477	10.7	4.51	375	7.9	4.25	27.2
	-----			-----			
Total available-for-sale securities.....	4,827	159.8	6.66	5,178	167.6	6.53	(6.8)
Unrealized (loss) gain on available-for-sale securities.....	(140)			86			**
	-----			-----			
Net available-for-sale securities....	4,687			5,264			(11.0)
Trading account securities.....	728	29.0	8.01	570	19.0	6.72	27.7
Federal funds sold and resale agreements.....	614	15.4	5.04	522	10.5	4.06	17.6
<b>Loans</b>							
Commercial							
Commercial.....	28,094	1,184.0	8.48	24,212	898.5	7.48	16.0
Real estate							
Commercial mortgage.....	10,034	435.4	8.73	8,311	348.3	8.45	20.7
Construction.....	4,398	207.5	9.49	3,424	148.9	8.77	28.4
Lease financing.....	2,478	90.6	7.35	2,237	80.1	7.22	10.8
	-----			-----			
Total commercial.....	45,004	1,917.5	8.57	38,184	1,475.8	7.79	17.9
Consumer							
Home equity and second mortgage.....	8,839	423.5	9.64	7,645	356.7	9.41	15.6
Credit card.....	4,139	286.1	13.90	4,001	250.9	12.65	3.4
Other.....	4,246	220.5	10.44	6,963	320.8	9.29	(39.0)
	-----			-----			
Subtotal.....	17,224	930.1	10.86	18,609	928.4	10.06	(7.4)
Residential mortgage.....	2,625	101.5	7.78	2,912	112.5	7.79	(9.9)
	-----			-----			
Total consumer.....	19,849	1,031.6	10.45	21,521	1,040.9	9.75	(7.8)
	-----			-----			
Total loans.....	64,853	2,949.1	9.14	59,705	2,516.7	8.50	8.6
Allowance for credit losses.....	1,038			995			4.3
	-----			-----			
Net loans.....	63,815			58,710			8.7
Other earning assets.....	2,322	99.4	8.61	1,387	44.5	6.47	67.4
	-----			-----			
Total earning assets*.....	73,344	3,252.7	8.92	67,362	2,758.3	8.26	8.9
Other assets.....	10,761			9,140			17.7
	-----			-----			
Total assets.....	\$82,927			\$75,593			9.7%
	-----			-----			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Noninterest-bearing deposits.....	\$14,174			\$13,549			4.6%
Interest-bearing deposits							
Interest checking.....	6,344	68.6	2.17	6,062	52.1	1.73	4.7
Money market accounts.....	12,504	255.1	4.10	12,156	206.7	3.43	2.9
Other savings accounts.....	2,033	18.0	1.78	2,246	19.5	1.75	(9.5)
Savings certificates.....	9,305	260.7	5.63	9,886	241.9	4.93	(5.9)
Certificates over \$100,000.....	5,691	172.7	6.10	3,902	100.2	5.18	45.8
	-----			-----			
Total interest-bearing deposits....	35,877	775.1	4.34	34,252	620.4	3.65	4.7
Short-term borrowings.....	3,554	118.1	6.68	4,181	108.0	5.21	(15.0)
Long-term debt.....	17,855	578.8	6.52	14,193	374.5	5.32	25.8
Company-obligated mandatorily redeemable preferred securities	950	38.6	8.17	950	38.7	8.21	--
	-----			-----			
Total interest-bearing liabilities.....	58,236	1,510.6	5.22	53,576	1,141.6	4.30	8.7
Other liabilities.....	2,727			2,268			20.2
Common equity.....	7,874			6,147			28.1
Accumulated other comprehensive income.....	(84)			53			**
	-----			-----			
Total liabilities and shareholders' equity.....	\$82,927			\$75,593			9.7%
	-----			-----			
Net interest income.....		\$1,742.1			\$1,616.7		
		-----			-----		
		-----			-----		

Gross interest margin.....	3.70%	3.96%
	-----	-----
	-----	-----
Gross interest margin without taxable-equivalent increments.....	3.60%	3.89%
	-----	-----
	-----	-----
Net interest margin.....	4.78%	4.84%
	-----	-----
	-----	-----
Net interest margin without taxable-equivalent increments.....	4.68%	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

- 10.1 Amended and Restated Employment Agreement with John F. Grundhofer.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 27 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 June 30, 2000, the Company filed no Current Reports on Form 8-K.

## 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: August 11, 2000

U.S. Bancorp

## EXHIBIT 12

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended June 30	Six Months Ended June 30
(Dollars in Millions)	2000	2000
-----		
-----		
EARNINGS		
1. Net income.....	\$ 393.1	\$ 772.1
2. Applicable income taxes.....	216.3	423.1
	-----	-----
3. Net income before taxes (1 + 2).....	\$ 609.4	\$1,195.2
	-----	-----
4. Fixed charges:		
a. Interest expense excluding interest on deposits.....	\$ 390.2	\$ 735.5
b. Portion of rents representative of interest and amortization of debt expense.....	14.9	27.8
	-----	-----
c. Fixed charges excluding interest on deposits (4a + 4b).....	405.1	763.3
d. Interest on deposits.....	402.2	775.1
	-----	-----
e. Fixed charges including interest on deposits (4c + 4d).....	\$ 807.3	\$1,538.4
	-----	-----
5. Amortization of interest capitalized.....	\$ --	\$ --
6. Earnings excluding interest on deposits (3 + 4c + 5)....	1,014.5	1,958.5
7. Earnings including interest on deposits (3 + 4e + 5)....	1,416.7	2,733.6
8. Fixed charges excluding interest on deposits (4c).....	405.1	763.3
9. Fixed charges including interest on deposits (4e).....	807.3	1,538.4
RATIO OF EARNINGS TO FIXED CHARGES		
10. Excluding interest on deposits (line 6/line 8).....	2.50	2.57
11. Including interest on deposits (line 7/line 9).....	1.75	1.78
-----		
-----		

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#### COMMON STOCK TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company of New York, a division of EquiServe, acts as transfer agent and registrar, dividend paying agent and dividend reinvestment plan agent for U.S. Bancorp and maintains all shareholder records for the corporation. 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  
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 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.

#### DIVIDEND REINVESTMENT PLAN

U.S. Bancorp shareholders can take advantage of a plan that provides automatic reinvestment of dividends and/or optional cash purchases of additional shares of U.S. Bancorp Common Stock up to \$60,000 per calendar year. For more information, please contact First Chicago Trust Company of New York, c/o EquiServe, P.O. Box 2598, Jersey City, New Jersey, 07303-2598, (800) 446-2617.

#### INVESTMENT COMMUNITY CONTACTS

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#### 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)

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated as of May 8, 2000, by and between U.S. Bancorp, a Delaware corporation (as further defined in Section 8.13.12 hereof, "Employer"), and John F. Grundhofer ("Executive"), amends and restates the Employment Agreement dated as of August 1, 1997 by and between Employer and Executive (as amended by the First Amendment to Employment Agreement dated as of June 11, 1998 by and between Employer and Executive, the "Original Agreement").

In consideration of the respective undertakings of Employer and Executive set forth below, Employer and Executive agree as follows:

1. Employment. Employer hereby employs Executive, and Executive accepts such employment and agrees to perform services for the Employer, for the period and upon the other terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Executive's employment pursuant to this Agreement will commence on August 1, 1997 (the "Commencement Date") and, unless terminated at an earlier date in accordance with Section 5 of this Agreement, shall continue in effect until the fifth anniversary of the Commencement Date; and, commencing on the first anniversary of the Commencement Date and on each anniversary thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than 30 days prior to any such date of automatic extension of this Agreement, Employer or Executive shall have given the other party to this Agreement written notice that the Agreement will not be so extended. The term of Executive's employment commencing on the Commencement Date and ending pursuant to the terms hereof is hereinafter referred to as the "Period of Employment."

3. Position and Duties.

3.01 Service with Employer. During the Period of Employment, Executive agrees to perform such reasonable executive employment duties as Employer shall assign to him from time to time and shall have the title of President and Chief Executive Officer and upon the earlier of (x) the retirement of Gerry B. Cameron and (y) January 1, 1999, the Executive shall have the additional title of Chairman of the Board of Directors of the Employer; provided, however, that (a) Employer may name another executive President during the Period of Employment so long as Executive retains the other titles as herein provided and (b) following a Partial Change in Control, Employer may name one or more other executives Chairman of the Board of Directors, President and/or Chief Executive Officer. Executive also agrees to serve, for any period for which he is elected, as a director on the Board of Directors of Employer and to serve as a member of any committee of the Board of Directors of Employer to which Executive may be elected or appointed.

3.02 Performance of Duties. Executive agrees to serve Employer faithfully and to the best of his ability and to devote his full business time, attention and efforts to the business and affairs of Employer during the Period of Employment; provided, however, that Executive may engage in other activities, such as activities involving charitable, educational, religious and similar types of organizations, speaking engagements, membership on the boards of directors of other organizations (as Employer may from time to time approve), management of Executive's personal investments, and similar types of activities to the extent that such other activities do not inhibit in any material way or prohibit the performance of Executive's duties under this Agreement, or inhibit in any material way or conflict with the business of Employer and its subsidiaries.

#### 4. Compensation.

4.01 Base Salary. As base compensation for all services to be rendered by Executive under this Agreement, Employer will pay to Executive during the Period of Employment a base annual salary ("Annual Salary") to be paid in substantially equal installments in accordance with Employer's standard payroll procedures and policies. The Annual Salary will be at least \$840,000, but the Annual Salary may be increased (but not reduced) from time to time in the sole discretion of Employer; provided, however, that for any of the three years beginning after a Change in Control (as hereinafter defined) during the Period of Employment, Executive's Annual Salary shall be increased by a percentage not less than the average percentage increase in the base annual salary for each of the next five highest paid officers of Employer for such year.

4.02 Annual Bonus. During the Period of Employment, Executive will be entitled to participate in the Employer's Executive Incentive Plan (or, if such Plan shall cease to exist, Employer's annual bonus award program, if any, for Employer's executives at Executive's grade level) with a target bonus opportunity at least as great as that provided to the Executive immediately prior to the Commencement Date. The award of an annual bonus is highly discretionary and is subject to the terms and provisions of the Executive Incentive Plan (or, if such Plan shall cease to exist, Employer's annual bonus award program, if any, for Employer's executives at Executive's grade level).

4.03 Options and Restricted Stock. During the Period of Employment, Executive will be eligible to receive grants of Employer's stock options and restricted stock, or other awards pursuant to equity-based plans of Employer. Such grants are highly discretionary and would be subject to the terms of the applicable agreements prescribed by Employer from time to time.

Notwithstanding the foregoing, the Executive shall be granted on the date of the Original Agreement 50,000 shares of restricted common stock of the Employer (the "Restricted Stock"). The Restricted Stock shall vest in five equal installments on each of the first through fifth anniversaries of the date of grant but shall vest immediately upon the Executive's death or Disability (as defined in the Employer's Disability Program) or upon a termination of the Executive's employment by the Employer without Cause or by the

Executive for Good Reason, or upon a Full Change in Control (as each of such terms is defined in the next paragraph of this Section 4.03). The Executive shall be granted as of the date of the Original Agreement an option (the "Option") to acquire 150,000 shares of the Employer's common stock at their Fair Market Value on the date of grant (as defined in the Employer's 1997 Stock Incentive Plan). The Option shall have a term of 10 years and shall vest and become exercisable in full on the fifth anniversary of the date of grant, subject to acceleration in the event of achievement of performance targets set forth in the grant of the Option, and shall be subject to all other terms and conditions currently applicable to options granted under such Plan to other executive officers of the Employer. The option shall vest and become immediately exercisable upon the Executive's death or Disability (as defined in the Employer's Disability Program) or upon a termination of the Executive's employment by the Employer without Cause or by the Executive for Good Reason, or upon a Full Change in Control (as each of such terms is defined in the next paragraph of this Section 4.03).

For purposes of this Section 4.03, the terms "Cause," "Good Reason" and "Full Change in Control" shall have the meanings contained in the Original Agreement without regard to amendments thereto made hereby. For purposes of the agreements between the Executive and the Employer relating to the Restricted Stock and the Option, the terms "Cause" and "Good Reason" shall have the meanings contained in the Original Agreement without regard to such amendments.

This Agreement shall not have the effect of amending or otherwise modifying in any way any agreements between the Employer and the Executive relating to stock options or restricted stock awards in existence on the date of this Agreement (except to the extent that the agreements relating to the Restricted Stock and the Option are modified by the immediately preceding paragraph).

4.04 Participation in Other Benefit Plans. During the Period of Employment, Executive will be entitled to participate in such retirement plans, major medical, hospital, surgical and dental plans, executive disability plans and other Employer benefits not described elsewhere in this Section 4 as are being provided by Employer to executives at Executive's grade level from time to time to the extent that Executive's age, positions and other factors qualify him for such benefits. If, for any period during the Period of Employment, Executive is not eligible by reason of length of service to participate in such plans maintained by Employer, Employer shall provide Executive with benefits equivalent to those provided under such plans and, with respect to benefits provided by Employer equivalent to those provided under Employer's major medical, hospital, surgical and dental plans, shall compensate Executive on an after-tax basis for any additional income taxes payable by Executive by reason of Employer providing such benefits directly rather than through such plans. Upon a termination of employment for any reason and for the remainder of the Executive's life and that of his current spouse, the Employer shall continue to provide medical and dental benefits in the aggregate to the Executive and his current spouse pursuant to the Employer's Retiree Health Care Program at a subsidized cost on the same basis as the Employer subsidizes premiums for retirees of the Employer who retired prior to January 1,

1993 (collectively, "Medical Benefits"). The Executive and his current spouse's entitlement to Medical Benefits shall survive the termination of this Agreement.

4.05 Long-Term Disability Benefits. During the Period of Employment, Executive's annual benefit under Employer's long-term disability plan shall not be less than 60% of the total of (i) Executive's base annual salary at the date of disability plus (ii) the annual average of bonuses received by Executive during the three prior Executive Incentive Plan years (or, if such Plan shall cease to exist, such other annual bonus award program, if any, pursuant to which Executive received annual bonus payments), and Employer agrees to pay Executive (at the time benefits are payable under the long-term disability plan) the excess, if any, of such annual benefit over the annual benefit provided by Employer's long-term disability plan.

4.06 Survivor Benefit Programs; Life Insurance. During the Period of Employment, Executive will be entitled to participate in survivor benefit programs covering Employer's executives at Executive's grade level in effect on the Commencement Date or as modified or supplemented by Employer from time to time. If, for any period during the Period of Employment, Executive is not eligible to participate in such survivor benefit programs, Employer shall provide Executive with benefits equivalent to those provided under such programs. In addition, during the Period of Employment Employer shall continue to provide a life insurance policy with a face value of at least \$1 million for the benefit of a beneficiary designated by Executive (or, if no beneficiary is designated, for the benefit of Executive's spouse). Such insurance policy shall be in addition to the amount of group term insurance, if any, provided to Executive under an insurance plan maintained by Employer for its employees generally. Executive hereby represents to Employer that Executive is insurable on normal terms and conditions.

4.07 Retirement Benefits. The Executive shall be entitled to a retirement benefit pursuant to the Employer's Non-Qualified Supplemental Executive Retirement Plan in effect as of the date hereof (the "NQSREP"), with the following modifications: (i) the Executive's lifetime annual pension benefit commencing at age 65 shall be 57.5% of his final three year's average compensation, (ii) the Executive shall be fully vested in this benefit at age 60, with no actuarial or other reduction for retirement prior to age 65 but after age 60 but with a reduction for commencement of benefits prior to age 65, (iii) the Prior Plans' Offset (as defined in the NQSREP) shall be fixed at \$270,000 per year, and (iv) the Executive's minimum actual pension from all Employer qualified plans and the NQSREP shall not be less than \$1 million per year, commencing at age 65 and, if the joint and survivor form of benefit is elected, his spouse's minimum total survivor benefit from all sources upon executive's death at or after age 65 shall not be less than \$500,000 per year. In the event of any conflict between the terms of this Section 4.07 and the NQSREP, the provisions of this Section 4.07 shall prevail.

4.08 Vacation and Sick Leave. During the Period of Employment, Executive will be entitled to reasonable paid vacation periods each year, will be entitled to carry over to subsequent years unused vacation periods, and upon termination of employment

will be entitled to be paid for unused vacation periods, in each case in accordance with Employer's policy for executives at Executive's grade level from time to time. Executive will also be entitled to reasonable sick leave in accordance with Employer's policy for executives at Executive's grade level from time to time.

4.09 Perquisites. During the Period of Employment, Employer will provide Executive with such perquisites as Employer from time to time provides to executives at Executive's grade level including, without limitation, (a) an automobile or automobile allowance consistent with Employer's policies for an executive at Executive's grade level, (b) reimbursement of initiation, fees, if any, and dues for one country club and one business club of Executive's choice, and (c) the reimbursement of the cost of financial and tax counseling (subject to an annual limit of two percent of current base annual salary). Additionally, during the Period of Employment, Employer will reimburse Executive for the difference between (i) interest payments made by Executive on Executive's real estate mortgage loan for his personal residence (with the loan amount not to exceed 80% of the purchase price for such residence) and (ii) the interest payments that would apply to such loan if the interest rate on such loan were one percentage point less than the interest rate generally prevailing in the market at the time the loan was entered into.

4.10 Expenses. Employer will reimburse Executive for all expenses and disbursements reasonably incurred by executive in the performance of his duties during the Period of Employment, and such other facilities or services as Employer and Executive may, from time to time, agree are reimbursable, subject to the presentation of appropriate vouchers in accordance with the Employer's normal policies for expense verification.

4.11 Indemnity and Hold Harmless. Except to the extent inconsistent with Employer's charter or bylaws, Employer will indemnify Executive and hold Executive harmless to the fullest extent permitted by law with respect to acts of Executive as an officer and director of Employer during the Period of Employment. Employer further agrees that if and to the extent Employer in its sole discretion maintains directors' and officers' insurance policies, Executive will be covered by such policies with respect to acts of Executive as an officer and director of Employer during the Period of Employment to the same extent as all other officers and directors of Employer under such policies.

4.12 Payments on Account of Restricted Stock Relating to Former Employment. Employer has established and is maintaining a bookkeeping account for Executive (the "Bookkeeping Account"), which account was initially credited with \$305,074, representing the amount agreed to be paid to Executive and not paid to date in respect of shares of Wells Fargo Company ("Wells Fargo") Common Stock transferred by Wells Fargo to Executive, but not vested, as of January 30, 1990. The amount credited to the Bookkeeping Account shall be deemed to have been invested in such stock, bonds or other securities as Executive shall, from time to time, designate in writing to Employer's Executive Vice President, Human Resources, or such other individual as Employer shall designate, which deemed investments must be reasonably acceptable to Employer and must be of a type that Employer would be permitted to make under applicable laws and regulations. The

Bookkeeping Account shall be credited or debited, as the case may be, with gains or losses deemed incurred as a result of such designated, deemed investments.

Certain debits have been made to the Bookkeeping Account as provided in the Employment Agreement dated December 30, 1992 by and between Employer and Executive (the "1992 Employment Agreement"). The balance of the Bookkeeping Account shall become payable to, or with respect to, Executive upon the earliest of the following events (i) January 30, 2003, (ii) Executive's death or (iii) Executive's termination of employment for any reason within 24 months after a Change In Control. In the event the balance of the Bookkeeping Account becomes payable upon Executive's termination of employment for any reason other than death or within 24 months after a Change in Control, the entire balance shall be paid within 30 days of such event. In the event the balance of the Bookkeeping Account becomes payable upon Executive's death, the entire balance shall be paid by December 31 of the calendar year in which Executive dies. Upon the occurrence of any other event giving rise to Employer's obligation to pay Executive the balance of the Bookkeeping Account, on January 30 of each year beginning in the year 2003 and for each of the next nine consecutive years, after taking into account any amount credited or debited to the Bookkeeping Account as a result of the deemed investment thereof or otherwise pursuant to the terms of this Section 4.12, the following proportions of the Bookkeeping Account shall be paid to Executive: 1/10, 1/9, 1/8, 1/7, 1/6, 1/5, 1/4, 1/3, 1/2 and the entire remaining balance thereof.

Employer, in its sole and absolute discretion, may alter the timing or manner of payment of the balance of the Bookkeeping Account in the event that Executive establishes to the satisfaction of Employer severe financial hardship. Severe financial hardship will be deemed to have occurred in the event of Executive's impending bankruptcy, a dependent's long and serious illness or other events of similar magnitude. Executive may designate a beneficiary or beneficiaries who, upon his death, are to receive distributions that otherwise would have been paid to Executive. All designations shall be in writing and shall be effective only if and when delivered to Employer during the lifetime of Executive.

Employer shall have the right to deduct from all payments made pursuant to this Section 4.12 any federal, state or local taxes required by law to be withheld with respect to such payments. Executive and Employer understand and agree that the timetable set forth above with respect to the payment of the balance of the Bookkeeping Account is irrevocable and shall not be subject to any amendment or modification. Further, Executive and Employer understand and agree that Employer is under a contractual obligation to make payments to Executive in accordance with this Section 4.12. Such payments shall not be financed from any trust fund, insurance or otherwise and shall be paid solely out of the general funds of Employer, and Executive shall have no interest whatsoever in any investments made by Employer on account of Executive's request with respect to deemed investments of the Bookkeeping Account. Executive will not have any interest whatsoever in any specific asset of Employer as a result of this Agreement, and Executive's rights to payments hereunder shall be no greater than the right of any other general, unsecured creditor of Employer. In no event shall Employer make any payment hereunder to any assignee or

creditor of Executive or a beneficiary. Prior to the time of payment hereunder, Executive or a beneficiary thereof shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under this Section 4.12, nor shall such rights be assigned or transferred by operation of law.

5. Termination.

5.01 Grounds for Termination. The Period of Employment will terminate prior to the expiration of the term set forth in Section 2 of this Agreement in the event that:

- (a) Executive shall die.
- (b) Executive shall qualify for and accrue payments under Employer's Disability Program for a period covering 90 consecutive days.
- (c) Employer shall terminate the Period of Employment for Cause (as hereinafter defined).
- (d) Executive shall terminate the Period of Employment for (i) Good Reason (as hereinafter defined), (ii) Good Reason following a Full Change in Control (as hereinafter defined) or (iii) Good Reason following a Partial Change in Control (as hereinafter defined).
- (e) Employer shall terminate the Period of Employment other than for Cause.
- (f) Executive shall terminate the Period of Employment for any reason not constituting Good Reason, Good Reason following a Full Change in Control or Good Reason following a Partial Change in Control.

Notwithstanding any termination of the Period of Employment, Executive, in consideration of his employment hereunder to the date of such termination, will remain bound by the provisions of this Agreement that specifically relate to periods, activities or obligations upon or subsequent to the termination of Executive's employment.

5.02 Effect of Termination.

- (a) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(a) above, Executive's trust estate or estate, as the case may be (as determined in accordance with Section 8.02 of this Agreement), will be entitled to be paid the base annual salary otherwise payable to Executive pursuant to Section 4.01 of this Agreement only through the date of such termination. Additionally, Executive's survivors will be entitled to any benefits provided under

Employer's survivor benefit program. If the joint and survivor form of benefit is elected, the Executive's current spouse, should she survive the Executive, shall be entitled to a survivor benefit based on a 50% joint and survivor annuity pursuant to the Executive's retirement benefits described in Section 4.07, commencing on what would have been the Executive's 65th birthday. In addition, the Restricted Stock shall vest immediately and the Option shall vest and become immediately exercisable. The Executive's current spouse shall also be entitled to the provision of Medical Benefits.

- (b) In the event of termination of the Period of Employment pursuant to the provisions of section 5.01(b) above, Executive will be entitled to be paid the base annual salary otherwise payable to Executive pursuant to Section 4.01 of this Agreement only through the date of such termination. Executive will be entitled to benefits under Employer's Disability Program and to the benefits provided for in Section 4.05 in connection with Employer's Disability Plan. If Executive shall cease to be eligible for long-term disability payments pursuant to the Disability Plan within three years following the date of such termination, Employer will pay Executive a lump sum payment in the amount of Executive's annual base salary at the time of such termination. The Executive shall receive the retirement benefits described in Section 4.07 commencing on his 65th birthday. In addition, the Restricted Stock shall vest immediately, and the Option shall vest and become immediately exercisable. The Executive and his current spouse shall also be entitled to the provision of Medical Benefits.
- (c) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(c) or (f) above, Employer will have no further obligations hereunder except that Employer will pay Executive his base salary, at the rate then in effect, and continue to provide Executive and his current spouse Medical Benefits. Executive will not be paid any annual bonus pursuant to Section 4.02 of this Agreement for the calendar year in which the termination occurs or any subsequent calendar year.
- (d) In the event of termination of the Period of Employment pursuant to the provisions of Sections 5.01(d) or 5.01(e) above, Employer will (i) pay Executive his full base salary through the date of termination at the rate in effect at the time Notice of Termination is given; (ii) pay as damages to Executive, not later than 30 days following the date of termination, a lump sum payment equal to three times the sum of (A) Executive's annual base salary in effect at the time Notice of Termination is given and (B) the annual target bonus potential

available to Executive at the time Notice of Termination is given (or, in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination (as hereinafter defined), if either of the following amounts is greater, the bonus earned in the last fiscal year prior to the date of termination or the average bonus earned in the last three fiscal years prior to the date of termination, whichever is larger), (iii) continue to provide the employee benefits described in Sections 4.04, 4.05 (with disability benefits to be calculated as of the date of termination), and 4.06 to which Executive was entitled on the date of such termination for a period of three years from the date of such termination and thereafter, to provide the Executive and his current spouse with Medical Benefits, (iv) continue to provide the perquisites described in Section 4.09 to which Executive was entitled on the date of such termination for a period of three years from the date of such termination, (v) cause the acceleration of the exercisability of any stock option or the vesting of any restricted stock grants (other than those pursuant to Employer's Restricted Stock and Performance Plan) that would have become exercisable or vested, as the case may be, during the remaining Period of Employment had no such termination occurred, and cause the Restricted Stock and the Option to become immediately vested and exercisable, as the case may be, provided, however, that such acceleration or immediate vesting shall occur only to the extent that it is consistent with the last two paragraphs of Section 4.03 hereof, (vi) cause the acceleration of vesting of restricted stock grants under Employer's Restricted Stock and Performance Plan if the vesting schedule has been determined at the time of such termination and such vesting would have occurred during the remaining Period of Employment had no such termination occurred, (vii) give Executive credit for three additional years of age and service (or five additional years in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination) for all purposes in determining Executive's retirement benefits pursuant to Section 4.07 and the NQSRP, (viii) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the full amount of any long-term cash incentive award for any plan periods then in progress to the extent not provided for in any Employer long-term cash incentive plan or plans, (ix) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the year-to-date pro-rata amount of any annual cash incentive award for any plan as in effect immediately prior to the Change in Control to the extent not provided for in such plan or plans and the amount of any annual cash incentive award for any plan as in effect for the immediately prior year if Executive would have received

such an award if there had been no such termination of employment in the then current year, and (x) pay for individual outplacement counseling services to Executive up to a maximum of \$60,000. Except as otherwise provided in clause (ix) of this Section 5.02 (d) , Executive will not be paid any annual bonus pursuant to Section 4.02 of this Agreement for the calendar year in which the termination occurs.

5.03 Notice of Termination. Any purported termination by Employer or Executive of the Period of Employment shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which indicates the specific termination provision in Section 5.01 above relied upon.

5.04 Offsets. Executive shall have no duty to seek other employment. However, in the event of termination of the Period of Employment pursuant to the provisions of Sections 5.01(d) or 5.01(e), the following offsets will apply to reduce the payments and benefits which Executive shall be entitled to receive pursuant to Section 5.02(d): (i) (A) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, the amount payable to Executive pursuant to Section 5.02(d)(ii) will be offset by any salary, cash bonus and other earned income (within the meaning of Section 911(d)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code")) received by Executive for services rendered by Executive to persons or entities other than the Employer during or with respect to the 36-month period after the date of termination, or (B) in the event of termination at any time not within 24 months following a Change in Control and that is not an Anticipatory Termination, one-third of the amount payable to Executive pursuant to Section 5.02(d)(ii)(A) and the entire amount payable to Executive pursuant to Section 5.02(d)(ii)(B) shall be offset by amounts received by Executive which are described in subparagraph (A) above; (ii) the benefits payable to Executive pursuant to Section 5.02(d)(iii) and (iv) shall be discontinued if Executive obtains full-time employment providing welfare benefits during the 36-month period following the date of termination; and (iii) in the event of termination at any time within 24 months following a Change in Control or in the event of an Anticipatory Termination, any additional benefits under Employer's NQSRP pursuant to Section 5.02(d) will be reduced by the amount of vested defined benefit pension benefits and vested defined benefit non-qualified supplemental retirement benefits actually payable to Executive without any risk of forfeiture from persons or entities other than Employer which are attributable to service rendered by Executive to such other persons or entities during the 36 months following the date of termination of Executive's employment. Such reduction shall be calculated based on the vested benefits payable at age 65 under the single life annuity form of payment under the applicable plans which are accrued by Executive during such period. The foregoing calculations for a particular plan shall be made by the actuary for such plan in accordance with generally accepted actuarial principles. The amount of such reduction at age 65 shall be actuarially reduced if Executive's benefits under the Employer's NQSRP, as modified by Section 4.07, commence before Executive attains age 65.

Not less frequently than annually (by December 31 of each year), Executive shall account to Employer with respect to all payments and benefits received by Executive which are required hereunder to be offset against payments or benefits received by Executive from Employer. If the Employer has paid amounts in excess of those to which Executive is entitled (after giving effect to the offsets provided above), Executive shall reimburse Employer for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year which includes the third anniversary of the date of termination.

5.05 Additional Payments. In the event any payment or distribution of any type by Employer to Executive or for his benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional cash payment (a "Gross-Up Payment") equal to an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive would retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. For purposes of determining the amount of the Gross-Up Payment, which determination shall be made by the Employer's independent auditors, at the Employer's sole expense, Executive's tax rate shall be deemed to be the highest statutory marginal state and Federal tax rate (on a combined basis) (including Executive's share of F.I.C.A. and Medicare taxes) then in effect. If no determination by Employer's auditors is made prior to the time a tax return reflecting the Total Payments is required to be filed by Executive, Executive will be entitled to receive a Gross-Up Payment calculated on the basis of the Total Payments reported by Executive in such tax return, within 30 days of the filing of such tax return. In all events, if a tax authority determines that a greater Excise Tax should be imposed upon the Total Payments than is determined by the Employer's independent auditors or reflected in Executive's tax return pursuant to this Section 5.05, Executive shall be entitled to receive the full Gross-Up Payment calculated on the basis of the amount of Excise Tax determined to be payable by such tax authority from Employer within 30 days of such determination.

5.06 Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit Executive from continuing or future participation in any benefit, bonus, incentive, retirement or other plan or program provided by Employer and for which Executive may qualify, nor, except as expressly provided in this Agreement, shall anything herein limit or reduce such rights as Executive may have under any other agreement with, or plan, program, policy or practice of, Employer. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any agreement with, or plan, program, policy or practice of, Employer (including, without limitation, the cashout of unused vacation days upon termination of employment) shall be payable in accordance with such agreement, plan, program, policy or practice, except as explicitly modified by this Agreement. Notwithstanding the foregoing, if Executive becomes entitled to benefits under Article 5 of

this Agreement, Executive shall not be entitled to receive payments under any other severance pay plan or program sponsored or maintained by Employer or any of its Affiliates.

6. Non-Competition and Unfair Competition.

6.01 Agreement Not to Compete. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's employment with Employer by Employer for Cause pursuant to Section 5.01(c) or by Executive without Good Reason, Good Reason following a Full Change in Control or Good Reason following a Partial Change in Control pursuant to Section 5.01(f), Executive will not, for a period of three years thereafter, become an officer, employee, agent, partner, director or substantial stockholder (holding more than 5% of the voting securities) of any bank, savings bank, trust company, bank and trust company, savings and loan association or holding company thereof, in each case if such entity conducts business in the State of California, the State of Colorado, the State of Idaho, the State of Illinois, the State of Iowa, the State of Kansas, the State of Minnesota, the State of Montana, the State of Nebraska, the State of Nevada, the State of North Dakota, the State of Oregon, the State of South Dakota, the State of Utah, the State of Washington, the State of Wisconsin, the State of Wyoming or any other State in which Employer has substantial operations.

6.02 Agreement Not to Solicit. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's employment with Employer for any reason whatsoever, Executive will not, for the remainder of the Period of Employment if no termination had occurred (or, if longer, for the one-year period following such termination), (i) solicit or aid in soliciting as a customer or client of banking or related financial services (including, without limitation trust, credit card and investment management services) any person, firm, corporation, association or other entity (A) that was a customer or client of Employer or any Affiliate of Employer, and for which Executive or anyone under Executive's supervision performed any services or with which substantial business relations were maintained by Employer or any Affiliate of Employer at any time during the five years prior to the termination of the Period of Employment or (B) whose identity or particular needs Executive otherwise discovered as a result of his employment with Employer, or (ii) solicit or aid in soliciting any employees of Employer or any Affiliate of Employer to leave their employment. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's employment with Employer for any reason whatsoever, Executive agrees never to copy, remove from Employer or its Affiliates, dispose or make any use of any confidential customer list, confidential business information with respect to customers, confidential materials relating to the practices or procedures of Employer or its Affiliates, or any other proprietary information.

7. Taxes. All payments to be made to Executive under this Agreement will be net of required withholding of federal, state and local income and employment taxes. Whenever under this Agreement Executive is to be compensated or reimbursed on an "after-tax basis," Executive will be assumed to be subject to federal income taxes at the highest marginal rate applicable to individuals and to state income taxes at the highest

marginal effective rate for residents of Minneapolis, Minnesota.

8. Miscellaneous.

8.01 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of Minnesota.

8.02 Successors. This Agreement shall be binding upon and inure to the benefit of Employer and its successors. This Agreement will inure to the benefit of, be enforceable by, and any amounts and benefits owed to Executive at the time of Executive's death, unless otherwise provided herein, will be paid to, the Trustee under the John F. and Beverly J. Grundhofer Living Trust Agreement, or, if such Trust is not then in existence, the personal representative or personal representatives of Executive's estate. Reference to the "John F. and Beverly J. Grundhofer Living Trust Agreement" means that certain Declaration of Trust, John F. and Beverly J. Grundhofer Living Trust, dated February 22, 1988, by and between John F. and Beverly J. Grundhofer, as donors and as original Trustees, as amended and existing at John F. Grundhofer's death. Reference to the Trustee under the John F. and Beverly J. Grundhofer Living Trust Agreement means the then acting Trustee or Trustees under the John F. and Beverly J. Grundhofer Living Trust Agreement and any successor Trustees.

Employer will require the Resulting Corporation (as hereinafter defined) or any other successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or consolidated assets of Employer and its subsidiaries to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform if no such succession had taken place. Failure of Employer to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to compensation from Employer in the same amount and on the same terms as Executive would be entitled to hereunder if Executive terminated his employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the date of termination and Notice of Termination shall be deemed to have been given on such date. In any case where a successor assumes the Employer's obligations under this Agreement by operation of law, the requirements imposed in this paragraph will be satisfied if the successor acknowledges to Executive in writing that it has assumed the Employer's obligations under this Agreement by operation of law within 30 days of receipt of a written notice from Executive requesting such acknowledgment.

8.03 Prior Agreements. This Agreement contains the entire agreement of the parties relating to the employment of Executive by Employer and the other matters discussed herein and supersedes all prior agreements and understandings with respect to such subject matter, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. The Original

Agreement is hereby amended and restated. The Change in Control Severance Pay Agreement entered into between Employer and Executive on March 16, 1992, which was attached as Exhibit A to the 1992 Employment Agreement with Employer, remains terminated and of no force or effect.

8.04 Amendments. No amendment or modification of this Agreement will be deemed effective unless made in writing and signed by each party hereto.

8.05 No Waiver. No term or condition of this Agreement will be deemed to have been waived, nor will there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver will not be deemed a continuing waiver unless specifically stated, will operate only as to the specific term or condition waived and will not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

8.06 Assignment. This Agreement is not assignable, in whole or in part, by any party without the written consent of the other party.

8.07 Injunctive Relief. Executive agrees that it would be difficult to compensate Employer fully for damages for any violation of the provisions of this Agreement, including without limitation the provisions of Section 6. Accordingly, Executive specifically agrees that Employer will be entitled to temporary and permanent injunctive relief to enforce the provisions of this Agreement and that such relief may be granted without the necessity of proving actual damages. This provision with respect to injunctive relief will not, however, diminish the right of Employer to claim and recover damages in addition to injunctive relief.

#### 8.08 Disputes and Legal Fees.

- (a) Before a Change in Control. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, which is not resolved by the parties will not sooner than 30 days after the dispute shall arise, be settled by arbitration before three arbitrators in accordance with the rules of the American Arbitration Association, and judgment upon an award rendered by the arbitrators, or at least a majority of them, may be entered in any court having jurisdiction thereof; provided, however, that Employer will be entitled to seek injunctive or other equitable relief in a court of law to enforce the provisions of Section 6. Such arbitration shall be conducted in Minneapolis, Minnesota. The expenses incurred in connection with any arbitration, including but not limited to each party's legal fees and the arbitrators' fees and expenses, will be allocated between the parties according to the relative fault of each, as determined by the arbitrators.

- (b) After a Change in Control. Subparagraph (a) above shall not apply after a Change in Control, and the provisions of this subparagraph (b) shall apply instead. If Executive so elects, any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively, by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. If Executive does not elect arbitration, Executive may pursue any and all legal remedies available to him. Employer shall pay to Executive any legal fees and expenses reasonably incurred by him after a Change in Control. If Executive elects arbitration, Employer will pay all fees and expenses of the arbitrator.

8.09 Severability. To the extent that any provision of this Agreement shall be determined to be invalid or unenforceable, the invalid or unenforceable portion of such provision will be deleted from this Agreement, and the validity and enforceability of the remainder of such provision and of this Agreement will be unaffected. In furtherance of and not in limitation of the foregoing, it is expressly agreed that should the duration of or geographical extent of, or business activities covered by, the noncompetition covenant contained in Section 6 be determined to be in excess of that which is valid or enforceable under applicable law, then such provision will be construed to cover only that duration or extent, or those activities which may validly or enforceably be covered. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement will be construed in a manner which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

8.10 Notices. All notices under this Agreement will be in writing and will be deemed effective when delivered in person (in Employer's case, to its Secretary) or twenty-four (24) hours after deposit thereof in the U.S. mails, postage prepaid, for delivery as registered or certified mail, addressed, in the case of Executive, to him at his last residential address known by Employer and, in the case of Employer, to its corporate headquarters, attention of its Secretary, or to such other address as Executive or Employer may designate in writing at any time or from time to time to the other party. In lieu of notice by deposit in the U.S. mails, a party may give notice by telegram, telex or telecopy, in which case such notice will be deemed effective upon receipt.

8.11 Counterparts. This Agreement may be executed by the parties hereto in counterparts, each of which will be deemed to be an original, but all such counterparts will together constitute one and the same instrument.

8.12 Headings. The headings of paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

8.13 Definitions. For purposes of this Agreement, the following additional definitions shall apply:

8.13.1 "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such person, is the Beneficial Owner, directly or indirectly, of securities of Employer representing 20% or more of the combined voting power of Employer's then outstanding securities, but shall not include any Company Entity.

8.13.2 "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

8.13.3 "Announcement Date" shall mean the date of the public announcement of the transaction, event or course of action that results in a Change in Control.

8.13.4 "Anticipatory Termination" shall mean a termination of employment pursuant to Section 5.01(d) or 5.01(e) hereof as a result of an act or event that occurs prior to a Change in Control and after the Announcement Date and either (i) at the request of any other party to a transaction, or any Person associated with the event or course of events (other than Employer or a Company Entity), that results in a Change in Control, or (ii) otherwise in contemplation of a Change in Control; provided, that no termination shall be deemed an Anticipatory Termination unless the Change in Control to which it relates actually occurs.

8.13.5 "Associate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

8.13.6 "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 promulgated under the Exchange Act.

8.13.7 "Board of Directors" shall mean the board of directors of Employer.

8.13.8 "Cause" shall mean termination upon (i) the willful and continued failure by Executive to substantially perform his duties with Employer (other than any such failure resulting from his disability or from termination by Executive for Good Reason, Good Reason following a Full Change in Control or Good Reason following a Partial Change in Control), after a written demand for substantial performance is delivered to Executive that specifically identifies the manner in which Employer believes that Executive has not substantially performed his duties, and Executive has failed to resume substantial performance of his duties on a continuous basis within 14 days of receiving such demand, (ii) the willful engaging by Executive in conduct which is demonstrably and materially injurious to Employer, monetarily or otherwise, (iii) Executive's conviction of a felony which impairs his ability substantially to perform his duties with Employer or (iv) the issuance of an order under Section 8 (e) (4) or 8 (g) (1) of the Federal Deposit Insurance Act by which Executive is removed

and/or permanently prohibited from participating in the conduct of the affairs of Employer and/or any Affiliate of Employer. For purposes of this paragraph, no act, or failure to act, on Executive's part will be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that his action or omission was in the best interest of Employer. Failure to perform Executive's duties with Employer during any period of disability shall not constitute "Cause."

8.13.9 "Change in Control" shall mean a Full Change in Control or a Partial Change in Control.

8.13.10 "Company Entity" shall mean Employer, any subsidiary of Employer or any employee benefit plan of Employer or of any subsidiary of Employer or any entity holding shares of the voting capital stock of Employer organized, appointed or established for, or pursuant to the terms of any such plan.

8.13.11 "Continuing Director" shall mean any person who is a member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who (x) was a member of the Board of Directors as of the date of this Agreement or (y) subsequently becomes a member of the Board of Directors, if such person's initial nomination for election or initial election to the Board of Directors has been approved in advance by the Continuing Directors; provided that any director designated by or on behalf of a Person who has entered into an agreement with Employer (or who is contemplating entering into such an agreement) to effect a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, and any director that serves in connection with the act of the Board of Directors of increasing the number of directors and filling vacancies in connection with, or in contemplation of, any such transaction, shall not be deemed to have received such advance approval for initial nomination or election, and any such director shall not be deemed to be a Continuing Director in each case solely for the purpose of determining whether the addition of members of the Board of Directors in connection with, or in contemplation of, such transaction results in a Full Change in Control under clause (B) of Section 8.13.14 of this Agreement.

8.13.12 "Employer" shall mean U.S. Bancorp, a Delaware corporation, or any successor thereto pursuant to Section 8.02 hereof (including a Resulting Corporation) or by operation of law.

8.13.13 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

8.13.14 "Full Change In Control" shall mean any of the following after the date hereof:

(A) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by Employer or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of Employer (x) representing 20% or more, but not more than 50%, of the combined voting power of Employer's then outstanding securities unless the transaction resulting in such ownership has been approved in advance by the Continuing Directors or (y) representing more than 50% of the combined voting power of Employer's then outstanding securities (regardless of any approval by the Continuing Directors); or

(B) the Continuing Directors cease to constitute a majority of the Board of Directors of Employer or the Resulting Corporation, except as a result of the death, retirement or disability of one or more Continuing Directors; or

(C) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the consolidated assets of Employer and its subsidiaries or the adoption of any plan of liquidation or dissolution of Employer.

Notwithstanding the foregoing, any of the foregoing events that would constitute a Full Change in Control may be deemed to be a Partial Change in Control in the sole discretion of the Board of Directors as evidenced by adoption of a resolution by a majority of a quorum of the Board of Directors at a duly held meeting or by unanimous written action in lieu of a meeting, which determination may be made at any time prior to the Change in Control or, in the case of subparagraph (A) above, at any time within 20 days following the Change in Control.

8.13.15 "Good Reason" shall mean termination of the Period of Employment (other than an Anticipatory Termination) by Executive, at any time that is not during the 24-month period following a Change in Control, upon the occurrence, without Executive's consent, of any one or more of the following: (i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, titles and reporting requirements), authorities, duties or other responsibilities as in effect immediately prior to such assignment or any other action of Employer which results in a diminishment in such position, authority, duties or responsibilities, other than an insubstantial and inadvertent action which is remedied by Employer promptly after receipt of notice thereof given by Executive, and other than the Employer's providing the title of President of the Employer to another executive, provided that Executive continues as Chairman of the Board (if he is then Chairman of the Board) and Chief Executive Officer of Employer; (ii) a reduction by Employer in Executive's base salary as in effect on the Commencement Date or as the same shall be increased from time to time; (iii) Employer's requiring

Executive to be based at a location in excess of 30 miles from the location of Executive's principal office as of the Commencement Date; (iv) the failure by Employer to provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each compensation or benefit plan, program, policy and practice as in effect at the Commencement Date (or as in effect following the Commencement Date, if greater); (v) a material breach by Employer of its obligations under this Agreement after notice in writing from Executive and a reasonable opportunity for Employer to correct such conduct; (vi) the failure of Employer to obtain a satisfactory agreement from the Resulting Corporation or any other successor to Employer to assume and agree to perform this Agreement; and (vii) any purported termination by Employer of Executive's employment that is not effected pursuant to a Notice of Termination (as previously defined). Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason. Termination by Executive of the Period of Employment for Good Reason shall constitute termination for Good Reason for all purposes of this Agreement, notwithstanding that Executive may also thereby be deemed to have "retired" under any applicable retirement programs of Employer.

8.13.16 "Good Reason following a Full Change in Control" shall mean termination of the Period of Employment by Executive, during the 24-month period following a Full Change in Control (or prior to a Full Change in Control in the event of an Anticipatory Termination), upon the occurrence, without Executive's express written consent, of any one or more of the following: (i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, titles, and reporting requirements), authorities, duties, or other responsibilities as in effect immediately prior to the Announcement Date or any other action of Employer which results in a diminishment in such position, authority, duties, or responsibilities, other than an insubstantial and inadvertent action which is remedied by Employer promptly after receipt of notice thereof given by Executive; (ii) a reduction by Employer in Executive's base salary as in effect immediately prior to the Announcement Date (or as in effect following the Announcement Date, if greater); (iii) the failure by the Employer to provide Executive total cash compensation (consisting of base salary plus cash bonus) with respect to any fiscal year (including the fiscal year in which the Full Change in Control occurs and the year prior to the fiscal year in which the Full Change in Control occurs if the cash bonus for such prior fiscal year has not been determined as of the date of the Full Change in Control, and including a portion of a fiscal year if a fiscal year is not complete at the end of the 24-month period following a Full Change in Control) at least equal to the greatest of (x) actual total cash compensation paid to Executive with respect to the fiscal year prior to the fiscal year for which the calculation is made or (y) the average annual total cash compensation paid to Executive with respect to the two fiscal years prior to the fiscal year for which the calculation is made (total cash compensation "with respect to any fiscal year" shall be determined at the time the bonus with respect to such fiscal year is determined, even if such bonus is determined after the 24-month period following a

Full Change in Control, and the bonus portion of cash compensation for services rendered in a portion of a fiscal year determined at the end of 24 months following a Full Change in Control shall be determined by reference to the pro-rata portion of any annual bonus for such fiscal year); (iv) a reduction by Employer in Executive's annual target bonus or maximum bonus award opportunities as in effect immediately prior to the Announcement Date (or as in effect following the Announcement Date, if greater); (v) the Employer's requiring Executive to be based at a location that is both outside the same metropolitan area of, and in excess of 30 miles from, the location of Executive's principal office immediately prior to the Announcement Date; (vi) the failure by the Employer to provide employee benefit plans, programs, policies and practices (including, without limitation, retirement plans and medical, dental, life and disability insurance coverage) to Executive and Executive's family and dependents (if applicable) that provide substantially similar benefits, in terms of aggregate monetary value, to Executive and Executive's family and dependents (if applicable) at substantially similar costs to Executive as the benefits provided by those plans, programs, policies and practices in effect immediately prior to the Announcement Date (or as in effect following the Announcement Date, if greater); (vii) a material breach by Employer of its obligations under this Agreement after notice in writing from Executive and a reasonable opportunity for Employer to correct such conduct; (viii) the failure of Employer to obtain a satisfactory agreement from the Resulting Corporation or any other successor to Employer to assume and agree to perform this Agreement; and (ix) any purported termination by the Employer of Executive's employment that is not effected pursuant to a Notice of Termination. Termination by Executive of the Period of Employment for Good Reason following a Full Change in Control shall constitute termination for Good Reason following a Full Change in Control for all purposes of this Agreement, notwithstanding that Executive may also thereby be deemed to have "retired" under any applicable retirement programs of Employer.

8.13.17 "Good Reason following a Partial Change in Control" shall mean termination of the Period of Employment by Executive, during the 24-month period following a Partial Change in Control (or prior to a Partial Change in Control in the event of an Anticipatory Termination), upon the occurrence, without Executive's express written consent, of any one or more of the following: (i) a reduction by the Employer in Executive's base salary as in effect immediately prior to the Announcement Date; (ii) a reduction by the Employer in Executive's annual target bonus or maximum bonus award opportunities as in effect immediately prior to the Announcement Date; (iii) the Employer's requiring Executive to be based at a location that is both outside the same metropolitan area of, and in excess of 30 miles from, the location of Executive's principal office immediately prior to the Announcement Date; (iv) a material breach by Employer of its obligations under this Agreement after notice in writing from Executive and a reasonable opportunity for Employer to correct such conduct; and (v) any purported termination by the Employer of Executive's employment that is not effected pursuant to a Notice of Termination. Any event which may otherwise constitute Good Reason following a Partial Change in Control shall cease to constitute Good Reason following a Partial Change in Control if Executive does not have a Termination of Employment within 90 days following such event. Termination by Executive of the Period of Employment for Good Reason following a Partial Change

in Control shall constitute termination for Good Reason following a Partial Change in Control for all purposes of this Agreement, notwithstanding that Executive may also thereby be deemed to have "retired" under any applicable retirement programs of Employer.

8.13.18 "Partial Change in Control" shall mean any of the following after the date hereof:

(A) a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, as a result of which less than 60% of the outstanding voting securities of the Resulting Corporation are, or are to be, owned by former shareholders of Employer as determined immediately prior to consummation of such transaction (excluding voting securities of the Resulting Corporation owned, or to be owned, by such shareholders by reason of their ownership prior to such transaction of securities of any entity other than Employer) and as a result of which the Continuing Directors constitute more than 50% of the Board of Directors of the Resulting Corporation;

(B) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by Employer or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of Employer representing 20% or more, but not more than 50%, of the combined voting power of the Employer's then outstanding securities if the transaction resulting in such ownership has been approved in advance by the Continuing Directors; or

(C) an event that would have constituted a Full Change in Control but was deemed to be a Partial Change in Control in accordance with the definition of Full Change in Control.

8.13.19 "Person" shall have the meaning ascribed to such term as such term is used in Sections 13(d) and 14(d) of the Exchange Act.

8.13.20 "Resulting Corporation" shall mean the surviving corporation in any consolidation, merger or other reorganization to which Employer is a party; provided, however, that if the surviving corporation in any such transaction is a subsidiary of another corporation, then the Resulting Corporation is the ultimate parent corporation of such surviving corporation; and provided, further, that in the event of a

consolidation, merger or other reorganization to which a Company Entity (other than Employer) is a party, then Employer shall be deemed the Resulting Corporation.

8.14 Code Section 162(m). Notwithstanding any other provision of this Agreement to the contrary, to the extent that Employer's tax deduction for remuneration in respect of the payment of any amount under Sections 5.02, 5.05 or 8.02 of this Agreement would be disallowed under Code Section 162(m) by reason of the fact that Executive's applicable employee remuneration, as defined in Code Section 162(m)(4), either exceeds or, if such amount were paid, would exceed the \$1,000,000 limitation in Code Section 162(m)(1), Employer may, in its sole discretion, defer the payment of such amount, but only to the extent that, and for so long as, Employer's tax deduction in respect of the payment thereof would be so disallowed under Code Section 162(m); provided that no payment may be deferred beyond three months after the end of Employer's fiscal year in which Executive's termination of employment occurs, and Employer may accelerate the payment of previously deferred amounts if it determines that the amount of the tax deduction that would be disallowed is not significant. Amounts which are deferred under this Section 8.14 will be credited with interest at a rate determined by Employer from time to time, but in no event less than the long-term applicable federal rate under Code Section 1274(d) in effect from time to time.

IN WITNESS WHEREOF, Employer and Executive have executed this Agreement as of the date set forth in the first paragraph hereof.

U.S. BANCORP

By /s/ Lee R. Mitau

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Its Executive Vice President - Corporate  
Development, General Counsel and  
Secretary

/s/ John F. Grundhofer

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John F. Grundhofer

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

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