

[LOGO] US BANCORP(R)

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 March 31, 1999

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  | 41-0255900                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

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

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

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

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

YES ☒ 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 April 30, 1999 |
| Common Stock, \$1.25 Par Value | 726,906,462 shares               |

# FINANCIAL SUMMARY

| (Dollars in Millions, Except Per Share Data)         | Three Months Ended March 31 |             |
|--|-----------------------------|-------------|
|  | 1999                        | 1998        |
| Income before nonrecurring items .....               | \$ 368.6                    | \$ 350.0    |
| Nonrecurring items .....                             | (1.8)                       | (21.5)      |
| Net income .....                                     | \$ 366.8                    | \$ 328.5    |
| =====  |                             |             |
| PER COMMON SHARE                                     |                             |             |
| Earnings per share .....                             | \$ .51                      | \$ .44      |
| Diluted earnings per share .....                     | .50                         | .44         |
| Earnings on a cash basis (diluted)* .....            | .56                         | .48         |
| Dividends paid .....                                 | .195                        | .175        |
| Common shareholders' equity .....                    | 8.50                        | 8.25        |
| PER COMMON SHARE BEFORE NONRECURRING ITEMS           |                             |             |
| Earnings per share .....                             | .51                         | .47         |
| Diluted earnings per share .....                     | .51                         | .47         |
| Earnings on a cash basis (diluted)* .....            | .56                         | .51         |
| =====  |                             |             |
| FINANCIAL RATIOS                                     |                             |             |
| Return on average assets .....                       | 1.98%                       | 1.91%       |
| Return on average common equity .....                | 24.4                        | 22.1        |
| Efficiency ratio .....                               | 50.6                        | 49.9        |
| Net interest margin (taxable-equivalent basis) ..... | 4.82                        | 4.98        |
| SELECTED FINANCIAL RATIOS BEFORE NONRECURRING ITEMS  |                             |             |
| Return on average assets .....                       | 1.99                        | 2.03        |
| Return on average common equity .....                | 24.6                        | 23.5        |
| Efficiency ratio .....                               | 50.4                        | 46.1        |
| Banking efficiency ratio** .....                     | 43.3                        | 45.2        |
| =====  |                             |             |
|  | March 31                    | December 31 |
|  | 1999                        | 1998        |
| =====  |                             |             |
| PERIOD END   |                             |             |
| Loans .....  | \$ 59,619                   | \$ 59,122   |
| Allowance for credit losses .....                    | 983                         | 1,001       |
| Assets .....   | 76,110                      | 76,438      |
| Total shareholders' equity .....                     | 6,177                       | 5,970       |
| Tangible common equity to total assets*** .....      | 6.3%                        | 6.0%        |
| Tier 1 capital ratio .....                           | 6.6                         | 6.4         |
| Total risk-based capital ratio .....                 | 11.2                        | 10.9        |
| Leverage ratio .....                                 | 7.0                         | 6.8         |
| =====  |                             |             |

\*CALCULATED BY ADDING AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS TO NET INCOME.

\*\*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 includes forward-looking statements that involve inherent risks and uncertainties. U.S. Bancorp cautions readers that a number of important factors could cause actual results to differ materially from those in the forward-looking statements. These factors include economic conditions and competition in the geographic and business areas in which the Company operates, inflation, fluctuations in interest rates, legislation and governmental regulation, and Year 2000 issues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

EARNINGS SUMMARY U.S. Bancorp (the "Company") reported first quarter 1999 operating earnings (net income excluding nonrecurring items) of \$368.6 million, compared with \$350.0 million in the first quarter of 1998. On a diluted per share basis, operating earnings were \$.51 in the first quarter of 1999, compared with \$.47 in the first quarter of 1998, an increase of 9 percent. On a diluted per share basis, cash operating earnings were \$.56 in the first quarter of 1999, compared with \$.51 in the first quarter of 1998, an increase of 10 percent. Return on average assets and return on average common equity, excluding nonrecurring items, were 1.99 percent and 24.6 percent, respectively, in the first quarter of 1999, compared with returns of 2.03 percent and 23.5 percent in the first quarter of 1998. Excluding nonrecurring items, the efficiency ratio (the ratio of expenses to revenues) was 50.4 percent in the first quarter of 1999, compared with 46.1 percent in the first quarter of 1998.

Comparisons to the first quarter of 1998 are affected by the acquisition of Piper Jaffray Companies Inc. ("Piper Jaffray") and several other small acquisitions. Net interest income on a taxable-equivalent basis in the first quarter of 1999 was higher by \$25.4 million (3 percent) than the first quarter of 1998. Noninterest income, before nonrecurring items, increased by \$180.4 million (40 percent), primarily reflecting the acquisition of Piper Jaffray, growth in trust and investment management fees and deposit service charges, partially offset by the loss of a portion of the U.S. Government purchasing card business. Noninterest expense, before nonrecurring items, increased by \$156.8 million (28 percent), principally due to the acquisition of Piper Jaffray. The banking efficiency ratio (the ratio of expenses to revenues without the impact of investment banking and brokerage activity), before nonrecurring items, for the first quarter of 1999 was 43.3 percent, compared with 45.2 percent in the first quarter of 1998.

Net income was \$366.8 million in the first quarter of 1999, or \$.50 per diluted share, compared with \$328.5 million, or \$.44 per diluted share, in the first quarter of 1998. Nonrecurring merger-related charges decreased net income in the first quarter of 1999 by \$1.8 million (\$2.9 million on a pre-tax basis) compared to a decrease of \$21.5 million (\$33.9 million on a pre-tax basis) in the first quarter of 1998. Nonrecurring items included \$12.6 million of net securities gains and \$46.5 million of merger-related charges in 1998.

ACQUISITION AND DIVESTITURE ACTIVITY Operating results for the first quarter of 1999 reflect the following purchase transactions. On March 16, 1999, the Company completed its acquisition of Reliance Trust Company's corporate trust business, which operates offices in Georgia, Florida and Tennessee. Effective January 4, 1999, the Company acquired Libra Investments, Inc., a privately held Los Angeles and New York based investment bank that specializes in underwriting and trading high yield and mezzanine securities for middle market companies. On December 15, 1998, the Company completed its acquisition of Northwest Bancshares, Inc., a privately held bank holding company headquartered in Vancouver, Washington, with 10 banking locations and \$344 million in deposits. In May 1998, the Company completed its acquisition of Piper Jaffray, a full-service investment banking and securities brokerage firm.

On February 18, 1999, the Company announced an agreement to acquire the San Diego-based Bank of Commerce, one of the largest U.S. Small Business Administration ("SBA") lenders. With \$638 million in assets at year-end 1998 and SBA loan originations in excess of \$240 million on an annual basis, Bank of Commerce operates 10 full-service branches and 23 SBA loan production offices. The acquisition is pending regulatory approval and is expected to close at the end of the second quarter of 1999.

TABLE 1 SUMMARY OF CONSOLIDATED INCOME

| (Taxable-Equivalent Basis;<br>Dollars in Millions, Except Per Share Data) | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31<br>1999   | March 31<br>1998 |
| Interest income .....   | \$ 1,362.7         | \$ 1,338.2       |
| Interest expense .....  | 569.3              | 570.2            |
| Net interest income .....   | 793.4              | 768.0            |
| Provision for credit losses .....   | 117.0              | 90.0             |
| Net interest income after provision for credit losses .....               | 676.4              | 678.0            |
| Securities gains .....  | --                 | 12.6             |
| Other noninterest income .....  | 626.3              | 445.9            |
| Merger-related charges .....  | 2.9                | 46.5             |
| Other noninterest expense .....   | 715.9              | 559.1            |
| Income before income taxes .....  | 583.9              | 530.9            |
| Taxable-equivalent adjustment .....                                       | 10.7               | 13.1             |
| Income taxes .....  | 206.4              | 189.3            |
| Net income .....  | \$ 366.8           | \$ 328.5         |
| Return on average assets .....  | 1.98%              | 1.91%            |
| Return on average common equity .....                                     | 24.4               | 22.1             |
| Net interest margin .....   | 4.82               | 4.98             |
| Efficiency ratio .....  | 50.6               | 49.9             |
| Efficiency ratio before nonrecurring items .....                          | 50.4               | 46.1             |
| Banking efficiency ratio before nonrecurring items* .....                 | 43.3               | 45.2             |
| PER COMMON SHARE:   |                    |                  |
| Earnings per share .....  | \$ .51             | \$ .44           |
| Dividends paid .....  | .195               | .175             |

\*WITHOUT INVESTMENT BANKING AND BROKERAGE ACTIVITY.

#### LINE OF BUSINESS FINANCIAL REVIEW

Within the Company, financial performance is measured by major lines of business, which include: Wholesale and Private Financial Services, Retail Banking, Payment Systems, Corporate Trust and Institutional Financial Services, and Investment Banking and Brokerage. These segments are determined based on the products and services provided to customers through various distribution channels. 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 first quarter 1999, certain organization and methodology changes were made and 1998 results are presented on a consistent basis.

**WHOLESALE AND PRIVATE FINANCIAL SERVICES** Wholesale and Private Financial Services includes lending, treasury management, and other financial services to middle market, large corporate and mortgage banking companies, and private banking and personal trust clients. Operating earnings increased 5 percent to \$172.5 million in the first quarter of 1999, compared with \$164.0 million in the first quarter of 1998. Net tangible return on average common equity increased to 31.5 percent compared with 26.6 percent in the first quarter of the prior year.

Net interest income increased 3 percent, reflecting growth in average loan and deposit balances partially offset by margin compression in both loans and deposits. Noninterest income increased \$3.7 million or 4 percent in the first quarter of 1999 compared with the same period of the prior year, reflecting increases in trust fees and deposit service charges. The efficiency ratio on a cash basis improved to 31.1 percent in the first quarter of 1999 compared with 32.2 percent in the first quarter of 1998.

TABLE 2 LINE OF BUSINESS FINANCIAL PERFORMANCE

| For the Three Months Ended March 31<br>(Dollars in Millions)      | Wholesale and Private<br>Financial Services |           |                   | Retail Banking |          |                   |
|---|---|-----------|-------------------|----------------|----------|-------------------|
|   | 1999  | 1998      | Percent<br>Change | 1999           | 1998     | Percent<br>Change |
| <b>CONDENSED INCOME STATEMENT:</b>                                |   |           |                   |                |          |                   |
| Net interest income (expense)<br>(taxable-equivalent basis) ..... | \$ 347.5                                    | \$ 336.4  | 3.3%              | \$ 375.9       | \$ 368.1 | 2.1%              |
| Provision for credit losses .....                                 | 11.4  | 8.6       | 32.6              | 55.3           | 40.3     | 37.2              |
| Noninterest income .....  | 87.3  | 83.6      | 4.4               | 135.4          | 133.8    | 1.2               |
| Noninterest expense .....   | 148.6                                       | 146.7     | 1.3               | 260.7          | 270.5    | (3.6)             |
| Income taxes and<br>taxable-equivalent adjustment .....           | 102.3                                       | 100.7     |                   | 72.5           | 72.7     |                   |
| Income before nonrecurring items .....                            | \$ 172.5                                    | \$ 164.0  | 5.2               | \$ 122.8       | \$ 118.4 | 3.7               |
| Net nonrecurring items (after-tax) .....                          |   |           |                   |                |          |                   |
| Net income .....  |   |           |                   |                |          |                   |
| <b>AVERAGE BALANCE SHEET DATA:</b>                                |   |           |                   |                |          |                   |
| Commercial loans .....  | \$ 34,115                                   | \$ 30,689 | 11.2              | \$ 2,201       | \$ 2,126 | 3.5               |
| Consumer loans, excluding<br>residential mortgage .....           | 725   | 600       | 20.8              | 13,840         | 11,938   | 15.9              |
| Residential mortgage loans .....                                  | 354   | 288       | 22.9              | 2,671          | 3,831    | (30.3)            |
| Assets .....  | 42,859                                      | 39,435    | 8.7               | 22,692         | 22,616   | .3                |
| Deposits .....  | 11,768                                      | 10,877    | 8.2               | 34,068         | 34,932   | (2.5)             |
| Common equity .....   | 3,002                                       | 3,271     | (8.2)             | 1,486          | 1,744    | (14.8)            |
| Return on average assets .....                                    | 1.63%                                       | 1.69%     |                   | 2.19%          | 2.12%    |                   |
| Return on average common equity ("ROCE") .....                    | 23.3  | 20.3      |                   | 33.5           | 27.5     |                   |
| Net tangible ROCE** .....   | 31.5  | 26.6      |                   | 55.8           | 43.7     |                   |
| Efficiency ratio .....  | 34.2  | 34.9      |                   | 51.0           | 53.9     |                   |
| Efficiency ratio on a cash basis** .....                          | 31.1  | 32.2      |                   | 48.4           | 51.5     |                   |

\*NOT MEANINGFUL.

\*\*CALCULATED BY EXCLUDING GOODWILL AND OTHER INTANGIBLES AND THE RELATED AMORTIZATION.

NOTE: NONRECURRING ITEMS ARE NOT ALLOCATED TO THE BUSINESS LINES. ALL RATIOS ARE CALCULATED WITHOUT THE EFFECT OF NONRECURRING ITEMS.

RETAIL BANKING Retail Banking delivers products and services to the broad consumer market and small businesses through branch offices, telemarketing, direct mail, and automated teller machines ("ATMs"). Operating earnings increased 4 percent in the first quarter. First quarter return on average assets increased to 2.19 percent from 2.12 percent in the same quarter a year ago. First quarter net tangible return on average common equity was 55.8 percent, compared with 43.7 percent in the first quarter of the prior year.

Net interest income for the first quarter of 1999 increased 2 percent from the first quarter of 1998, due primarily to growth in home equity loans partially offset by the planned runoff of the residential mortgage loan portfolio. Noninterest income increased 1 percent due primarily to increased deposit service charges and other fees. The decrease in noninterest expense reflected the benefits of continued streamlining of branch operations, as well as the integration of recent business combinations. The efficiency ratio on a cash basis improved to 48.4 percent in the first quarter of 1999 from 51.5 percent in the first quarter of the prior year.

PAYMENT SYSTEMS Payment Systems includes consumer and business credit cards, corporate and purchasing card services, card-accessed secured and unsecured lines of credit, ATM processing, and merchant processing. Operating earnings increased 2 percent in the first quarter of 1999, compared with the first quarter a year ago. First quarter return on average assets was 2.62 percent, compared with 2.45 percent in the first quarter of 1998. Net tangible return on average common equity was 43.6 percent compared with 44.2 percent for the same quarter in 1998.

Net interest income increased 17 percent in the first quarter of 1999 from the same period of the prior year due to lower corporate card and purchasing card non-earning asset balances as well as higher yields on retail card balances. Fee revenue was flat from the first quarter of 1998, reflecting the loss of a portion of the U.S. Government purchasing card business. Noninterest expense decreased \$2.5 million or 3 percent from the prior year due primarily to lower servicing expense. The efficiency ratio on a cash basis improved to 36.0 percent in the first quarter from 37.7 percent for the same quarter in 1998.

| Payment Systems |         |                | Corporate Trust and Institutional Financial Services |         |                | Investment Banking and Brokerage |        |                | Consolidated Company |          |                |
|-----------------|---------|----------------|--|---------|----------------|----------------------------------|--------|----------------|----------------------|----------|----------------|
| 1999            | 1998    | Percent Change | 1999   | 1998    | Percent Change | 1999                             | 1998   | Percent Change | 1999                 | 1998     | Percent Change |
| \$ 55.7         | \$ 47.6 | 17.0%          | \$ 15.7  | \$ 14.6 | 7.5%           | \$ (1.4)                         | \$ 1.3 | *              | \$ 793.4             | \$ 768.0 | 3.3%           |
| 50.3            | 41.1    | 22.4           | --   | --      | --             | --                               | --     | --             | 117.0                | 90.0     | 30.0           |
| 132.7           | 133.7   | (.7)           | 75.2   | 69.0    | 9.0            | 195.7                            | 25.8   | *              | 626.3                | 445.9    | 40.5           |
| 72.8            | 75.3    | (3.3)          | 48.1   | 43.5    | 10.6           | 185.7                            | 23.1   | *              | 715.9                | 559.1    | 28.0           |
| 24.3            | 24.7    |                | 15.9   | 15.2    |                | 3.2                              | 1.5    |                | 218.2                | 214.8    |                |
| \$ 41.0         | \$ 40.2 | 2.0            | \$ 26.9  | \$ 24.9 | 8.0            | \$ 5.4                           | \$ 2.5 | *              | 368.6                | 350.0    | 5.3            |
| =====           |         |                | =====  |         |                | =====                            |        |                | (1.8)                | (21.5)   | *              |
|                 |         |                |  |         |                |                                  |        |                | \$ 366.8             | \$ 328.5 | 11.7           |
|                 |         |                |  |         |                |                                  |        |                | =====                |          |                |
| \$1,188         | \$1,254 | (5.3)          | \$ --  | \$ --   | --             | \$ --                            | \$ --  | --             | \$37,504             | \$34,069 | 10.1           |
| 3,987           | 3,931   | 1.4            | --   | --      | --             | --                               | --     | --             | 18,552               | 16,469   | 12.6           |
| --              | --      | --             | --   | --      | --             | --                               | --     | --             | 3,025                | 4,119    | (26.6)         |
| 6,337           | 6,664   | (4.9)          | 744  | 523     | 42.3           | 2,475                            | 583    | *              | 75,107               | 69,821   | 7.6            |
| 120             | 66      | 81.8           | 1,664  | 1,412   | 17.8           | --                               | --     | --             | 47,620               | 47,287   | .7             |
| 571             | 582     | (1.9)          | 589  | 379     | 55.4           | 439                              | 60     | *              | 6,087                | 6,036    | .8             |
| 2.62%           | 2.45%   |                | *  | *       |                | *                                | *      |                | 1.99%                | 2.03%    |                |
| 29.1            | 28.0    |                | 18.5%  | 26.6%   |                | 5.0%                             | 16.9%  |                | 24.6                 | 23.5     |                |
| 43.6            | 44.2    |                | 45.4   | 45.2    |                | 41.9                             | 18.0   |                | 39.6                 | 33.6     |                |
| 38.6            | 41.5    |                | 52.9   | 52.0    |                | 95.6                             | 85.2   |                | 50.4                 | 46.1     |                |
| 36.0            | 37.7    |                | 49.8   | 48.7    |                | 93.7                             | 85.2   |                | 47.8                 | 43.3     |                |
| =====           |         |                |  |         |                |                                  |        |                |                      |          |                |

#### CORPORATE TRUST AND INSTITUTIONAL FINANCIAL SERVICES

Corporate Trust and Institutional Financial Services includes institutional and corporate trust services, investment management services, and the former Piper Capital Management acquired in May of 1998. Operating earnings increased 8 percent to \$26.9 million in the first quarter of 1999 compared with \$24.9 million in the same period of the prior year. Net tangible return on average common equity was 45.4 percent in the first quarter of 1999 compared with 45.2 percent in the first quarter of the prior year.

Net interest income increased 8 percent in the first quarter of 1999 from the same period of the prior year due to growth in average deposit balances. Noninterest income increased \$6.2 million or 9 percent from the first quarter of 1998 due to growth in asset management fees and the acquisition of Piper Capital Management. The increase in noninterest expense reflects the acquisition of Piper Capital Management and growth of the core business.

INVESTMENT BANKING AND BROKERAGE Investment Banking and Brokerage includes the U.S. Bancorp Piper Jaffray broker/dealer and U.S. Bancorp's existing broker/dealer operations. The U.S. Bancorp Piper Jaffray broker/dealer is a full-service brokerage company that was acquired as part of the acquisition of Piper Jaffray on May 1, 1998. Table 2 includes the results of the U.S. Bancorp Piper Jaffray broker/dealer since the acquisition date, including the amortization of intangible assets and employee retention programs (totaling \$9.0 million in the first quarter of 1999), and U.S. Bancorp's existing broker/dealer operations for all periods.

#### INCOME STATEMENT ANALYSIS

NET INTEREST INCOME First quarter net interest income on a taxable-equivalent basis was \$793.4 million compared with \$768.0 million in the first quarter of 1998. The first quarter average earning assets increased \$4.2 billion (7 percent) from the same period of 1998, driven by core commercial and consumer loan growth and consumer loan portfolio purchases completed in the latter part of 1998, partially offset by reductions in securities and residential mortgages. Average loans for the first quarter of 1999 were up 8 percent from the first quarter of 1998. Excluding residential mortgage loans, average loans for the first quarter of 1999 were higher by \$5.5 billion (11 percent) than the first quarter of 1998, reflecting

TABLE 3 ANALYSIS OF NET INTEREST INCOME

| (Dollars In Millions)   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31<br>1999   | March 31<br>1998 |
| Net interest income, as reported .....                                | \$ 782.7           | \$ 754.9         |
| Taxable-equivalent adjustment .....                                   | 10.7               | 13.1             |
| Net interest income (taxable-equivalent basis) .....                  | \$ 793.4           | \$ 768.0         |
| Average yields and weighted average rates (taxable-equivalent basis): |                    |                  |
| Earning assets yield .....  | 8.28%              | 8.67%            |
| Rate paid on interest-bearing liabilities .....                       | 4.35               | 4.75             |
| Gross interest margin .....   | 3.93%              | 3.92%            |
| Net interest margin .....   | 4.82%              | 4.98%            |
| Net interest margin without taxable-equivalent increments .....       | 4.76%              | 4.89%            |

strong growth in commercial loans and home equity and second mortgages, in addition to the consumer loan portfolio purchases. Without the portfolio purchases, average total consumer loans were 4 percent higher than first quarter of 1998. Average available-for-sale securities for the first quarter of 1999 decreased by \$1.3 billion from the first quarter of 1998, reflecting prepayments, maturities and sales of securities. Net interest income rose modestly, due to loan growth offset by additional funding required for the Piper Jaffray acquisition, the share repurchase program, margin compression in the commercial loan portfolio, and an increase in the portion of loan growth funded in the wholesale markets. As a result, the net interest margin decreased from 4.98 percent in the first quarter of 1998 to 4.82 percent in the first quarter 1999.

**PROVISION FOR CREDIT LOSSES** The provision for credit losses was \$117.0 million in the first quarter of 1999, up \$27.0 million (30 percent) from the first quarter of 1998. First quarter net charge-offs totaled \$139.6 million, up from \$103.2 million in the same period of 1998. The increase in net charge-offs reflects a \$12.5 million credit loss on a single commercial credit, growth in consumer loans, a \$7 million increase in credit card and overdraft fraud losses and \$13 million of losses which were anticipated in association with portfolios purchased in 1998. Refer to "Corporate Risk Management" for further information on credit quality.

**NONINTEREST INCOME** First quarter 1999 noninterest income was \$626.3 million, an increase of \$167.8 million (37 percent), from the first quarter of 1998. Noninterest income in the first quarter of 1998 included nonrecurring net securities gains of \$12.6 million.

Excluding nonrecurring items, first quarter 1999 noninterest income was \$626.3 million, an increase of \$180.4 million (40 percent) from the same quarter of 1998. Credit card fee revenue was flat from the first quarter of 1998, reflecting the loss of a portion of the U.S. Government purchasing card business. Trust and investment management fees increased \$22.3 million, or 23 percent, due to growth in the institutional and personal trust businesses and the addition of Piper Jaffray. Investment products fees and commissions, trading account profits and commissions and investment banking revenue increased, reflecting the acquisition of Piper Jaffray.

TABLE 4 NONINTEREST INCOME

| (Dollars In Millions)                          | Three Months Ended |                  |
|--|--------------------|------------------|
|  | March 31<br>1999   | March 31<br>1998 |
| Credit card fee revenue .....                  | \$ 126.8           | \$ 126.8         |
| Trust and investment management fees .....     | 117.2              | 94.9             |
| Service charges on deposit accounts .....      | 103.4              | 97.9             |
| Investment products fees and commissions ..... | 88.6               | 18.2             |
| Trading account profits and commissions .....  | 51.5               | 7.1              |
| Investment banking revenue .....               | 36.2               | --               |
| Securities gains .....                         | --                 | 12.6             |
| Other .....                                    | 102.6              | 101.0            |
| Total noninterest income .....                 | \$ 626.3           | \$ 458.5         |

TABLE 5 NONINTEREST EXPENSE

| (Dollars In Millions)                                      | Three Months Ended |                  |
|--|--------------------|------------------|
|  | March 31<br>1999   | March 31<br>1998 |
| Salaries .....   | \$ 354.1           | \$ 239.6         |
| Employee benefits .....                                    | 70.0               | 54.1             |
| Total personnel expense .....                              | 424.1              | 293.7            |
| Net occupancy .....  | 50.0               | 43.5             |
| Furniture and equipment .....                              | 38.1               | 35.4             |
| Goodwill and other intangible assets .....                 | 37.8               | 33.4             |
| Telephone .....  | 18.0               | 15.5             |
| Third party data processing .....                          | 16.3               | 14.0             |
| Postage .....  | 15.1               | 10.8             |
| Advertising and marketing .....                            | 15.0               | 15.7             |
| Professional services .....                                | 14.0               | 11.3             |
| Printing, stationery and supplies .....                    | 13.0               | 9.1              |
| Other personnel costs .....                                | 12.7               | 13.1             |
| FDIC insurance .....                                       | 2.0                | 2.0              |
| Merger-related .....                                       | 2.9                | 46.5             |
| Other .....  | 59.8               | 61.6             |
| Total noninterest expense .....                            | \$ 718.8           | \$ 605.6         |
| Efficiency ratio* .....                                    | 50.6%              | 49.9%            |
| Efficiency ratio before nonrecurring items .....           | 50.4               | 46.1             |
| Banking efficiency ratio before nonrecurring items** ..... | 43.3               | 45.2             |
| Average number of full-time equivalent employees .....     | 27,040             | 24,815           |

\*COMPUTED AS NONINTEREST EXPENSE DIVIDED BY THE SUM OF NET INTEREST INCOME ON A TAXABLE-EQUIVALENT BASIS AND NONINTEREST INCOME NET OF SECURITIES GAINS AND LOSSES.

\*\*WITHOUT INVESTMENT BANKING AND BROKERAGE ACTIVITY.

NONINTEREST EXPENSE First quarter 1999 noninterest expense was \$718.8 million, an increase of \$113.2 million (19 percent), from \$605.6 million in the first quarter of 1998. Noninterest expense in the first quarter of 1999 included nonrecurring merger-related charges of \$2.9 million, compared with merger-related charges of \$46.5 million in the first quarter of 1998. The Company expects to incur \$17 million (\$11 million after-tax) of additional merger-related expenses with respect to Piper Jaffray in 1999.

First quarter 1999 noninterest expense, before nonrecurring items, was \$715.9 million, an increase of \$156.8 million (28 percent), from \$559.1 million in the first quarter of 1998. The increase was principally the result of acquiring Piper Jaffray. Without the effect of acquisitions, expenses in the first quarter of 1999 were lower than the first quarter of 1998 primarily reflecting the expense savings from the integration of U.S. Bancorp of Portland, Oregon. The banking efficiency ratio (the ratio of expenses to revenue without the impact of investment banking and brokerage activity), before nonrecurring items, was 43.3 percent for the first quarter of 1999, compared with 45.2 percent for the first quarter a year ago.

Since 1996, the Company has undertaken efforts to address the "Year 2000" computer problem as discussed in further detail on pages 12 and 13 under Corporate Risk Profile. In connection with its Year 2000 project, the Company has substantially completed the evaluation, replacement, renovation, installation and testing of its critical internal computer hardware and software and embedded technologies. Remediation and testing of non-critical systems continues to progress and is expected to be completed during 1999. The Company estimates that the cost of its Year 2000 project will aggregate less than \$50 million over the three-year period ending December 31, 1999. The Company has not deferred any material information technology projects as a consequence of its Year 2000 efforts.

PROVISION FOR INCOME TAXES The provision for income taxes was \$206.4 million (an effective rate of 36.0 percent) in the first quarter of 1999, compared with \$189.3 million (an effective rate of 36.6 percent) in the first quarter of 1998. The increase in the provision was primarily the result of higher levels of taxable income, as discussed above.

#### BALANCE SHEET ANALYSIS

LOANS The Company's loan portfolio was \$59.6 billion at March 31, 1999, compared with \$59.1 billion at December 31, 1998. Commercial loans totaled \$38.2 billion at March 31, 1999, up \$961 million from



December 31, 1998. The increase was primarily attributable to an acceleration in growth in the Company's Western region and continued growth in core commercial loans in its Central region. Total consumer loan outstandings were \$21.4 billion at March 31, 1999, compared with \$21.9 billion at December 31, 1998. Excluding residential mortgage loan balances, consumer loans were \$18.5 billion at March 31, 1999, compared with \$18.7 billion at December 31, 1998, reflecting seasonal changes in credit card balances offset by improved retail sales in the Western region. See Note E of the Notes to Consolidated Financial Statements for the composition of the Company's loan portfolio at March 31, 1999, and December 31, 1998.

SECURITIES At March 31, 1999, available-for-sale securities were \$5.3 billion compared with \$5.6 billion at December 31, 1998, reflecting prepayments, maturities and sales of securities.

DEPOSITS Noninterest-bearing deposits were \$14.2 billion at March 31, 1999, compared with \$16.4 billion at December 31, 1998. The decrease was primarily due to seasonality of corporate and trust deposits. Interest-bearing deposits increased to \$34.5 billion at March 31, 1999, compared with \$33.7 billion at December 31, 1998, due to an increase in time certificates greater than \$100,000.

BORROWINGS Short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings, increased to \$4.2 billion at March 31, 1999, compared with \$3.4 billion at December 31, 1998, primarily due to an increase in federal funds purchased.

Long-term debt was \$13.8 billion at March 31, 1999, and December 31, 1998. The Company issued \$300 million of debt, with an average original maturity of 2.1 years, under its bank note program during the first quarter of 1999. These issuances were offset by \$274 million of medium-term and bank note maturities and \$28 million of Federal Home Loan Bank advance maturities.

#### CORPORATE RISK MANAGEMENT

CREDIT MANAGEMENT The Company's strategy for credit risk management includes stringent, centralized credit policies, and standard underwriting criteria for 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, a standard credit scoring system is used to assess consumer credit risks and to price consumer products accordingly.

In evaluating its credit risk, the Company considers changes in underwriting activities, if any, the loan portfolio composition, including product mix and geographic, industry or customer-specific concentrations, trends in loan performance, assessments of a specific customer's Year 2000 readiness, the level of allowance coverage and macroeconomic factors. Approximately 46 percent of the Company's loan portfolio consists of credit to businesses and consumers in Minnesota, Oregon and Washington.

NET CHARGE-OFFS AND ALLOWANCE FOR CREDIT LOSSES Net loan charge-offs totaled \$139.6 million in the first quarter of 1999, compared with \$103.2 million in the first quarter of 1998. Commercial loan net charge-offs were \$23.9 million in the first quarter of 1999 and \$14.1 million in the first quarter of 1998. Consumer loan net charge-offs for the quarter were \$115.7 million, compared with \$89.1 million for the first quarter of 1998. The increases in net charge-offs from the first quarter of 1998 were primarily the result of one large commercial credit, an expected increase in losses on several consumer loan portfolios purchased in 1998 and higher consumer fraud losses. Without the losses associated with portfolios purchased and fraud, consumer net charge-offs, excluding residential real estate, were 2.07 percent in the first quarter of 1999 compared with 1.96 percent in the first quarter of 1998. Consumer loans 30 days or more past due increased to 2.51 percent of the portfolio at March 31, 1999, compared with 2.39 percent at December 31, 1998. The increase was primarily due to expected delinquencies associated with the consumer loan portfolio purchases.

TABLE 6 SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

| (Dollars in Millions)                        | Three Months Ended |                  |
|--|--------------------|------------------|
|  | March 31<br>1999   | March 31<br>1998 |
| Balance at beginning of period .....         | \$ 1,000.9         | \$ 1,008.7       |
| CHARGE-OFFS:                                 |                    |                  |
| Commercial:                                  |                    |                  |
| Commercial .....                             | 43.5               | 27.3             |
| Real estate:                                 |                    |                  |
| Commercial mortgage .....                    | .3                 | 4.3              |
| Construction .....                           | .2                 | 2.0              |
| Total commercial .....                       | 44.0               | 33.6             |
| Consumer:                                    |                    |                  |
| Residential mortgage .....                   | 1.0                | 2.8              |
| Credit card .....                            | 55.1               | 46.9             |
| Other .....                                  | 81.2               | 57.9             |
| Total consumer .....                         | 137.3              | 107.6            |
| Total .....                                  | 181.3              | 141.2            |
| RECOVERIES:                                  |                    |                  |
| Commercial:                                  |                    |                  |
| Commercial .....                             | 18.4               | 13.1             |
| Real estate:                                 |                    |                  |
| Commercial mortgage .....                    | 1.7                | 6.2              |
| Construction .....                           | --                 | .2               |
| Total commercial .....                       | 20.1               | 19.5             |
| Consumer:                                    |                    |                  |
| Residential mortgage .....                   | .2                 | .3               |
| Credit card .....                            | 4.8                | 5.7              |
| Other .....                                  | 16.6               | 12.5             |
| Total consumer .....                         | 21.6               | 18.5             |
| Total .....                                  | 41.7               | 38.0             |
| NET CHARGE-OFFS:                             |                    |                  |
| Commercial:                                  |                    |                  |
| Commercial .....                             | 25.1               | 14.2             |
| Real estate:                                 |                    |                  |
| Commercial mortgage .....                    | (1.4)              | (1.9)            |
| Construction .....                           | .2                 | 1.8              |
| Total commercial .....                       | 23.9               | 14.1             |
| Consumer:                                    |                    |                  |
| Residential mortgage .....                   | .8                 | 2.5              |
| Credit card .....                            | 50.3               | 41.2             |
| Other .....                                  | 64.6               | 45.4             |
| Total consumer .....                         | 115.7              | 89.1             |
| Total .....                                  | 139.6              | 103.2            |
| Provision charged to operating expense ..... | 117.0              | 90.0             |
| Additions related to acquisitions .....      | 4.2                | --               |
| Balance at end of period .....               | \$ 982.5           | \$ 995.5         |
| Allowance as a percentage of:                |                    |                  |
| Period-end loans .....                       | 1.65%              | 1.81%            |
| Nonperforming loans .....                    | 324                | 340              |
| Nonperforming assets .....                   | 302                | 306              |
| Annualized net charge-offs .....             | 174                | 238              |

TABLE 7 NET CHARGE-OFFS AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING

|                            | Three Months Ended |                  |
|----------------------------|--------------------|------------------|
|                            | March 31<br>1999   | March 31<br>1998 |
| COMMERCIAL:                |                    |                  |
| Commercial .....           | .39%               | .25%             |
| Real estate:               |                    |                  |
| Commercial mortgage .....  | (.07)              | (.09)            |
| Construction .....         | .02                | .30              |
| Total commercial .....     | .26                | .17              |
| CONSUMER:                  |                    |                  |
| Residential mortgage ..... | .11                | .25              |
| Credit card .....          | 5.08               | 4.20             |
| Other .....                | 1.80               | 1.47             |
| Total consumer .....       | 2.17               | 1.76             |
| Total .....                | .96%               | .77%             |

NONPERFORMING ASSETS Nonperforming assets include all nonaccrual loans, restructured loans, other real estate and other nonperforming assets owned by the Company. At March 31, 1999, nonperforming assets totaled \$325.8 million, an increase of \$21.5 million (7 percent) from December 31, 1998. The increase in nonperforming assets from the fourth quarter of 1998 was primarily due to one large commercial credit. The ratio of nonperforming assets to loans and other real estate was .55 percent at March 31, 1999, compared with .51 percent at December 31, 1998. The percentage of consumer loans 90 days or more past due of the total consumer loan portfolio totaled .85 percent at March 31, 1999, compared with .75 percent at December 31, 1998.

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. As part of Market

TABLE 8 NONPERFORMING ASSETS\*

| (Dollars In Millions)  | March 31<br>1999 | December 31<br>1998 |
|--|------------------|---------------------|
| COMMERCIAL:  |                  |                     |
| Commercial .....   | \$ 176.0         | \$ 165.7            |
| Real estate:   |                  |                     |
| Commercial mortgage .....  | 33.1             | 35.5                |
| Construction .....   | 33.0             | 17.2                |
| Total commercial .....   | 242.1            | 218.4               |
| CONSUMER:  |                  |                     |
| Residential mortgage .....                                       | 47.5             | 46.6                |
| Other .....  | 13.9             | 13.9                |
| Total consumer .....   | 61.4             | 60.5                |
| Total nonperforming loans .....                                  | 303.5            | 278.9               |
| OTHER REAL ESTATE .....  | 12.8             | 14.3                |
| OTHER NONPERFORMING ASSETS .....                                 | 9.5              | 11.1                |
| Total nonperforming assets .....                                 | \$ 325.8         | \$ 304.3            |
| Accruing loans 90 days or more past due** .....                  | \$ 126.8         | \$ 106.8            |
| Nonperforming loans to total loans .....                         | .51%             | .47%                |
| Nonperforming assets to total loans plus other real estate ..... | .55              | .51                 |

\*THROUGHOUT THIS DOCUMENT, NONPERFORMING ASSETS AND RELATED RATIOS DO NOT INCLUDE LOANS MORE THAN 90 DAYS PAST DUE AND STILL ACCRUING.

\*\*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.

TABLE 9 DELINQUENT LOAN RATIOS\*

|                            | March 31<br>1999 | December 31<br>1998 |
|----------------------------|------------------|---------------------|
| 90 days or more past due   |                  |                     |
| -----                      |                  |                     |
| COMMERCIAL:                |                  |                     |
| Commercial .....           | .69%             | .65%                |
| Real estate:               |                  |                     |
| Commercial mortgage .....  | .40              | .44                 |
| Construction .....         | .95              | .56                 |
|                            | -----            | -----               |
| Total commercial .....     | .65              | .60                 |
| CONSUMER:                  |                  |                     |
| Residential mortgage ..... | 2.09             | 1.86                |
| Credit card .....          | .91              | .74                 |
| Other .....                | .58              | .51                 |
|                            | -----            | -----               |
| Total consumer .....       | .85              | .75                 |
|                            | -----            | -----               |
| Total .....                | .72%             | .65%                |
| =====                      |                  |                     |

\*RATIOS INCLUDE NONPERFORMING LOANS AND ARE EXPRESSED AS A PERCENT OF ENDING LOAN BALANCES.

Value Simulation Modeling, ALCO uses a value-at-risk ("VaR") model to measure and manage market risk in its broker/dealer activities.

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 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. Balance sheet changes are based on expected prepayments of loans and securities and forecasted loan and deposit growth. 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 over the succeeding 12 months to 1.5 percent of forecasted net interest income given a 1 percent change in interest rates. At March 31, 1999, forecasted net interest income for the next 12 months would decrease \$.2 million from an immediate 100 basis point upward parallel shift in rates and increase \$2.1 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 all future cash flows of the Company's outstanding assets, liabilities and off-balance sheet instruments. The amount of market value risk is subject to limits, approved by the Company's Board of Directors, of .5 percent of assets for an immediate 100 basis point rate shock. Historically, the Company's market value risk position has been substantially lower than its limits.

The VaR model used to measure and manage market risk in the broker/dealer business uses an estimate of volatility appropriate to each instrument and a three standard deviation move in the underlying markets. The Company believes the market risk inherent in its broker/dealer activities, including fixed income, equities and foreign exchange, is immaterial.

REPRICING MISMATCH ANALYSIS: A traditional gap analysis provides a point-in-time 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 gap positions in the two- to three-year time period 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

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

At March 31, 1999 (Dollars in Millions)

| Receive Fixed Swaps*<br>Maturity Date | Notional<br>Amount | Weighted<br>Average<br>Interest Rate<br>Received | Weighted<br>Average<br>Interest Rate<br>Paid |
|---------------------------------------|--------------------|--|--|
| 1999 (remaining nine months) .....    | \$ 1,617           | 6.10%  | 4.94%  |
| 2000 .....                            | 815                | 6.23   | 4.95   |
| 2001 .....                            | 857                | 5.90   | 4.94   |
| 2002 .....                            | 845                | 5.82   | 4.94   |
| 2003 .....                            | 695                | 5.85   | 4.96   |
| After 2003 .....                      | 2,455              | 6.36   | 4.95   |
| Total .....                           | \$ 7,284           | 6.12%  | 4.94%  |

\*AT MARCH 31, 1999, THE COMPANY HAD NO SWAPS IN ITS HEDGING PORTFOLIO THAT REQUIRED IT TO PAY FIXED-RATE INTEREST.

time intervals. The Company manages its interest rate risk by entering into off-balance sheet transactions (primarily interest rate swaps), investing in fixed rate assets or issuing variable rate liabilities. To a lesser degree, the Company also uses interest rate caps and floors to hedge this risk.

In the first quarter of 1999, the Company added \$675 million of interest rate swaps to reduce its interest rate risk. This increase was largely offset by \$625 million of interest rate swap maturities. Interest rate swap agreements involve the exchange of fixed and floating rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. As of March 31, 1999, the Company received payments on \$7.3 billion notional amount of interest rate swap agreements based on fixed interest rates, and made payments based on variable interest rates. These swaps had a weighted average fixed rate received of 6.12 percent and a weighted average variable rate paid of 4.94 percent. The remaining maturity of these agreements ranges from one month to 15 years with an average remaining maturity of 3.9 years. Swaps increased net interest income for the quarters ended March 31, 1999, and 1998 by \$17.4 million and \$7.6 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 when specified rates rise above a specified point or strike level. The payment is based on the notional amount and the difference between current rates and strike rates. There were no caps outstanding at March 31, 1999. To hedge against falling interest rates, the Company uses interest rate floors. Counterparties to interest rate floor agreements pay the Company when specified rates fall below the strike level. Like caps, the payment is based on the notional amount and the difference in current rates and strike rates. The total notional amount of floor agreements purchased as of March 31, 1999, all of which were LIBOR-indexed, was \$500 million. The impact of floors on net interest income was not material for the quarters ended March 31, 1999, and 1998.

YEAR 2000 RISK MANAGEMENT The Company is continuing efforts to address the "Year 2000" computer problem, which arose because many computer applications worldwide will not properly recognize the date change from December 31, 1999, to January 1, 2000, potentially causing production of erroneous data, miscalculations, system failures and other operational problems. In the early 1990s, the Company implemented significant technology changes and replaced many of its principal data processing applications with licensed software packages. The Company also undertook an organization-wide initiative to address the Year 2000 issue, including the formation in 1996 of a dedicated project team of employees to evaluate the Year 2000 impact on the Company's critical computer hardware and software and embedded technologies in its physical plant and automated equipment (such as ATMs, check sorting machines, vaults and security systems), and on its customers. In addition to evaluating the scope of the Year 2000 issue, the project team prioritized tasks, developed implementation plans and established completion and testing schedules. As a result, the Company has replaced, modified or reprogrammed certain systems, is requiring that new purchased hardware and software be Year 2000 ready, and is testing systems in an isolated environment dedicated to Year 2000 testing. Apart from the Company's project, federal banking regulators are conducting special examinations of FDIC-insured banks and savings associations to determine whether they are taking necessary steps to prepare for the Year 2000 issue, and are closely monitoring the progress made by these institutions in completing key steps required by their individual Year 2000 plans.

Evaluation, replacement, renovation, installation and testing of the Company's critical internal computer hardware and software (including software to be remediated by vendors) and embedded technologies have been substantially completed, in accordance with bank regulatory guidelines, allowing time for necessary refinements and additional testing before December 31, 1999. On April 1, 1999, the Company announced that it had successfully completed a testing phase validating the readiness of its critical internal systems. In addition, the remediation and testing of non-critical systems continues to progress and is expected to be completed during 1999.

Ultimately, the potential impact of the Year 2000 issue will depend not only on the success of the corrective measures the Company undertakes, but also on the way in which the Year 2000 issue is addressed by customers, vendors, service providers, counterparties, clearing houses, utilities (e.g., power, telecommunication, transportation), governmental agencies (including the Federal Reserve, which provides services for processing and settling payments and securities transactions between banks) and other entities with which the Company does business. The Company is communicating with these parties to monitor their efforts in addressing the Year 2000 issue and to evaluate any likely impact on the Company. For example, the Company is conducting ongoing Year 2000 surveys and evaluations of its corporate and middle-market borrowing customers and of other significant funds takers, funds providers and capital market/asset management counterparties, and has implemented in its lending units uniform criteria for identifying, managing and underwriting Year 2000 credit risk. The Company continues to review its fiduciary activities for Year 2000 risk related to marketable securities, special assets and counterparties. The Company is scheduling testing with critical service providers as necessary and expects such testing to be completed by June 30, 1999. A prioritized schedule for external testing during 1999 with certain large customers also has been established and such testing is underway. In addition, the Company is participating in tests organized by major industry and governmental organizations as they are scheduled throughout 1999, including tests sponsored by the Federal Reserve, the National Automated Clearing House Association and the Securities and Exchange Commission.

Based on the Company's Year 2000 efforts, management presently believes that the Year 2000 issue will not result in significant operational problems for the Company. In addition, the Company's Year 2000 project has contingency plans designed to mitigate the potential effects of system failures in the event of reasonably likely worst case scenarios. These contingency plans, which are expected to be substantially completed by June 30, 1999, in accordance with bank regulatory guidelines, include back-up solutions for mission-critical operations and business continuation plans for significant vendors and other business partners. For example, the Company has arranged for reserve power supplies for certain vital locations, and will have available back-up account data and alternative manual processes for certain business line functions. The Company also has developed a liquidity management plan to address potential increased funding needs that may arise as the millennium approaches. Notwithstanding the Company's efforts and such contingency plans, however, given the unprecedented nature of the Year 2000 computer problem, there can be no assurance that Year 2000 issues will not arise, or that any such issues will be fully mitigated. Further, the Year 2000 efforts of third parties are not within the Company's control, and their failure to remediate Year 2000 issues successfully could result in, among other things, business disruption, operational problems, financial loss, increased credit risk and legal liability for the Company.

The discussions regarding Year 2000 in this Form 10-Q, including the discussions of the timing and effectiveness of implementation and cost of the Company's Year 2000 project, contain forward-looking statements, which are based on management's best estimates derived using various assumptions. These forward-looking statements involve inherent risks and uncertainties, and actual results could differ materially from those contemplated by such statements. Factors that might cause material differences include, but are not limited to, the failure of third parties with which the Company does business to remedy their own Year 2000 issues and the Company's ability to respond to unforeseen Year 2000 complications. Such material differences could result in business disruption, operational problems, financial loss, legal liability and similar adverse effects on the Company, which effects could be material.

TABLE 11 CAPITAL RATIOS

| (Dollars in Millions)                      | March 31<br>1999 | December 31<br>1998 |
|--|------------------|---------------------|
| Tangible common equity* .....              | \$ 4,684         | \$ 4,465            |
| As a percent of assets .....               | 6.3%             | 6.0%                |
| Tier 1 capital .....                       | \$ 5,148         | \$ 4,917            |
| As a percent of risk-adjusted assets ..... | 6.6%             | 6.4%                |
| Total risk-based capital .....             | \$ 8,696         | \$ 8,343            |
| As a percent of risk-adjusted assets ..... | 11.2%            | 10.9%               |
| Leverage ratio .....                       | 7.0              | 6.8                 |

\*DEFINED AS COMMON EQUITY LESS GOODWILL.

CAPITAL MANAGEMENT At March 31, 1999, total tangible common equity was \$4.7 billion, or 6.3 percent of assets, compared with 6.0 percent at December 31, 1998. Tier 1 and total risk-based capital ratios were 6.6 percent and 11.2 percent at March 31, 1999, compared with 6.4 percent and 10.9 percent at December 31, 1998. The March 31, 1999, leverage ratio was 7.0 percent compared with 6.8 percent at December 31, 1998.

On June 8, 1998, the Company's Board of Directors authorized the repurchase of up to \$2.5 billion of the Company's common stock over the period ending March 31, 2000. The shares will be repurchased in the open market or through negotiated transactions. Under this program, the Company repurchased 26.0 million shares for \$1.0 billion, including 1.4 million shares for \$47.0 million in the first quarter of 1999.

#### ACCOUNTING CHANGES

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES Statement of Financial Accounting Standards No. ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities," establishes 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. SFAS 133 is effective for all quarters of fiscal years beginning after June 15, 1999, with earlier application permitted. Retroactive application of this Statement to prior periods is prohibited. The adoption of SFAS 133 is not expected to have a material impact on the Company.

CONSOLIDATED BALANCE SHEET

| (Dollars in Millions)   | March 31<br>1999 | December 31<br>1998 |
|---|------------------|---------------------|
| (Unaudited)   |                  |                     |
| <b>ASSETS</b>   |                  |                     |
| Cash and due from banks .....   | \$ 4,020         | \$ 4,772            |
| Federal funds sold .....  | 128              | 83                  |
| Securities purchased under agreements to resell .....   | 446              | 461                 |
| Trading account securities .....  | 686              | 537                 |
| Available-for-sale securities .....   | 5,253            | 5,577               |
| Loans .....   | 59,619           | 59,122              |
| Less allowance for credit losses .....  | 983              | 1,001               |
| Net loans .....   | 58,636           | 58,121              |
| Premises and equipment .....  | 876              | 879                 |
| Interest receivable .....   | 445              | 456                 |
| Customers' liability on acceptances .....   | 139              | 166                 |
| Goodwill and other intangible assets .....  | 1,965            | 1,975               |
| Other assets .....  | 3,516            | 3,411               |
| Total assets .....  | \$ 76,110        | \$ 76,438           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                  |                     |
| <b>Deposits:</b>  |                  |                     |
| Noninterest-bearing .....   | \$ 14,194        | \$ 16,377           |
| Interest-bearing .....  | 34,478           | 33,657              |
| Total deposits .....  | 48,672           | 50,034              |
| Federal funds purchased .....   | 1,788            | 1,255               |
| Securities sold under agreements to repurchase .....  | 1,261            | 1,427               |
| Other short-term funds borrowed .....   | 1,120            | 683                 |
| Long-term debt .....  | 13,774           | 13,781              |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trusts<br>holding solely the junior subordinated debentures of the parent company ..... | 950              | 950                 |
| Acceptances outstanding .....   | 139              | 166                 |
| Other liabilities .....   | 2,229            | 2,172               |
| Total liabilities .....   | 69,933           | 70,468              |
| <b>Shareholders' equity:</b>  |                  |                     |
| Common stock, par value \$1.25 a share - authorized 1,500,000,000 shares;<br>issued: 3/31/99 and 12/31/98 - 744,797,857 shares .....                                | 931              | 931                 |
| Capital surplus .....   | 1,213            | 1,247               |
| Retained earnings .....   | 4,681            | 4,456               |
| Accumulated other comprehensive income .....  | 54               | 72                  |
| Less cost of common stock in treasury: 3/31/99 - 18,428,964 shares; 12/31/98 -<br>19,036,139 shares .....   | (702)            | (736)               |
| Total shareholders' equity .....  | 6,177            | 5,970               |
| Total liabilities and shareholders' equity .....  | \$ 76,110        | \$ 76,438           |



CONSOLIDATED STATEMENT OF INCOME

| (Dollars in Millions, Except Per Share Data)<br>(Unaudited)   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31<br>1999   | March 31<br>1998 |
| <b>INTEREST INCOME</b>  |                    |                  |
| Loans .....   | \$ 1,238.5         | \$ 1,204.2       |
| Securities:   |                    |                  |
| Taxable .....   | 64.6               | 85.8             |
| Exempt from federal income taxes .....  | 14.7               | 16.1             |
| Other interest income .....   | 34.2               | 19.0             |
| Total interest income .....   | 1,352.0            | 1,325.1          |
| <b>INTEREST EXPENSE</b>   |                    |                  |
| Deposits .....  | 311.6              | 355.1            |
| Federal funds purchased and repurchase agreements .....   | 39.4               | 33.6             |
| Other short-term funds borrowed .....   | 12.9               | 12.8             |
| Long-term debt .....  | 186.1              | 156.4            |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trusts<br>holding solely the junior subordinated debentures of the parent company ..... | 19.3               | 12.3             |
| Total interest expense .....  | 569.3              | 570.2            |
| Net interest income .....   | 782.7              | 754.9            |
| Provision for credit losses .....   | 117.0              | 90.0             |
| Net interest income after provision for credit losses .....   | 665.7              | 664.9            |
| <b>NONINTEREST INCOME</b>   |                    |                  |
| Credit card fee revenue .....   | 126.8              | 126.8            |
| Trust and investment management fees .....  | 117.2              | 94.9             |
| Service charges on deposit accounts .....   | 103.4              | 97.9             |
| Investment products fees and commissions .....  | 88.6               | 18.2             |
| Trading account profits and commissions .....   | 51.5               | 7.1              |
| Investment banking revenue .....  | 36.2               | --               |
| Securities gains .....  | --                 | 12.6             |
| Other .....   | 102.6              | 101.0            |
| Total noninterest income .....  | 626.3              | 458.5            |
| <b>NONINTEREST EXPENSE</b>  |                    |                  |
| Salaries .....  | 354.1              | 239.6            |
| Employee benefits .....   | 70.0               | 54.1             |
| Net occupancy .....   | 50.0               | 43.5             |
| Furniture and equipment .....   | 38.1               | 35.4             |
| Goodwill and other intangible assets .....  | 37.8               | 33.4             |
| Merger-related .....  | 2.9                | 46.5             |
| Other .....   | 165.9              | 153.1            |
| Total noninterest expense .....   | 718.8              | 605.6            |
| Income before income taxes .....  | 573.2              | 517.8            |
| Applicable income taxes .....   | 206.4              | 189.3            |
| Net income .....  | \$ 366.8           | \$ 328.5         |
| Earnings per share .....  | \$ .51             | \$ .44           |
| Diluted earnings per share .....  | \$ .50             | \$ .44           |

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

| (Dollars in Millions)<br>(Unaudited)  | Common Shares<br>Outstanding* | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock** | Total     |
|---|-------------------------------|-----------------|--------------------|----------------------|---|---------------------|-----------|
| BALANCE DECEMBER 31, 1997 .....   | 739,933,014                   | \$ 924.9        | \$1,261.1          | \$3,644.8            | \$ 59.3   | \$ --               | \$5,890.1 |
| Common dividends declared .....   |                               |                 |                    | (129.8)              |   |                     | (129.8)   |
| Purchase of treasury stock .....  | (33,411)                      |                 |                    |                      |   | (1.2)               | (1.2)     |
| Issuance of common stock:   |                               |                 |                    |                      |   |                     |           |
| Dividend reinvestment .....   | 91,116                        | .1              | 3.4                |                      |   |                     | 3.5       |
| Stock option and stock<br>purchase plans .....  | 2,465,340                     | 3.1             | 29.5               |                      |   | 1.2                 | 33.8      |
|   | 742,456,059                   | 928.1           | 1,294.0            | 3,515.0              | 59.3  | --                  | 5,796.4   |
| Comprehensive income  |                               |                 |                    |                      |   |                     |           |
| Net income .....  |                               |                 |                    | 328.5                |   |                     | 328.5     |
| Other comprehensive income:   |                               |                 |                    |                      |   |                     |           |
| Unrealized gain on securities of \$9.0 (net of<br>\$5.1 tax expense) net of reclassification<br>adjustment for gains included in net income<br>of \$11.1 (net of \$6.4 tax expense) ..... |                               |                 |                    |                      | (2.1)   |                     | (2.1)     |
| Total comprehensive income .....  |                               |                 |                    |                      |   |                     | 326.4     |
| BALANCE MARCH 31, 1998 .....  | 742,456,059                   | \$ 928.1        | \$1,294.0          | \$3,843.5            | \$ 57.2   | \$ --               | \$6,122.8 |
| 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 .....   |                               |                 |                    | (141.7)              |   |                     | (141.7)   |
| Purchase of treasury stock .....  | (1,397,940)                   |                 |                    |                      |   | (47.0)              | (47.0)    |
| Issuance of common stock:   |                               |                 |                    |                      |   |                     |           |
| Acquisitions .....  | 1,027,276                     |                 | (3.6)              |                      |   | 40.0                | 36.4      |
| Dividend reinvestment .....   | 168,650                       |                 | (.4)               |                      |   | 6.4                 | 6.0       |
| Stock option and stock<br>purchase plans .....  | 809,189                       |                 | (30.2)             |                      |   | 34.5                | 4.3       |
|   | 726,368,893                   | 931.0           | 1,213.0            | 4,314.1              | 71.8  | (701.9)             | 5,828.0   |
| Comprehensive income  |                               |                 |                    |                      |   |                     |           |
| Net income .....  |                               |                 |                    | 366.8                |   |                     | 366.8     |
| Other comprehensive income:   |                               |                 |                    |                      |   |                     |           |
| Unrealized gain on securities of \$29.2 (net of<br>\$11.1 tax expense) .....  |                               |                 |                    |                      | (18.1)  |                     | (18.1)    |
| Total comprehensive income .....  |                               |                 |                    |                      |   |                     | 348.7     |
| BALANCE MARCH 31, 1999 .....  | 726,368,893                   | \$ 931.0        | \$1,213.0          | \$4,680.9            | \$ 53.7   | \$ (701.9)          | \$6,176.7 |

\*DEFINED AS TOTAL COMMON SHARES LESS COMMON STOCK HELD IN TREASURY.

\*\*ENDING TREASURY SHARES WERE 18,428,964 AT MARCH 31, 1999 AND 19,036,139 AT DECEMBER 31, 1998.

CONSOLIDATED STATEMENT OF CASH FLOWS

| (Dollars in Millions)<br>(Unaudited)   | Three Months Ended |                  |
|--|--------------------|------------------|
|  | March 31<br>1999   | March 31<br>1998 |
| <b>OPERATING ACTIVITIES</b>  |                    |                  |
| Net cash provided by operating activities .....                                  | \$ 611.6           | \$ 521.0         |
| <b>INVESTING ACTIVITIES</b>  |                    |                  |
| Net cash (used) provided by:   |                    |                  |
| Loans outstanding .....  | (512.6)            | (249.7)          |
| Securities purchased under agreements to resell .....                            | 14.6               | 181.9            |
| Available-for-sale securities:   |                    |                  |
| Sales .....  | 53.2               | 166.6            |
| Maturities .....   | 455.1              | 352.1            |
| Purchases .....  | (217.4)            | (37.0)           |
| Proceeds from sales of other real estate .....                                   | 7.8                | 13.8             |
| Net purchases of bank premises and equipment .....                               | (30.1)             | (34.0)           |
| Purchases of loans .....   | (127.7)            | --               |
| Acquisitions, net of cash received .....   | (21.8)             | --               |
| Cash and cash equivalents of acquired subsidiaries .....                         | 3.6                | --               |
| Other - net .....  | (192.5)            | (145.8)          |
| Net cash (used) provided by investing activities .....                           | (567.8)            | 247.9            |
| <b>FINANCING ACTIVITIES</b>  |                    |                  |
| Net cash (used) provided by:   |                    |                  |
| Deposits .....   | (1,362.7)          | (469.1)          |
| Federal funds purchased and securities sold under agreements to repurchase ...   | 367.2              | (255.4)          |
| Short-term borrowings .....  | 429.5              | (33.8)           |
| Proceeds from long-term debt .....   | 300.0              | 687.3            |
| Principal payments on long-term debt .....                                       | (307.2)            | (522.6)          |
| Proceeds from dividend reinvestment, stock option and stock purchase plans ..... | 10.3               | 37.3             |
| Repurchase of common stock .....   | (47.0)             | (1.2)            |
| Cash dividends .....   | (141.7)            | (129.8)          |
| Net cash used by financing activities .....                                      | (751.6)            | (687.3)          |
| Change in cash and cash equivalents .....  | (707.8)            | 81.6             |
| Cash and cash equivalents at beginning of period .....                           | 4,855.3            | 4,801.0          |
| Cash and cash equivalents at end of period .....                                 | \$4,147.5          | \$4,882.6        |

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 generally accepted accounting principles. In the opinion of management of the Company, all adjustments (consisting only 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, 1998. 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 3 through 5 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," establishes 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. SFAS 133 is effective for all quarters of fiscal years beginning after June 15, 1999, with earlier application permitted. Retroactive application of this Statement to prior periods is prohibited. The adoption of SFAS 133 is not expected to have a material impact on the Company.

NOTE C BUSINESS COMBINATIONS AND DIVESTITURES

BANK OF COMMERCE On February 18, 1999, the Company announced an agreement to acquire the San Diego-based Bank of Commerce, one of the largest U.S. Small Business Administration ("SBA") lenders. With \$638 million in assets at year-end 1998 and SBA loan originations in excess of \$240 million on an annual basis, Bank of Commerce operates 10 full-service branches and 23 SBA loan production offices. The acquisition is pending regulatory approval and is expected to close at the end of the second quarter of 1999.

OTHER ACQUISITIONS On March 16, 1999, the Company completed its acquisition of Reliance Trust Company's corporate trust business which operates offices in Georgia, Florida, and Tennessee. On January 4, 1999, the Company completed its acquisition of Libra Investments, Inc., a privately held Los Angeles and New York based investment bank that specializes in underwriting and trading high yield and mezzanine securities for middle market companies. Effective December 15, 1998, the Company completed its acquisition of Northwest Bancshares, Inc., a privately held bank holding company headquartered in Vancouver, Washington, with 10 banking locations and \$344 million in deposits. In May 1998, the Company completed its acquisition of Piper Jaffray, a full-service investment banking and securities brokerage firm. These transactions were accounted for as purchase acquisitions.

# NOTE D SECURITIES

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

| (Dollars in Millions)     | March 31, 1999 |            | December 31, 1998 |            |
|---------------------------|----------------|------------|-------------------|------------|
|                           | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| U.S. Treasury .....       | \$ 456         | \$ 461     | \$ 489            | \$ 500     |
| Mortgage-backed .....     | 3,224          | 3,253      | 3,395             | 3,438      |
| Other U.S. agencies ..... | 236            | 241        | 252               | 259        |
| State and political ..... | 1,163          | 1,198      | 1,219             | 1,255      |
| Other .....               | 87             | 100        | 106               | 125        |
| Total .....               | \$ 5,166       | \$ 5,253   | \$ 5,461          | \$ 5,577   |

# NOTE E LOANS

The composition of the loan portfolio was as follows:

| (Dollars in Millions)                    | March 31<br>1999 | December 31<br>1998 |
|--|------------------|---------------------|
| COMMERCIAL:                              |                  |                     |
| Commercial .....                         | \$26,372         | \$25,974            |
| Real estate:                             |                  |                     |
| Commercial mortgage .....                | 8,367            | 8,193               |
| Construction .....                       | 3,458            | 3,069               |
| Total commercial .....                   | 38,197           | 37,236              |
| CONSUMER:                                |                  |                     |
| Home equity and second mortgage .....    | 7,604            | 7,409               |
| Credit card .....                        | 3,978            | 4,221               |
| Automobile .....                         | 3,340            | 3,413               |
| Revolving credit .....                   | 1,675            | 1,686               |
| Installment .....                        | 1,105            | 1,168               |
| Student* .....                           | 843              | 829                 |
| Subtotal .....                           | 18,545           | 18,726              |
| Residential mortgage .....               | 2,855            | 3,124               |
| Residential mortgage held for sale ..... | 22               | 36                  |
| Total consumer .....                     | 21,422           | 21,886              |
| Total loans .....                        | \$59,619         | \$59,122            |

\*ALL OR PART OF THE STUDENT LOAN PORTFOLIO MAY BE SOLD WHEN THE REPAYMENT PERIOD BEGINS.

At March 31, 1999, the Company had \$242 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 March 31, 1999, the average recorded investment in impaired loans was approximately \$230 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)   | March 31<br>1999 | December 31<br>1998 |
|---|------------------|---------------------|
| 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 November 15, 1999 .....                                | 200              | 200                 |
| Floating-rate notes -- due February 27, 2000 .....                                | 250              | 250                 |
| Floating-rate subordinated notes -- due November 30, 2010 .....                   | 107              | 107                 |
| Federal Home Loan Bank advances (4.83% to 9.11%) -- maturities to October 2026 .. | 2,159            | 2,187               |
| Medium-term notes (4.81% to 6.93%) -- maturities to July 2002 .....               | 1,626            | 1,675               |
| Bank notes (4.79% to 6.38%) -- maturities to November 2005 .....                  | 6,284            | 6,209               |
| Other .....   | 198              | 203                 |
| Total .....   | \$13,774         | \$13,781            |

# NOTE G SHAREHOLDERS' EQUITY

On January 4, 1999, in conjunction with an acquisition, the Company issued 1,027,276 shares of common stock with an aggregate value of \$36.4 million.

On June 8, 1998, the Company's Board of Directors authorized the repurchase of up to \$2.5 billion of the Company's common stock over the period ending March 31, 2000. The shares will be repurchased in the open market or through negotiated transactions. Under this program, the Company repurchased 26.0 million shares for \$1.0 billion, including 1.4 million shares for \$47.0 million in the first quarter of 1999.

# NOTE H EARNINGS PER SHARE

The components of earnings per share were:

| (Dollars in Millions, Except Per Share Data)  | Three Months Ended March 31 |             |
|---|-----------------------------|-------------|
|   | 1999                        | 1998        |
| EARNINGS PER SHARE:   |                             |             |
| Net income to common stockholders .....   | \$ 366.8                    | \$ 328.5    |
| Average shares outstanding .....  | 722,637,379                 | 738,708,228 |
| Earnings per share .....  | \$ .51                      | \$ .44      |
| DILUTED EARNINGS PER SHARE:   |                             |             |
| Net income to common stockholders .....   | \$ 366.8                    | \$ 328.5    |
| Average shares outstanding .....  | 722,637,379                 | 738,708,228 |
| 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 ..... | 5,664,720                   | 10,927,311  |
| Dilutive common shares outstanding .....  | 728,302,099                 | 749,635,539 |
| Diluted earnings per share .....  | \$ .50                      | \$ .44      |

# NOTE I INCOME TAXES

The components of income tax expense were:

| (Dollars in Millions)                 | Three Months Ended |                  |
|---------------------------------------|--------------------|------------------|
|                                       | March 31<br>1999   | March 31<br>1998 |
| FEDERAL:                              |                    |                  |
| Current tax .....                     | \$154.2            | \$167.1          |
| Deferred tax provision (credit) ..... | 17.9               | (3.5)            |
| Federal income tax .....              | 172.1              | 163.6            |
| STATE:                                |                    |                  |
| Current tax .....                     | 30.6               | 20.0             |
| Deferred tax provision .....          | 3.7                | 5.7              |
| State income tax .....                | 34.3               | 25.7             |
| Total income tax provision .....      | \$206.4            | \$189.3          |
| =====                                 |                    |                  |

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 |                  |
|--|--------------------|------------------|
|  | March 31<br>1999   | March 31<br>1998 |
| Tax at statutory rate (35%) .....                                      | \$200.6            | \$181.2          |
| State income tax, at statutory rates, net of federal tax benefit ..... | 22.3               | 16.7             |
| Tax effect of:   |                    |                  |
| Tax-exempt interest:   |                    |                  |
| Loans .....  | (2.3)              | (2.9)            |
| Securities .....   | (5.7)              | (5.7)            |
| Amortization of nondeductible goodwill .....                           | 9.6                | 6.7              |
| Tax credits and other items .....                                      | (18.1)             | (6.7)            |
| Applicable income taxes .....  | \$206.4            | \$189.3          |
| =====  |                    |                  |

The Company's net deferred tax asset was \$140.6 million at March 31, 1999, and \$261.3 million at December 31, 1998.

## NOTE J MERGER AND INTEGRATION CHARGES

During the first quarter of 1999, the Company recorded merger and integration charges of \$2.9 million related to conversion expenses for Piper Jaffray and several other small acquisitions. Conversion expenses are recorded as incurred and are associated with the conversion of customer accounts and similar expenses relating to the conversions and integration of acquired branches and operations. The following table presents a summary of activity with respect to the Company's merger and integration accrual:

| (Dollars in Millions)                            | Three Months Ended<br>March 31, 1999 |
|--|--------------------------------------|
| Balance at December 31, 1998 .....               | \$126.7                              |
| Provision charged to operating expense .....     | 2.9                                  |
| Cash outlays .....                               | (18.8)                               |
| Additions related to purchase acquisitions ..... | 2.4                                  |
| Noncash writedowns .....                         | (1.2)                                |
| Balance at March 31, 1999 .....                  | \$112.0                              |
| =====  |                                      |

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

| (Dollars in Millions)                          | March 31, 1999 | December 31, 1998 |
|--|----------------|-------------------|
| Severance .....                                | \$ 84.2        | \$ 98.1           |
| Other employee related costs .....             | 6.5            | 7.2               |
| Lease terminations and<br>facility costs ..... | 9.6            | 7.4               |
| Contracts and system writeoffs .....           | 10.2           | 10.4              |
| Other .....                                    | 1.5            | 3.6               |
| Total .....                                    | \$112.0        | \$126.7           |
| =====  |                |                   |

Approximately \$17 million, pretax, in additional merger-related charges are expected to be incurred with respect to Piper Jaffray in 1999.

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

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

| (Dollars in Millions)  | March 31<br>1999 | December 31<br>1998 |
|--|------------------|---------------------|
| Commitments to extend credit:  |                  |                     |
| Commercial .....   | \$25,499         | \$25,023            |
| Corporate and purchasing cards .....   | 16,100           | 24,758              |
| Consumer credit cards .....  | 15,153           | 14,982              |
| Other consumer .....   | 6,131            | 7,020               |
| Letters of credit:   |                  |                     |
| Standby .....  | 3,149            | 3,241               |
| Commercial .....   | 290              | 309                 |
| Interest rate swap contracts:  |                  |                     |
| Hedges .....   | 7,284            | 7,239               |
| Intermediated .....  | 703              | 740                 |
| Options contracts:   |                  |                     |
| Hedge interest rate floors purchased .....                                       | 500              | 500                 |
| Intermediated interest rate and foreign exchange caps and floors purchased ..... | 399              | 360                 |
| Intermediated interest rate and foreign exchange caps and floors written .....   | 399              | 360                 |
| Futures and forward contracts .....  | 14               | 10                  |
| Mortgages sold with recourse .....   | 50               | 52                  |
| Foreign currency commitments:  |                  |                     |
| Commitments to purchase .....  | 980              | 812                 |
| Commitments to sell .....  | 978              | 806                 |
| Commitments from securities lending .....  | 461              | 342                 |

The Company received fixed-rate interest and paid floating-rate interest on all swap hedges as of March 31, 1999. Activity for the three months ended March 31, 1999, 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, 1998 ..... | \$ 7,239 |
| Additions .....  | 675      |
| Maturities .....                                       | (625)    |
| Terminations .....                                     | (5)      |
| Notional amount outstanding at March 31, 1999 .....    | \$ 7,284 |
| Weighted average interest rate paid .....              | 4.94%    |
| Weighted average interest rate received .....          | 6.12     |

LIBOR-based interest rate floors totaling \$500 million with an average remaining maturity of 2.5 years at March 31, 1999, and \$500 million with an average remaining maturity of 2.7 years at December 31, 1998, hedged floating-rate commercial loans. The strike rate on these LIBOR-based floors was 4.63 percent at March 31, 1999, and December 31, 1998.

Net unamortized deferred gains relating to swaps, options and futures were immaterial at March 31, 1999.



NOTE L SUPPLEMENTAL DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET Time certificates of deposit in denominations of \$100,000 or more totaled \$3,964 million and \$2,823 million at March 31, 1999, and December 31, 1998, respectively.

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

| (Dollars in Millions)   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31<br>1999   | March 31<br>1998 |
| Income taxes paid (recovered) .....   | \$ 13.5            | \$ 52.4)         |
| Interest paid .....   | 546.1              | 540.1            |
| Net noncash transfers to foreclosed property .....  | 5.3                | 5.6              |
| Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$11.1 in 1999 and \$1.3 in 1998 ..... | (18.1)             | (2.1)            |
|   | =====              | =====            |
| Cash acquisitions of businesses:  |                    |                  |
| Fair value of noncash assets acquired .....   | \$ 21.8            | \$ --            |
| Liabilities assumed .....   | --                 | --               |
| Net .....   | \$ 21.8            | \$ --            |
|   | =====              | =====            |
| Stock acquisitions of businesses:   |                    |                  |
| Fair value of noncash assets acquired .....   | \$ 42.3            | \$ --            |
| Net cash acquired .....   | 3.6                | --               |
| Liabilities assumed .....   | (9.5)              | --               |
| Net value of common stock issued .....  | \$ 36.4            | \$ --            |
|   | =====              | =====            |

CONSOLIDATED DAILY AVERAGE BALANCE SHEET AND RELATED YIELDS AND RATES

| (Dollars In Millions)<br>(Unaudited)                                | For the Three Months Ended March 31<br>1999 |          |                        | 1998     |          |                        | % Change<br>Average<br>Balance |
|---|---|----------|------------------------|----------|----------|------------------------|--------------------------------|
|   | Balance                                     | Interest | Yields<br>and<br>Rates | Balance  | Interest | Yields<br>and<br>Rates |                                |
| ASSETS  |   |          |                        |          |          |                        |                                |
| Available-for-sale securities:                                      |   |          |                        |          |          |                        |                                |
| U.S. Treasury .....   | \$ 482                                      | \$ 6.8   | 5.72%                  | \$ 632   | \$ 9.2   | 5.90%                  | (23.7)%                        |
| Mortgage-backed .....   | 3,240                                       | 53.4     | 6.68                   | 4,112    | 69.7     | 6.87                   | (21.2)                         |
| State and political .....   | 1,177                                       | 22.2     | 7.65                   | 1,284    | 25.2     | 7.96                   | (8.3)                          |
| U.S. agencies and other .....                                       | 332   | 4.1      | 5.01                   | 456      | 6.4      | 5.69                   | (27.2)                         |
| Total available-for-sale securities .....                           | 5,231                                       | 86.5     | 6.71                   | 6,484    | 110.5    | 6.91                   | (19.3)                         |
| Unrealized gain on available-for-sale securities .....              | 106   |          |                        | 97       |          |                        | 9.3                            |
| Net available-for-sale securities .....                             | 5,337                                       |          |                        | 6,581    |          |                        | (18.9)                         |
| Trading account securities .....                                    | 558   | 9.2      | 6.69                   | 149      | 1.8      | 4.90                   | **                             |
| Federal funds sold and resale agreements .....                      | 519   | 4.8      | 3.75                   | 719      | 9.7      | 5.47                   | (27.8)                         |
| Loans:  |   |          |                        |          |          |                        |                                |
| Commercial:   |   |          |                        |          |          |                        |                                |
| Commercial .....  | 26,018                                      | 479.9    | 7.48                   | 23,491   | 468.5    | 8.09                   | 10.8                           |
| Real estate:  |   |          |                        |          |          |                        |                                |
| Commercial mortgage .....   | 8,234                                       | 173.5    | 8.55                   | 8,173    | 181.0    | 8.98                   | .7                             |
| Construction .....  | 3,252                                       | 71.0     | 8.85                   | 2,405    | 56.5     | 9.53                   | 35.2                           |
| Total commercial .....  | 37,504                                      | 724.4    | 7.83                   | 34,069   | 706.0    | 8.40                   | 10.1                           |
| Consumer:   |   |          |                        |          |          |                        |                                |
| Home equity and second mortgage .....                               | 7,484                                       | 174.4    | 9.45                   | 5,812    | 137.7    | 9.61                   | 28.8                           |
| Credit card .....   | 4,013                                       | 123.3    | 12.46                  | 3,982    | 125.4    | 12.77                  | .8                             |
| Other .....   | 7,055                                       | 161.7    | 9.30                   | 6,675    | 158.7    | 9.64                   | 5.7                            |
| Subtotal .....  | 18,552                                      | 459.4    | 10.04                  | 16,469   | 421.8    | 10.39                  | 12.6                           |
| Residential mortgage .....  | 2,996                                       | 57.4     | 7.77                   | 3,936    | 77.7     | 8.01                   | (23.9)                         |
| Residential mortgage held for sale .....                            | 29  | .3       | 4.20                   | 183      | 3.1      | 6.87                   | (84.2)                         |
| Total consumer .....  | 21,577                                      | 517.1    | 9.72                   | 20,588   | 502.6    | 9.90                   | 4.8                            |
| Total loans .....   | 59,081                                      | 1,241.5  | 8.52                   | 54,657   | 1,208.6  | 8.97                   | 8.1                            |
| Allowance for credit losses .....                                   | 998   |          |                        | 1,014    |          |                        | (1.6)                          |
| Net loans .....   | 58,083                                      |          |                        | 53,643   |          |                        | 8.3                            |
| Other earning assets .....  | 1,349                                       | 20.7     | 6.22                   | 563      | 7.6      | 5.47                   | **                             |
| Total earning assets* .....   | 66,738                                      | 1,362.7  | 8.28                   | 62,572   | 1,338.2  | 8.67                   | 6.7                            |
| Other assets .....  | 9,261                                       |          |                        | 8,166    |          |                        | 13.4                           |
| Total assets .....  | \$75,107                                    |          |                        | \$69,821 |          |                        | 7.6%                           |
| LIABILITIES AND SHAREHOLDERS' EQUITY                                |   |          |                        |          |          |                        |                                |
| Noninterest-bearing deposits .....                                  | \$13,544                                    |          |                        | \$12,954 |          |                        | 4.6%                           |
| Interest-bearing deposits:  |   |          |                        |          |          |                        |                                |
| Interest checking .....   | 6,026                                       | 25.5     | 1.72                   | 5,766    | 24.8     | 1.74                   | 4.5                            |
| Money market accounts .....   | 12,180                                      | 105.8    | 3.52                   | 10,695   | 104.3    | 3.96                   | 13.9                           |
| Other savings accounts .....  | 2,281                                       | 10.0     | 1.78                   | 2,603    | 13.6     | 2.12                   | (12.4)                         |
| Savings certificates .....  | 10,123                                      | 125.3    | 5.02                   | 11,982   | 163.4    | 5.53                   | (15.5)                         |
| Certificates over \$100,000 .....                                   | 3,466                                       | 45.0     | 5.27                   | 3,287    | 49.0     | 6.05                   | 5.4                            |
| Total interest-bearing deposits .....                               | 34,076                                      | 311.6    | 3.71                   | 34,333   | 355.1    | 4.19                   | (.7)                           |
| Short-term borrowings .....   | 4,104                                       | 52.3     | 5.17                   | 3,203    | 46.4     | 5.88                   | 28.1                           |
| Long-term debt .....  | 13,967                                      | 186.1    | 5.40                   | 10,534   | 156.4    | 6.02                   | 32.6                           |
| Company-obligated mandatorily redeemable preferred securities ..... | 950   | 19.3     | 8.24                   | 600      | 12.3     | 8.18                   | 58.3                           |
| Total interest-bearing liabilities .....                            | 53,097                                      | 569.3    | 4.35                   | 48,670   | 570.2    | 4.75                   | 9.1                            |
| Other liabilities .....   | 2,378                                       |          |                        | 2,161    |          |                        | 10.0                           |
| Common equity .....   | 6,022                                       |          |                        | 5,976    |          |                        | .8                             |
| Accumulated other comprehensive income .....                        | 66  |          |                        | 60       |          |                        | 10.0                           |
| Total liabilities and shareholders' equity .....                    | \$75,107                                    |          |                        | \$69,821 |          |                        | 7.6%                           |
| Net interest income .....   |   | \$ 793.4 |                        |          | \$ 768.0 |                        |                                |
| Gross interest margin .....   |   |          | 3.93%                  |          |          | 3.92%                  |                                |
| Gross interest margin without taxable-equivalent increments .....   |   |          | 3.87%                  |          |          | 3.84%                  |                                |
| Net interest margin .....   |   |          | 4.82%                  |          |          | 4.98%                  |                                |
| Net interest margin without taxable-equivalent increments .....     |   |          | 4.76%                  |          |          | 4.89%                  |                                |

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 GAIN ON AVAILABLE-FOR-SALE SECURITIES.

\*\*NOT MEANINGFUL.

PART II -- OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES -- On January 4, 1999, the Company issued 1,027, 276 shares of common stock with an aggregate value of \$36.4 million and 56,586 shares of term participating preferred stock with restrictions with an aggregate value of \$20.0 million as consideration in connection with a merger transaction. The preferred stock ranks prior to the Company's common stock with respect to the payment of dividends and distribution of assets upon dissolution, liquidation or winding up of the Company. Each preferred share has an attached right allowing the holder to receive a number of shares of common stock upon maturity of the term participating preferred stock. These common and preferred shares were issued in a private placement transaction exempt from registration under Section 4(2) of the Securities Act of 1933.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS -- The 1999 Annual Meeting of Shareholders of U.S. Bancorp was held on Tuesday, April 20, 1999, at the Minneapolis Convention Center. John F. Grundhofer, Chairman, President and Chief Executive Officer, presided.

The holders of 623,535,296 shares of common stock, 85.9 percent of the 726,039,362 outstanding shares entitled to vote as of the record date, were represented at the meeting in person or by proxy. The candidates for election as Class I Directors listed in the proxy statement were elected to serve three-year terms expiring at the 2002 annual shareholders' meeting. The proposal to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 1999, was approved. The proposal to approve the U.S. Bancorp 1999 Stock Incentive Plan was approved. The shareholder proposal for the annual election of all Directors and the elimination of the Company's classified Board of Directors, was not approved.

SUMMARY OF MATTERS VOTED UPON BY SHAREHOLDERS

|  | Number of Shares |             |            |            |
|--|------------------|-------------|------------|------------|
|  | For              | Withheld    |            |            |
| -----  |                  |             |            |            |
| Election of Class I Directors:   |                  |             |            |            |
| Linda L. Ahlers  | 618,136,921      | 5,398,375   |            |            |
| Robert L. Dryden   | 618,101,994      | 5,433,302   |            |            |
| Joel W. Johnson  | 617,984,240      | 5,551,056   |            |            |
| Edward J. Phillips   | 618,116,029      | 5,419,267   |            |            |
| Warren R. Staley   | 618,048,294      | 5,487,002   |            |            |
|  | -----            | -----       |            |            |
|  | For              | Against     | Abstain    | Non-Vote   |
| -----  |                  |             |            |            |
| Other Matters:   |                  |             |            |            |
| Ratification of appointment of Ernst & Young LLP as independent auditors | 612,960,104      | 5,636,998   | 4,938,194  | 0          |
| Approval of 1999 Stock Incentive Plan                                    | 456,299,343      | 73,580,919  | 7,679,509  | 85,975,525 |
| Proposal for the annual election of all Directors                        | 250,068,474      | 265,953,687 | 21,484,271 | 86,028,864 |

For a copy of the meeting minutes, please write to the Office of the Secretary, U.S. Bancorp, 601 Second Avenue South, Minneapolis, Minnesota 55402-4302.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- (1) 4.1 Certificate of Designation and Terms of Term Participating Preferred Stock of U.S. Bancorp. Filed as Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-75603.
- 10.1 U.S. Bancorp 1999 Stock Incentive Plan\*
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 27 Article 9 Financial Data Schedule.\*

(1) EXHIBIT HAS HERETOFORE BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND IS INCORPORATED HEREIN AS AN EXHIBIT BY REFERENCE.  
\* 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 March 31, 1999, the Company filed the following Current Report on Form 8-K.

Form 8-K dated January 20, 1999, relating to the announcement of the Company's fourth quarter and full year 1998 earnings.

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: May 13, 1999

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Minneapolis, Minnesota  
55402-4302

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#### SHAREHOLDER INQUIRIES

##### COMMON STOCK TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company of New York, a division of EquiServe, acts as transfer agent and registrar, 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  
Fax: (201) 222-4892  
Internet address: <http://www.equiserve.com>  
E-mail address: [fcctc@em.fcncd.com](mailto:fcctc@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

John R. Danielson  
Senior Vice President, Investor Relations  
(612) 973-2261  
[john.danielson@usbank.com](mailto:john.danielson@usbank.com)

Judith T. Murphy  
Vice President, Investor Relations  
(612) 973-2264  
[judith.murphy@usbank.com](mailto:judith.murphy@usbank.com)

##### FINANCIAL INFORMATION

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

WEB SITE. For information about U.S. Bancorp, including news and financial results, product information, and service locations, access our home page on the World Wide Web. The address is <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 news 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  
(612) 973-2263  
U.S. Bancorp  
601 Second Avenue South  
Minneapolis, Minnesota 55402-4302

U.S. BANCORP  
1999 STOCK INCENTIVE PLAN

SECTION 1. PURPOSE; EFFECT ON PRIOR PLANS.

(a) PURPOSE. The purpose of the U.S. Bancorp 1999 Stock Incentive Plan (the "Plan") is to aid in attracting and retaining employees, management personnel and other personnel and members of the Board of Directors who are not also employees ("Non-Employee Directors") of U.S. Bancorp (the "Company") capable of assuring the future success of the Company, to offer such personnel and Non-Employee Directors incentives to put forth maximum efforts for the success of the Company's business and to afford such personnel and Non-Employee Directors an opportunity to acquire a proprietary interest in the Company.

(b) EFFECT ON PRIOR PLANS. The Company hereby adopts the Plan, subject to approval by the stockholders of the Company. As so established and approved, the Plan shall be known as the 1999 Stock Incentive Plan. On the effective date of the Plan determined in accordance with Section 10 of the Plan, for purposes of administration and share accounting pursuant to Sections 3 and 4 of the Plan, the following plans of the Company shall be considered to be incorporated in the Plan: the U.S. Bancorp 1997 Stock Incentive Plan, as amended (including all plans incorporated therein), and the Piper Jaffray Companies Inc. 1993 Omnibus Stock Plan (as assumed by the Company), as amended (together, the "Prior Plans"). All outstanding options, restricted stock and other awards issued under the Prior Plans shall remain subject to the terms and conditions of the plans under which they were issued, but shares of stock relating to outstanding options, restricted stock or other awards issued under the Prior Plans are considered shares of stock subject to the Plan under Section 4 of the Plan.

SECTION 2. DEFINITIONS.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award or other Stock-Based Award granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing any Award granted under the Plan.

(d) "Change in Control" shall have the meaning ascribed to such term in any Award Agreement, and shall include phrases of similar meaning such as, by way of example but not limitation, "Full Change in Control" and "Partial Change in Control."

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(f) "Committee" shall mean a committee of the Board of Directors of the Company designated by such Board to administer the Plan and composed of not less than two directors.

(g) "Eligible Person" shall mean any employee, officer, director (including any Non-Employee Director), consultant or independent contractor providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person.

(h) "Fair Market Value" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing, for purposes of the Plan, the Fair Market Value of Shares on a given date shall be the closing price of the Shares as reported on the New York Stock Exchange on such date, if the Shares are then traded on the New York Stock Exchange.

(i) "Incentive Stock Option" shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

(j) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan, or Section 6(g) of the Plan in the case of automatic grants to Non-Employee Directors, that is not intended to be an Incentive Stock Option.

(k) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(l) "Other Stock-Based Award" shall mean any right granted under Section 6(e) of the Plan.

(m) "Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.

(n) "Performance Award" shall mean any right granted under Section 6(d) of the Plan.

(o) "Person" shall mean any individual, corporation, partnership, association or trust.

(p) "Qualifying Termination" shall mean a termination of employment under circumstances that, in the judgment of the Committee, warrant acceleration of the exercisability of Options or the lapse of restrictions relating to Restricted Stock or Restricted Stock Units. A Qualifying Termination may apply to large-scale terminations of employment involving the disposition or divestiture of businesses or legal entities or similar circumstances.

(q) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan.

(r) "Restricted Stock Unit" shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(s) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

(t) "Shares" shall mean shares of Common Stock, \$1.25 par value, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 7(c) of the Plan.

(u) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

### SECTION 3. ADMINISTRATION.

The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights or other matters are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement and accelerate the

exercisability of Options or the lapse of restrictions relating to Restricted Stock or Restricted Stock Units; PROVIDED, HOWEVER, that any such acceleration of exercisability or lapse of restrictions shall be limited to accelerations relating to a Change in Control, a Qualifying Termination, death, disability or any circumstances set forth in an Award Agreement in effect on the effective date of the Plan determined in accordance with Section 10 of the Plan; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended; (vii) determine whether, to what extent and under what circumstances cash, Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee; (viii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award and any employee of the Company or any Affiliate.

#### SECTION 4. SHARES AVAILABLE FOR AWARDS.

(a) SHARES AVAILABLE. Subject to adjustment as provided in Section 7(c), the total number of Shares available for granting Awards under the Plan shall be 92,891,502 (47,891,502 of which were previously authorized and subject to outstanding Awards under the Prior Plans or authorized and available for grant under the U.S. Bancorp 1997 Stock Incentive Plan, as amended (including all plans incorporated therein), and 45,000,000 of which will be authorized upon stockholder approval of the Plan); PROVIDED, HOWEVER, that the total number of Shares authorized under the Plan shall be deemed to be reduced automatically, as of the effective date of the Plan determined in accordance with Section 10 of the Plan, by that number of Shares that were subject to outstanding awards under the Prior Plans, as of January 31, 1999, that are no longer subject to outstanding awards as of the effective date of the Plan determined in accordance with Section 10 of the Plan. Not more than 7,000,000 of such Shares, subject to adjustment as provided in Section 7(c) of the Plan, will be available for granting additional Awards of Restricted Stock following the effective date of the Plan determined in accordance with Section 10 of the Plan; PROVIDED, HOWEVER, that any Shares covered by an Award of Restricted Stock that are forfeited shall again be available for purposes of the limitation on grants of additional Awards of Restricted Stock. If any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an

Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan. In addition, if any Shares are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award, whether by actual delivery or attestation, or in connection with satisfaction of tax obligations relating to an Award, whether by actual delivery, attestation or having shares withheld from the Award, only the number of Shares issued net of the Shares tendered or withheld shall be deemed delivered for purposes of determining the maximum number of Shares available for granting of Awards under the Plan. For purposes of the previous two sentences, the term "Award" shall explicitly include any awards outstanding under the Prior Plans as of the effective date of the Plan determined in accordance with Section 10 of the Plan.

(b) ACCOUNTING FOR AWARDS. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. Such Shares may again become available for granting Awards under the Plan pursuant to the provisions of Section 4(a) of the Plan, subject to the limitations set forth in Section 4(c) of the Plan.

(c) INCENTIVE STOCK OPTIONS. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan, on and after the effective date of the Plan determined in accordance with Section 10 of the Plan, shall not exceed 45,000,000, subject to adjustment as provided in Section 7(c) of the Plan and Section 422 or 424 of the Code or any successor provisions.

(d) AWARD LIMITATIONS UNDER THE PLAN. No Eligible Person may be granted any Award or Awards, the value of which Awards are based solely on an increase in the value of the Shares after the date of grant of such Awards, for more than 5,000,000 Shares (subject to adjustment as provided in Section 7(c) of the Plan), in the aggregate, in any calendar year beginning with the year commencing January 1, 1999. The foregoing limitation specifically includes the grant of any "performance-based" Awards within the meaning of ss.162(m) of the Code.

#### SECTION 5. ELIGIBILITY.

Any Eligible Person, including any Eligible Person who is an officer or director of the Company or any Affiliate, shall be eligible to be designated a Participant; PROVIDED, HOWEVER, that an Incentive Stock Option may only be granted to full or part-time employees (which term as used herein includes, without limitation, officers and



directors who are also employees) and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

#### SECTION 6. AWARDS.

(a) OPTIONS. The Committee is hereby authorized to grant Options to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) EXERCISE PRICE. The purchase price per Share purchasable under an Option shall be determined by the Committee; PROVIDED, HOWEVER, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) OPTION TERM. The term of each Option shall be fixed by the Committee.

(iii) TIME AND METHOD OF EXERCISE. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(iv) RELOAD OPTIONS. The Committee may grant "reload" options, separately or together with another Option, pursuant to which, subject to the terms and conditions established by the Committee and any applicable requirements of Rule 16b-3 or any other applicable law, the Participant would be granted a new Option when the payment of the exercise price of a previously granted option is made by the delivery of shares of the Company's Common Stock owned by the Participant pursuant to Section 6(a)(iii) hereof or the relevant provisions of another plan of the Company, and/or when shares of the Company's Common Stock are tendered or forfeited as payment of the amount to be withheld under applicable tax laws in connection with the exercise of an option, which new Option would be an option to purchase the number of Shares not exceeding the sum of (A) the number of shares of the Company's Common Stock provided as consideration upon the exercise of the previously granted option to which such "reload" option relates and (B) the number of shares of the Company's Common Stock tendered or forfeited as payment of the amount to be withheld under

applicable tax laws in connection with the exercise of the option to which such "reload" option relates. "Reload" options may be granted with respect to options granted under this Plan or any other stock option plan of the Company or any of its affiliates (which shall explicitly include plans assumed by the Company in connection with mergers and the like). Such "reload" options shall have a per share exercise price equal to the Fair Market Value as of the date of grant of the new Option. Any such reload options shall be subject to availability of sufficient shares for grant under the Plan.

(b) STOCK APPRECIATION RIGHTS. The Committee is hereby authorized to grant Stock Appreciation Rights to Participants subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

(c) RESTRICTED STOCK AND RESTRICTED STOCK UNITS. The Committee is hereby authorized to grant Awards of Restricted Stock and Restricted Stock Units to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) RESTRICTIONS. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate. Except as otherwise provided herein, Awards of Restricted Stock and Restricted Stock Units shall contain restrictions that lapse no sooner than three years following the date of grant or, in the case of Awards with performance-based vesting provisions, no sooner than one year following the date of grant; PROVIDED, HOWEVER, that restrictions may lapse sooner than such dates as to portions of such Awards so long as restrictions as to the total number of Shares covered by such Awards do not lapse sooner than such dates; and PROVIDED, FURTHER, that such limitations shall

not apply to Awards granted to new employees as part of initial terms of employment, Awards granted to new or existing employees in connection with the acquisition of businesses or assets by the Company, or to Awards in effect on the effective date of the Plan determined in accordance with Section 10 of the Plan.

(ii) STOCK CERTIFICATES. Any Restricted Stock granted under the Plan shall be evidenced by issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted.

(iii) FORFEITURE; DELIVERY OF SHARES. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and all Restricted Stock Units at such time subject to restriction shall be forfeited and reacquired by the Company; PROVIDED, HOWEVER, that the Committee may, when it finds that a waiver would be in the best interest of the Company, including, without limitation, in connection with Changes in Control, Qualifying Terminations, death or disability, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units. Shares representing Restricted Stock that is no longer subject to restrictions shall be delivered to the holder thereof promptly after the applicable restrictions lapse or are waived. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holders of the Restricted Stock Units.

(d) PERFORMANCE AWARDS. The Committee is hereby authorized to grant Performance Awards to Participants subject to the terms of the Plan and any applicable Award Agreement. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan and any applicable Award Agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted and the amount of any payment or transfer to be made pursuant to any Performance Award shall be determined by the Committee.

(e) OTHER STOCK-BASED AWARDS. The Committee is hereby authorized to grant to Participants such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan; PROVIDED, HOWEVER, that such grants must comply with applicable law. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the terms and conditions of such Awards. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(e) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

(f) GENERAL. Except as otherwise specified with respect to Awards to Non-Employee Directors pursuant to Section 6(g) of the Plan:

(i) NO CASH CONSIDERATION FOR AWARDS. Awards shall be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(ii) AWARDS MAY BE GRANTED SEPARATELY OR TOGETHER. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate other than the Plan. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) FORMS OF PAYMENT UNDER AWARDS. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments.

(iv) LIMITS ON TRANSFER OF AWARDS. No Award and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution; PROVIDED, HOWEVER, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant; and PROVIDED, FURTHER, except in the case of an Incentive Stock Option, Awards may be transferable as specifically provided in any applicable Award Agreement or amendment thereto pursuant to terms determined by the Committee. Except as otherwise provided in any applicable Award Agreement or amendment thereto (other than an Award Agreement relating to an Incentive Stock Option), pursuant to terms determined by the Committee, each Award or right under any Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Except as otherwise provided in any applicable Award Agreement or amendment thereto (other than an Award Agreement relating to an Incentive Stock Option), no Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) TERM OF AWARDS. The term of each Award shall be for such period as may be determined by the Committee.

(vi) RESTRICTIONS; SECURITIES EXCHANGE LISTING. All certificates for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for trading on such securities exchange.

(g) NON-QUALIFIED STOCK OPTIONS TO NON-EMPLOYEE DIRECTORS. The Committee shall issue Non-Qualified Stock Options to Non-Employee Directors in accordance with this Section 6(g).

Each Non-Employee Director first elected or appointed to the Company's Board of Directors following the effective date of the Plan determined in accordance with

Section 10 of the Plan and during the term of the Plan shall be granted, as of the date of such Director's first election or appointment to the Board of Directors, a Non-Qualified Stock Option to purchase 7,500 Shares (subject to adjustment pursuant to Section 7(c) of the Plan). Each Non-Employee Director shall be granted during the term of the Plan, as of the date of each Annual Meeting of Stockholders of the Company commencing with the 1999 Annual Meeting of Stockholders of the Company, if such Director's term of office continues after such date, a Non-Qualified Stock Option to purchase 5,100 Shares (subject to adjustment pursuant to Section 7(c) of the Plan).

Each Non-Qualified Stock Option granted to a Non-Employee Director pursuant to this Section 6(g) shall be exercisable in full as of the date of grant, shall have an exercise price equal to the Fair Market Value of a Share on the date of grant and shall expire on the tenth anniversary of the date of grant, except as provided below. Each Option granted pursuant to this Section 6(g) may be transferable pursuant to terms established by the Committee consistent with Section 6(f)(iv) of the Plan.

Except as hereinafter provided, each Option granted pursuant to this Section 6(g) (including those Options granted pursuant to Section 6(h) of the First Bank System, Inc. 1991 Stock Incentive Plan as provided therein, under Section 6(g) of the First Bank System, Inc. 1996 Stock Incentive Plan as provided therein and under Section 6(g) of the U.S. Bancorp 1997 Stock Incentive Plan as provided therein) shall be deemed to include a provision entitling the optionee to a further Non-Qualified Stock Option (a "Non-Employee Director Reload Option") in the event the optionee exercises such an Option, in whole or in part, by surrendering other Shares in accordance with this Section 6(g) (including any predecessor provision under the First Bank System, Inc. 1991 Stock Incentive Plan, the First Bank System, Inc. 1996 Stock Incentive Plan or the U.S. Bancorp 1997 Stock Incentive Plan) and the terms of the Option and/or when shares of the Company's Common Stock are delivered or withheld as payment of an amount representing tax obligations in connection with the exercise of an option. Any such Non-Employee Director Reload Option (i) shall be for a number of Shares equal to the sum of (x) the number of Shares surrendered as part or all of the exercise price of the Option to which it relates plus (y) the number of Shares, if any, delivered or withheld as payment of an amount representing tax obligations in connection with the exercise of the Option to which it relates; (ii) shall have an expiration date which is the same as the expiration date of the Option to which it relates; (iii) shall have an exercise price equal to the Fair Market Value of a Share on the date of exercise of the Option to which it relates; and (iv) shall be exercisable in full as of the date of grant. A Non-Employee Director Reload Option may be reloaded under the same terms, provided that the original Option to which such series of Non-Employee Director Reload Options relates may be reloaded a maximum of three times. Non-Employee Director Reload Options shall only be granted to a Director during such Director's term as a Non-Employee Director. Any such Non-Employee Director Reload Option shall be subject to availability of sufficient shares for grant under the Plan.

Shares surrendered as part or all of the exercise price of the Option to which it relates that have been owned by the optionee less than six months will not be counted for purposes of determining the number of Shares that may be purchased pursuant to a Non-Employee Director Reload Option.

All grants of Non-Qualified Stock Options pursuant to this Section 6(g) shall be automatic and non-discretionary and shall be made strictly in accordance with the foregoing terms and the following additional provisions:

(i) Non-Qualified Stock Options granted to a Non-Employee Director hereunder shall terminate and may no longer be exercised if such Director ceases to be a Non-Employee Director of the Company, except that:

(A) If such Director's term shall be terminated for any reason other than gross and willful misconduct, death, disability, or retirement, such Director may at any time within a period of three months after such termination, but not after the termination date of the Option, exercise the Option.

(B) If such Director's term shall be terminated by reason of gross and willful misconduct during the course of the term, including but not limited to, wrongful appropriation of funds of the Company or the commission of a gross misdemeanor or felony, the Option shall be terminated as of the date of the misconduct.

(C) If such Director's term shall be terminated by reason of disability or retirement, such Director may exercise the Option in accordance with the terms thereof as though such termination had never occurred. If such Director shall die following any such termination, the Option may be exercised in accordance with its terms by the personal representatives or administrators of such Director or by any person or persons to whom the Option has been transferred by will or the applicable laws of descent and distribution.

(D) If such Director shall die while a Director of the Company or within three months after termination of such Director's term for any reason other than disability or retirement or gross and willful misconduct, the Option may be exercised in accordance with its terms by the personal representatives or administrators of such Director or by any person or persons to whom the Option has been transferred by will or the applicable laws of descent and distribution.

(ii) Non-Qualified Stock Options granted to Non-Employee Directors may be exercised in whole or in part from time to time by serving written notice of exercise on the Company at its principal executive offices, to the attention of the Company's Secretary. The notice shall state the number of shares as to which the Option is being exercised and be accompanied by payment of the purchase price. A Non-Employee Director may, at such Director's election, pay the purchase price by check payable to the Company, by promissory note, or in shares of the Company's Common Stock, or in any combination thereof having a Fair Market Value on the exercise date equal to the applicable exercise price. If payment or partial payment is made by promissory note, such note shall be a full recourse note and shall (A) be secured by the Shares to be delivered upon exercise of such Option, (B) be limited in principal amount to the maximum amount permitted under applicable laws, rules and regulations, (C) be for a term of six years and (D) bear interest at the applicable federal rate (as determined in accordance with Section 1274(d) of the Code), compounded semi-annually.

(iii) In order for a Non-Employee Director to satisfy obligations under tax laws in connection with an Option granted pursuant to this Section 6(g) (including any predecessor provision under the First Bank System, Inc. 1991 Stock Incentive Plan, the First Bank System, Inc. 1996 Stock Incentive Plan and the U.S. Bancorp 1997 Stock Incentive Plan), such Director may (A) elect to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise of such Option with a Fair Market Value equal to the amount of such taxes (an "Election") or (B) deliver to the Company Shares other than Shares issuable upon exercise of such Option with a Fair Market Value equal to the amount of such taxes. An Election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

#### SECTION 7. AMENDMENT AND TERMINATION; ADJUSTMENTS.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan:

(a) AMENDMENTS TO THE PLAN. The Board of Directors of the Company may amend, alter, suspend, discontinue or terminate the Plan at any time and from time to time; PROVIDED, HOWEVER, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval:



(i) would violate the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company; or

(ii) would cause the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan.

(b) AMENDMENTS TO AWARDS. Except as otherwise explicitly provided herein, the Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. The Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, without the consent of the Participant or holder or beneficiary thereof, except as otherwise herein provided. Except as provided in Section 7(c) hereof, no Option may be amended to reduce its initial exercise price and no Option shall be canceled and replaced with an Option or Options having a lower exercise price without the approval of the stockholders of the Company.

(c) ADJUSTMENTS. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company or other similar corporate transaction or event affecting the Shares would be reasonably likely to result in the diminution or enlargement of any of the benefits or potential benefits intended to be made available under the Plan or under an Award (including, without limitation, the benefits or potential benefits of provisions relating to the term, vesting or exercisability of any Option, the availability of any tandem stock appreciation rights or "reload" option rights, if any, contained in any Option Award, and any "change in control" or similar provisions of any Award), the Committee shall, in such manner as it shall deem equitable or appropriate in order to prevent such diminution or enlargement of any such benefits or potential benefits, adjust any or all of (i) the number and type of Shares (or other securities or other property) which thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards and (iii) the purchase or exercise price with respect to any Award; PROVIDED, HOWEVER, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

(d) CORRECTION OF DEFECTS, OMISSIONS AND INCONSISTENCIES. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

SECTION 8. INCOME TAX WITHHOLDING.

In order to comply with all applicable federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state or local payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all federal and state taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

SECTION 9. GENERAL PROVISIONS.

(a) NO RIGHTS TO AWARDS. Except as otherwise provided in Section 6(g) of the Plan, no Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to different Participants.

(b) DELEGATION. The Committee may delegate to one or more officers of the Company or any Affiliate or a committee of such officers, but only to the extent such officer or officers are also members of the Board of Directors of the Company, the authority, subject to such terms and limitations as the Committee shall determine, to grant Awards to Eligible Persons who are not officers or directors of the Company for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

(c) AWARD AGREEMENTS. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company.

(d) NO LIMIT ON OTHER COMPENSATION ARRANGEMENTS. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(e) NO RIGHT TO EMPLOYMENT, ETC. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ, or as giving a Non-Employee Director the right to continue as a Director, of the Company or any Affiliate. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment, or terminate the term of a Non-Employee Director, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

(f) GOVERNING LAW. The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Minnesota.

(g) SEVERABILITY. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(h) NO TRUST OR FUND CREATED. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(i) NO FRACTIONAL SHARES. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(j) HEADINGS. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(k) SECTION 16 COMPLIANCE. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted,

the provision shall be deemed inoperative. The Board of Directors, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or directors subject to Section 16 of the Securities and Exchange Act of 1934, as amended, without so restricting, limiting or conditioning the Plan with respect to other Participants.

SECTION 10. EFFECTIVE DATE OF THE PLAN.

The Plan shall be effective as of the date of approval by the stockholders of the Company in accordance with applicable law.

SECTION 11. TERM OF THE PLAN.

New Awards shall only be granted under the Plan during a 10-year period beginning on the effective date of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond the end of such 10-year period, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board of Directors of the Company to amend the Plan, shall extend beyond the end of such period.

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

|   | Three<br>Months<br>Ended<br>March 31 |
|---|--------------------------------------|
|   | -----                                |
| (Dollars in Millions)   | 1999                                 |
| =====   | =====                                |
| EARNINGS  |                                      |
| 1. Net income .....   | \$ 366.8                             |
| 2. Applicable income taxes .....  | 206.4                                |
|   | -----                                |
| 3. Net income before taxes (1 + 2) .....  | \$ 573.2                             |
|   | =====                                |
| 4. Fixed charges:   |                                      |
| a. Interest expense excluding interest on deposits .....                            | \$ 257.7                             |
| b. Portion of rents representative of interest and amortization of debt expense ... | 11.5                                 |
|   | -----                                |
| c. Fixed charges excluding interest on deposits (4a + 4b) .....                     | 269.2                                |
| d. Interest on deposits .....   | 311.6                                |
|   | -----                                |
| e. Fixed charges including interest on deposits (4c + 4d) .....                     | \$ 580.8                             |
|   | =====                                |
| 5. Amortization of interest capitalized .....                                       | \$ --                                |
| 6. Earnings excluding interest on deposits (3 + 4c + 5) .....                       | 842.4                                |
| 7. Earnings including interest on deposits (3 + 4e + 5) .....                       | 1,154.0                              |
| 8. Fixed charges excluding interest on deposits (4c) .....                          | 269.2                                |
| 9. Fixed charges including interest on deposits (4e) .....                          | 580.8                                |
|   | =====                                |
| RATIO OF EARNINGS TO FIXED CHARGES  |                                      |
| 10. Excluding interest on deposits (line 6/line 8) .....                            | 3.13                                 |
| 11. Including interest on deposits (line 7/line 9) .....                            | 1.99                                 |
| =====   | =====                                |

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE U.S. BANCORP MARCH 31, 1999, 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

|            |             |
|------------|-------------|
| 3-MOS      |             |
|            | DEC-31-1999 |
|            | JAN-01-1999 |
|            | MAR-31-1999 |
|            | 4,020,000   |
|            | 0           |
|            | 574,000     |
|            | 686,000     |
| 5,253,000  |             |
|            | 0           |
|            | 0           |
|            | 59,619,000  |
|            | 982,500     |
| 76,110,000 |             |
|            | 48,672,000  |
|            | 4,169,000   |
| 2,229,000  |             |
|            | 13,774,000  |
|            | 0           |
|            | 0           |
|            | 931,000     |
| 76,110,000 |             |
|            | 5,246,000   |
|            | 1,238,500   |
|            | 79,300      |
|            | 34,200      |
|            | 1,352,000   |
|            | 311,600     |
|            | 569,300     |
| 782,700    |             |
|            | 117,000     |
|            | 0           |
|            | 718,800     |
|            | 573,200     |
| 573,200    |             |
|            | 0           |
|            | 0           |
|            | 366,800     |
|            | 0.51        |
|            | 0.50        |
|            | 4.82        |
|            | 303,500     |
|            | 126,800     |
|            | 0           |
|            | 0           |
| 1,000,900  |             |
|            | 181,300     |
|            | 41,700      |
| 982,500    |             |
|            | 0           |
|            | 0           |
| 0          |             |