





Form 10-Q/September 30, 2007



---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

**OR**

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

**For the transition period from (not applicable)**

**Commission file number 1-6880**

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-0255900**

(I.R.S. Employer  
Identification No.)

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

(Address of principal executive offices, including zip code)

**651-466-3000**

(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 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

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

Class  
Common Stock, \$.01 Par Value

Outstanding as of October 31, 2007  
1,726,662,458 shares

---

---

## Table of Contents and Form 10-Q Cross Reference Index

### **Part I — Financial Information**

#### **1) Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)**

|   |    |
|---|----|
| a) <a href="#">Overview</a>                         | 3  |
| b) <a href="#">Statement of Income Analysis</a>     | 4  |
| c) <a href="#">Balance Sheet Analysis</a>           | 7  |
| d) <a href="#">Critical Accounting Policies</a>     | 25 |
| e) <a href="#">Controls and Procedures (Item 4)</a> | 25 |

#### **2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)**

|   |    |
|---|----|
| a) <a href="#">Overview</a>                       | 8  |
| b) <a href="#">Credit Risk Management</a>         | 9  |
| c) <a href="#">Residual Value Risk Management</a> | 16 |
| d) <a href="#">Operational Risk Management</a>    | 16 |
| e) <a href="#">Interest Rate Risk Management</a>  | 16 |
| f) <a href="#">Market Risk Management</a>         | 18 |
| g) <a href="#">Liquidity Risk Management</a>      | 19 |
| h) <a href="#">Capital Management</a>             | 19 |

#### **3) Line of Business Financial Review**

#### **4) Financial Statements (Item 1)**

19

### **Part II — Other Information**

#### **1) Risk Factors (Item 1A)**

19

#### **2) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)**

19

#### **3) Exhibits (Item 6)**

26

#### **4) Signature**

38

#### **5) Exhibits**

38

#### **Form of 2007 U.S. Bancorp Director Restricted Stock Unit Award Agreement**

39

#### **Computation of Ratio of Earnings to Fixed Charges**

#### **Certification of Chief Executive Officer pursuant to Rule 13a-14(a)**

#### **Certification of Chief Financial Officer pursuant to Rule 13a-14(a)**

#### **Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350**

## **“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995.**

This Form 10-Q contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words “may,” “could,” “would,” “should,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including changes in general business and economic conditions, changes in interest rates, legal and regulatory developments, increased competition from both banks and non-banks, changes in customer behavior and preferences, effects of mergers and acquisitions and related integration, effects of critical accounting policies and judgments, and management’s ability to effectively manage credit risk, market risk, operational risk, legal risk, and regulatory and compliance risk. For discussion of these and other risks that may cause actual results to differ from expectations, refer to our Annual Report on Form 10-K for the year ended December 31, 2006, on file with the Securities and Exchange Commission, including the sections entitled “Risk Factors” and “Corporate Risk Profile.” Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

**Table 1** Selected Financial Data

| (Dollars and Shares in Millions, Except Per Share Data) | Three Months Ended<br>September 30, |                      |                   | Nine Months Ended<br>September 30, |           |                   |
|---|-------------------------------------|----------------------|-------------------|------------------------------------|-----------|-------------------|
|   | 2007                                | 2006                 | Percent<br>Change | 2007                               | 2006      | Percent<br>Change |
| <b>Condensed Income Statement</b>                       |                                     |                      |                   |                                    |           |                   |
| Net interest income (taxable-equivalent basis) (a)      | \$1,685                             | \$1,673              | .7%               | \$5,001                            | \$5,095   | (1.8)%            |
| Noninterest income                                      | 1,837                               | 1,748                | 5.1               | 5,384                              | 5,114     | 5.3               |
| Securities gains (losses), net                          | 7                                   | —                    | *                 | 11                                 | 3         | *                 |
| Total net revenue                                       | 3,529                               | 3,421                | 3.2               | 10,396                             | 10,212    | 1.8               |
| Noninterest expense                                     | 1,628                               | 1,538                | 5.9               | 4,813                              | 4,568     | 5.4               |
| Provision for credit losses                             | 199                                 | 135                  | 47.4              | 567                                | 375       | 51.2              |
| Income before taxes                                     | 1,702                               | 1,748                | (2.6)             | 5,016                              | 5,269     | (4.8)             |
| Taxable-equivalent adjustment                           | 18                                  | 13                   | 38.5              | 53                                 | 34        | 55.9              |
| Applicable income taxes                                 | 508                                 | 532                  | (4.5)             | 1,501                              | 1,678     | (10.5)            |
| Net income  | \$1,176                             | \$1,203              | (2.2)             | \$3,462                            | \$3,557   | (2.7)             |
| Net income applicable to common equity                  | \$1,161                             | \$1,187              | (2.2)             | \$3,417                            | \$3,524   | (3.0)             |
| <b>Per Common Share</b>                                 |                                     |                      |                   |                                    |           |                   |
| Earnings per share                                      | \$.67                               | \$.67                | —%                | \$1.97                             | \$1.98    | (.5)%             |
| Diluted earnings per share                              | .67                                 | .66                  | 1.5               | 1.94                               | 1.95      | (.5)              |
| Dividends declared per share                            | .40                                 | .33                  | 21.2              | 1.20                               | .99       | 21.2              |
| Book value per share                                    | 11.46                               | 11.30                | 1.4               |                                    |           |                   |
| Market value per share                                  | 32.53                               | 33.22                | (2.1)             |                                    |           |                   |
| Average common shares outstanding                       | 1,725                               | 1,771                | (2.6)             | 1,737                              | 1,784     | (2.6)             |
| Average diluted common shares outstanding               | 1,745                               | 1,796                | (2.8)             | 1,762                              | 1,809     | (2.6)             |
| <b>Financial Ratios</b>                                 |                                     |                      |                   |                                    |           |                   |
| Return on average assets                                | 2.09%                               | 2.23%                |                   | 2.09%                              | 2.24%     |                   |
| Return on average common equity                         | 23.3                                | 23.6                 |                   | 22.9                               | 23.7      |                   |
| Net interest margin (taxable-equivalent basis) (a)      | 3.44                                | 3.56                 |                   | 3.46                               | 3.68      |                   |
| Efficiency ratio (b)                                    | 46.2                                | 45.0                 |                   | 46.3                               | 44.7      |                   |
| <b>Average Balances</b>                                 |                                     |                      |                   |                                    |           |                   |
| Loans   | \$147,517                           | \$141,491            | 4.3%              | \$145,965                          | \$139,561 | 4.6%              |
| Loans held for sale                                     | 4,547                               | 3,851                | 18.1              | 4,244                              | 3,560     | 19.2              |
| Investment securities                                   | 41,128                              | 39,806               | 3.3               | 40,904                             | 39,858    | 2.6               |
| Earning assets  | 194,886                             | 187,190              | 4.1               | 192,788                            | 185,075   | 4.2               |
| Assets  | 223,505                             | 214,089              | 4.4               | 221,694                            | 212,188   | 4.5               |
| Noninterest-bearing deposits                            | 26,947                              | 28,220               | (4.5)             | 27,531                             | 28,666    | (4.0)             |
| Deposits  | 119,145                             | 119,975              | (.7)              | 119,610                            | 120,456   | (.7)              |
| Short-term borrowings                                   | 29,155                              | 23,601               | 23.5              | 28,465                             | 23,398    | 21.7              |
| Long-term debt  | 46,452                              | 41,892               | 10.9              | 44,696                             | 40,462    | 10.5              |
| Shareholders' equity                                    | 20,741                              | 20,917               | (.8)              | 20,947                             | 20,543    | 2.0               |
|   | September 30,<br>2007               | December 31,<br>2006 |                   |                                    |           |                   |
| <b>Period End Balances</b>                              |                                     |                      |                   |                                    |           |                   |
| Loans   | \$149,039                           | \$143,597            | 3.8%              |                                    |           |                   |
| Allowance for credit losses                             | 2,260                               | 2,256                | .2                |                                    |           |                   |
| Investment securities                                   | 40,371                              | 40,117               | .6                |                                    |           |                   |
| Assets  | 227,628                             | 219,232              | 3.8               |                                    |           |                   |
| Deposits  | 122,748                             | 124,882              | (1.7)             |                                    |           |                   |
| Long-term debt  | 45,241                              | 37,602               | 20.3              |                                    |           |                   |
| Shareholders' equity                                    | 20,766                              | 21,197               | (2.0)             |                                    |           |                   |
| Regulatory capital ratios                               |                                     |                      |                   |                                    |           |                   |
| Tier 1 capital  | 8.6%                                | 8.8%                 |                   |                                    |           |                   |
| Total risk-based capital                                | 12.8                                | 12.6                 |                   |                                    |           |                   |
| Leverage  | 8.1                                 | 8.2                  |                   |                                    |           |                   |
| Tangible common equity                                  | 5.3                                 | 5.5                  |                   |                                    |           |                   |

\* Not meaningful.

(a) Presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.

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

# Management’s Discussion and Analysis

## OVERVIEW

**Earnings Summary** U.S. Bancorp and its subsidiaries (the “Company”) reported net income of \$1,176 million for the third quarter of 2007 or \$.67 per diluted common share, compared with \$1,203 million, or \$.66 per diluted common share for the third quarter of 2006. Return on average assets and return on average common equity were 2.09 percent and 23.3 percent, respectively, for the third quarter of 2007, compared with returns of 2.23 percent and 23.6 percent, respectively, for the third quarter of 2006. The Company’s results for the third quarter of 2007 declined from the same period of 2006, as strong fee-based revenue growth in Payment Services and Wealth Management & Securities Services was offset by higher operating expenses and an expected increase in credit costs. In addition, the third quarter of 2006 included a \$32 million gain on the sale of equity interests in a cardholder association.

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2007, was \$108 million (3.2 percent) higher than the third quarter of 2006, primarily reflecting a 5.5 percent increase in noninterest income. Net interest income also increased slightly from a year ago, driven by growth in earning assets. Noninterest income growth was driven primarily by organic business growth in fee-based revenue. This growth in noninterest income was muted somewhat by adverse market conditions experienced during the third quarter of 2007. These market factors reduced trading and other revenue by approximately \$21 million from a year ago. Additionally, the third quarter of 2006 included a \$32 million gain on the sale of equity interests in a cardholder association.

Total noninterest expense in the third quarter of 2007 was \$90 million (5.9 percent) higher than in the third quarter of 2006, principally due to higher operating costs from investments in personnel, branches, customer service initiatives, marketing, business integration costs related to acquisitions, costs related to tax-advantaged investments and an increase in credit-related costs for other real estate owned and collection activities.

The provision for credit losses for the third quarter of 2007 increased \$64 million (47.4 percent), compared with the third quarter of 2006. The increase in the provision for credit losses from a year ago reflected growth in credit card accounts and higher commercial loan losses. In addition, the provision for credit losses in the third quarter of 2006 partially reflected the favorable residual impact on net charge-offs, principally for credit cards and other retail charge-offs, resulting from changes in bankruptcy laws in the fourth quarter of 2005. Net charge-offs in the third quarter of 2007 were \$199 million, compared with \$135 million in the third quarter of 2006. Refer to “Corporate Risk Profile” for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income of \$3,462 million for the first nine months of 2007 or \$1.94 per diluted common share, compared with \$3,557 million, or \$1.95 per diluted common share for the first nine months of 2006. Return on average assets and return on average common equity were 2.09 percent and 22.9 percent, respectively, for the first nine months of 2007, compared with returns of 2.24 percent and 23.7 percent, respectively, for the first nine months of 2006. The Company’s results for the first nine months of 2007 declined from the same period of 2006, as strong fee-based revenue growth was offset by higher operating expenses and an expected increase in credit costs. In addition, the first nine months of 2006 included \$67 million of gains from the initial public offering and subsequent sale of equity interests of a cardholder association.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2007, was \$184 million (1.8 percent) higher than the first nine months of 2006, primarily reflecting a 5.4 percent increase in noninterest income, partially offset by a 1.8 percent decline in net interest income from a year ago. Noninterest income growth was driven by organic business growth and expansion in payment processing and trust businesses. Fee-based revenue growth was partially offset by the net favorable impact in the first nine months of 2006 of \$84 million from several previously reported items, including a \$44 million trading gain related to certain derivatives, \$67 million of gains from the initial public offering and subsequent sale of a cardholder association and a \$10 million gain related to a favorable settlement in the merchant processing business, offset by a \$37 million reduction in mortgage banking revenue due principally to the adoption of fair value accounting standards for mortgage servicing rights (“MSRs”).

Total noninterest expense in the first nine months of 2007 was \$245 million (5.4 percent) higher than in the first nine months of 2006, principally due to higher operating costs from investments in business initiatives, business integration costs related to acquisitions, costs related to tax-advantaged investments, credit-related costs for other real estate owned and collection activities and an increase in merchant airline processing expenses primarily due to sales volumes and business expansion with a major airline. Growth in expenses from a year ago was partially offset by an \$11 million debt prepayment charge recorded in the first nine months of 2006.

The provision for credit losses for the first nine months of 2007 increased \$192 million (51.2 percent), compared with the same period of 2006. The increase in the provision for credit losses from a year ago reflected growth in credit card accounts and higher commercial loan losses. In addition, the provision for credit losses in the first nine months of 2006 partially reflected the favorable residual impact on net charge-offs, principally for credit cards and other retail charge-offs, resulting from changes in bankruptcy laws in fourth quarter of 2005. Net charge-offs in the first nine months of 2007 were \$567 million, compared with \$375 million in the first nine months of 2006. Refer to “Corporate Risk Profile” for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

## STATEMENT OF INCOME ANALYSIS

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$1,685 million in the third quarter of 2007, compared with \$1,673 million in the third quarter of 2006. Net interest income, on a taxable-equivalent basis, was \$5,001 million in the first nine months of 2007, compared with \$5,095 million in the first nine months of 2006. Compared with the same periods of 2006, average earning assets increased \$7.7 billion in both the third quarter and first nine months of 2007, or 4.1 percent and 4.2 percent, respectively. The increases were primarily driven by growth in total average loans of \$6.0 billion (4.3 percent) and \$6.4 billion (4.6 percent) in the third quarter and first nine months of 2007, respectively, compared with the same periods of 2006. The positive impact on net interest income from the growth in earning assets was offset by a lower net interest margin. The net interest margin in the third quarter and first nine months of 2007 was 3.44 percent and 3.46 percent, respectively, compared with 3.56 percent and 3.68 percent, respectively, for the same periods of 2006, reflecting the competitive environment and the impact of a flat yield curve during the past several quarters. Compared with the same periods of 2006, credit spreads tightened by approximately 5 basis points in the third quarter and 8 basis points in the first nine months of 2007 across most lending products due to competitive loan pricing. In addition, funding costs were higher as rates paid on interest-bearing deposits increased and the funding mix continued to shift toward higher cost deposits and other funding sources. Net interest margin was also impacted by a decline in net free funds due to a decline in noninterest-bearing deposits, investment in bank-owned life insurance, share repurchases and the impact of acquisitions. An increase in loan fees partially offset these factors.

The Company anticipates the net interest margin to remain relatively stable throughout the remainder of the year. Refer to the “Consolidated Daily Average Balance Sheet and Related Yields and Rates” table for further information on net interest income.

Average loans for the third quarter and first nine months of 2007 were \$6.0 billion (4.3 percent) and \$6.4 billion (4.6 percent) higher, respectively, than the same periods of 2006, reflecting growth in retail loans, commercial loans and residential mortgages, partially offset by a decline in commercial real estate loans. Average credit card balances for the third quarter and first nine months of 2007 increased \$2.1 billion (26.9 percent) and \$1.8 billion (24.1 percent), respectively, compared with the same periods of 2006, as a result of growth in branch originated, co-branded and financial institution partner portfolios.

Average investment securities in the third quarter and first nine months of 2007 were \$1.3 billion (3.3 percent) and \$1.0 billion (2.6 percent) higher, respectively, than the same periods of 2006, driven primarily by an increase in the municipal securities portfolio, partially offset by a reduction in mortgage-backed assets.

Average noninterest-bearing deposits for the third quarter and first nine months of 2007 decreased \$1.3 billion (4.5 percent) and \$1.1 billion (4.0 percent), respectively, compared with the same periods of 2006, reflecting a decline in business demand deposits within most business lines as customers utilized deposit balances to fund business growth and meet other liquidity requirements.

Average total savings deposits increased \$1.0 billion (1.9 percent) and \$.3 billion (.5 percent) in the third quarter and first nine months of 2007, compared with the same periods of 2006, as increases in interest

## Table of Contents

checking balances were offset by declines in money market and savings balances, primarily within Consumer Banking. Interest checking balances for the third quarter and first nine months of 2007 increased \$2.5 billion (10.4 percent) and \$2.3 billion (9.9 percent), respectively, compared with the same periods of 2006, due to higher broker-dealer, government and institutional trust balances. Average money market and savings balances for the third quarter and first nine months of 2007 decreased \$1.4 billion (4.5 percent) and \$2.0 billion (6.2 percent), respectively, compared with the same periods of 2006, as a result of the Company's deposit pricing decisions for money market products in relation to other fixed-rate deposit products. A portion of branch-based money market savings accounts migrated to fixed-rate time certificates, as customers took advantage of higher interest rates for these products.

Average time certificates of deposit less than \$100,000 were higher in the third quarter and first nine months of 2007 by \$.7 billion (5.2 percent) and \$1.0 billion (7.3 percent), respectively, compared with the same periods of 2006. The year-over-year growth in time certificates less than \$100,000 was primarily due to consumer-based time deposits, reflecting customer migration to higher rate deposit products. Average time deposits greater than \$100,000 decreased \$1.3 billion (5.9 percent) and \$1.0 billion (4.6 percent) in the third quarter and first nine months of 2007, respectively, compared with the same periods of 2006. Time deposits greater than \$100,000 are largely viewed as purchased funds and are managed at levels deemed appropriate, given alternative funding sources.

**Provision for Credit Losses** The provision for credit losses for the third quarter and first nine months of 2007 increased \$64 million (47.4 percent) and \$192 million (51.2 percent), respectively, compared with the same periods of 2006. The increases in the provision for credit losses in the third quarter and first nine months of 2007 from the same periods a year ago reflected growth in credit card accounts and higher commercial loan losses. In addition, the provision for credit losses in the third quarter and first nine months of 2006 partially reflected the favorable residual impact on net charge-offs, principally for credit cards and other retail charge-offs, resulting from changes in bankruptcy laws in the fourth quarter of 2005. Net charge-offs were \$199 million in the third quarter and \$567 million in the first nine months of 2007, compared with \$135 million in the third quarter and \$375 million in the first nine months of 2006. Refer to "Corporate Risk Profile" for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income in the third quarter and first nine months of 2007 was \$1,844 million and \$5,395 million, respectively, compared with \$1,748 million and \$5,117 million in the same periods of 2006. The \$96 million (5.5 percent) increase during the third quarter and \$278 million (5.4 percent) increase during the first nine months of 2007, compared with the same periods in 2006, were driven by strong organic fee-based revenue growth, offset somewhat by market conditions in the third

**Table 2** Noninterest Income

| (Dollars in Millions)                    | Three Months Ended<br>September 30, |                |                   | Nine Months Ended<br>September 30, |                |                   |
|--|-------------------------------------|----------------|-------------------|------------------------------------|----------------|-------------------|
|  | 2007                                | 2006           | Percent<br>Change | 2007                               | 2006           | Percent<br>Change |
| Credit and debit card revenue            | \$235                               | \$206          | 14.1%             | \$668                              | \$590          | 13.2%             |
| Corporate payment products revenue       | 164                                 | 150            | 9.3               | 466                                | 416            | 12.0              |
| ATM processing services                  | 62                                  | 63             | (1.6)             | 183                                | 183            | —                 |
| Merchant processing services             | 287                                 | 253            | 13.4              | 822                                | 719            | 14.3              |
| Trust and investment management fees     | 331                                 | 305            | 8.5               | 995                                | 916            | 8.6               |
| Deposit service charges                  | 271                                 | 268            | 1.1               | 786                                | 764            | 2.9               |
| Treasury management fees                 | 118                                 | 111            | 6.3               | 355                                | 334            | 6.3               |
| Commercial products revenue              | 107                                 | 100            | 7.0               | 312                                | 311            | .3                |
| Mortgage banking revenue                 | 76                                  | 68             | 11.8              | 211                                | 167            | 26.3              |
| Investment products fees and commissions | 36                                  | 34             | 5.9               | 108                                | 114            | (5.3)             |
| Securities gains (losses), net           | 7                                   | —              | *                 | 11                                 | 3              | *                 |
| Other                                    | 150                                 | 190            | (21.1)            | 478                                | 600            | (20.3)            |
| <b>Total noninterest income</b>          | <b>\$1,844</b>                      | <b>\$1,748</b> | <b>5.5%</b>       | <b>\$5,395</b>                     | <b>\$5,117</b> | <b>5.4%</b>       |

\* Not meaningful.



## Table of Contents

quarter of 2007 adversely impacting valuations for certain trading securities and loans held for sale within a commercial real estate joint venture. Additionally, the third quarter and first nine months of 2006 were impacted by several previously reported, one-time items.

The growth in credit and debit card revenue was primarily driven by an increase in customer accounts and higher customer transaction volumes from a year ago. The corporate payment products revenue growth reflected organic growth in sales volumes and card usage, and an acquired business. Merchant processing services revenue growth reflected an increase in customers and sales volumes. Trust and investment management fees increased year-over-year due to core account growth and favorable market conditions. Deposit service charges grew year-over-year due primarily to increased transaction-related fees and continued growth in net new checking accounts. Additionally, deposit account-related revenue, traditionally reflected in this fee category, continued to migrate to yield-related loan fees as customers utilized new consumer products. Treasury management fees increased over the prior year due to new customer growth, higher cross-selling activities with existing customers and new product offerings. Mortgage banking revenue grew year-over-year due to an increase in mortgage servicing income and production gains, partially offset by a change in the valuation of MSRs and related economic hedging activities. Mortgage banking revenue further increased in the first nine months of 2007 due to changes in accounting for MSRs and mortgage banking revenue that resulted in a \$37 million reduction in revenue in the first quarter of 2006. Commercial products revenue increased in the third quarter of 2007, compared with the same period of the prior year, due to higher foreign exchange revenue, syndication fees and commercial leasing revenue.

Favorable changes in fee-based revenue were partially offset by a decline in other income. The reduction in other income in the third quarter of 2007, compared with the third quarter of 2006, reflected the \$32 million gain recognized in the third quarter of 2006 related to the sale of equity interests of a cardholder association. The decline also included third quarter 2007 market valuation losses of approximately \$21 million, partially offset by an increase in revenue from investment in bank-owned life insurance programs. Other income further declined in the first nine months of 2007, compared with the first nine months of 2006, as a result of a \$10 million favorable settlement within the merchant processing business and a \$44 million trading gain related to terminating certain interest rate swaps recognized in the first quarter of 2006, as well as a \$35 million gain on the initial public offering of a cardholder association recognized in the second quarter of 2006.

**Noninterest Expense** Noninterest expense was \$1,628 million in the third quarter and \$4,813 million in the first nine months of 2007, reflecting increases of \$90 million (5.9 percent) and \$245 million (5.4 percent), respectively, from the same periods of 2006. Compensation expense increased due to ongoing bank operations and acquired businesses. Net occupancy and equipment expense increased primarily due to acquisitions and branch-based business initiatives. Professional services expense for the first nine months of 2007 increased over the same period of the prior year due to revenue enhancing business initiatives and higher legal fees associated with the establishment of a bank charter in Ireland to support pan-European payment processing and litigation. Marketing and

**Table 3** Noninterest Expense

| (Dollars in Millions)              | Three Months Ended<br>September 30, |          |                   | Nine Months Ended<br>September 30, |          |                   |
|------------------------------------|-------------------------------------|----------|-------------------|------------------------------------|----------|-------------------|
|                                    | 2007                                | 2006     | Percent<br>Change | 2007                               | 2006     | Percent<br>Change |
| Compensation                       | \$ 656                              | \$ 632   | 3.8%              | \$ 1,950                           | \$ 1,892 | 3.1%              |
| Employee benefits                  | 119                                 | 123      | (3.3)             | 375                                | 379      | (1.1)             |
| Net occupancy and equipment        | 175                                 | 168      | 4.2               | 511                                | 494      | 3.4               |
| Professional services              | 56                                  | 54       | 3.7               | 162                                | 130      | 24.6              |
| Marketing and business development | 66                                  | 58       | 13.8              | 178                                | 156      | 14.1              |
| Technology and communications      | 127                                 | 128      | (.8)              | 378                                | 372      | 1.6               |
| Postage, printing and supplies     | 70                                  | 66       | 6.1               | 210                                | 198      | 6.1               |
| Other intangibles                  | 94                                  | 89       | 5.6               | 283                                | 263      | 7.6               |
| Debt prepayment                    | —                                   | —        | —                 | —                                  | 11       | *                 |
| Other                              | 265                                 | 220      | 20.5              | 766                                | 673      | 13.8              |
| Total noninterest expense          | \$ 1,628                            | \$ 1,538 | 5.9%              | \$ 4,813                           | \$ 4,568 | 5.4%              |
| Efficiency ratio (a)               | 46.2%                               | 45.0%    |                   | 46.3%                              | 44.7%    |                   |

\* Not meaningful

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

## Table of Contents

business development expense for the third quarter and first nine months of 2007 increased year-over-year due to the timing of customer promotions, solicitations and advertising activities. Postage, printing and supplies expense increased primarily due to changes in postal rates. Other intangibles expense increased from the same periods of 2006 due to recent acquisitions in Consumer Banking, Wealth Management & Securities Services and Payment Services. Other expense increased over the prior year due to costs related to affordable housing and other tax-advantaged investments, an increase in merchant processing expenses driven by transaction volumes, integration expenses related to recent acquisitions and higher credit-related costs for other real estate owned and loan collection activities.

**Income Tax Expense** The provision for income taxes was \$508 million (an effective rate of 30.2 percent) for the third quarter and \$1,501 million (an effective rate of 30.2 percent) for the first nine months of 2007, compared with \$532 million (an effective rate of 30.7 percent) and \$1,678 million (an effective rate of 32.1 percent) for the same periods of 2006. For further information on income taxes, refer to Note 7 of the Notes to Consolidated Financial Statements.

## BALANCE SHEET ANALYSIS

**Loans** The Company's total loan portfolio was \$149.0 billion at September 30, 2007, compared with \$143.6 billion at December 31, 2006, an increase of \$5.4 billion (3.8 percent). The increase was driven by growth in retail loans, commercial loans and residential mortgages, partially offset by a slight decrease in commercial real estate loans. The \$1.8 billion (3.9 percent) increase in commercial loans was primarily driven by new customer relationships, utilization under lines of credit and growth in corporate payment card and commercial leasing balances.

Commercial real estate loans decreased slightly to \$28.5 billion at September 30, 2007, compared with \$28.6 billion at December 31, 2006. The decline in commercial real estate balances reflected customer refinancing, a management decision to reduce condominium construction financing in selected markets and a slowdown in residential homebuilding impacting construction lending.

Residential mortgages held in the loan portfolio increased \$1.3 billion (6.0 percent) at September 30, 2007, compared with December 31, 2006, reflecting an increase in consumer finance originations.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, increased \$2.5 billion (5.2 percent) at September 30, 2007, compared with December 31, 2006. The increase was primarily driven by growth in credit card, installment and home equity loans, partially offset by decreases in retail leasing and student loan balances.

At September 30, 2007, the residential and home equity and second mortgage portfolios included approximately \$3.2 billion and \$.9 billion, respectively, of loans to customers that may be defined as sub-prime borrowers. Together, these balances represented 2.8 percent of the Company's total loans outstanding at September 30, 2007.

**Loans Held for Sale** Loans held for sale, consisting primarily of residential mortgages and student loans to be sold in the secondary market, were \$4.6 billion at September 30, 2007, compared with \$3.3 billion at December 31, 2006. The increase in loans held for sale was principally due to loan originations and the timing of sales during the first nine months of 2007.

**Investment Securities** Investment securities, including available-for-sale and held-to-maturity, totaled

**Table 4 Available-for-Sale Investment Securities**

| (Dollars in Millions)                               | September 30, 2007 |            |                                    |                            | December 31, 2006 |            |                                    |                            |
|---|--------------------|------------|------------------------------------|----------------------------|-------------------|------------|------------------------------------|----------------------------|
|   | Amortized Cost     | Fair Value | Weighted-Average Maturity in Years | Weighted-Average Yield (c) | Amortized Cost    | Fair Value | Weighted-Average Maturity in Years | Weighted-Average Yield (c) |
| U.S. Treasury and agencies                          | \$444              | \$440      | 9.9                                | 5.98%                      | \$472             | \$467      | 10.1                               | 5.94%                      |
| Mortgage-backed securities (a)                      | 32,005             | 31,130     | 7.0                                | 5.16                       | 34,465            | 33,787     | 5.6                                | 5.10                       |
| Asset-backed securities (a)                         | 5                  | 5          | .1                                 | 5.65                       | 7                 | 7          | .1                                 | 5.32                       |
| Obligations of state and political subdivisions (b) | 6,691              | 6,624      | 10.7                               | 6.77                       | 4,463             | 4,539      | 9.7                                | 6.68                       |
| Other debt securities                               | 1,883              | 1,772      | 27.0                               | 6.16                       | 994               | 993        | 23.8                               | 6.08                       |
| Other investments                                   | 333                | 322        | —                                  | 7.00                       | 229               | 237        | —                                  | 6.26                       |
| Total available-for-sale investment securities      | \$41,361           | \$40,293   | 8.6                                | 5.50%                      | \$40,630          | \$40,030   | 6.6                                | 5.32%                      |

(a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.

(b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.

(c) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

\$40.4 billion at September 30, 2007, compared with \$40.1 billion at December 31, 2006, reflecting purchases of \$5.4 billion of securities, which were offset by sales, maturities, prepayments and a \$5 billion increase in the unrealized loss on the available-for-sale portfolio. As of September 30, 2007, approximately 36 percent of the investment securities portfolio represented adjustable-rate financial instruments, compared with 37 percent at December 31, 2006. Adjustable-rate financial instruments include variable-rate collateralized mortgage obligations, mortgage-backed securities, agency securities, adjustable-rate money market accounts, asset-backed securities, corporate debt securities and floating-rate preferred stock.

The Company conducts a regular assessment of its investment portfolios to determine whether any securities are other-than-temporarily impaired. The substantial portion of securities that have unrealized losses are either government securities, issued by government-backed agencies or privately issued securities with high investment grade credit ratings. As of the reporting date, the Company expects to receive all contractual principal and interest related to these securities.

**Deposits** Total deposits were \$122.7 billion at September 30, 2007, compared with \$124.9 billion at December 31, 2006, a decrease of \$2.1 billion (1.7 percent). The decrease in total deposits was primarily the result of decreases in noninterest-bearing deposits and money market savings accounts, partially offset by increases in interest checking accounts and time deposits. The \$3.9 billion (12.0 percent) decrease in noninterest-bearing deposits was primarily due to a decline of business demand deposits. The \$2.5 billion (9.7 percent) decrease in money market savings account balances reflected the Company's deposit pricing decisions for money market products in relation to other fixed-rate deposit products and business customer decisions to utilize deposit liquidity. Interest checking account balances increased \$2.5 billion (10.0 percent) primarily due to higher broker-dealer, government and institutional trust balances.

Time deposits greater than \$100,000 increased \$1.1 billion (5.1 percent), including a \$5 billion (10.9 percent) increase in personal certificates of deposit, at September 30, 2007, compared with December 31, 2006. Time deposits greater than \$100,000 are largely viewed as purchased funds and are managed to levels deemed appropriate given alternative funding sources.

**Borrowings** The Company utilizes both short-term and long-term borrowings to fund growth of assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were \$28.9 billion at September 30, 2007, compared with \$26.9 billion at December 31, 2006. Short-term funding is managed within approved liquidity policies. Long-term debt was \$45.2 billion at September 30, 2007, compared with \$37.6 billion at December 31, 2006, reflecting the issuances of \$3.0 billion of convertible senior debentures, \$1.3 billion of subordinated notes, \$1.4 billion of medium-term bank notes and \$5 billion of junior subordinated debentures, and the net addition of \$8.8 billion of Federal Home Loan Bank ("FHLB") advances, partially offset by long-term debt maturities and repayments. The \$7.6 billion (20.3 percent) increase in long-term debt reflected wholesale funding associated with the Company's asset growth and asset/liability management activities. Refer to the "Liquidity Risk Management" section for discussion of liquidity management of the Company.

## CORPORATE RISK PROFILE

**Overview** Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, residual value, operational, interest rate, market and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets or the residual cash flows related to asset securitization and other off-balance sheet structures. Operational risk includes risks related to fraud, legal and compliance risk, processing errors, technology, breaches of internal controls and business continuation and disaster recovery risk. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the repricing of assets and liabilities differently, as well as their market value. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. In addition, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company's stock value, customer base or revenue.

**Table 5** Delinquent Loan Ratios as a Percent of Ending Loan Balances

|   | September 30,<br>2007 | December 31,<br>2006 |
|---|-----------------------|----------------------|
| 90 days or more past due <b>excluding</b> nonperforming loans |                       |                      |
| <b>Commercial</b>   |                       |                      |
| Commercial  | .09%                  | .06%                 |
| Lease financing   | —                     | —                    |
| Total commercial  | .07                   | .05                  |
| <b>Commercial real estate</b>                                 |                       |                      |
| Commercial mortgages  | .02                   | .01                  |
| Construction and development                                  | .08                   | .01                  |
| Total commercial real estate                                  | .04                   | .01                  |
| <b>Residential mortgages</b>                                  | .64                   | .45                  |
| <b>Retail</b>   |                       |                      |
| Credit card   | 1.66                  | 1.75                 |
| Retail leasing  | .06                   | .03                  |
| Other retail  | .25                   | .23                  |
| Total retail  | .52                   | .48                  |
| <b>Total loans</b>  | <b>.30%</b>           | <b>.24%</b>          |
| 90 days or more past due <b>including</b> nonperforming loans |                       |                      |
| Commercial  | .51%                  | .57%                 |
| Commercial real estate  | .83                   | .53                  |
| Residential mortgages (a)                                     | .86                   | .62                  |
| Retail  | .58                   | .58                  |
| <b>Total loans</b>  | <b>.65%</b>           | <b>.57%</b>          |

(a) Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association (“GNMA”) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due was 3.20 percent at September 30, 2007, and 3.11 percent at December 31, 2006.

**Credit Risk Management** The Company’s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors. Refer to “Management’s Discussion and Analysis — Credit Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for a more detailed discussion on credit risk management processes.

**Loan Delinquencies** Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the Company’s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$451 million at September 30, 2007, compared with \$349 million at December 31, 2006. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. The ratio of accruing loans 90 days or more past due to total loans was .30 percent at September 30, 2007, compared with .24 percent at December 31, 2006.

The Company’s retail lending business utilizes several distinct business processes and channels to originate retail credit, including traditional branch lending, indirect lending, portfolio acquisitions and a consumer finance division. Generally, loans managed by the Company’s consumer finance division exhibit higher credit risk characteristics, but are priced commensurate with the differing risk profile. To monitor credit risk associated with retail loans, the Company monitors delinquency ratios in the various stages of collection, including nonperforming status.

[Table of Contents](#)

The following table provides summary delinquency information for residential mortgages and retail loans:

| (Dollars in Millions)                   | Amount             |                   | As a Percent of Ending Loan Balances |                   |
|---|--------------------|-------------------|--------------------------------------|-------------------|
|   | September 30, 2007 | December 31, 2006 | September 30, 2007                   | December 31, 2006 |
| <b>Residential mortgages</b>            |                    |                   |                                      |                   |
| 30-89 days                              | \$273              | \$154             | 1.21%                                | .72%              |
| 90 days or more                         | 145                | 95                | .64                                  | .45               |
| Nonperforming                           | 48                 | 36                | .21                                  | .17               |
| <b>Total</b>                            | <b>\$466</b>       | <b>\$285</b>      | <b>2.06%</b>                         | <b>1.34%</b>      |
| <b>Retail</b>                           |                    |                   |                                      |                   |
| <b>Credit card</b>                      |                    |                   |                                      |                   |
| 30-89 days                              | \$243              | \$204             | 2.37%                                | 2.35%             |
| 90 days or more                         | 170                | 152               | 1.66                                 | 1.75              |
| Nonperforming                           | 17                 | 31                | .16                                  | .36               |
| <b>Total</b>                            | <b>\$430</b>       | <b>\$387</b>      | <b>4.19%</b>                         | <b>4.46%</b>      |
| <b>Retail leasing</b>                   |                    |                   |                                      |                   |
| 30-89 days                              | \$33               | \$34              | .53%                                 | .49%              |
| 90 days or more                         | 4                  | 2                 | .06                                  | .03               |
| Nonperforming                           | —                  | —                 | —                                    | —                 |
| <b>Total</b>                            | <b>\$37</b>        | <b>\$36</b>       | <b>.59%</b>                          | <b>.52%</b>       |
| <b>Home equity and second mortgages</b> |                    |                   |                                      |                   |
| 30-89 days                              | \$76               | \$79              | .47%                                 | .51%              |
| 90 days or more                         | 33                 | 28                | .20                                  | .18               |
| Nonperforming                           | 12                 | 14                | .07                                  | .09               |
| <b>Total</b>                            | <b>\$121</b>       | <b>\$121</b>      | <b>.74%</b>                          | <b>.78%</b>       |
| <b>Other retail</b>                     |                    |                   |                                      |                   |
| 30-89 days                              | \$160              | \$131             | .93%                                 | .80%              |
| 90 days or more                         | 52                 | 44                | .30                                  | .27               |
| Nonperforming                           | 3                  | 3                 | .02                                  | .02               |
| <b>Total</b>                            | <b>\$215</b>       | <b>\$178</b>      | <b>1.25%</b>                         | <b>1.09%</b>      |

Within these product categories, the following table provides information on delinquent and nonperforming loans as a percent of ending loan balances, by channel:

|   | Consumer Finance   |                   | Other Retail       |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | September 30, 2007 | December 31, 2006 | September 30, 2007 | December 31, 2006 |
| <b>Residential mortgages</b>            |                    |                   |                    |                   |
| 30-89 days                              | 1.67%              | .83%              | .88%               | .66%              |
| 90 days or more                         | .84                | .64               | .50                | .32               |
| Nonperforming                           | .31                | .19               | .14                | .16               |
| <b>Total</b>                            | <b>2.82%</b>       | <b>1.66%</b>      | <b>1.52%</b>       | <b>1.14%</b>      |
| <b>Retail</b>                           |                    |                   |                    |                   |
| <b>Credit card</b>                      |                    |                   |                    |                   |
| 30-89 days                              | —%                 | —%                | 2.37%              | 2.35%             |
| 90 days or more                         | —                  | —                 | 1.66               | 1.75              |
| Nonperforming                           | —                  | —                 | .16                | .36               |
| <b>Total</b>                            | <b>—%</b>          | <b>—%</b>         | <b>4.19%</b>       | <b>4.46%</b>      |
| <b>Retail leasing</b>                   |                    |                   |                    |                   |
| 30-89 days                              | —%                 | —%                | .53%               | .49%              |
| 90 days or more                         | —                  | —                 | .06                | .03               |
| Nonperforming                           | —                  | —                 | —                  | —                 |
| <b>Total</b>                            | <b>—%</b>          | <b>—%</b>         | <b>.59%</b>        | <b>.52%</b>       |
| <b>Home equity and second mortgages</b> |                    |                   |                    |                   |
| 30-89 days                              | 2.39%              | 1.64%             | .22%               | .35%              |
| 90 days or more                         | 1.19               | .79               | .08                | .10               |
| Nonperforming                           | .11                | .11               | .07                | .09               |
| <b>Total</b>                            | <b>3.69%</b>       | <b>2.54%</b>      | <b>.37%</b>        | <b>.54%</b>       |
| <b>Other retail</b>                     |                    |                   |                    |                   |
| 30-89 days                              | 5.92%              | 4.30%             | .80%               | .71%              |
| 90 days or more                         | 1.19               | .76               | .28                | .26               |
| Nonperforming                           | —                  | —                 | .02                | .02               |
| <b>Total</b>                            | <b>7.11%</b>       | <b>5.06%</b>      | <b>1.10%</b>       | <b>.99%</b>       |

**Table 6** Nonperforming Assets (a)

| (Dollars in Millions)  | September 30,<br>2007 | December 31,<br>2006 |
|--|-----------------------|----------------------|
| <b>Commercial</b>  |                       |                      |
| Commercial   | \$161                 | \$196                |
| Lease financing  | 46                    | 40                   |
| Total commercial   | 207                   | 236                  |
| <b>Commercial real estate</b>                                  |                       |                      |
| Commercial mortgages   | 73                    | 112                  |
| Construction and development                                   | 153                   | 38                   |
| Total commercial real estate                                   | 226                   | 150                  |
| <b>Residential mortgages</b>                                   | 48                    | 36                   |
| <b>Retail</b>  |                       |                      |
| Credit card  | 17                    | 31                   |
| Retail leasing   | —                     | —                    |
| Other retail   | 15                    | 17                   |
| Total retail   | 32                    | 48                   |
| Total nonperforming loans                                      | 513                   | 470                  |
| <b>Other real estate (b)</b>                                   | 113                   | 95                   |
| <b>Other assets</b>  | 15                    | 22                   |
| Total nonperforming assets                                     | \$641                 | \$587                |
| Accruing loans 90 days or more past due                        | \$451                 | \$349                |
| Nonperforming loans to total loans                             | .34%                  | .33%                 |
| Nonperforming assets to total loans plus other real estate (b) | .43%                  | .41%                 |

**Changes in Nonperforming Assets**

| (Dollars in Millions)                          | Commercial and<br>Commercial<br>Real Estate | Retail and<br>Residential<br>Mortgages (d) | Total |
|--|---|--|-------|
| <b>Balance December 31, 2006</b>               | \$406                                       | \$181                                      | \$587 |
| Additions to nonperforming assets              |   |  |       |
| New nonaccrual loans and foreclosed properties | 396   | 47   | 443   |
| Advances on loans                              | 9   | —  | 9     |
| Total additions                                | 405   | 47   | 452   |
| Reductions in nonperforming assets             |   |  |       |
| Paydowns, payoffs                              | (107)                                       | (18)                                       | (125) |
| Net sales                                      | (83)  | —  | (83)  |
| Return to performing status                    | (43)  | (1)  | (44)  |
| Charge-offs (c)                                | (136)                                       | (10)                                       | (146) |
| Total reductions                               | (369)                                       | (29)                                       | (398) |
| Net additions to nonperforming assets          | 36  | 18   | 54    |
| <b>Balance September 30, 2007</b>              | \$442                                       | \$199                                      | \$641 |

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

(b) Excludes \$95 million and \$83 million of foreclosed GNMA loans which continue to accrue interest at September 30, 2007, and December 31, 2006, respectively.

(c) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.

(d) Residential mortgage information excludes changes related to residential mortgages serviced by others.

Within the consumer finance division at September 30, 2007, approximately \$206 million and \$77 million of these delinquent and nonperforming residential mortgages and other retail loans, respectively, were to customers that may be defined as sub-prime borrowers, compared with \$105 million and \$50 million, respectively, at December 31, 2006.

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. At September 30, 2007, total nonperforming assets were \$641 million, compared with \$587 million at December 31, 2006. The ratio of total nonperforming assets to total loans and other real estate was .43 percent at September 30, 2007, compared with .41 percent at December 31, 2006. The change in nonperforming assets reflects higher levels of nonperforming loans resulting from stress in the mortgage lending and homebuilding industries and an increase in other real estate assets primarily representing residential mortgage loan foreclosures.

Included in nonperforming loans were restructured loans of \$20 million at September 30, 2007, compared with \$38 million at December 31, 2006. At September 30, 2007, and December 31, 2006, the Company had no commitments to lend additional funds under restructured loans.

## [Table of Contents](#)

Other real estate included in nonperforming assets was \$113 million at September 30, 2007, compared with \$95 million at December 31, 2006, and was primarily related to properties that the Company has taken ownership of that once secured residential mortgages and home equity and second mortgage loan balances.

The following table provides an analysis of other real estate as a percent of their related loan balances, including further detail for residential mortgages and home equity and second mortgage loan balances by geographical location:

| (Dollars in Millions)   | Amount             |                   | As a Percent of Ending Loan Balances |                   |
|---|--------------------|-------------------|--------------------------------------|-------------------|
|   | September 30, 2007 | December 31, 2006 | September 30, 2007                   | December 31, 2006 |
| <b>Residential mortgages and home equity and second mortgages</b> |                    |                   |                                      |                   |
| Michigan  | \$24               | \$17              | 4.28%                                | 2.90%             |
| Ohio  | 10                 | 12                | .39                                  | .48               |
| Minnesota   | 12                 | 11                | .23                                  | .21               |
| Colorado  | 7                  | 7                 | .25                                  | .28               |
| Missouri  | 6                  | 6                 | .23                                  | .25               |
| All other states  | 52                 | 38                | .21                                  | .16               |
| Total residential mortgages and home equity and second mortgages  | 111                | 91                | .29                                  | .25               |
| <b>Commercial real estate and construction</b>                    | 2                  | 4                 | .01                                  | .01               |
| <b>Total</b>  | <b>\$113</b>       | <b>\$95</b>       | <b>.08%</b>                          | <b>.07%</b>       |

Within other real estate in the table above, approximately \$62 million at September 30, 2007, and \$41 million at December 31, 2006, were from portfolios that may be defined as sub-prime.

The Company expects nonperforming assets to increase moderately over the next several quarters due to continued stress in the mortgage lending and homebuilding industries.

**Restructured Loans Accruing Interest** On a case-by-case basis, management determines whether an account that experiences financial difficulties should be modified as to its interest rate or repayment terms to maximize the Company's collection of its balance.

Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified are excluded from restructured loans once repayment performance, in accordance with the modified agreement, has been demonstrated over several payment cycles. Loans that have interest rates reduced below comparable market rates remain classified as restructured loans; however, interest income is accrued at the reduced rate as long as the customer complies with the revised terms and conditions.

The following table provides a summary of restructured loans that continue to accrue interest:

| (Dollars in Millions)  | Amount             |                   | As a Percent of Ending Loan Balances |                   |
|------------------------|--------------------|-------------------|--------------------------------------|-------------------|
|                        | September 30, 2007 | December 31, 2006 | September 30, 2007                   | December 31, 2006 |
| <b>Commercial</b>      | <b>\$20</b>        | <b>\$18</b>       | <b>.04%</b>                          | <b>.04%</b>       |
| Commercial real estate | —                  | 1                 | —                                    | —                 |
| Residential mortgages  | 100                | 80                | .44                                  | .38               |
| Credit card            | 300                | 267               | 2.93                                 | 3.08              |
| Other retail           | 48                 | 39                | .12                                  | .10               |
| <b>Total</b>           | <b>\$468</b>       | <b>\$405</b>      | <b>.31%</b>                          | <b>.28%</b>       |

**Analysis of Loan Net Charge-Offs** Total loan net charge-offs were \$199 million and \$567 million during the third quarter and first nine months of 2007, respectively, compared with net charge-offs of \$135 million and \$375 million, respectively, for the same periods of 2006. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis in the third quarter and first nine months of 2007 was .54 percent and .52 percent, respectively, compared with .38 percent and .36 percent, respectively, for the same periods of 2006. The year-over-year increases in total net charge-offs were due primarily to an anticipated increase in consumer charge-offs, primarily related to credit cards, and somewhat higher commercial loan net charge-offs. In addition, net charge-offs during 2006 reflected the beneficial impact of bankruptcy legislation that went into effect in the fourth quarter of 2005.

Commercial and commercial real estate loan net charge-offs for the third quarter of 2007 were

**Table 7** Net Charge-offs as a Percent of Average Loans Outstanding

|                                  | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|----------------------------------|-------------------------------------|------|------------------------------------|------|
|                                  | 2007                                | 2006 | 2007                               | 2006 |
| <b>Commercial</b>                |                                     |      |                                    |      |
| Commercial                       | .25%                                | .18% | .25%                               | .12% |
| Lease financing                  | .76                                 | .23  | .52                                | .44  |
| Total commercial                 | .31                                 | .18  | .29                                | .16  |
| <b>Commercial real estate</b>    |                                     |      |                                    |      |
| Commercial mortgages             | .02                                 | —    | .06                                | .01  |
| Construction and development     | .04                                 | —    | .04                                | .02  |
| Total commercial real estate     | .03                                 | —    | .06                                | .01  |
| <b>Residential mortgages</b>     | .30                                 | .21  | .27                                | .18  |
| <b>Retail</b>                    |                                     |      |                                    |      |
| Credit card                      | 3.09                                | 2.85 | 3.36                               | 2.74 |
| Retail leasing                   | .19                                 | .22  | .20                                | .19  |
| Home equity and second mortgages | .49                                 | .31  | .44                                | .33  |
| Other retail                     | 1.00                                | .79  | .93                                | .81  |
| Total retail                     | 1.15                                | .90  | 1.13                               | .87  |
| Total loans                      | .54%                                | .38% | .52%                               | .36% |

\$39 million (.20 percent of average loans outstanding on an annualized basis), compared with \$21 million (.11 percent of average loans outstanding on an annualized basis) for the third quarter of 2006. Commercial and commercial real estate loan net charge-offs for the first nine months of 2007 were \$113 million (.20 percent of average loans outstanding on an annualized basis), compared with \$55 million (.10 percent of average loans outstanding on an annualized basis) for the first nine months of 2006. Given the continuing stress in the homebuilding industry, the Company expects commercial and commercial real estate net charge-offs to continue to increase moderately over the next several quarters.

Retail loan net charge-offs for the third quarter of 2007 were \$143 million (1.15 percent of average loans outstanding on an annualized basis), compared with \$103 million (.90 percent of average loans outstanding on an annualized basis) for the third quarter of 2006. Retail loan net charge-offs for the first nine months of 2007 were \$410 million (1.13 percent of average loans outstanding on an annualized basis), compared with \$291 million (.87 percent of average loans outstanding on an annualized basis) for the first nine months of 2006. The increase in retail loan net charge-offs reflected growth in the retail portfolios, including an increase in average credit card balances of 26.9 percent in the third quarter and 24.1 percent in the first nine months of 2007, compared with the same periods of the prior year. In addition, net charge-offs for 2006 reflected the beneficial impact of bankruptcy legislation changes that occurred in the fourth quarter of 2005. The Company anticipates higher delinquencies in the retail portfolios and that retail net charge-offs will increase moderately over the next several quarters.



## Table of Contents

The following table provides an analysis of net charge-offs as a percent of average loans outstanding managed by the consumer finance division, compared with other retail related loans:

| (Dollars in Millions)            | Three Months Ended September 30, |           |                          |      | Nine Months Ended September 30, |           |                          |      |
|----------------------------------|----------------------------------|-----------|--------------------------|------|---------------------------------|-----------|--------------------------|------|
|                                  | Average Loans                    |           | Percent of Average Loans |      | Average Loans                   |           | Percent of Average Loans |      |
|                                  | 2007                             | 2006      | 2007                     | 2006 | 2007                            | 2006      | 2007                     | 2006 |
| <b>Consumer Finance (a)</b>      |                                  |           |                          |      |                                 |           |                          |      |
| Residential mortgages            | \$ 9,360                         | \$ 7,627  | .64%                     | .52% | \$ 8,943                        | \$ 7,245  | .58%                     | .48% |
| Home equity and second mortgages | 1,837                            | 1,939     | 3.02                     | 1.43 | 1,848                           | 1,993     | 2.53                     | 1.48 |
| Other retail                     | 421                              | 397       | 3.77                     | 5.00 | 410                             | 401       | 2.93                     | 4.67 |
| <b>Other Retail</b>              |                                  |           |                          |      |                                 |           |                          |      |
| Residential mortgages            | \$ 12,898                        | \$ 13,491 | .06%                     | .03% | \$ 12,945                       | \$ 13,747 | .05%                     | .03% |
| Home equity and second mortgages | 14,211                           | 13,227    | .17                      | .15  | 13,933                          | 13,054    | .16                      | .15  |
| Other retail                     | 16,619                           | 15,172    | .93                      | .68  | 16,286                          | 14,815    | .88                      | .70  |
| <b>Total Company</b>             |                                  |           |                          |      |                                 |           |                          |      |
| Residential mortgages            | \$ 22,258                        | \$ 21,118 | .30%                     | .21% | \$ 21,888                       | \$ 20,992 | .27%                     | .18% |
| Home equity and second mortgages | 16,048                           | 15,166    | .49                      | .31  | 15,781                          | 15,047    | .44                      | .33  |
| Other retail                     | 17,040                           | 15,569    | 1.00                     | .79  | 16,696                          | 15,216    | .93                      | .81  |

(a) Consumer finance category included credit originated and managed by US Bank Consumer Finance as well as home equity and second mortgages with a loan-to-value greater than 100 percent that were originated in the branches.

Within the consumer finance division, the Company originates loans to customers that may be defined as sub-prime borrowers. The following table provides further information on net charge-offs as a percent of average loans outstanding for this division:

| (Dollars in Millions)                   | Three Months Ended September 30, |          |                          |       | Nine Months Ended September 30, |          |                          |       |
|---|----------------------------------|----------|--------------------------|-------|---------------------------------|----------|--------------------------|-------|
|   | Average Loans                    |          | Percent of Average Loans |       | Average Loans                   |          | Percent of Average Loans |       |
|   | 2007                             | 2006     | 2007                     | 2006  | 2007                            | 2006     | 2007                     | 2006  |
| <b>Residential mortgages</b>            |                                  |          |                          |       |                                 |          |                          |       |
| Sub-prime borrowers                     | \$ 3,203                         | \$ 2,754 | 1.24%                    | .86%  | \$ 3,115                        | \$ 2,523 | 1.16%                    | .85%  |
| Other borrowers                         | 6,157                            | 4,873    | .32                      | .33   | 5,828                           | 4,722    | .28                      | .28   |
| Total                                   | \$ 9,360                         | \$ 7,627 | .64%                     | .52%  | \$ 8,943                        | \$ 7,245 | .58%                     | .48%  |
| <b>Home equity and second mortgages</b> |                                  |          |                          |       |                                 |          |                          |       |
| Sub-prime borrowers                     | \$ 914                           | \$ 850   | 3.91%                    | 1.87% | \$ 912                          | \$ 825   | 3.23%                    | 1.78% |
| Other borrowers                         | 923                              | 1,089    | 2.15                     | 1.09  | 936                             | 1,168    | 1.86                     | 1.26  |
| Total                                   | \$ 1,837                         | \$ 1,939 | 3.02%                    | 1.43% | \$ 1,848                        | \$ 1,993 | 2.53%                    | 1.48% |

**Analysis and Determination of the Allowance for Credit Losses** The allowance for loan losses provides coverage for probable and estimable losses inherent in the Company's loan and lease portfolio. Management evaluates the allowance each quarter to determine that it is adequate to cover these inherent losses. Several factors were taken into consideration in evaluating the allowance for credit losses at September 30, 2007, including the risk profile of the portfolios, loan net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in restructured loan balances compared with December 31, 2006. Management also considered the uncertainty related to certain industry sectors, and the extent of credit exposure to specific borrowers within the portfolio. In addition, concentration risks associated with commercial real estate and the mix of loans, including credit cards, loans originated through the consumer finance division and residential mortgage balances, and their relative credit risks were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio.

**Table 8** Summary of Allowance for Credit Losses

| (Dollars in Millions)                                 | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2007                                | 2006    | 2007                               | 2006    |
| Balance at beginning of period                        | \$2,260                             | \$2,251 | \$2,256                            | \$2,251 |
| <b>Charge-offs</b>                                    |                                     |         |                                    |         |
| Commercial  |                                     |         |                                    |         |
| Commercial  | 38                                  | 34      | 117                                | 86      |
| Lease financing                                       | 16                                  | 12      | 45                                 | 37      |
| Total commercial                                      | 54                                  | 46      | 162                                | 123     |
| Commercial real estate                                |                                     |         |                                    |         |
| Commercial mortgages                                  | 3                                   | 1       | 13                                 | 7       |
| Construction and development                          | 1                                   | —       | 3                                  | 1       |
| Total commercial real estate                          | 4                                   | 1       | 16                                 | 8       |
| Residential mortgages                                 | 17                                  | 12      | 45                                 | 31      |
| Retail  |                                     |         |                                    |         |
| Credit card   | 93                                  | 65      | 280                                | 178     |
| Retail leasing  | 5                                   | 6       | 16                                 | 19      |
| Home equity and second mortgages                      | 22                                  | 14      | 58                                 | 46      |
| Other retail  | 61                                  | 51      | 168                                | 141     |
| Total retail  | 181                                 | 136     | 522                                | 384     |
| Total charge-offs                                     | 256                                 | 195     | 745                                | 546     |
| <b>Recoveries</b>                                     |                                     |         |                                    |         |
| Commercial  |                                     |         |                                    |         |
| Commercial  | 12                                  | 16      | 38                                 | 50      |
| Lease financing                                       | 5                                   | 9       | 23                                 | 20      |
| Total commercial                                      | 17                                  | 25      | 61                                 | 70      |
| Commercial real estate                                |                                     |         |                                    |         |
| Commercial mortgages                                  | 2                                   | 1       | 4                                  | 6       |
| Construction and development                          | —                                   | —       | —                                  | —       |
| Total commercial real estate                          | 2                                   | 1       | 4                                  | 6       |
| Residential mortgages                                 | —                                   | 1       | 1                                  | 2       |
| Retail  |                                     |         |                                    |         |
| Credit card   | 16                                  | 9       | 48                                 | 26      |
| Retail leasing  | 2                                   | 2       | 6                                  | 9       |
| Home equity and second mortgages                      | 2                                   | 2       | 6                                  | 9       |
| Other retail  | 18                                  | 20      | 52                                 | 49      |
| Total retail  | 38                                  | 33      | 112                                | 93      |
| Total recoveries                                      | 57                                  | 60      | 178                                | 171     |
| <b>Net Charge-offs</b>                                |                                     |         |                                    |         |
| Commercial  |                                     |         |                                    |         |
| Commercial  | 26                                  | 18      | 79                                 | 36      |
| Lease financing                                       | 11                                  | 3       | 22                                 | 17      |
| Total commercial                                      | 37                                  | 21      | 101                                | 53      |
| Commercial real estate                                |                                     |         |                                    |         |
| Commercial mortgages                                  | 1                                   | —       | 9                                  | 1       |
| Construction and development                          | 1                                   | —       | 3                                  | 1       |
| Total commercial real estate                          | 2                                   | —       | 12                                 | 2       |
| Residential mortgages                                 | 17                                  | 11      | 44                                 | 29      |
| Retail  |                                     |         |                                    |         |
| Credit card   | 77                                  | 56      | 232                                | 152     |
| Retail leasing  | 3                                   | 4       | 10                                 | 10      |
| Home equity and second mortgages                      | 20                                  | 12      | 52                                 | 37      |
| Other retail  | 43                                  | 31      | 116                                | 92      |
| Total retail  | 143                                 | 103     | 410                                | 291     |
| Total net charge-offs                                 | 199                                 | 135     | 567                                | 375     |
| Provision for credit losses                           | 199                                 | 135     | 567                                | 375     |
| Acquisitions and other changes                        | —                                   | 5       | 4                                  | 5       |
| Balance at end of period                              | \$2,260                             | \$2,256 | \$2,260                            | \$2,256 |
| <b>Components</b>                                     |                                     |         |                                    |         |
| Allowance for loan losses                             | \$2,041                             | \$2,034 |                                    |         |
| Liability for unfunded credit commitments             | 219                                 | 222     |                                    |         |
| Total allowance for credit losses                     | \$2,260                             | \$2,256 |                                    |         |
| <b>Allowance for credit losses as a percentage of</b> |                                     |         |                                    |         |
| Period-end loans                                      | 1.52%                               | 1.58%   |                                    |         |
| Nonperforming loans                                   | 441                                 | 476     |                                    |         |
| Nonperforming assets                                  | 353                                 | 392     |                                    |         |
| Annualized net charge-offs                            | 286                                 | 421     |                                    |         |

At September 30, 2007, the allowance for credit losses was \$2,260 million (1.52 percent of loans), compared with an allowance of \$2,256 million (1.57 percent of loans) at December 31, 2006. The ratio of the allowance for credit losses to nonperforming loans was 441 percent at September 30, 2007, compared with 480 percent at December 31, 2006. The ratio of the allowance for credit losses to annualized loan net charge-offs was 286 percent at September 30, 2007, compared with 415 percent at December 31, 2006.

**Residual Value Risk Management** The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2007, no significant change in the amount of residuals or concentration of the portfolios has occurred since December 31, 2006. Refer to “Management’s Discussion and Analysis — Residual Value Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on residual value risk management.

**Operational Risk Management** The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Corporate Risk Committee (“Risk Committee”) provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risks embedded in their business activities. Refer to “Management’s Discussion and Analysis — Operational Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on operational risk management.

**Interest Rate Risk Management** In the banking industry, changes in interest rates are a significant risk that can impact earnings, market valuations and safety and soundness of an entity. To minimize the volatility of net interest income and the market value of assets and liabilities, the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability Policy Committee (“ALPC”) and approved by the Board of Directors. ALPC has the responsibility for approving and ensuring compliance with ALPC management policies, including interest rate risk exposure. The Company uses net interest income simulation analysis and market value of equity modeling for measuring and analyzing consolidated interest rate risk.

**Net Interest Income Simulation Analysis** Through this simulation, management estimates the impact on net interest income of gradual upward or downward changes of market interest rates over a one-year period, the effect of immediate and sustained parallel shifts in the yield curve and the effect of immediate and sustained flattening or steepening of the yield curve. The table below summarizes the interest rate risk of net interest income based on forecasts over the succeeding 12 months. At September 30, 2007, the Company’s overall interest rate risk position was liability sensitive to changes in interest rates. ALPC policy guidelines limit the estimated change in net interest income to 4.0 percent of forecasted net interest income over the succeeding 12 months. At September 30, 2007, and December 31, 2006, the Company was within its policy guidelines. Refer to “Management’s Discussion and Analysis — Net Interest Income Simulation Analysis” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on net interest income simulation analysis.

**Market Value of Equity Modeling** The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company’s assets, liabilities and off-balance sheet instruments will change given a change in interest rates. ALPC guidelines limit the change in market value of equity in a 200 basis point parallel rate shock to 15 percent of the market value of equity assuming interest rates at September 30, 2007. The up 200 basis point scenario resulted in a 7.2 percent decrease in the market value of equity at September 30, 2007, compared with a 6.7 percent

Sensitivity of Net Interest Income:

|                     | September 30, 2007   |                    |                     |                   | December 31, 2006    |                    |                     |                   |
|---------------------|----------------------|--------------------|---------------------|-------------------|----------------------|--------------------|---------------------|-------------------|
|                     | Down 50<br>Immediate | Up 50<br>Immediate | Down 200<br>Gradual | Up 200<br>Gradual | Down 50<br>Immediate | Up 50<br>Immediate | Down 200<br>Gradual | Up 200<br>Gradual |
| Net interest income | .64%                 | (1.06)%            | 1.56%               | (3.41)%           | .42%                 | (1.43)%            | .92%                | (2.95)%           |

**Table 9** Derivative Positions

|   | September 30, 2007 |            |  | December 31, 2006 |            |  |
|---|--------------------|------------|--|-------------------|------------|--|
|   | Notional Amount    | Fair Value | Weighted-Average Remaining Maturity In Years | Notional Amount   | Fair Value | Weighted-Average Remaining Maturity In Years |
| (Dollars in Millions)                           |                    |            |  |                   |            |  |
| <b>Asset and Liability Management Positions</b> |                    |            |  |                   |            |  |
| Interest rate contracts                         |                    |            |  |                   |            |  |
| Receive fixed/pay floating swaps                | \$2,880            | \$(63)     | 50.77  | \$5,345           | \$27       | 22.97  |
| Pay fixed/receive floating swaps                | 17,664             | (73)       | 2.67   | 12,329            | —          | 2.33   |
| Futures and forwards                            |                    |            |  |                   |            |  |
| Buy   | 8,876              | (41)       | .10  | 4,008             | —          | .22  |
| Sell  | 8,841              | (11)       | .15  | 2,816             | 3          | .09  |
| Options   |                    |            |  |                   |            |  |
| Written   | 12,714             | —          | .12  | 7,544             | (1)        | .13  |
| Foreign exchange contracts                      |                    |            |  |                   |            |  |
| Cross-currency swaps                            | 1,879              | 153        | 9.05   | 386               | 14         | 8.61   |
| Forwards  | 1,162              | (29)       | .02  | 318               | 1          | .02  |
| Equity contracts                                | 78                 | 1          | 2.47   | 86                | 4          | 2.95   |
| Credit default swaps                            | 46                 | —          | 4.31   | 25                | (1)        | 4.72   |
| <b>Customer-related Positions</b>               |                    |            |  |                   |            |  |
| Interest rate contracts                         |                    |            |  |                   |            |  |
| Receive fixed/pay floating swaps                | \$12,468           | \$78       | 5.25   | \$10,371          | \$(42)     | 5.42   |
| Pay fixed/receive floating swaps                | 12,463             | (12)       | 5.25   | 10,341            | 98         | 5.42   |
| Options   |                    |            |  |                   |            |  |
| Purchased                                       | 2,107              | 3          | 2.08   | 1,899             | 5          | 1.92   |
| Written   | 2,100              | —          | 2.08   | 1,899             | (3)        | 1.92   |
| Risk participation agreements (a)               |                    |            |  |                   |            |  |
| Purchased                                       | 245                | —          | 6.83   | 206               | —          | 6.62   |
| Written   | 525                | (1)        | 5.73   | 356               | —          | 6.05   |
| Foreign exchange rate contracts                 |                    |            |  |                   |            |  |
| Forwards and swaps                              |                    |            |  |                   |            |  |
| Buy   | 2,836              | 135        | .50  | 2,092             | 52         | .46  |
| Sell  | 2,748              | (123)      | .51  | 2,033             | (43)       | .47  |
| Options   |                    |            |  |                   |            |  |
| Purchased                                       | 173                | (4)        | 1.03   | 408               | (3)        | .44  |
| Written   | 173                | 4          | 1.03   | 408               | 3          | .44  |

(a) At September 30, 2007, the credit equivalent amount was \$2 million and \$64 million, compared with \$2 million and \$50 million at December 31, 2006, for purchased and written risk participation agreements, respectively.

decrease at December 31, 2006. The down 200 basis point scenario resulted in a 4.0 percent decrease in the market value of equity at September 30, 2007, compared with a 1.8 percent decrease at December 31, 2006. At September 30, 2007, and December 31, 2006, the Company was within its policy guidelines.

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. At September 30, 2007, the duration of assets, liabilities and equity was 1.8 years, 1.9 years and 1.3 years, respectively, compared with 1.8 years, 1.9 years and 1.6 years, respectively, at December 31, 2006. The duration of equity measures shows that sensitivity of the market value of equity of the Company was liability sensitive to changes in interest rates. Refer to “Management’s Discussion and Analysis — Market Value of Equity Modeling” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on market value of equity modeling.

**Use of Derivatives to Manage Interest Rate and Other Risks** In the ordinary course of business, the Company enters into derivative transactions to manage its interest rate, prepayment, credit, price and foreign currency risks (“asset and liability management positions”) and to accommodate the business requirements of its customers (“customer-related positions”). Refer to “Management’s Discussion and Analysis — Use of Derivatives to Manage Interest Rate and Other Risks” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion

on the use of derivatives to manage interest rate and other risks.

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company's \$54.1 billion of total notional amount of asset and liability management positions at September 30, 2007, \$28.2 billion was designated as either cash flow or fair value hedges or net investment hedges of foreign operations. The cash flow hedge derivative positions are interest rate swaps that hedge the forecasted cash flows from the underlying variable-rate debt. The fair value hedges are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and subordinated obligations.

In addition, the Company uses forward commitments to sell residential mortgage loans to hedge its interest rate risk related to residential mortgage loans held-for-sale. In connection with its mortgage banking operations, the Company held \$2.4 billion of forward commitments to sell mortgage loans and \$2.9 billion of unfunded mortgage loan commitments at September 30, 2007, that were derivatives in accordance with the provisions of the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedge Activities." The unfunded mortgage loan commitments are reported at fair value as options in Table 9. The Company also utilizes U.S. Treasury futures, options on U.S. Treasury futures contracts and forward commitments to buy residential mortgage loans to economically hedge the change in fair value of its residential MSRs.

At September 30, 2007, the Company had \$91 million in accumulated other comprehensive income related to realized and unrealized losses on derivatives classified as cash flow hedges. Unrealized gains and losses are reflected in earnings when the related cash flows or hedged transactions occur and offset the related performance of the hedged items. The estimated amount to be reclassified from accumulated other comprehensive income into earnings during the remainder of 2007 and the next 12 months is a loss of \$19 million and \$62 million, respectively.

The change in the fair value of all other asset and liability management positions attributed to hedge ineffectiveness recorded in noninterest income was not material for the third quarter and first nine months of 2007. Gains or losses on customer-related positions were not material for the third quarter and first nine months of 2007.

The Company enters into derivatives to protect its net investment in certain foreign operations. The Company uses forward commitments to sell specified amounts of certain foreign currencies to hedge fluctuations in foreign currency exchange rates. The net amount of gains or losses included in the cumulative translation adjustment for the third quarter and first nine months of 2007 was not material.

**Market Risk Management** In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. These trading activities principally support the risk management processes of the Company's customers including their management of foreign currency and interest rate risks. The Company also manages market risk of non-trading business activities including its MSRs and loans held-for-sale. Value at Risk ("VaR") is a key measure of market risk for the Company. Theoretically, VaR represents the maximum amount that the Company has placed at risk of loss, with a ninety-ninth percentile degree of confidence, to adverse market movements in the course of its risk taking activities. The Company's market valuation risk for trading and non-trading positions, as estimated by the VaR analysis, was \$1 million and \$16 million, respectively, at September 30, 2007, compared with \$1 million and \$30 million, respectively, at December 31, 2006. At September 30, 2007, the Company's VaR limit was \$45 million.

During the third quarter of 2007, the financial markets experienced significant turbulence as the impact of mortgage delinquencies, defaults and foreclosures has adversely affected investor confidence in a broad range of investment sectors and asset classes. Given that the Company's owned investments are principally U.S. Treasury securities, notes issued by government-sponsored agencies or privately issued securities with high investment grade credit ratings, the Company believes these securities are not other-than-temporarily impaired as of September 30, 2007, despite being subject to changes in market valuations. The Company's subsidiary, FAF Advisors, manages an array of money market funds. Like many money market funds, these funds invest a portion of their assets in asset-backed commercial paper and medium-term notes. As problems in the sub-prime mortgage market have emerged, certain securities backed by mortgages have experienced both credit and liquidity issues, and investors have become hesitant to purchase many types of asset-backed securities, even those with little or no exposure to sub-prime mortgages. The money market funds managed by FAF Advisors have some exposure to liquidity and credit issues in the asset-backed commercial paper market. The Company has undertaken, or may take, certain steps with respect to specific investments to

**Table 10** Capital Ratios

| (Dollars in Millions)  | September 30,<br>2007 | December 31,<br>2006 |
|--|-----------------------|----------------------|
| Tier 1 capital   | \$17,368              | \$17,036             |
| As a percent of risk-weighted assets                               | 8.6%                  | 8.8%                 |
| As a percent of adjusted quarterly average assets (leverage ratio) | 8.1%                  | 8.2%                 |
| Total risk-based capital   | \$25,900              | \$24,495             |
| As a percent of risk-weighted assets                               | 12.8%                 | 12.6%                |
| Tangible common equity   | \$11,645              | \$11,703             |
| As a percent of tangible assets                                    | 5.3%                  | 5.5%                 |

maintain the credit ratings of the rated money funds managed by FAF Advisors. While not material to the consolidated financial statements, management believes the impact of these steps could range from one to three cents per diluted share over the next few quarters.

Refer to “Management’s Discussion and Analysis — Market Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on market risk management.

**Liquidity Risk Management** ALPC establishes policies, as well as analyzes and manages liquidity, to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, as well as from an asset and liability perspective. Management monitors liquidity through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. Refer to “Management’s Discussion and Analysis — Liquidity Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on liquidity risk management.

At September 30, 2007, parent company long-term debt outstanding was \$10.8 billion, compared with \$11.4 billion at December 31, 2006. The \$6 billion decrease was primarily due to repayments of \$2.4 billion of convertible senior debentures and \$1.4 billion of maturities of subordinated and medium-term notes, partially offset by the issuances of \$3.0 billion of convertible senior debentures and \$5 billion of junior subordinated debentures. As of September 30, 2007, there was no parent company debt scheduled to mature during the remainder of 2007.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately \$1.3 billion at September 30, 2007.

**Capital Management** The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. In the first nine months of 2007, the Company returned 117 percent of earnings to its common shareholders through a combination of dividends and net share repurchases. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Table 10 provides a summary of capital ratios as of September 30, 2007, and December 31, 2006. All regulatory ratios continue to be in excess of regulatory “well-capitalized” requirements. Total shareholders’ equity was \$20.8 billion at September 30, 2007, compared with \$21.2 billion at December 31, 2006. The decrease was the result of share repurchases and dividends, partially offset by corporate earnings.

On August 3, 2006, the Company announced that the Board of Directors approved an authorization to repurchase 150 million shares of common stock through December 31, 2008.

The following table provides a detailed analysis of all shares repurchased under this authorization during the third quarter of 2007:

| Time Period | Total Number of<br>Shares Purchased<br>as Part of the Program | Average<br>Price Paid<br>per Share | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Program |
|-------------|---|------------------------------------|---|
| July        | 2,654,429   | \$31.92                            | 67,245,044  |
| August      | 2,738,590   | 29.97                              | 64,506,454  |
| September   | 17,500  | 33.35                              | 64,488,954  |
| Total       | 5,410,519   | \$30.94                            | 64,488,954  |

## LINE OF BUSINESS FINANCIAL REVIEW

Within the Company, financial performance is measured by major lines of business, which include Wholesale Banking, Consumer Banking, Wealth Management & Securities Services, Payment Services, and Treasury and Corporate Support. These operating segments are components of the Company about which financial information is available and is evaluated regularly in deciding how to allocate resources and assess performance.

## [Table of Contents](#)

**Basis for Financial Presentation** Business line results are derived from the Company's business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to "Management's Discussion and Analysis — Line of Business Financial Review" in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on the business lines' basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company's diverse customer base. During 2007, certain organization and methodology changes were made and, accordingly, 2006 results were restated and presented on a comparable basis.

**Wholesale Banking** Wholesale Banking offers lending, equipment finance and small-ticket leasing, depository, treasury management, capital markets, foreign exchange, international trade services and other financial services to middle market, large corporate, commercial real estate and public sector clients. Wholesale Banking contributed \$265 million of the Company's net income in the third quarter and \$817 million in the first nine months of 2007, or decreases of \$33 million (11.1 percent) and \$90 million (9.9 percent), respectively, compared with the same periods of 2006. The decreases were primarily driven by lower total net revenue, higher total noninterest expense and an increase in the provision for credit losses.

Total net revenue decreased \$36 million (5.2 percent) in the third quarter and \$78 million (3.7 percent) in the first nine months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, decreased \$27 million (5.6 percent) in the third quarter and \$82 million (5.7 percent) in the first nine months of 2007, compared with the same periods of 2006. The decreases were primarily driven by tighter credit spreads and a decline in average noninterest-bearing deposit balances as some customers managed their liquidity to fund business growth or to generate higher returns by investing excess funds in interest-bearing deposit and sweep products. The decreases were partially offset by growth in average loan balances and the margin benefit of deposits. The increase in average loans was driven by commercial loan growth during 2006 and the first nine months of 2007. Noninterest income decreased \$9 million (4.1 percent) in the third quarter of 2007 compared with the third quarter of 2006 primarily due to market-related valuation losses in trading securities and a commercial real estate lending joint venture. Noninterest income increased \$4 million (.6 percent) in the first nine months of 2007, compared with the same period of 2006, due to increases in treasury management and commercial products revenue. These increases were partially offset by the market-related valuation losses in the third quarter of 2007.

Total noninterest expense increased \$12 million (5.3 percent) in the third quarter and \$26 million (3.8 percent) in the first nine months of 2007, compared with the same periods of 2006, primarily as a result of increases in personnel expenses related to investments in select business units. The provision for credit losses increased \$4 million in the third quarter and \$38 million in the first nine months of 2007, compared with the same periods of 2006. The unfavorable changes were due to an increase in gross charge-offs. Nonperforming assets increased in the third quarter of 2007 due to stress in the mortgage lending industry. Nonperforming assets were \$292 million at September 30, 2007, \$230 million at June 30, 2007, and \$213 million at September 30, 2006. Nonperforming assets as a percentage of period-end loans were .56 percent at September 30, 2007, .46 percent at June 30, 2007, and .42 percent at September 30, 2006. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

**Consumer Banking** Consumer Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATMs. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer Banking contributed \$455 million of the Company's net income in the third quarter and \$1,343 million in the first nine months of 2007, or decreases of \$19 million (4.0 percent) and \$32 million (2.3 percent), respectively, compared with the same periods of 2006. The retail banking division contributed \$420 million of the total contribution in the third quarter and \$1,256 million in the first nine months of 2007, or decreases of 5.2 percent and 3.9 percent, respectively, compared with the same periods in the prior year.

Total net revenue increased \$29 million (2.0 percent) in the third quarter and \$95 million (2.3 percent) in the first nine months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, increased \$4 million

(.4 percent) in the third quarter and \$17 million (.6 percent) in the first nine months of 2007, compared with the same periods of 2006. The year-over-year increases in net interest income were due to growth in average loans, higher loan fees and the funding benefit of deposits. Partially offsetting these increases were reduced spreads on commercial and retail loans due to competitive pricing within the Company's markets. The increases in average loan balances reflected growth in all loan categories, with the largest increase in retail loans. The growth in retail loans was principally driven by an increase in installment and home equity loans, partially offset by a reduction in retail leasing balances due to customer demand for installment loan products and pricing competition. The year-over-year decreases in average deposits reflected a reduction in savings and noninterest-bearing deposit products, partially offset by growth in time deposits and interest checking. Average time deposit balances grew \$1.4 billion (7.3 percent) in the third quarter and \$1.6 billion (8.8 percent) in the first nine months of 2007, compared with the same periods of 2006, as a portion of noninterest-bearing and money market balances migrated to fixed-rate time deposit products. Average savings balances declined \$1.2 billion (5.9 percent) in the third quarter and \$1.8 billion (8.4 percent) in the first nine months of 2007, compared with the same periods of 2006, primarily related to a decrease in money market account balances. Fee-based noninterest income increased \$25 million (5.5 percent) in the third quarter and \$78 million (6.0 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases were driven by mortgage banking revenue, principally related to higher production gains and servicing income, as well as an increase in deposit service charges.

Total noninterest expense increased \$26 million (4.1 percent) in the third quarter and \$85 million (4.6 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases were primarily attributable to higher compensation and employee benefits expense which reflected the net addition, including the impact of recent acquisitions, of 31 in-store and 19 traditional branches at September 30, 2007, compared with September 30, 2006. Credit-related costs on other real estate owned were also higher in 2007 compared with 2006.

The provision for credit losses increased \$33 million (56.9 percent) in the third quarter and \$61 million (34.7 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases were attributable to higher net charge-offs. As a percentage of average loans outstanding on an annualized basis, net charge-offs increased to .48 percent in the third quarter of 2007, compared with .32 percent in the third quarter of 2006. Commercial and commercial real estate loan net charge-offs increased \$10 million in the third quarter of 2007, compared with the third quarter of 2006. Retail loan and residential mortgage net charge-offs increased \$23 million (46.9 percent) in the third quarter of 2007, compared with the third quarter of 2006. Nonperforming assets were \$316 million at September 30, 2007, \$300 million at June 30, 2007, and \$305 million at September 30, 2006. Nonperforming assets as a percentage of period-end loans were .44 percent at September 30, 2007, .42 percent at June 30, 2007, and .44 percent at September 30, 2006. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

**Wealth Management & Securities Services** Wealth Management & Securities Services provides trust, private banking, financial advisory, investment management, retail brokerage services, insurance, custody and mutual fund servicing through five businesses: Wealth Management, Corporate Trust, FAF Advisors, Institutional Trust & Custody and Fund Services. Wealth Management & Securities Services contributed \$165 million of the Company's net income in the third quarter and \$489 million in the first nine months of 2007, or increases of \$17 million (11.5 percent) and \$52 million (11.9 percent), respectively, compared with the same periods of 2006. The growth was primarily attributable to core account fee growth and improved equity market conditions relative to a year ago.

Total net revenue increased \$29 million (6.0 percent) in the third quarter and \$76 million (5.2 percent) in the first nine months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, decreased \$3 million (2.3 percent) in the third quarter and \$15 million (3.9 percent) in the first nine months of 2007, compared with the same periods of 2006. The decreases in net interest income were due to the unfavorable impacts of deposit pricing and tightening credit spreads, partially offset by earnings from deposit growth. The increases in total deposits were attributable to growth in noninterest-bearing deposits, interest checking and time deposits, principally due to acquired businesses. Noninterest income increased \$32 million (9.0 percent) in the third quarter and \$91 million (8.5 percent) in the first nine months of 2007, compared with the same periods of 2006, primarily driven by core account fee growth and favorable equity market conditions.



**Table 11** Line of Business Financial Performance

|   | Wholesale Banking |          |                | Consumer Banking |         |                |
|---|-------------------|----------|----------------|------------------|---------|----------------|
|   | 2007              | 2006     | Percent Change | 2007             | 2006    | Percent Change |
| Three Months Ended September 30 (Dollars in Millions) |                   |          |                |                  |         |                |
| <b>Condensed Income Statement</b>                     |                   |          |                |                  |         |                |
| Net interest income (taxable-equivalent basis)        | \$451             | \$478    | (5.6)%         | \$988            | \$984   | .4%            |
| Noninterest income                                    | 211               | 220      | (4.1)          | 481              | 456     | 5.5            |
| Securities gains (losses), net                        | —                 | —        | —              | —                | —       | —              |
| Total net revenue                                     | 662               | 698      | (5.2)          | 1,469            | 1,440   | 2.0            |
| Noninterest expense                                   | 235               | 223      | 5.4            | 651              | 625     | 4.2            |
| Other intangibles                                     | 4                 | 4        | —              | 12               | 12      | —              |
| Total noninterest expense                             | 239               | 227      | 5.3            | 663              | 637     | 4.1            |
| Income before provision and income taxes              | 423               | 471      | (10.2)         | 806              | 803     | .4             |
| Provision for credit losses                           | 6                 | 2        | *              | 91               | 58      | 56.9           |
| Income before income taxes                            | 417               | 469      | (11.1)         | 715              | 745     | (4.0)          |
| Income taxes and taxable-equivalent adjustment        | 152               | 171      | (11.1)         | 260              | 271     | (4.1)          |
| Net income  | \$265             | \$298    | (11.1)         | \$455            | \$474   | (4.0)          |
| <b>Average Balance Sheet Data</b>                     |                   |          |                |                  |         |                |
| Commercial  | \$34,339          | \$33,754 | 1.7%           | \$6,473          | \$6,436 | .6%            |
| Commercial real estate                                | 16,671            | 17,117   | (2.6)          | 11,047           | 10,810  | 2.2            |
| Residential mortgages                                 | 79                | 57       | 38.6           | 21,724           | 20,590  | 5.5            |
| Retail  | 69                | 43       | 60.5           | 36,025           | 34,182  | 5.4            |
| Total loans   | 51,158            | 50,971   | .4             | 75,269           | 72,018  | 4.5            |
| Goodwill  | 1,329             | 1,329    | —              | 2,218            | 2,131   | 4.1            |
| Other intangible assets                               | 36                | 51       | (29.4)         | 1,694            | 1,490   | 13.7           |
| Assets  | 56,053            | 56,339   | (.5)           | 86,390           | 82,133  | 5.2            |
| Noninterest-bearing deposits                          | 10,116            | 11,298   | (10.5)         | 11,955           | 12,616  | (5.2)          |
| Interest checking                                     | 5,359             | 3,724    | 43.9           | 17,659           | 17,451  | 1.2            |
| Savings products                                      | 5,372             | 5,489    | (2.1)          | 19,330           | 20,550  | (5.9)          |
| Time deposits   | 10,677            | 12,069   | (11.5)         | 20,161           | 18,790  | 7.3            |
| Total deposits  | 31,524            | 32,580   | (3.2)          | 69,105           | 69,407  | (.4)           |
| Shareholders' equity                                  | 5,704             | 5,740    | (.6)           | 6,430            | 6,534   | (1.6)          |
|   |                   |          |                |                  |         |                |
|   | Wholesale Banking |          |                | Consumer Banking |         |                |
|   | 2007              | 2006     | Percent Change | 2007             | 2006    | Percent Change |
| Nine Months Ended September 30 (Dollars in Millions)  |                   |          |                |                  |         |                |
| <b>Condensed Income Statement</b>                     |                   |          |                |                  |         |                |
| Net interest income (taxable-equivalent basis)        | \$1,359           | \$1,441  | (5.7)%         | \$2,916          | \$2,899 | .6%            |
| Noninterest income                                    | 674               | 668      | .9             | 1,383            | 1,305   | 6.0            |
| Securities gains (losses), net                        | —                 | 2        | *              | —                | —       | —              |
| Total net revenue                                     | 2,033             | 2,111    | (3.7)          | 4,299            | 4,204   | 2.3            |
| Noninterest expense                                   | 704               | 678      | 3.8            | 1,912            | 1,829   | 4.5            |
| Other intangibles                                     | 12                | 12       | —              | 39               | 37      | 5.4            |
| Total noninterest expense                             | 716               | 690      | 3.8            | 1,951            | 1,866   | 4.6            |
| Income before provision and income taxes              | 1,317             | 1,421    | (7.3)          | 2,348            | 2,338   | .4             |
| Provision for credit losses                           | 32                | (6)      | *              | 237              | 176     | 34.7           |
| Income before income taxes                            | 1,285             | 1,427    | (10.0)         | 2,111            | 2,162   | (2.4)          |
| Income taxes and taxable-equivalent adjustment        | 468               | 520      | (10.0)         | 768              | 787     | (2.4)          |
| Net income  | \$817             | \$907    | (9.9)          | \$1,343          | \$1,375 | (2.3)          |
| <b>Average Balance Sheet Data</b>                     |                   |          |                |                  |         |                |
| Commercial  | \$34,486          | \$33,154 | 4.0%           | \$6,441          | \$6,372 | 1.1%           |
| Commercial real estate                                | 16,725            | 17,237   | (3.0)          | 11,066           | 10,699  | 3.4            |
| Residential mortgages                                 | 70                | 56       | 25.0           | 21,357           | 20,477  | 4.3            |
| Retail  | 67                | 41       | 63.4           | 35,619           | 33,748  | 5.5            |
| Total loans   | 51,348            | 50,488   | 1.7            | 74,483           | 71,296  | 4.5            |
| Goodwill  | 1,329             | 1,329    | —              | 2,214            | 2,115   | 4.7            |
| Other intangible assets                               | 40                | 55       | (27.3)         | 1,657            | 1,425   | 16.3           |
| Assets  | 56,555            | 56,003   | 1.0            | 85,170           | 80,982  | 5.2            |
| Noninterest-bearing deposits                          | 10,683            | 11,806   | (9.5)          | 12,069           | 12,651  | (4.6)          |
| Interest checking                                     | 4,896             | 3,332    | 46.9           | 17,808           | 17,628  | 1.0            |
| Savings products                                      | 5,389             | 5,458    | (1.3)          | 19,580           | 21,385  | (8.4)          |
| Time deposits   | 10,604            | 12,521   | (15.3)         | 20,052           | 18,434  | 8.8            |
| Total deposits  | 31,572            | 33,117   | (4.7)          | 69,509           | 70,098  | (.8)           |
| Shareholders' equity                                  | 5,738             | 5,655    | 1.5            | 6,402            | 6,417   | (.2)           |

\* Not meaningful

[Table of Contents](#)

| Wealth Management & Securities Services |         |                | Payment Services |         |                | Treasury and Corporate Support |        |                | Consolidated Company |          |                |
|---|---------|----------------|------------------|---------|----------------|--------------------------------|--------|----------------|----------------------|----------|----------------|
| 2007                                    | 2006    | Percent Change | 2007             | 2006    | Percent Change | 2007                           | 2006   | Percent Change | 2007                 | 2006     | Percent Change |
| \$125                                   | \$128   | (2.3)%         | \$185            | \$164   | 12.8%          | \$(64)                         | \$(81) | 21.0%          | \$1,685              | \$1,673  | .7%            |
| 386                                     | 354     | 9.0            | 748              | 673     | 11.1           | 11                             | 45     | (75.6)         | 1,837                | 1,748    | 5.1            |
| —                                       | —       | —              | —                | —       | —              | 7                              | —      | *              | 7                    | —        | *              |
| 511                                     | 482     | 6.0            | 933              | 837     | 11.5           | (46)                           | (36)   | (27.8)         | 3,529                | 3,421    | 3.2            |
| 227                                     | 230     | (1.3)          | 344              | 312     | 10.3           | 77                             | 59     | 30.5           | 1,534                | 1,449    | 5.9            |
| 23                                      | 20      | 15.0           | 55               | 53      | 3.8            | —                              | —      | —              | 94                   | 89       | 5.6            |
| 250                                     | 250     | —              | 399              | 365     | 9.3            | 77                             | 59     | 30.5           | 1,628                | 1,538    | 5.9            |
| 261                                     | 232     | 12.5           | 534              | 472     | 13.1           | (123)                          | (95)   | (29.5)         | 1,901                | 1,883    | 1.0            |
| 1                                       | —       | *              | 100              | 74      | 35.1           | 1                              | 1      | —              | 199                  | 135      | 47.4           |
| 260                                     | 232     | 12.1           | 434              | 398     | 9.0            | (124)                          | (96)   | (29.2)         | 1,702                | 1,748    | (2.6)          |
| 95                                      | 84      | 13.1           | 158              | 145     | 9.0            | (139)                          | (126)  | (10.3)         | 526                  | 545      | (3.5)          |
| \$165                                   | \$148   | 11.5           | \$276            | \$253   | 9.1            | \$15                           | \$30   | (50.0)         | \$1,176              | \$1,203  | (2.2)          |
| \$2,094                                 | \$1,868 | 12.1%          | \$4,341          | \$3,880 | 11.9%          | \$143                          | \$130  | 10.0%          | \$47,390             | \$46,068 | 2.9%           |
| 680                                     | 711     | (4.4)          | —                | —       | —              | 64                             | 63     | 1.6            | 28,462               | 28,701   | (.8)           |
| 452                                     | 466     | (3.0)          | —                | —       | —              | 3                              | 5      | (40.0)         | 22,258               | 21,118   | 5.4            |
| 2,350                                   | 2,410   | (2.5)          | 10,924           | 8,927   | 22.4           | 39                             | 42     | (7.1)          | 49,407               | 45,604   | 8.3            |
| 5,576                                   | 5,455   | 2.2            | 15,265           | 12,807  | 19.2           | 249                            | 240    | 3.8            | 147,517              | 141,491  | 4.3            |
| 1,553                                   | 1,379   | 12.6           | 2,497            | 2,477   | .8             | —                              | 1      | *              | 7,597                | 7,317    | 3.8            |
| 402                                     | 452     | (11.1)         | 1,087            | 1,157   | (6.1)          | (1)                            | —      | *              | 3,218                | 3,150    | 2.2            |
| 8,095                                   | 7,853   | 3.1            | 21,227           | 17,855  | 18.9           | 51,740                         | 49,909 | 3.7            | 223,505              | 214,089  | 4.4            |
| 4,353                                   | 4,028   | 8.1            | 381              | 339     | 12.4           | 142                            | (61)   | *              | 26,947               | 28,220   | (4.5)          |
| 3,018                                   | 2,412   | 25.1           | 13               | 5       | *              | 3                              | 3      | —              | 26,052               | 23,595   | 10.4           |
| 5,531                                   | 5,628   | (1.7)          | 21               | 20      | 5.0            | 47                             | 27     | 74.1           | 30,301               | 31,714   | (4.5)          |
| 3,492                                   | 3,243   | 7.7            | 5                | 3       | 66.7           | 1,510                          | 2,341  | (35.5)         | 35,845               | 36,446   | (1.6)          |
| 16,394                                  | 15,311  | 7.1            | 420              | 367     | 14.4           | 1,702                          | 2,310  | (26.3)         | 119,145              | 119,975  | (.7)           |
| 2,460                                   | 2,340   | 5.1            | 4,911            | 4,799   | 2.3            | 1,236                          | 1,504  | (17.8)         | 20,741               | 20,917   | (.8)           |

| Wealth Management & Securities Services |         |                | Payment Services |         |                | Treasury and Corporate Support |         |                | Consolidated Company |          |                |
|---|---------|----------------|------------------|---------|----------------|--------------------------------|---------|----------------|----------------------|----------|----------------|
| 2007                                    | 2006    | Percent Change | 2007             | 2006    | Percent Change | 2007                           | 2006    | Percent Change | 2007                 | 2006     | Percent Change |
| \$366                                   | \$381   | (3.9)%         | \$520            | \$483   | 7.7%           | \$(160)                        | \$(109) | (46.8)%        | \$5,001              | \$5,095  | (1.8)%         |
| 1,164                                   | 1,073   | 8.5            | 2,140            | 1,917   | 11.6           | 23                             | 151     | (84.8)         | 5,384                | 5,114    | 5.3            |
| —                                       | —       | —              | —                | —       | —              | 11                             | 1       | *              | 11                   | 3        | *              |
| 1,530                                   | 1,454   | 5.2            | 2,660            | 2,400   | 10.8           | (126)                          | 43      | *              | 10,396               | 10,212   | 1.8            |
| 691                                     | 702     | (1.6)          | 1,004            | 904     | 11.1           | 219                            | 192     | 14.1           | 4,530                | 4,305    | 5.2            |
| 69                                      | 64      | 7.8            | 163              | 150     | 8.7            | —                              | —       | —              | 283                  | 263      | 7.6            |
| 760                                     | 766     | (.8)           | 1,167            | 1,054   | 10.7           | 219                            | 192     | 14.1           | 4,813                | 4,568    | 5.4            |
| 770                                     | 688     | 11.9           | 1,493            | 1,346   | 10.9           | (345)                          | (149)   | *              | 5,583                | 5,644    | (1.1)          |
| 1                                       | 2       | (50.0)         | 294              | 199     | 47.7           | 3                              | 4       | (25.0)         | 567                  | 375      | 51.2           |
| 769                                     | 686     | 12.1           | 1,199            | 1,147   | 4.5            | (348)                          | (153)   | *              | 5,016                | 5,269    | (4.8)          |
| 280                                     | 249     | 12.4           | 437              | 417     | 4.8            | (399)                          | (261)   | (52.9)         | 1,554                | 1,712    | (9.2)          |
| \$489                                   | \$437   | 11.9           | \$762            | \$730   | 4.4            | \$51                           | \$108   | (52.8)         | \$3,462              | \$3,557  | (2.7)          |
| \$2,018                                 | \$1,644 | 22.7%          | \$4,114          | \$3,726 | 10.4%          | \$141                          | \$133   | 6.0%           | \$47,200             | \$45,029 | 4.8%           |
| 681                                     | 704     | (3.3)          | —                | —       | —              | 64                             | 64      | —              | 28,536               | 28,704   | (.6)           |
| 457                                     | 455     | .4             | —                | —       | —              | 4                              | 4       | —              | 21,888               | 20,992   | 4.3            |
| 2,343                                   | 2,414   | (2.9)          | 10,272           | 8,589   | 19.6           | 40                             | 44      | (9.1)          | 48,341               | 44,836   | 7.8            |
| 5,499                                   | 5,217   | 5.4            | 14,386           | 12,315  | 16.8           | 249                            | 245     | 1.6            | 145,965              | 139,561  | 4.6            |
| 1,552                                   | 1,377   | 12.7           | 2,481            | 2,410   | 2.9            | 9                              | 1       | *              | 7,585                | 7,232    | 4.9            |
| 426                                     | 474     | (10.1)         | 1,099            | 1,125   | (2.3)          | 14                             | —       | *              | 3,236                | 3,079    | 5.1            |
| 8,053                                   | 7,635   | 5.5            | 19,954           | 17,214  | 15.9           | 51,962                         | 50,354  | 3.2            | 221,694              | 212,188  | 4.5            |
| 4,298                                   | 3,786   | 13.5           | 401              | 312     | 28.5           | 80                             | 111     | (27.9)         | 27,531               | 28,666   | (4.0)          |
| 2,948                                   | 2,391   | 23.3           | 11               | 4       | *              | 3                              | 3       | —              | 25,666               | 23,358   | 9.9            |
| 5,439                                   | 5,596   | (2.8)          | 21               | 19      | 10.5           | 54                             | 31      | 74.2           | 30,483               | 32,489   | (6.2)          |
| 3,686                                   | 2,716   | 35.7           | 4                | 3       | 33.3           | 1,584                          | 2,269   | (30.2)         | 35,930               | 35,943   | —              |
| 16,371                                  | 14,489  | 13.0           | 437              | 338     | 29.3           | 1,721                          | 2,414   | (28.7)         | 119,610              | 120,456  | (.7)           |
| 2,477                                   | 2,340   | 5.9            | 4,833            | 4,637   | 4.2            | 1,497                          | 1,494   | .2             | 20,947               | 20,543   | 2.0            |

Total noninterest expense was unchanged in the third quarter and decreased \$6 million (.8 percent) in the first nine months of 2007, compared with the same periods of 2006. The decrease was primarily due to the completion of certain acquisition integration activities.

**Payment Services** Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit, ATM processing and merchant processing. Payment services are highly inter-related with banking products and services of the other lines of business and rely on access to the settlement network, lower cost funding available to the Company, cross-selling opportunities and operating efficiencies. Payment Services contributed \$276 million of the Company's net income in the third quarter and \$762 million in the first nine months of 2007, or increases of \$23 million (9.1 percent) and \$32 million (4.4 percent), respectively, compared with the same periods of 2006. The increases were due to growth in total net revenue driven by loan growth and higher transaction volumes, partially offset by an increase in total noninterest expense and a higher provision for credit losses.

Total net revenue increased \$96 million (11.5 percent) in the third quarter and \$260 million (10.8 percent) in the first nine months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, increased \$21 million (12.8 percent) in the third quarter and \$37 million (7.7 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases were primarily due to growth in higher yielding retail credit card loan balances, partially offset by the margin impact of recent acquisitions and growth in corporate payment card balances. Noninterest income increased \$75 million (11.1 percent) in the third quarter and \$223 million (11.6 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases in fee-based revenue were driven by account growth, higher transaction volumes and business expansion initiatives. The increase in noninterest income for the first nine months of 2007, compared with the same period of the prior year, was partially offset by a merchant processing settlement recorded in the first quarter of 2006.

Total noninterest expense increased \$34 million (9.3 percent) in the third quarter and \$113 million (10.7 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases were primarily attributable to new business initiatives, including costs associated with marketing programs, transaction processing and acquisitions.

The provision for credit losses increased \$26 million (35.1 percent) in the third quarter and \$95 million (47.7 percent) in the first nine months of 2007, compared with the same periods of 2006, due to higher net charge-offs, which reflected portfolio growth and a higher level of losses due to changes in bankruptcy legislation that went into effect in the fourth quarter of 2005. As a percentage of average loans outstanding on an annualized basis, net charge-offs were 2.60 percent in the third quarter of 2007, compared with 2.29 percent in the third quarter of 2006.

**Treasury and Corporate Support** Treasury and Corporate Support includes the Company's investment portfolios, funding, capital management and asset securitization activities, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support contributed \$15 million of the Company's net income in the third quarter and \$51 million in the first nine months of 2007, compared with net income of \$30 million and \$108 million in the same periods of 2006, respectively.

Total net revenue decreased \$10 million in the third quarter and \$169 million in the first nine months of 2007, compared with the same periods of 2006. The decline in total net revenue in the third quarter of 2007 compared to the same period of 2006 was due primarily to lower noninterest income. The decline in total net revenue in the first nine months of 2007 compared to the same period of 2006 was due to unfavorable variances in both net interest income and noninterest income. The decline in net interest income reflected the impact of issuing higher cost wholesale funding to support earning asset growth. Noninterest income decreased \$27 million (60.0 percent) in the third quarter and \$118 million (77.6 percent) in the first nine months of 2007, compared with the same periods of 2006. The decreases were primarily due to a gain recognized in the third quarter of 2006 related to the sale of equity interests in a cardholder association. In addition, the decrease for the first nine months of 2007, compared with the same period of the prior year, was also due to a gain recognized in the second quarter of 2006 related to the initial public offering of a cardholder association and trading gains realized in the first quarter of 2006 related to terminating certain interest rate derivatives.

Total noninterest expense increased \$18 million (30.5 percent) in the third quarter and \$27 million (14.1 percent) in the first nine months of 2007, compared with the same periods of 2006. The increases

were primarily driven by higher costs related to investments in affordable housing and other tax-advantaged projects.

The provision for credit losses for this business unit represents the residual aggregate of the net credit losses allocated to the reportable business units and the Company's recorded provision determined in accordance with accounting principles generally accepted in the United States. Refer to the "Corporate Risk Profile" section for further information on the provision for credit losses, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support. The consolidated effective tax rate of the Company was 30.2 percent in the third quarter and first nine months of 2007, compared with 30.7 percent and 32.1 percent in the same periods of 2006, respectively. The decreases in the effective tax rate primarily reflected higher tax exempt income from municipal securities, incremental tax credits generated from investments in affordable housing and similar tax-advantaged projects, and expansion of a bank-owned life insurance program.

## **CRITICAL ACCOUNTING POLICIES**

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company's financial statements. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company's Audit Committee. These accounting policies are discussed in detail in "Management's Discussion and Analysis — Critical Accounting Policies" and the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

## **CONTROLS AND PROCEDURES**

Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

During the most recently completed fiscal quarter, there was no change made in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

# U.S. Bancorp

## Consolidated Balance Sheet

| (Dollars in Millions)  | September 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| Cash and due from banks  | \$6,636                              | \$8,639              |
| Investment securities  |                                      |                      |
| Held-to-maturity (fair value \$82 and \$92, respectively)  | 78                                   | 87                   |
| Available-for-sale   | 40,293                               | 40,030               |
| Loans held for sale  | 4,601                                | 3,256                |
| Loans  |                                      |                      |
| Commercial   | 48,012                               | 46,190               |
| Commercial real estate   | 28,517                               | 28,645               |
| Residential mortgages  | 22,563                               | 21,285               |
| Retail   | 49,947                               | 47,477               |
| Total loans  | 149,039                              | 143,597              |
| Less allowance for loan losses   | (2,041)                              | (2,022)              |
| Net loans  | 146,998                              | 141,575              |
| Premises and equipment   | 1,779                                | 1,835                |
| Goodwill   | 7,604                                | 7,538                |
| Other intangible assets  | 3,150                                | 3,227                |
| Other assets   | 16,489                               | 13,045               |
| Total assets   | <u>\$227,628</u>                     | <u>\$219,232</u>     |
| <b>Liabilities and Shareholders' Equity</b>  |                                      |                      |
| Deposits   |                                      |                      |
| Noninterest-bearing  | \$28,272                             | \$32,128             |
| Interest-bearing   | 70,916                               | 70,330               |
| Time deposits greater than \$100,000   | 23,560                               | 22,424               |
| Total deposits   | 122,748                              | 124,882              |
| Short-term borrowings  | 28,868                               | 26,933               |
| Long-term debt   | 45,241                               | 37,602               |
| Other liabilities  | 10,005                               | 8,618                |
| Total liabilities  | 206,862                              | 198,035              |
| Shareholders' equity   |                                      |                      |
| Preferred stock, par value \$1.00 a share (liquidation preference of \$25,000 per share) authorized:<br>50,000,000 shares; issued and outstanding: 40,000 shares | 1,000                                | 1,000                |
| Common stock, par value \$0.01 a share — authorized: 4,000,000,000 shares; issued: 9/30/07 and 12/31/06 — 1,972,643,007 shares                                   | 20                                   | 20                   |
| Capital surplus  | 5,748                                | 5,762                |
| Retained earnings  | 22,580                               | 21,242               |
| Less cost of common stock in treasury: 9/30/07 — 247,231,503 shares; 12/31/06 — 207,928,756 shares   | (7,554)                              | (6,091)              |
| Other comprehensive income   | (1,028)                              | (736)                |
| Total shareholders' equity   | 20,766                               | 21,197               |
| Total liabilities and shareholders' equity   | <u>\$227,628</u>                     | <u>\$219,232</u>     |

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Income

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
| (Dollars and Shares in Millions, Except Per Share Data)<br>(Unaudited) | 2007                                | 2006    | 2007                               | 2006    |
| <b>Interest Income</b>   |                                     |         |                                    |         |
| Loans  | \$2,703                             | \$2,545 | \$7,897                            | \$7,277 |
| Loans held for sale  | 76                                  | 64      | 205                                | 172     |
| Investment securities  | 522                                 | 500     | 1,554                              | 1,490   |
| Other interest income  | 33                                  | 40      | 101                                | 119     |
| Total interest income  | 3,334                               | 3,149   | 9,757                              | 9,058   |
| <b>Interest Expense</b>  |                                     |         |                                    |         |
| Deposits   | 694                                 | 640     | 2,032                              | 1,721   |
| Short-term borrowings  | 374                                 | 321     | 1,081                              | 861     |
| Long-term debt   | 599                                 | 528     | 1,696                              | 1,415   |
| Total interest expense   | 1,667                               | 1,489   | 4,809                              | 3,997   |
| Net interest income  | 1,667                               | 1,660   | 4,948                              | 5,061   |
| Provision for credit losses  | 199                                 | 135     | 567                                | 375     |
| Net interest income after provision for credit losses                  | 1,468                               | 1,525   | 4,381                              | 4,686   |
| <b>Noninterest Income</b>  |                                     |         |                                    |         |
| Credit and debit card revenue  | 235                                 | 206     | 668                                | 590     |
| Corporate payment products revenue                                     | 164                                 | 150     | 466                                | 416     |
| ATM processing services  | 62                                  | 63      | 183                                | 183     |
| Merchant processing services   | 287                                 | 253     | 822                                | 719     |
| Trust and investment management fees                                   | 331                                 | 305     | 995                                | 916     |
| Deposit service charges  | 271                                 | 268     | 786                                | 764     |
| Treasury management fees   | 118                                 | 111     | 355                                | 334     |
| Commercial products revenue  | 107                                 | 100     | 312                                | 311     |
| Mortgage banking revenue   | 76                                  | 68      | 211                                | 167     |
| Investment products fees and commissions                               | 36                                  | 34      | 108                                | 114     |
| Securities gains (losses), net   | 7                                   | —       | 11                                 | 3       |
| Other  | 150                                 | 190     | 478                                | 600     |
| Total noninterest income   | 1,844                               | 1,748   | 5,395                              | 5,117   |
| <b>Noninterest Expense</b>   |                                     |         |                                    |         |
| Compensation   | 656                                 | 632     | 1,950                              | 1,892   |
| Employee benefits  | 119                                 | 123     | 375                                | 379     |
| Net occupancy and equipment  | 175                                 | 168     | 511                                | 494     |
| Professional services  | 56                                  | 54      | 162                                | 130     |
| Marketing and business development                                     | 66                                  | 58      | 178                                | 156     |
| Technology and communications  | 127                                 | 128     | 378                                | 372     |
| Postage, printing and supplies   | 70                                  | 66      | 210                                | 198     |
| Other intangibles  | 94                                  | 89      | 283                                | 263     |
| Debt prepayment  | —                                   | —       | —                                  | 11      |
| Other  | 265                                 | 220     | 766                                | 673     |
| Total noninterest expense  | 1,628                               | 1,538   | 4,813                              | 4,568   |
| Income before income taxes   | 1,684                               | 1,735   | 4,963                              | 5,235   |
| Applicable income taxes  | 508                                 | 532     | 1,501                              | 1,678   |
| Net income   | \$1,176                             | \$1,203 | \$3,462                            | \$3,557 |
| Net income applicable to common equity                                 | \$1,161                             | \$1,187 | \$3,417                            | \$3,524 |
| Earnings per common share  | \$ .67                              | \$ .67  | \$1.97                             | \$1.98  |
| Diluted earnings per common share                                      | \$ .67                              | \$ .66  | \$1.94                             | \$1.95  |
| Dividends declared per common share                                    | \$ .40                              | \$ .33  | \$1.20                             | \$ .99  |
| Average common shares outstanding                                      | 1,725                               | 1,771   | 1,737                              | 1,784   |
| Average diluted common shares outstanding                              | 1,745                               | 1,796   | 1,762                              | 1,809   |

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Shareholders' Equity

| (Dollars and Shares in Millions)<br>(Unaudited)           | Common Shares<br>Outstanding | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Other<br>Comprehensive<br>Income | Total<br>Shareholders'<br>Equity |
|---|------------------------------|--------------------|-----------------|--------------------|----------------------|-------------------|----------------------------------|----------------------------------|
| <b>Balance December 31, 2005</b>                          | 1,815                        | \$—                | \$20            | \$5,907            | \$19,001             | \$(4,413)         | \$(429)                          | \$20,086                         |
| Change in accounting principle                            |                              |                    |                 |                    | 4                    |                   |                                  | 4                                |
| Net income  |                              |                    |                 |                    | 3,557                |                   |                                  | 3,557                            |
| Unrealized loss on securities available-for-sale          |                              |                    |                 |                    |                      |                   | (52)                             | (52)                             |
| Unrealized gain on derivatives                            |                              |                    |                 |                    |                      |                   | 39                               | 39                               |
| Foreign currency translation                              |                              |                    |                 |                    |                      |                   | 5                                | 5                                |
| Realized loss on derivatives                              |                              |                    |                 |                    |                      |                   | (199)                            | (199)                            |
| Reclassification for realized losses                      |                              |                    |                 |                    |                      |                   | 28                               | 28                               |
| Income taxes  |                              |                    |                 |                    |                      |                   | 67                               | 67                               |
| Total comprehensive income                                |                              |                    |                 |                    |                      |                   |                                  | 3,445                            |
| Cash dividends declared                                   |                              |                    |                 |                    |                      |                   |                                  |                                  |
| Preferred   |                              |                    |                 |                    | (33)                 |                   |                                  | (33)                             |
| Common  |                              |                    |                 |                    | (1,759)              |                   |                                  | (1,759)                          |
| Issuance of common and treasury stock                     | 28                           |                    |                 | (95)               |                      | 812               |                                  | 717                              |
| Purchase of treasury stock                                | (80)                         |                    |                 |                    |                      | (2,488)           |                                  | (2,488)                          |
| Stock option and restricted stock grants                  |                              |                    |                 | 9                  |                      |                   |                                  | 9                                |
| Shares reserved to meet deferred compensation obligations |                              |                    |                 | 1                  |                      | (4)               |                                  | (3)                              |
| Issuance of preferred stock                               |                              | 1,000              |                 | (52)               |                      |                   |                                  | 948                              |
| <b>Balance September 30, 2006</b>                         | 1,763                        | \$1,000            | \$20            | \$5,770            | \$20,770             | \$(6,093)         | \$(541)                          | \$20,926                         |
| <b>Balance December 31, 2006</b>                          | 1,765                        | \$1,000            | \$20            | \$5,762            | \$21,242             | \$(6,091)         | \$(736)                          | \$21,197                         |
| Net income  |                              |                    |                 |                    | 3,462                |                   |                                  | 3,462                            |
| Unrealized loss on securities available-for-sale          |                              |                    |                 |                    |                      |                   | (482)                            | (482)                            |
| Unrealized loss on derivatives                            |                              |                    |                 |                    |                      |                   | (73)                             | (73)                             |
| Foreign currency translation                              |                              |                    |                 |                    |                      |                   | 11                               | 11                               |
| Reclassification for realized losses                      |                              |                    |                 |                    |                      |                   | 72                               | 72                               |
| Change in retirement obligation                           |                              |                    |                 |                    |                      |                   | 1                                | 1                                |
| Income taxes  |                              |                    |                 |                    |                      |                   | 179                              | 179                              |
| Total comprehensive income                                |                              |                    |                 |                    |                      |                   |                                  | 3,170                            |
| Cash dividends declared                                   |                              |                    |                 |                    |                      |                   |                                  |                                  |
| Preferred   |                              |                    |                 |                    | (45)                 |                   |                                  | (45)                             |
| Common  |                              |                    |                 |                    | (2,079)              |                   |                                  | (2,079)                          |
| Issuance of common and treasury stock                     | 18                           |                    |                 | (34)               |                      | 544               |                                  | 510                              |
| Purchase of treasury stock                                | (58)                         |                    |                 |                    |                      | (2,003)           |                                  | (2,003)                          |
| Stock option and restricted stock grants                  |                              |                    |                 | 20                 |                      |                   |                                  | 20                               |
| Shares reserved to meet deferred compensation obligations |                              |                    |                 |                    |                      | (4)               |                                  | (4)                              |
| <b>Balance September 30, 2007</b>                         | 1,725                        | \$1,000            | \$20            | \$5,748            | \$22,580             | \$(7,554)         | \$(1,028)                        | \$20,766                         |

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Cash Flows

| (Dollars in Millions)<br>(Unaudited)                            | Nine Months Ended<br>September 30, |         |
|---|------------------------------------|---------|
|   | 2007                               | 2006    |
| <b>Operating Activities</b>                                     |                                    |         |
| Net cash provided by operating activities                       | \$2,018                            | \$4,716 |
| <b>Investing Activities</b>                                     |                                    |         |
| Proceeds from sales of available-for-sale investment securities | 1,269                              | 1,132   |
| Proceeds from maturities of investment securities               | 3,419                              | 3,174   |
| Purchases of investment securities                              | (5,389)                            | (5,094) |
| Net increase in loans outstanding                               | (3,661)                            | (4,721) |
| Proceeds from sales of loans                                    | 382                                | 456     |
| Purchases of loans  | (1,907)                            | (2,171) |
| Acquisitions, net of cash acquired                              | (73)                               | (587)   |
| Other, net  | (1,182)                            | (305)   |
| Net cash used in investing activities                           | (7,142)                            | (8,116) |
| <b>Financing Activities</b>                                     |                                    |         |
| Net decrease in deposits  | (2,442)                            | (4,313) |
| Net increase in short-term borrowings                           | 1,869                              | 4,462   |
| Proceeds from issuance of long-term debt                        | 21,077                             | 13,379  |
| Principal payments or redemption of long-term debt              | (13,590)                           | (9,103) |
| Proceeds from issuance of preferred stock                       | —                                  | 948     |
| Proceeds from issuance of common stock                          | 374                                | 613     |
| Repurchase of common stock                                      | (1,983)                            | (2,480) |
| Cash dividends paid on preferred stock                          | (45)                               | (17)    |
| Cash dividends paid on common stock                             | (2,095)                            | (1,777) |
| Net cash provided by financing activities                       | 3,165                              | 1,712   |
| Change in cash and cash equivalents                             | (1,959)                            | (1,688) |
| Cash and cash equivalents at beginning of period                | 8,805                              | 8,202   |
| Cash and cash equivalents at end of period                      | \$6,846                            | \$6,514 |

See Notes to Consolidated Financial Statements.



# Notes to Consolidated Financial Statements

(Unaudited)

## **Note 1** 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 notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the “Company”), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. For further information, refer to the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs and benefits, expenses and other financial elements to each line of business. Table 11 “Line of Business Financial Performance” provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

## **Note 2** Significant Accounting Matters

**Fair Value Option for Financial Assets and Financial Liabilities** In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities”, effective for the Company beginning on January 1, 2008. This Statement provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company is currently assessing the impact of this guidance on its financial statements.

**Fair Value Measurements** In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (“SFAS 157”), “Fair Value Measurements”, effective for the Company beginning on January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity’s own unobservable inputs that are not corroborated by observable market data. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Company is currently assessing the impact of this guidance on its financial statements.

**Accounting for Uncertainty in Income Taxes** In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes”, effective for the Company beginning on January 1, 2007. FIN 48 clarifies the recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on disclosure and other matters. The adoption of FIN 48 did not have a material impact on the Company’s financial statements.

**Visa Restructuring and Card Association Litigation** The Company’s Payment Services line of business issues and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively “Visa”). On October 3, 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of an initial public offering in 2008 (the “Visa Reorganization”). In addition, the Company and certain of its subsidiaries are defendants along with Visa U.S.A. Inc. and MasterCard International (the “Card Associations”), as well as several other banks, in antitrust lawsuits challenging the practices

## [Table of Contents](#)

of the Card Associations (the “Litigation”). The Company has entered into judgment and loss sharing agreements with Visa and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Litigation.

In connection with the Visa Reorganization and the Litigation, there are a number of significant accounting matters that must be considered by the financial institution members that have ownership interests in Visa, are parties to the Litigation, or have executed judgment and loss sharing agreements. These matters include the nature and timing of the financial gain recognition arising from the Visa Reorganization, the implications of the judgment and loss sharing agreements, and the timing and amount of recognition of any future obligations of Visa and/or its financial institution members arising as a result of the ultimate resolution of the Litigation. Given the complexity of the Visa Reorganization and the related accounting matters, the Company, along with several other financial institution members, has requested guidance from the Office of the Chief Accountant of the Securities and Exchange Commission regarding the appropriate accounting treatment for these matters. Such guidance is expected to be received in the fourth quarter of 2007. Although the resolution of these accounting matters may have a significant impact on the Company’s financial statements in future accounting periods (including the potential for both gains and accruals), the Company believes the impact of these matters will not be materially adverse to its financial condition and results of operations.

### **Note 3**      Loans

The composition of the loan portfolio was as follows:

| (Dollars in Millions)            | September 30, 2007 |                  | December 31, 2006 |                  |
|----------------------------------|--------------------|------------------|-------------------|------------------|
|                                  | Amount             | Percent of Total | Amount            | Percent of Total |
| <b>Commercial</b>                |                    |                  |                   |                  |
| Commercial                       | \$42,126           | 28.3%            | \$40,640          | 28.3%            |
| Lease financing                  | 5,886              | 3.9              | 5,550             | 3.9              |
| Total commercial                 | 48,012             | 32.2             | 46,190            | 32.2             |
| <b>Commercial real estate</b>    |                    |                  |                   |                  |
| Commercial mortgages             | 19,650             | 13.2             | 19,711            | 13.7             |
| Construction and development     | 8,867              | 5.9              | 8,934             | 6.2              |
| Total commercial real estate     | 28,517             | 19.1             | 28,645            | 19.9             |
| <b>Residential mortgages</b>     |                    |                  |                   |                  |
| Residential mortgages            | 16,799             | 11.3             | 15,316            | 10.7             |
| Home equity loans, first liens   | 5,764              | 3.9              | 5,969             | 4.1              |
| Total residential mortgages      | 22,563             | 15.2             | 21,285            | 14.8             |
| <b>Retail</b>                    |                    |                  |                   |                  |
| Credit card                      | 10,251             | 6.9              | 8,670             | 6.0              |
| Retail leasing                   | 6,282              | 4.2              | 6,960             | 4.9              |
| Home equity and second mortgages | 16,210             | 10.9             | 15,523            | 10.8             |
| Other retail                     |                    |                  |                   |                  |
| Revolving credit                 | 2,679              | 1.8              | 2,563             | 1.8              |
| Installment                      | 5,203              | 3.5              | 4,478             | 3.1              |
| Automobile                       | 8,883              | 5.9              | 8,693             | 6.1              |
| Student                          | 439                | .3               | 590               | .4               |
| Total other retail               | 17,204             | 11.5             | 16,324            | 11.4             |
| Total retail                     | 49,947             | 33.5             | 47,477            | 33.1             |
| Total loans                      | \$149,039          | 100.0%           | \$143,597         | 100.0%           |

Loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.3 billion at September 30, 2007, and December 31, 2006.

## Note 4 Mortgage Servicing Rights

The Company's portfolio of residential mortgages serviced for others was \$94.4 billion and \$82.9 billion at September 30, 2007, and December 31, 2006, respectively. The Company records mortgage servicing rights ("MSRs") initially at fair value and at each subsequent reporting date, and records changes in fair value in noninterest income in the period in which they occur. In conjunction with its MSRs, the Company may utilize derivatives, including futures and option contracts to manage the volatility of changes in the fair value of MSRs. The net impact of assumption changes on the fair value of MSRs, excluding decay, and the related derivatives included in mortgage banking revenue was a net gain of \$4 million and \$7 million for the three months ended September 30, 2007, and 2006, respectively, and a net loss of \$1 million and \$3 million for the nine months ended September 30, 2007 and 2006, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue were \$87 million and \$79 million for the three months ended September 30, 2007, and 2006, respectively, and \$260 million and \$235 million for the nine months ended September 30, 2007, and 2006, respectively.

Changes in fair value of capitalized MSRs are summarized as follows:

| (Dollars in Millions)                      | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2007                                | 2006    | 2007                               | 2006    |
| Balance at beginning of period             | \$1,649                             | \$1,323 | \$1,427                            | \$1,123 |
| Rights purchased                           | 4                                   | 3       | 10                                 | 50      |
| Rights capitalized                         | 130                                 | 108     | 316                                | 278     |
| Rights sold                                | (130)                               | —       | (130)                              | —       |
| Changes in fair value of MSRs              |                                     |         |                                    |         |
| Due to change in valuation assumptions (a) | (86)                                | (68)    | 38                                 | 3       |
| Other changes in fair value (b)            | (45)                                | (42)    | (139)                              | (130)   |
| Balance at end of period                   | \$1,522                             | \$1,324 | \$1,522                            | \$1,324 |

(a) Principally reflects changes in discount rates and prepayment speed assumptions, primarily arising from interest rate changes.

(b) Primarily represents changes due to collection/realization of expected cash flows over time (decay).

The Company determines fair value by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys, and independent third party appraisals. Risks inherent in the valuation of MSRs include higher than expected prepayment rates and/or delayed receipt of cash flows. The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments at September 30, 2007, was as follows:

| (Dollars in Millions) | Down Scenario |        | Up Scenario |        |
|-----------------------|---------------|--------|-------------|--------|
|                       | 50 bps        | 25 bps | 25 bps      | 50 bps |
| Net fair value        | \$(29)        | \$(6)  | \$(17)      | \$(56) |

## [Table of Contents](#)

### **Note 5** Earnings Per Common Share

The components of earnings per common share were:

| (Dollars and Shares in Millions, Except Per Share Data)   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2007                                | 2006    | 2007                               | 2006    |
| Net income  | \$1,176                             | \$1,203 | \$3,462                            | \$3,557 |
| Preferred dividends   | (15)                                | (16)    | (45)                               | (33)    |
| Net income applicable to common equity  | \$1,161                             | \$1,187 | \$3,417                            | \$3,524 |
| Average common shares outstanding   | 1,725                               | 1,771   | 1,737                              | 1,784   |
| Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes | 20                                  | 25      | 25                                 | 25      |
| Average diluted common shares outstanding   | 1,745                               | 1,796   | 1,762                              | 1,809   |
| Earnings per common share   | \$ .67                              | \$ .67  | \$1.97                             | \$1.98  |
| Diluted earnings per common share   | \$ .67                              | \$ .66  | \$1.94                             | \$1.95  |

Options to purchase 14 million and 3 million common shares for the three months ended September 30, 2007 and 2006, respectively, and 10 million and 4 million common shares for the nine months ended September 30, 2007 and 2006, respectively, were outstanding but not included in the computation of diluted earnings per common share because they were antidilutive.

### **Note 6** Employee Benefits

The components of net periodic benefit cost for the Company's retirement plans were:

| (Dollars in Millions)                                       | Three Months Ended September 30, |      |                                |      | Nine Months Ended September 30, |       |                                |      |
|---|----------------------------------|------|--------------------------------|------|---------------------------------|-------|--------------------------------|------|
|   | Pension Plans                    |      | Postretirement<br>Medical Plan |      | Pension Plans                   |       | Postretirement<br>Medical Plan |      |
|   | 2007                             | 2006 | 2007                           | 2006 | 2007                            | 2006  | 2007                           | 2006 |
| Service cost  | \$18                             | \$18 | \$1                            | \$1  | \$53                            | \$54  | \$4                            | \$3  |
| Interest cost   | 31                               | 29   | 4                              | 3    | 94                              | 88    | 11                             | 10   |
| Expected return on plan assets                              | (50)                             | (48) | (2)                            | —    | (149)                           | (143) | (5)                            | —    |
| Prior service credit and transition obligation amortization | (1)                              | (2)  | —                              | —    | (4)                             | (5)   | —                              | —    |
| Actuarial loss amortization                                 | 16                               | 23   | —                              | —    | 47                              | 68    | —                              | —    |
| Net periodic benefit cost                                   | \$14                             | \$20 | \$3                            | \$4  | \$41                            | \$62  | \$10                           | \$13 |

## Note 7 Income Taxes

The components of income tax expense were:

|                                   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |                |
|-----------------------------------|-------------------------------------|--------------|------------------------------------|----------------|
| (Dollars in Millions)             | 2007                                | 2006         | 2007                               | 2006           |
| <b>Federal</b>                    |                                     |              |                                    |                |
| Current                           | \$486                               | \$530        | \$1,423                            | \$1,742        |
| Deferred                          | (46)                                | (63)         | (114)                              | (299)          |
| Federal income tax                | 440                                 | 467          | 1,309                              | 1,443          |
| <b>State</b>                      |                                     |              |                                    |                |
| Current                           | 72                                  | 70           | 203                                | 258            |
| Deferred                          | (4)                                 | (5)          | (11)                               | (23)           |
| State income tax                  | 68                                  | 65           | 192                                | 235            |
| <b>Total income tax provision</b> | <b>\$508</b>                        | <b>\$532</b> | <b>\$1,501</b>                     | <b>\$1,678</b> |

A reconciliation of expected income tax expense at the federal statutory rate of 35 percent to the Company's applicable income tax expense follows:

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |                |
|--|-------------------------------------|--------------|------------------------------------|----------------|
| (Dollars in Millions)  | 2007                                | 2006         | 2007                               | 2006           |
| Tax at statutory rate (35 percent)                               | \$590                               | \$607        | \$1,737                            | \$1,832        |
| State income tax, at statutory rates, net of federal tax benefit | 44                                  | 43           | 125                                | 153            |
| <b>Tax effect of</b>   |                                     |              |                                    |                |
| Tax credits  | (75)                                | (97)         | (215)                              | (216)          |
| Tax-exempt income  | (39)                                | (23)         | (97)                               | (66)           |
| Other items  | (12)                                | 2            | (49)                               | (25)           |
| <b>Applicable income taxes</b>                                   | <b>\$508</b>                        | <b>\$532</b> | <b>\$1,501</b>                     | <b>\$1,678</b> |

Effective January 1, 2007, the Company adopted the provisions of FIN 48. The adoption of FIN 48 did not result in a cumulative-effect accounting adjustment for the Company. The Company elected to classify interest and penalties related to unrecognized tax positions as components of income tax expense. At January 1, 2007, the Company's total amount of unrecognized tax positions were \$364 million, of which \$237 million related to unrecognized tax positions that if recognized, would affect the effective tax rate. In addition, the amount accrued for the payment of interest on unrecognized tax positions was \$22 million.

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of September 30, 2007, the federal taxing authority has completed its examination of the Company through the fiscal year ended December 31, 2004. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax liability was \$1,192 million at September 30, 2007, and \$1,483 million at December 31, 2006.

## Note 8 Guarantees and Contingent Liabilities

The following table is a summary of the guarantees and contingent liabilities of the Company at September 30, 2007:

| (Dollars in Millions)               | Carrying Amount | Maximum Potential Future Payments |
|-------------------------------------|-----------------|-----------------------------------|
| Standby letters of credit           | \$70            | \$12,211                          |
| Third-party borrowing arrangements  | 2               | 332                               |
| Securities lending indemnifications | —               | 15,768                            |
| Asset sales (a)                     | 6               | 426                               |
| Merchant processing                 | 47              | 79,096                            |
| Other guarantees                    | 28              | 1,369                             |
| Other contingent liabilities        | —               | 2,001                             |

(a) The maximum potential future payments does not include loan sales where the Company provides standard representations and warranties to the buyer against losses related to loan underwriting documentation. For these types of loan sales, the maximum potential future payments are not readily determinable because the Company's obligation under these agreements depends upon the occurrence of future events.

The Company, through its subsidiaries, provides merchant processing services. Under the rules of credit card associations, a merchant processor retains a contingent liability for credit card transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In this situation, the transaction is "charged-back" to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant, it bears the loss for the amount of the refund paid to the cardholder.

The Company currently processes card transactions in the United States, Canada and Europe for airlines, cruise lines and large tour operators. In the event of liquidation of these merchants, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At September 30, 2007, the value of airline, cruise line and large tour operator tickets purchased to be delivered at a future date was \$4.9 billion, with airline tickets representing 90 percent of that amount. The Company held collateral of \$1.1 billion in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

The Company is subject to various other litigation, investigations and legal and administrative cases and proceedings that arise in the ordinary course of its businesses. Due to their complex nature, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, the Company believes that the aggregate amount of such liabilities will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

For additional information on the nature of the Company's guarantees and contingent liabilities, please refer to Note 21 in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

# U.S. Bancorp

## Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)

| For the Three Months Ended September 30,                    |                     |                 |                        |                     |                 |                        |                                 |
|---|---------------------|-----------------|------------------------|---------------------|-----------------|------------------------|---------------------------------|
|   | 2007                |                 |                        | 2006                |                 |                        |                                 |
| (Dollars in Millions)<br>(Unaudited)                        | Average<br>Balances | Interest        | Yields<br>and<br>Rates | Average<br>Balances | Interest        | Yields<br>and<br>Rates | % Change<br>Average<br>Balances |
| <b>Assets</b>   |                     |                 |                        |                     |                 |                        |                                 |
| Investment securities                                       | \$ 41,128           | \$ 559          | 5.44%                  | \$ 39,806           | \$ 519          | 5.22%                  | 3.3%                            |
| Loans held for sale   | 4,547               | 76              | 6.63                   | 3,851               | 64              | 6.70                   | 18.1                            |
| Loans (b)   |                     |                 |                        |                     |                 |                        |                                 |
| Commercial  | 47,390              | 792             | 6.63                   | 46,068              | 769             | 6.63                   | 2.9                             |
| Commercial real estate                                      | 28,462              | 525             | 7.33                   | 28,701              | 538             | 7.44                   | (.8)                            |
| Residential mortgages                                       | 22,258              | 345             | 6.18                   | 21,118              | 313             | 5.90                   | 5.4                             |
| Retail  | 49,407              | 1,049           | 8.42                   | 45,604              | 932             | 8.10                   | 8.3                             |
| Total loans   | 147,517             | 2,711           | 7.30                   | 141,491             | 2,552           | 7.16                   | 4.3                             |
| Other earning assets  | 1,694               | 33              | 7.92                   | 2,042               | 40              | 7.73                   | (17.0)                          |
| Total earning assets  | 194,886             | 3,379           | 6.90                   | 187,190             | 3,175           | 6.74                   | 4.1                             |
| Allowance for loan losses                                   | (2,041)             |                 |                        | (2,056)             |                 |                        | .7                              |
| Unrealized gain (loss) on available-for-sale securities     | (1,206)             |                 |                        | (1,185)             |                 |                        | (1.8)                           |
| Other assets  | 31,866              |                 |                        | 30,140              |                 |                        | 5.7                             |
| Total assets  | <u>\$ 223,505</u>   |                 |                        | <u>\$ 214,089</u>   |                 |                        | 4.4                             |
| <b>Liabilities and Shareholders' Equity</b>                 |                     |                 |                        |                     |                 |                        |                                 |
| Noninterest-bearing deposits                                | \$ 26,947           |                 |                        | \$ 28,220           |                 |                        | (4.5)                           |
| Interest-bearing deposits                                   |                     |                 |                        |                     |                 |                        |                                 |
| Interest checking   | 26,052              | 93              | 1.41                   | 23,595              | 66              | 1.10                   | 10.4                            |
| Money market savings  | 25,018              | 168             | 2.67                   | 26,116              | 151             | 2.30                   | (4.2)                           |
| Savings accounts  | 5,283               | 5               | .37                    | 5,598               | 5               | .40                    | (5.6)                           |
| Time certificates of deposit less than \$100,000            | 14,590              | 163             | 4.42                   | 13,867              | 137             | 3.93                   | 5.2                             |
| Time deposits greater than \$100,000                        | 21,255              | 265             | 4.95                   | 22,579              | 281             | 4.93                   | (5.9)                           |
| Total interest-bearing deposits                             | 92,198              | 694             | 2.99                   | 91,755              | 640             | 2.77                   | .5                              |
| Short-term borrowings                                       | 29,155              | 401             | 5.46                   | 23,601              | 334             | 5.60                   | 23.5                            |
| Long-term debt  | 46,452              | 599             | 5.12                   | 41,892              | 528             | 5.00                   | 10.9                            |
| Total interest-bearing liabilities                          | 167,805             | 1,694           | 4.01                   | 157,248             | 1,502           | 3.79                   | 6.7                             |
| Other liabilities   | 8,012               |                 |                        | 7,704               |                 |                        | 4.0                             |
| Shareholders' equity  |                     |                 |                        |                     |                 |                        |                                 |
| Preferred equity  | 1,000               |                 |                        | 1,000               |                 |                        | —                               |
| Common equity   | 19,741              |                 |                        | 19,917              |                 |                        | (.9)                            |
| Total shareholders' equity                                  | 20,741              |                 |                        | 20,917              |                 |                        | (.8)                            |
| Total liabilities and shareholders' equity                  | <u>\$ 223,505</u>   |                 |                        | <u>\$ 214,089</u>   |                 |                        | 4.4%                            |
| Net interest income   |                     | <u>\$ 1,685</u> |                        |                     | <u>\$ 1,673</u> |                        |                                 |
| Gross interest margin                                       |                     |                 | <u>2.89%</u>           |                     |                 | <u>2.95%</u>           |                                 |
| Gross interest margin without taxable-equivalent increments |                     |                 | <u>2.85</u>            |                     |                 | <u>2.92</u>            |                                 |
| <b>Percent of Earning Assets</b>                            |                     |                 |                        |                     |                 |                        |                                 |
| Interest income   |                     |                 | 6.90%                  |                     |                 | 6.74%                  |                                 |
| Interest expense  |                     |                 | 3.46                   |                     |                 | 3.18                   |                                 |
| Net interest margin   |                     |                 | 3.44%                  |                     |                 | 3.56%                  |                                 |
| Net interest margin without taxable-equivalent increments   |                     |                 | 3.40%                  |                     |                 | 3.53%                  |                                 |

(a) Interest and rates are presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.  
(b) Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

# U.S. Bancorp

## Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)

| For the Nine Months Ended September 30,                     |                     |                 |                        |                     |                 |                        |                                 |
|---|---------------------|-----------------|------------------------|---------------------|-----------------|------------------------|---------------------------------|
| 2007  |                     |                 |                        | 2006                |                 |                        |                                 |
| (Dollars in Millions)<br>(Unaudited)                        | Average<br>Balances | Interest        | Yields<br>and<br>Rates | Average<br>Balances | Interest        | Yields<br>and<br>Rates | % Change<br>Average<br>Balances |
| <b>Assets</b>   |                     |                 |                        |                     |                 |                        |                                 |
| Investment securities                                       | \$ 40,904           | \$ 1,653        | 5.39%                  | \$ 39,858           | \$ 1,528        | 5.11%                  | 2.6%                            |
| Loans held for sale   | 4,244               | 205             | 6.43                   | 3,560               | 172             | 6.43                   | 19.2                            |
| Loans (b)   |                     |                 |                        |                     |                 |                        |                                 |
| Commercial  | 47,200              | 2,347           | 6.64                   | 45,029              | 2,193           | 6.51                   | 4.8                             |
| Commercial real estate                                      | 28,536              | 1,569           | 7.35                   | 28,704              | 1,563           | 7.28                   | (.6)                            |
| Residential mortgages                                       | 21,888              | 999             | 6.09                   | 20,992              | 909             | 5.78                   | 4.3                             |
| Retail  | 48,341              | 3,004           | 8.31                   | 44,836              | 2,631           | 7.85                   | 7.8                             |
| Total loans   | 145,965             | 7,919           | 7.25                   | 139,561             | 7,296           | 6.99                   | 4.6                             |
| Other earning assets  | 1,675               | 101             | 8.09                   | 2,096               | 119             | 7.55                   | (20.1)                          |
| Total earning assets  | 192,788             | 9,878           | 6.85                   | 185,075             | 9,115           | 6.58                   | 4.2                             |
| Allowance for loan losses                                   | (2,039)             |                 |                        | (2,056)             |                 |                        | .8                              |
| Unrealized gain (loss) on available-for-sale securities     | (867)               |                 |                        | (1,140)             |                 |                        | 23.9                            |
| Other assets  | 31,812              |                 |                        | 30,309              |                 |                        | 5.0                             |
| Total assets  | <u>\$ 221,694</u>   |                 |                        | <u>\$ 212,188</u>   |                 |                        | 4.5                             |
| <b>Liabilities and Shareholders' Equity</b>                 |                     |                 |                        |                     |                 |                        |                                 |
| Noninterest-bearing deposits                                | \$ 27,531           |                 |                        | \$ 28,666           |                 |                        | (4.0)                           |
| Interest-bearing deposits                                   |                     |                 |                        |                     |                 |                        |                                 |
| Interest checking   | 25,666              | 253             | 1.32                   | 23,358              | 161             | .92                    | 9.9                             |
| Money market savings  | 25,108              | 490             | 2.61                   | 26,820              | 405             | 2.02                   | (6.4)                           |
| Savings accounts  | 5,375               | 15              | .38                    | 5,669               | 14              | .34                    | (5.2)                           |
| Time certificates of deposit less than \$100,000            | 14,693              | 483             | 4.39                   | 13,688              | 377             | 3.68                   | 7.3                             |
| Time deposits greater than \$100,000                        | 21,237              | 791             | 4.98                   | 22,255              | 764             | 4.59                   | (4.6)                           |
| Total interest-bearing deposits                             | 92,079              | 2,032           | 2.95                   | 91,790              | 1,721           | 2.51                   | .3                              |
| Short-term borrowings                                       | 28,465              | 1,149           | 5.40                   | 23,398              | 884             | 5.05                   | 21.7                            |
| Long-term debt  | 44,696              | 1,696           | 5.07                   | 40,462              | 1,415           | 4.67                   | 10.5                            |
| Total interest-bearing liabilities                          | 165,240             | 4,877           | 3.95                   | 155,650             | 4,020           | 3.45                   | 6.2                             |
| Other liabilities   | 7,976               |                 |                        | 7,329               |                 |                        | 8.8                             |
| Shareholders' equity  |                     |                 |                        |                     |                 |                        |                                 |
| Preferred equity  | 1,000               |                 |                        | 688                 |                 |                        | 45.3                            |
| Common equity   | 19,947              |                 |                        | 19,855              |                 |                        | .5                              |
| Total shareholders' equity                                  | 20,947              |                 |                        | 20,543              |                 |                        | 2.0                             |
| Total liabilities and shareholders' equity                  | <u>\$ 221,694</u>   |                 |                        | <u>\$ 212,188</u>   |                 |                        | 4.5%                            |
| Net interest income   |                     | <u>\$ 5,001</u> |                        |                     | <u>\$ 5,095</u> |                        |                                 |
| Gross interest margin                                       |                     |                 | <u>2.90%</u>           |                     |                 | <u>3.13%</u>           |                                 |
| Gross interest margin without taxable-equivalent increments |                     |                 | <u>2.86</u>            |                     |                 | <u>3.11</u>            |                                 |
| <b>Percent of Earning Assets</b>                            |                     |                 |                        |                     |                 |                        |                                 |
| Interest income   |                     |                 | 6.85%                  |                     |                 | 6.58%                  |                                 |
| Interest expense  |                     |                 | <u>3.39</u>            |                     |                 | <u>2.90</u>            |                                 |
| Net interest margin   |                     |                 | <u>3.46%</u>           |                     |                 | <u>3.68%</u>           |                                 |
| Net interest margin without taxable-equivalent increments   |                     |                 | <u>3.42%</u>           |                     |                 | <u>3.66%</u>           |                                 |

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

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



## Part II — Other Information

**Item 1A. Risk Factors** — There are a number of factors that may adversely affect the Company’s business, financial results or stock price. Refer to “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, for discussion of these risks. The risks described in the Company’s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks that the Company currently does not know about or currently views as immaterial may also impair the Company’s business or adversely impact its financial results or stock price.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** — Refer to the “Capital Management” section within Management’s Discussion and Analysis in Part I for information regarding shares repurchased by the Company during the third quarter of 2007.

**Item 6. Exhibits**

|      |  |
|------|--|
| 10.1 | Form of 2007 U.S. Bancorp Director Restricted Stock Unit Award Agreement under U.S. Bancorp 2007 Stock Incentive Plan  |
| 12   | Computation of Ratio of Earnings to Fixed Charges  |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934  |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934  |
| 32   | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |

**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  
Executive Vice President and Controller  
(Chief Accounting Officer and Duly Authorized Officer)

DATE: November 8, 2007

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges

| (Dollars in Millions)                     |   | Three Months Ended<br>September 30, 2007 | Nine Months Ended<br>September 30, 2007 |
|---|---|--|---|
| <b>Earnings</b>                           |   |  |   |
| 1.  | Net income  | \$1,176                                  | \$3,462                                 |
| 2.  | Applicable income taxes, including interest expense related to unrecognized tax positions | 508                                      | 1,501                                   |
| 3.  | Income before income taxes (1 + 2)  | \$1,684                                  | \$4,963                                 |
| 4.  | Fixed charges:  |  |   |
| a.  | Interest expense excluding interest on deposits*  | \$973                                    | \$2,777                                 |
| b.  | Portion of rents representative of interest and amortization of debt expense              | 19                                       | 57                                      |
| c.  | Fixed charges excluding interest on deposits (4a + 4b)                                    | 992                                      | 2,834                                   |
| d.  | Interest on deposits  | 694                                      | 2,032                                   |
| e.  | Fixed charges including interest on deposits (4c + 4d)                                    | \$1,686                                  | \$4,866                                 |
| 5.  | Amortization of interest capitalized  | \$—                                      | \$—                                     |
| 6.  | Earnings excluding interest on deposits (3 + 4c + 5)                                      | 2,676                                    | 7,797                                   |
| 7.  | Earnings including interest on deposits (3 + 4e + 5)                                      | 3,370                                    | 9,829                                   |
| 8.  | Fixed charges excluding interest on deposits (4c)   | 992                                      | 2,834                                   |
| 9.  | Fixed charges including interest on deposits (4e)   | 1,686                                    | 4,866                                   |
| <b>Ratio of Earnings to Fixed Charges</b> |   |  |   |
| 10.                                       | Excluding interest on deposits (line 6/line 8)  | 2.70                                     | 2.75                                    |
| 11.                                       | Including interest on deposits (line 7/line 9)  | 2.00                                     | 2.02                                    |

\* Excludes interest expense related to unrecognized tax positions.

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Richard K. Davis, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RICHARD K. DAVIS

Richard K. Davis  
*Chief Executive Officer*

Dated: November 8, 2007

U.S. Bancorp

41

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Andrew Cecere, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ANDREW CECERE

Andrew Cecere

Chief Financial Officer

Dated: November 8, 2007

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Chief Executive Officer and Chief Financial Officer of U.S. Bancorp, a Delaware corporation (the “Company”), do hereby certify that:

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD K. DAVIS

Richard K. Davis  
*Chief Executive Officer*

/s/ ANDREW CECERE

Andrew Cecere  
*Chief Financial Officer*

Dated: November 8, 2007

U.S. Bancorp

43

---

First Class  
U.S. Postage  
PAID  
Permit No. 2440  
Minneapolis, MN

---

## corporate information

### Executive Offices

U.S. Bancorp  
800 Nicollet Mall  
Minneapolis, MN 55402

### Common Stock Transfer Agent and Registrar

Mellon Investor Services acts as our transfer agent and registrar, dividend paying agent and dividend reinvestment plan administrator, and maintains all shareholder records for the corporation. Inquiries related to shareholder records, stock transfers, changes of ownership, lost stock certificates, changes of address and dividend payment should be directed to the transfer agent at:

Mellon Investor Services  
P.O. Box 3315  
South Hackensack, NJ 07606-1915  
Phone: 888-778-1311 or 201-680-4000  
Internet: [melloninvestor.com](http://melloninvestor.com)

For Registered or Certified Mail:  
Mellon Investor Services  
480 Washington Boulevard  
Jersey City, NJ 07310

Telephone representatives are available weekdays from 8:00 a.m. to 6:00 p.m. Central Time, and automated support is available 24 hours a day, 7 days a week. Specific information about your account is available on Mellon's internet site by clicking on For Investors and then the Investor ServiceDirect® link.

### Independent Auditor

Ernst & Young LLP serves as the independent auditor for U.S. Bancorp's financial statements.

### 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 and Reinvestment Plan

U.S. Bancorp currently pays quarterly dividends on our common stock on or about the 15th day of January, April, July and October, subject to approval by our Board of Directors. U.S. Bancorp shareholders can choose to participate in a plan that provides automatic reinvestment of dividends and/or optional cash purchase of additional shares of U.S. Bancorp common stock. For more information, please contact our transfer agent, Mellon Investor Services.

### Investor Relations Contacts

Judith T. Murphy  
Senior Vice President, Investor Relations  
[judith.murphy@usbank.com](mailto:judith.murphy@usbank.com)  
Phone: 612-303-0783 or 866-775-9668



### Financial Information

U.S. Bancorp news and financial results are available through our website and by mail.

**Website** For information about U.S. Bancorp, including news, financial results, annual reports and other documents filed with the Securities and Exchange Commission, access our home page on the internet at [usbank.com](http://usbank.com), click on About U.S. Bancorp, then Investor/Shareholder Information.

**Mail** At your request, we will mail to you our quarterly earnings, news releases, quarterly financial data reported on Form 10-Q and additional copies of our annual reports. Please contact:

U.S. Bancorp Investor Relations  
800 Nicollet Mall  
Minneapolis, MN 55402  
[investorrelations@usbank.com](mailto:investorrelations@usbank.com)  
Phone: 866-775-9668

### Media Requests

Steven W. Dale  
Senior Vice President, Media Relations  
[steve.dale@usbank.com](mailto:steve.dale@usbank.com)  
Phone: 612-303-0784

### Privacy

U.S. Bancorp is committed to respecting the privacy of our customers and safeguarding the financial and personal information provided to us. To learn more about the U.S. Bancorp commitment to protecting privacy, visit [usbank.com](http://usbank.com) and click on Privacy Pledge.

### Code of Ethics

U.S. Bancorp places the highest importance on honesty and integrity. Each year, every U.S. Bancorp employee certifies compliance with the letter and spirit of our Code of Ethics and Business Conduct, the guiding ethical standards of our organization. For details about our Code of Ethics and Business Conduct, visit [usbank.com](http://usbank.com) and click on About U.S. Bancorp, then Ethics at U.S. Bank.

### Diversity

U.S. Bancorp and our subsidiaries are committed to developing and maintaining a workplace that reflects the diversity of the communities we serve. We support a work environment where individual differences are valued and respected and where each individual who shares the fundamental values of the company has an opportunity to contribute and grow based on individual merit.

### Equal Employment Opportunity/Affirmative Action

U.S. Bancorp and our subsidiaries are committed to providing Equal Employment Opportunity to all employees and applicants for employment. In keeping with this commitment, employment decisions are made based upon performance, skill and abilities, not race, color, religion, national origin or ancestry, gender, age, disability, veteran status, sexual orientation or any other factors protected by law. The corporation complies with municipal, state and federal fair employment laws, including regulations applying to federal contractors.

U.S. Bancorp, including each of our subsidiaries, is an Equal Opportunity Employer committed to creating a diverse workforce.



U.S. Bancorp  
Member FDIC



This report has been produced on recycled paper.

**NOTE:** Restricted stock unit awards made to nonemployee directors (“Participants”) of U.S. Bancorp (the “Company”) after April 17, 2007 will have the terms and conditions set forth in each Participant’s award summary (the “Award Summary”), which can be accessed on the Citigroup/Smith Barney Benefit Access Website at [www.benefitaccess.com](http://www.benefitaccess.com). The Award Summary may be viewed at any time on this Website, and the Award Summary may also be printed out. In addition to the individual terms and conditions set forth in the Award Summary, each stock award will have the terms and conditions set forth in the form of Restricted Stock Unit Award Agreement below. As a condition to each restricted stock unit award, Participant accepts the terms and conditions of the Award Summary and the Restricted Stock Unit Award Agreement.

**U.S. BANCORP  
RESTRICTED STOCK UNIT AWARD AGREEMENT FOR DIRECTORS**

**THIS AGREEMENT** sets forth the terms and conditions of a restricted stock unit award representing the right to receive shares of Common Stock (the “Common Stock”), par value \$0.01 per share, of the Company granted to each Participant by the Company pursuant to its 2007 Stock Incentive Plan (the “Plan”).

The Company and Participant agree as follows:

**1. Award.**

Subject to the terms and conditions of this Agreement, the Company grants to Participant an award (the “Award”) of the number of restricted stock units (the “Restricted Stock Units”) set forth in Participant’s Award Summary. Each Restricted Stock Unit represents the right to receive one share of Common Stock, subject to the vesting requirements and distribution provisions of this Agreement. The shares of Common Stock distributable hereunder to Participant are referred to as the “Shares,” and the “Award Date” means the date of grant of the Award as set forth in Participant’s Award Summary.

**2. Vesting and Forfeiture.**

- (a) Except as otherwise expressly provided in this Agreement, the Restricted Stock Units shall be fully vested as of the Award Date.
- (b) If Participant is removed as a director by the Company’s shareholders for cause, all Restricted Stock Units shall be forfeited as of the date of such removal. Upon forfeiture, Participant shall have no rights relating to the Restricted Stock Units (including, without limitation, any rights to receive a distribution of Shares with respect to the Restricted Stock Units or to receive additional Restricted Stock Units pursuant to Section 5).

**3. Distribution of Shares.**

- (a) All Shares issuable pursuant to Restricted Stock Units that have vested in accordance with Section 2(a) or Section 5 and that have not been forfeited in accordance with Section 2(b) shall be distributed to Participant (or, in the event of Participant’s death, to the representatives of Participant or to any Person to whom the Shares have been transferred by will or the applicable laws of descent and distribution) after the date on which Participant (i) has ceased to serve on



the Board of the Company, and (ii) is not providing services as an independent contractor to the Company or to any other entity with which the Company would be considered to be a single employer under Section 414(b) and/or 414(c) of the Internal Revenue Code and the Company does not reasonably anticipate that Participant will provide such services in the future (the "Distribution Date"). As soon as administratively feasible but in no event later than ninety (90) days following the Distribution Date, the Company shall deliver to Participant one Share for each such vested Restricted Stock Unit.

- (b) Notwithstanding the provisions in Section 3(a), if there is a Change of Control (as defined below), the Shares will be distributed to the Participant as soon as administratively feasible after the date of such Change of Control, but in no event later than 90 days after the Change in Control. For purposes of this Agreement, "Change in Control" shall mean the occurrence of a "change in the ownership" of the Company, a "change in the effective control" of the Company, and/or a "change in the ownership of a substantial portion of the assets" of the Company, each as defined under Section 1.409A-3(i)(5) of the U.S. Treasury Regulations.
- (c) Participant shall have no right, title or interest in, or, except as provided in Section 5, no right to receive distributions in respect of, or otherwise be considered the owner of, any of the Shares, unless and until the Shares have been distributed pursuant to Section 3(a) or (b).

#### **4. Restriction on Transfer.**

During the lifetime of Participant, the Restricted Stock Units may not be sold, assigned, pledged, alienated, attached or otherwise transferred or encumbered, and any purported transfer shall be void and unenforceable against the Company. No attempt to transfer the Restricted Stock Units, whether voluntary or involuntary, by operation of law or otherwise (except by will or laws of descent and distribution), shall vest the purported transferee with any interest or right in or with respect to the Restricted Stock Units or the Shares.

#### **5. Dividends.**

To the extent that the Company declares cash dividends on shares of Common Stock after the Award Date and prior to the Distribution Date, Participant shall be entitled to receive additional Restricted Stock Units on each dividend payment date (the "Dividend Payment Date") (including any dividend declared prior to the Distribution Date and payable after such date, which, for purposes of this Section 5, shall be deemed paid on the Distribution Date) having a Fair Market Value (as defined in the Plan) on the Distribution Date equal to the amount of cash dividends payable with respect to the number of shares of Common Stock represented by the Restricted Stock Units. Such additional Restricted Stock Units shall be vested as of the Dividend Payment Date.

#### **6. Securities Law Compliance.**

The delivery of all or any of the Shares shall only be effective at such time that the issuance of such Shares will not violate any state or federal securities or other laws. The Company is under no obligation to effect any registration of the Shares under the Securities Act of 1933 or to effect any state registration or qualification of the Shares. The Company may, in its sole discretion, (i) delay the delivery of the Shares if it reasonably anticipates that the delivery of Shares will violate state or federal securities or other applicable laws, provided that the Shares will be delivered promptly

following that date that is the earliest date on which the Company reasonably anticipates that the delivery of Shares will not cause such violation; or (ii) place restrictive legends on such Shares in order to ensure that the issuance of any Shares will be in compliance with federal or state securities laws and the rules of the New York Stock Exchange or any other exchange upon which the Common Stock is traded.

**7. Distributions and Adjustments.**

- (a) Subject to the foregoing provisions of this Award Agreement, in the event that any dividend or other distribution (whether in the form of cash, shares of Common Stock, or other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Common Stock 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 pursuant to this Agreement, the committee of the Board of Directors administering the Plan shall, in order to prevent such diminution or enlargement of any such benefits or potential benefits make adjustments to the Award (including adjustments in the number and type of shares of stock represented by the Restricted Stock Units) that Participant would have received; provided, however, that the number of shares of stock covered by this Award shall always be a whole number.
- (b) Any additional shares of Common Stock, any other securities of the Company and any other property distributed with respect to shares of Common Stock represented by the Restricted Stock Units prior to the Distribution Date shall be subject to the same restrictions, terms and conditions as the Restricted Stock Units. Any cash dividends payable with respect to the Common Stock represented by the Restricted Stock Units shall be vested in accordance with Section 5 hereof.

**8. Miscellaneous.**

- (a) The Company shall at all times during the term of this Agreement reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Agreement.
- (b) The Award is issued under the Plan and is subject to its terms. The Plan is available for inspection during business hours at the principal offices of the Company. In addition, the Plan may be viewed on the U.S. Bancorp Intranet Website in the Human Resources, Compensation section of such website.

**9. Governing Law.**

This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

## EXHIBIT 12

### Computation of Ratio of Earnings to Fixed Charges

| (Dollars in Millions)                     |   | Three Months Ended<br>September 30, 2007 | Nine Months Ended<br>September 30, 2007 |
|---|---|--|---|
| <b>Earnings</b>                           |   |  |   |
| 1.  | Net income  | \$1,176                                  | \$3,462                                 |
| 2.  | Applicable income taxes, including interest expense related to unrecognized tax positions | 508                                      | 1,501                                   |
| 3.  | Income before income taxes (1 + 2)  | <u>\$1,684</u>                           | <u>\$4,963</u>                          |
| 4.  | Fixed charges:  |  |   |
| a.  | Interest expense excluding interest on deposits*  | \$973                                    | \$2,777                                 |
| b.  | Portion of rents representative of interest and amortization of debt expense              | 19                                       | 57                                      |
| c.  | Fixed charges excluding interest on deposits (4a + 4b)                                    | 992                                      | 2,834                                   |
| d.  | Interest on deposits  | 694                                      | 2,032                                   |
| e.  | Fixed charges including interest on deposits (4c + 4d)                                    | <u>\$1,686</u>                           | <u>\$4,866</u>                          |
| 5.  | Amortization of interest capitalized  | \$—                                      | \$—                                     |
| 6.  | Earnings excluding interest on deposits (3 + 4c + 5)                                      | 2,676                                    | 7,797                                   |
| 7.  | Earnings including interest on deposits (3 + 4e + 5)                                      | 3,370                                    | 9,829                                   |
| 8.  | Fixed charges excluding interest on deposits (4c)   | 992                                      | 2,834                                   |
| 9.  | Fixed charges including interest on deposits (4e)   | 1,686                                    | 4,866                                   |
| <b>Ratio of Earnings to Fixed Charges</b> |   |  |   |
| 10.                                       | Excluding interest on deposits (line 6/line 8)  | 2.70                                     | 2.75                                    |
| 11.                                       | Including interest on deposits (line 7/line 9)  | 2.00                                     | 2.02                                    |

\* Excludes interest expense related to unrecognized tax positions.

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Richard K. Davis, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RICHARD K. DAVIS

Richard K. Davis  
*Chief Executive Officer*

Dated: November 8, 2007

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Andrew Cecere, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ANDREW CECERE

Andrew Cecere

*Chief Financial Officer*

Dated: November 8, 2007

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Chief Executive Officer and Chief Financial Officer of U.S. Bancorp, a Delaware corporation (the "Company"), do hereby certify that:

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD K. DAVIS

Richard K. Davis  
*Chief Executive Officer*

/s/ ANDREW CECERE

Andrew Cecere  
*Chief Financial Officer*

Dated: November 8, 2007