



Form 10-Q/June 30, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 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 Number)

**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)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 July 31, 2007  
1,726,437,268 shares

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### **“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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
(Dollars and Shares in Millions, Except Per Share Data)						
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis) (a)	\$ 1,650	\$ 1,697	(2.8)%	\$ 3,316	\$ 3,422	(3.1)%
Noninterest income	1,852	1,752	5.7	3,547	3,366	5.4
Securities gains (losses), net	3	3	—	4	3	33.3
Total net revenue	3,505	3,452	1.5	6,867	6,791	1.1
Noninterest expense	1,640	1,530	7.2	3,185	3,030	5.1
Provision for credit losses	191	125	52.8	368	240	53.3
Income before taxes	1,674	1,797	(6.8)	3,314	3,521	(5.9)
Taxable-equivalent adjustment	18	11	63.6	35	21	66.7
Applicable income taxes	500	585	(14.5)	993	1,146	(13.4)
Net income	\$ 1,156	\$ 1,201	(3.7)	\$ 2,286	\$ 2,354	(2.9)
Net income applicable to common equity	\$ 1,141	\$ 1,184	(3.6)	\$ 2,256	\$ 2,337	(3.5)
<b>Per Common Share</b>						
Earnings per share	\$ .66	\$ .66	—%	\$ 1.29	\$ 1.30	(.8)%
Diluted earnings per share	.65	.66	(1.5)	1.27	1.29	(1.6)
Dividends declared per share	.40	.33	21.2	.80	.66	21.2
Book value per share	11.19	10.89	2.8			
Market value per share	32.95	30.88	6.7			
Average common shares outstanding	1,736	1,781	(2.5)	1,744	1,791	(2.6)
Average diluted common shares outstanding	1,760	1,805	(2.5)	1,770	1,816	(2.5)
<b>Financial Ratios</b>						
Return on average assets	2.09%	2.27%		2.09%	2.25%	
Return on average common equity	23.0	24.3		22.7	23.8	
Net interest margin (taxable-equivalent basis) (a)	3.44	3.68		3.47	3.74	
Efficiency ratio (b)	46.8	44.4		46.4	44.6	
<b>Average Balances</b>						
Loans	\$145,653	\$139,370	4.5%	\$145,176	\$138,579	4.8%
Loans held for sale	4,334	3,555	21.9	4,090	3,412	19.9
Investment securities	40,704	40,087	1.5	40,791	39,885	2.3
Earning assets	192,301	184,890	4.0	191,721	184,000	4.2
Assets	222,022	212,407	4.5	220,774	211,222	4.5
Noninterest-bearing deposits	27,977	28,949	(3.4)	27,828	28,893	(3.7)
Deposits	118,975	121,233	(1.9)	119,847	120,701	(.7)
Short-term borrowings	29,524	22,246	32.7	28,114	23,295	20.7
Long-term debt	44,655	41,225	8.3	43,804	39,735	10.2
Shareholders' equity	20,895	20,556	1.6	21,052	20,353	3.4
	June 30, 2007	December 31, 2006				
<b>Period End Balances</b>						
Loans	\$145,708	\$143,597	1.5%			
Allowance for credit losses	2,260	2,256	.2			
Investment securities	39,514	40,117	(1.5)			
Assets	222,530	219,232	1.5			
Deposits	119,702	124,882	(4.1)			
Long-term debt	45,946	37,602	22.2			
Shareholders' equity	20,330	21,197	(4.1)			
Regulatory capital ratios						
Tier 1 capital	8.5%	8.8%				
Total risk-based capital	13.0	12.6				
Leverage	7.9	8.2				
Tangible common equity	5.2	5.5				

(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 \$1,156 million for the second quarter of 2007 or \$.65 per diluted share, compared with \$1,201 million, or \$.66 per diluted share for the second quarter of 2006. Return on average assets and return on average common equity were 2.09 percent and 23.0 percent, respectively, for the second quarter of 2007, compared with returns of 2.27 percent and 24.3 percent, respectively, for the second quarter of 2006. The Company's results for the second quarter of 2007 declined from the same period of 2006, as strong fee-based revenue growth was more than offset by a \$35 million gain in the second quarter of 2006 from the initial public offering of a cardholder association, as well as an expected increase in credit costs due to the prior year favorable impact on charge-offs as a result of changes in bankruptcy laws, and lower net interest income.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2007, was \$53 million (1.5 percent) higher than the second quarter of 2006, primarily reflecting a 5.7 percent increase in noninterest income, partially offset by a 2.8 percent decline in net interest income from a year ago. Noninterest income growth was driven primarily by organic business growth, offset somewhat by the impact in the second quarter of 2006 of a \$35 million gain from the initial public offering of a cardholder association.

Total noninterest expense in the second quarter of 2007 was \$110 million (7.2 percent) higher than in the second quarter of 2006, principally due to investments in business initiatives, higher operating and business integration costs associated with recent acquisitions, costs related to tax-advantaged investments and an increase in merchant airline processing primarily due to sales volumes and recent business expansion with a major airline. Growth in expenses from a year ago was partially offset by a debt prepayment charge recorded in the second quarter of 2006.

The provision for credit losses for the second quarter of 2007 increased \$66 million (52.8 percent), compared with the second quarter of 2006. The increase in the provision for credit losses from a year ago reflected expected losses from strong growth in credit card accounts. Also, the provision for credit losses in the second quarter of 2006 partially reflected the favorable residual impact on net charge-offs, principally for credit cards and other retail charge-offs,

due to changes in bankruptcy laws in late 2005. Net charge-offs in the second quarter of 2007 were \$191 million, compared with \$125 million in the second 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 \$2,286 million for the first six months of 2007 or \$1.27 per diluted share, compared with \$2,354 million, or \$1.29 per diluted share for the first six months of 2006. Return on average assets and return on average common equity were 2.09 percent and 22.7 percent, respectively, for the first six months of 2007, compared with returns of 2.25 percent and 23.8 percent, respectively, for the first six months of 2006. The Company's results for the first six months of 2007 declined from the same period of 2006, as growth in fee-based revenue was more than offset by lower net interest income, increased credit costs reflecting the prior year favorable impact on charge-offs as a result of changes in bankruptcy laws, and operating costs of acquired businesses and other business initiatives.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2007, was \$76 million (1.1 percent) higher than the first six months of 2006, primarily reflecting a 5.4 percent increase in noninterest income, partially offset by a 3.1 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 six months of 2006 of \$52 million from several previously reported items, including a \$44 million trading gain related to certain derivatives, a \$35 million gain from the initial public offering 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 six months of 2007 was \$155 million (5.1 percent) higher than in the first six months of 2006, principally due to investments in business initiatives, higher operating and business integration costs associated with recent acquisitions,

costs related to tax-advantaged investments and an increase in merchant airline processing primarily due to sales volumes and recent 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 six months of 2006.

The provision for credit losses for the first six months of 2007 increased \$128 million (53.3 percent), compared with the same period of 2006. The increase in the provision for credit losses from a year ago reflected expected losses from strong growth in credit card accounts. Also, the provision for credit losses in the first six months of 2006 partially reflected the favorable residual impact on net charge-offs of changes in bankruptcy laws in late 2005. Net charge-offs in the first six months of 2007 were \$368 million, compared with \$240 million in the first six 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 \$1,650 million in the second quarter of 2007, compared with \$1,697 million in the second quarter of 2006. Net interest income, on a taxable-equivalent basis, was \$3,316 million in the first six months of 2007, compared with \$3,422 million in the first six months of 2006. Average earning assets increased \$7.4 billion (4.0 percent) and \$7.7 billion (4.2 percent) in the second quarter and first six months of 2007, respectively, compared with the same periods of 2006. The increases were primarily driven by growth in total average loans of \$6.3 billion (4.5 percent) and \$6.6 billion (4.8 percent) in the second quarter and first six 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 more than offset by a lower net interest margin. The net interest margin in the second quarter and first six months of 2007 was 3.44 percent and 3.47 percent, respectively, compared with 3.68 percent and 3.74 percent, respectively, for the same periods of 2006, reflecting the competitive environment and the impact of the flat yield curve during the past several quarters. Compared with the same periods of 2006, credit spreads tightened by approximately 9 basis points in the second quarter and 10 basis points in the first six months of 2007 across most lending products due to competitive loan pricing. In addition, funding costs were higher as rates on interest-bearing deposits increased

and the funding mix continued to shift toward higher cost deposits and other sources. 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 second quarter and first six months of 2007 were \$6.3 billion (4.5 percent) and \$6.6 billion (4.8 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 total commercial real estate loans. Average credit card balances for the second quarter and first six months of 2007 increased \$1.8 billion (23.9 percent) and \$1.6 billion (22.6 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 second quarter and first six months of 2007 were \$.6 billion (1.5 percent) and \$.9 billion (2.3 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 second quarter and first six months of 2007 decreased \$1.0 billion (3.4 percent) and \$1.1 billion (3.7 percent), respectively, compared with the same periods of 2006, reflecting a decline in business demand deposits within most lines of business as customers reduced excess liquidity to fund business growth and reinvested excess funds in interest-bearing deposit and sweep products. The decline in business demand account balances was partially offset by higher corporate trust deposits, driven by acquisitions and business growth.

Average total savings deposits remained relatively flat in the second quarter and first six months of 2007, compared with the same periods of 2006, as increases in interest checking balances were offset by declines in money market and savings balances, primarily within Consumer Banking. Interest checking balances for the second quarter and first six months of 2007 increased \$2.5 billion (10.8 percent) and \$2.2 billion (9.6 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 second quarter and first six months of 2007 decreased \$2.7 billion (8.1 percent) and \$2.3 billion (7.0 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 second quarter and first six months of 2007 by \$1.0 billion (7.5 percent) and \$1.1 billion (8.4 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 \$2.2 billion (9.7 percent) and \$.9 billion (3.9 percent) in the second quarter and first six 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 second quarter and first six months of 2007 increased \$66 million (52.8 percent) and \$128 million (53.3 percent), respectively, compared with the same periods of 2006. The increases in the provision for credit losses in the second quarter and first six months of 2007 from the same periods a year ago reflected expected losses from strong growth in credit card accounts. Also, the provision for credit losses in the second quarter and first six months of 2006 partially reflected the favorable residual impact on net charge-offs of changes in bankruptcy laws in late 2005. Net charge-offs were \$191 million in the second quarter and \$368 million in the first six months of 2007, compared with \$125 million in the second quarter and

\$240 million in the first six 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 second quarter and first six months of 2007 was \$1,855 million and \$3,551 million, respectively, compared with \$1,755 million and \$3,369 million in the same periods of 2006. The \$100 million (5.7 percent) increase during the second quarter and \$182 million (5.4 percent) increase during the first six months of 2007, compared with the same periods in 2006, were driven by organic growth offset somewhat by a \$35 million gain on the initial public offering of a cardholder association recorded in the second quarter of 2006. In addition, certain revenue categories were impacted by accounting items in the first six months of 2006.

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 and business expansion. 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 primarily due to increased transaction-related fees and continued growth in net new checking accounts. Treasury management fees increased over the

**Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
Credit and debit card revenue .....	\$ 228	\$ 202	12.9%	\$ 433	\$ 384	12.8%
Corporate payment products revenue .....	157	139	12.9	302	266	13.5
ATM processing services .....	62	61	1.6	121	120	.8
Merchant processing services .....	285	253	12.6	535	466	14.8
Trust and investment management fees .....	342	314	8.9	664	611	8.7
Deposit service charges .....	272	264	3.0	515	496	3.8
Treasury management fees .....	126	116	8.6	237	223	6.3
Commercial products revenue .....	105	107	(1.9)	205	211	(2.8)
Mortgage banking revenue .....	68	75	(9.3)	135	99	36.4
Investment products fees and commissions .....	38	42	(9.5)	72	80	(10.0)
Securities gains (losses), net .....	3	3	—	4	3	33.3
Other .....	169	179	(5.6)	328	410	(20.0)
Total noninterest income .....	\$1,855	\$1,755	5.7%	\$3,551	\$3,369	5.4%

prior year due to higher transaction volumes and customer growth.

Favorable changes in fee-based revenue were partially offset by a decline in other income. The reduction in other income in the second quarter of 2007, compared with the second quarter of 2006, reflected the \$35 million gain recognized in the second quarter of 2006 related to the initial public offering of a cardholder association, partially offset by an increase in revenue from incremental investment in a bank-owned life insurance program and higher revenue from equity investments. In addition, the reduction in other income in the first six months of 2007, compared with the first six months of 2006, resulted from a \$44 million trading gain recognized in the first quarter of 2006 related to terminating certain interest rate swaps previously designated as cash flow hedges that did not qualify as hedges in accordance with Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities", as well as a \$10 million favorable settlement within the merchant processing business recorded in the prior year. Mortgage banking revenue declined in the second quarter of 2007, compared with the same period of the prior year, as growth in both production gains and servicing income was more than offset by an adverse change in the valuation of MSR and corresponding MSR economic hedges due to changes in interest rates late in the second quarter of 2007. Mortgage banking revenue increased in the first six months of 2007 due to changes in accounting for MSR and mortgage banking revenue that resulted in a \$37 million reduction in revenue in the first quarter of 2006.

**Noninterest Expense** Noninterest expense was \$1,640 million in the second quarter and \$3,185 million

in the first six months of 2007, reflecting increases of \$110 million (7.2 percent) and \$155 million (5.1 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 increased due to revenue enhancing business initiatives and higher legal costs associated with litigation and the establishment of a bank charter in Ireland to support pan-European payment processing. Marketing and business development expense increased year-over-year due to the timing of customer promotions, solicitations and advertising activities. Postage, printing and supplies expense increased due to changes in postal rates and increases in customer-related operations. Other intangibles expense increased from the same periods of 2006 due to recent acquisitions in Consumer Banking, Wealth Management and Payment Services. Other expense increased over the prior year due to an increase in the Company's merchant airline processing, driven by volumes and the impact of the recent signing of a contract with a major airline. Changes in other expense also reflected an increase in the costs related to tax-advantaged investments, integration expenses related to recent acquisitions and higher credit-related costs for other real estate owned and loan collection activities. These expense increases were partially offset by an \$11 million debt prepayment charge recorded in the second quarter of 2006.

**Income Tax Expense** The provision for income taxes was \$500 million (an effective rate of 30.2 percent) for the second quarter and \$993 million (an effective rate of 30.3 percent) for the first six months of 2007,

**Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
Compensation .....	\$ 659	\$ 627	5.1%	\$1,294	\$1,260	2.7%
Employee benefits .....	123	123	—	256	256	—
Net occupancy and equipment .....	171	161	6.2	336	326	3.1
Professional services .....	59	41	43.9	106	76	39.5
Marketing and business development .....	64	58	10.3	112	98	14.3
Technology and communications .....	126	127	(.8)	251	244	2.9
Postage, printing and supplies .....	71	66	7.6	140	132	6.1
Other intangibles .....	95	89	6.7	189	174	8.6
Debt prepayment .....	—	11	*	—	11	*
Other .....	272	227	19.8	501	453	10.6
Total noninterest expense .....	\$1,640	\$1,530	7.2%	\$3,185	\$3,030	5.1%
Efficiency ratio (a) .....	46.8%	44.4%		46.4%	44.6%	

\* 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.

compared with \$585 million (an effective rate of 32.8 percent) and \$1,146 million (an effective rate of 32.7 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 \$145.7 billion at June 30, 2007, compared with \$143.6 billion at December 31, 2006, an increase of \$2.1 billion (1.5 percent). The increase was driven by growth in retail loans, residential mortgages and commercial loans, partially offset by a decrease in commercial real estate loans. The \$.3 billion (.6 percent) increase in commercial loans was primarily driven by seasonal increases in corporate payment card balances.

Commercial real estate loans decreased slightly to \$28.4 billion at June 30, 2007, compared with \$28.6 billion at December 31, 2006. The decline in commercial real estate balances reflected current unfavorable real estate market conditions in certain industry sectors and the excess liquidity in the capital markets.

Residential mortgages held in the loan portfolio increased \$.7 billion (3.3 percent) at June 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 \$1.4 billion (2.9 percent) at June 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 June 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 June 30, 2007.

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

**Investment Securities** Investment securities, both available-for-sale and held-to-maturity, totaled \$39.5 billion at June 30, 2007, compared with \$40.1 billion at December 31, 2006, reflecting purchases of \$3.0 billion of securities, which were more than offset by sales, maturities, prepayments and a \$.7 billion increase in the unrealized loss on the available-for-sale portfolio. As of June 30, 2007, and December 31, 2006, approximately 37 percent of the investment securities portfolio represented adjustable-rate financial instruments. Adjustable-rate financial instruments include variable-rate collateralized mortgage obligations, mortgage-backed securities, agency securities, adjustable-rate money market accounts and asset-backed securities.

**Deposits** Total deposits were \$119.7 billion at June 30, 2007, compared with \$124.9 billion at December 31, 2006, a decrease of \$5.2 billion (4.1 percent). The decrease in total deposits was primarily the result of decreases in noninterest-bearing deposits, money market savings accounts and time deposits greater than \$100,000, partially offset by an increase in interest checking accounts. The \$2.6 billion (8.0 percent) decrease in noninterest-bearing deposits was primarily due to a decline of business demand deposits. The

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

	June 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)
(Dollars in Millions)								
U.S. Treasury and agencies	\$ 474	\$ 469	9.9	5.93%	\$ 472	\$ 467	10.1	5.94%
Mortgage-backed securities (a)	32,597	31,439	7.5	5.12	34,465	33,787	5.6	5.10
Asset-backed securities (a)	6	6	.1	5.65	7	7	.1	5.32
Obligations of state and political subdivisions (b)	5,798	5,695	12.0	6.69	4,463	4,539	9.7	6.68
Other debt securities	1,546	1,510	28.1	6.20	994	993	23.8	6.08
Other investments	306	314	—	6.73	229	237	—	6.26
Total available-for-sale investment securities	\$40,727	\$39,433	9.0	5.41%	\$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.

\$1.7 billion (6.3 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. Time deposits greater than \$100,000 decreased \$2.5 billion (11.1 percent) at June 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. Interest checking account balances increased \$.9 billion (3.6 percent) due to higher trust and custody balances and a migration from noninterest-bearing accounts within government banking.

**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, securities sold under agreements to repurchase and other short-term borrowings, were \$27.2 billion at June 30, 2007, compared with \$26.9 billion at December 31, 2006. Short-term funding is managed within approved liquidity policies. Long-term debt was \$45.9 billion at June 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, \$1.3 billion of bank notes and \$.5 billion of junior subordinated debentures, and the net addition of \$4.4 billion of Federal Home Loan Bank ("FHLB") advances, partially offset by \$1.7 billion of bank note maturities. The \$8.3 billion (22.2 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 equity 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.

**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 \$376 million at June 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 .26 percent at June 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

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

	June 30, 2007	December 31, 2006
90 days or more past due <b>excluding</b> nonperforming loans		
<b>Commercial</b>		
Commercial .....	.08%	.06%
Lease financing .....	.02	—
Total commercial .....	.07	.05
<b>Commercial real estate</b>		
Commercial mortgages .....	—	.01
Construction and development .....	—	.01
Total commercial real estate .....	—	.01
<b>Residential mortgages</b> .....	.50	.45
<b>Retail</b>		
Credit card .....	1.63	1.75
Retail leasing .....	.05	.03
Other retail .....	.23	.23
Total retail .....	.48	.48
Total loans .....	.26%	.24%
90 days or more past due <b>including</b> nonperforming loans		
Commercial .....	.44%	.57%
Commercial real estate .....	.69	.53
Residential mortgages (a) .....	.69	.62
Retail .....	.55	.58
Total loans .....	.57%	.57%

(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 2.90 percent at June 30, 2007, and 3.11 percent at December 31, 2006.

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.

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
<b>Residential mortgages</b>				
30-89 days .....	\$171	\$154	.78%	.72%
90 days or more .....	111	95	.50	.45
Nonperforming .....	41	36	.19	.17
<b>Total</b> .....	<b>\$323</b>	<b>\$285</b>	<b>1.47%</b>	<b>1.34%</b>
<b>Retail</b>				
<b>Credit card</b>				
30-89 days .....	\$199	\$204	2.12%	2.35%
90 days or more .....	154	152	1.63	1.75
Nonperforming .....	20	31	.21	.36
<b>Total</b> .....	<b>\$373</b>	<b>\$387</b>	<b>3.96%</b>	<b>4.46%</b>
<b>Retail leasing</b>				
30-89 days .....	\$27	\$34	.41%	.49%
90 days or more .....	3	2	.05	.03
Nonperforming .....	—	—	—	—
<b>Total</b> .....	<b>\$30</b>	<b>\$36</b>	<b>.46%</b>	<b>.52%</b>
<b>Home equity and second mortgages</b>				
30-89 days .....	\$61	\$79	.38%	.51%
90 days or more .....	28	28	.18	.18
Nonperforming .....	15	14	.09	.09
<b>Total</b> .....	<b>\$104</b>	<b>\$121</b>	<b>.65%</b>	<b>.78%</b>
<b>Other retail</b>				
30-89 days .....	\$133	\$131	.79%	.80%
90 days or more .....	47	44	.28	.27
Nonperforming .....	4	3	.02	.02
<b>Total</b> .....	<b>\$184</b>	<b>\$178</b>	<b>1.09%</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	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
<b>Residential mortgages</b>				
30-89 days .....	.88%	.83%	.71%	.66%
90 days or more .....	.68	.64	.38	.32
Nonperforming .....	.27	.19	.13	.16
<b>Total</b> .....	<b>1.83%</b>	<b>1.66%</b>	<b>1.22%</b>	<b>1.14%</b>
<b>Retail</b>				
<b>Credit card</b>				
30-89 days .....	—%	—%	2.12%	2.35%
90 days or more .....	—	—	1.63	1.75
Nonperforming .....	—	—	.21	.36
<b>Total</b> .....	<b>—%</b>	<b>—%</b>	<b>3.96%</b>	<b>4.46%</b>
<b>Retail leasing</b>				
30-89 days .....	—%	—%	.41%	.49%
90 days or more .....	—	—	.05	.03
Nonperforming .....	—	—	—	—
<b>Total</b> .....	<b>—%</b>	<b>—%</b>	<b>.46%</b>	<b>.52%</b>
<b>Home equity and second mortgages</b>				
30-89 days .....	1.64%	1.64%	.22%	.35%
90 days or more .....	.98	.79	.07	.10
Nonperforming .....	.11	.11	.09	.09
<b>Total</b> .....	<b>2.73%</b>	<b>2.54%</b>	<b>.38%</b>	<b>.54%</b>
<b>Other retail</b>				
30-89 days .....	4.33%	4.30%	.70%	.71%
90 days or more .....	.96	.76	.26	.26
Nonperforming .....	—	—	.02	.02
<b>Total</b> .....	<b>5.29%</b>	<b>5.06%</b>	<b>.98%</b>	<b>.99%</b>

Within the consumer finance division at June 30, 2007, approximately \$130 million and \$54 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

**Table 6** Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2007	December 31, 2006
<b>Commercial</b>		
Commercial .....	\$128	\$196
Lease financing .....	44	40
Total commercial .....	172	236
<b>Commercial real estate</b>		
Commercial mortgages .....	90	112
Construction and development .....	107	38
Total commercial real estate .....	197	150
<b>Residential mortgages</b> .....	41	36
<b>Retail</b>		
Credit card .....	20	31
Retail leasing .....	—	—
Other retail .....	19	17
Total retail .....	39	48
Total nonperforming loans .....	449	470
<b>Other real estate (b)</b> .....	103	95
<b>Other assets</b> .....	13	22
Total nonperforming assets .....	\$565	\$587
Accruing loans 90 days or more past due .....	\$376	\$349
Nonperforming loans to total loans .....	.31%	.33%
Nonperforming assets to total loans plus other real estate (b) .....	.39%	.41%

**Changes in Nonperforming Assets**

(Dollars in Millions)	Commercial and Commercial Real Estate	Retail and Residential Mortgages (d)	Total
<b>Balance December 31, 2006</b> .....	\$ 406	\$181	\$ 587
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties .....	222	24	246
Advances on loans .....	6	—	6
Total additions .....	228	24	252
Reductions in nonperforming assets			
Paydowns, payoffs .....	(78)	(12)	(90)
Net sales .....	(63)	—	(63)
Return to performing status .....	(20)	(1)	(21)
Charge-offs (c) .....	(94)	(6)	(100)
Total reductions .....	(255)	(19)	(274)
Net additions to (reductions in) nonperforming assets .....	(27)	5	(22)
<b>Balance June 30, 2007</b> .....	\$ 379	\$186	\$ 565

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

(b) Excludes \$85 million and \$83 million of foreclosed GNMA loans which continue to accrue interest at June 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.

\$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 June 30, 2007, total nonperforming assets were \$565 million, compared with \$587 million at December 31, 2006. The ratio of total nonperforming assets to total loans and other real estate decreased to .39 percent at June 30, 2007, compared with .41 percent at December 31, 2006.

Included in nonperforming loans were restructured loans of \$34 million at June 30, 2007, compared with

\$38 million at December 31, 2006. At June 30, 2007, the Company had \$2 million of commitments to lend additional funds under restructured loans, compared with no commitments at December 31, 2006.

Other real estate included in nonperforming assets was \$103 million at June 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	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
<b>Residential mortgages and home equity and second mortgages</b>				
Michigan .....	\$ 20	\$17	3.53%	2.90%
Ohio .....	11	12	.44	.48
Minnesota .....	11	11	.21	.21
Colorado .....	7	7	.25	.28
Missouri .....	6	6	.23	.25
All other states .....	46	38	.19	.16
Total residential mortgages and home equity and second mortgages .....	101	91	.27	.25
<b>Commercial real estate and construction</b>				
Total .....	2	4	.01	.01
Total .....	\$103	\$95	.07%	.07%

Within other real estate in the table above, approximately \$53 million at June 30, 2007, and \$41 million at December 31, 2006, were from portfolios that may be defined as sub-prime.

Based on existing economic and market conditions, the Company expects nonperforming assets to increase modestly over the next several quarters.

**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	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
Commercial .....	\$ 12	\$ 18	.03%	.04%
Commercial real estate .....	—	1	—	—
Residential mortgages .....	87	80	.40	.38
Credit card .....	291	267	3.09	3.08
Other retail .....	45	39	.11	.10
Total .....	\$435	\$405	.30%	.28%

**Analysis of Loan Net Charge-Offs** Total loan net charge-offs were \$191 million and \$368 million during the second quarter and first six months of 2007, respectively, compared with net charge-offs of \$125 million and \$240 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 second quarter and first six months of 2007 was .53 percent and .51 percent, respectively, compared with .36 percent and .35 percent, respectively, for the same periods of 2006. The expected year-over-year increases in total net charge-offs were due primarily to an anticipated increase in consumer charge-offs, specifically related to strong credit card growth, lower credit card charge-offs in prior periods related to the impact of changes in bankruptcy legislation that went into effect in late 2005 and the impact of implementing minimum balance payment programs for consumer loans.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2007 were \$38 million (.20 percent of average loans outstanding on an annualized basis), compared with \$20 million (.11 percent of average loans outstanding on an annualized basis) for the second quarter of 2006. Commercial and commercial real estate loan net charge-offs for the first six months of 2007 were \$74 million (.20 percent of average loans outstanding on an annualized basis), compared with \$34 million (.09 percent of average loans outstanding on an annualized basis) for the first six months of 2006. The Company expects commercial and commercial real estate net charge-offs to continue to increase somewhat over the next several quarters, due to higher gross charge-offs and lower loan recoveries.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Commercial</b>				
Commercial .....	.20%	.13%	.26%	.09%
Lease financing .....	.57	.54	.40	.55
Total commercial .....	.25	.18	.27	.15
<b>Commercial real estate</b>				
Commercial mortgages .....	.14	(.02)	.08	.01
Construction and development .....	.09	.05	.05	.02
Total commercial real estate .....	.13	—	.07	.01
<b>Residential mortgages</b> .....	.28	.21	.25	.17
<b>Retail</b>				
Credit card .....	3.56	2.72	3.52	2.67
Retail leasing .....	.24	.11	.21	.17
Home equity and second mortgages .....	.41	.35	.41	.34
Other retail .....	.89	.77	.89	.82
Total retail .....	1.15	.84	1.13	.85
Total loans .....	.53%	.36%	.51%	.35%

Retail loan net charge-offs for the second quarter of 2007 were \$138 million (1.15 percent of average loans outstanding on an annualized basis), compared with \$94 million (.84 percent of average loans outstanding on an annualized basis) for the second quarter of 2006. Retail loan net charge-offs for the first six months of 2007 were \$267 million (1.13 percent of average loans outstanding on an annualized basis), compared with \$188 million (.85 percent of average loans outstanding

on an annualized basis) for the first six months of 2006. The increase in retail loan net charge-offs reflected the impact of bankruptcy legislation changes that occurred in late 2005 and the implementation of the minimum balance payment requirements for credit cards. The Company anticipates slightly higher delinquencies in the retail portfolios and that net charge-offs will continue to increase modestly during the remainder of 2007.

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:

	Three Months Ended June 30				Six Months Ended June 30			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
	2007	2006	2007	2006	2007	2006	2007	2006
(Dollars in Millions)								
<b>Consumer Finance (a)</b>								
Residential mortgages .....	\$ 8,969	\$ 7,295	.58%	.49%	\$ 8,731	\$ 7,055	.55%	.46%
Home equity and second mortgages .....	1,836	1,984	2.40	1.62	1,853	2,021	2.29	1.50
Other retail .....	412	402	1.95	3.99	406	403	2.48	4.50
<b>Other Retail</b>								
Residential mortgages .....	\$12,862	\$13,573	.06%	.06%	\$12,969	\$13,872	.05%	.03%
Home equity and second mortgages .....	13,899	13,051	.14	.15	13,793	12,964	.16	.16
Other retail .....	16,193	14,725	.87	.68	16,116	14,634	.85	.72
<b>Total Company</b>								
Residential mortgages .....	\$21,831	\$20,868	.28%	.21%	\$21,700	\$20,927	.25%	.17%
Home equity and second mortgages .....	15,735	15,035	.41	.35	15,646	14,985	.41	.34
Other retail .....	16,605	15,127	.89	.77	16,522	15,037	.89	.82

(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 June 30				Six Months Ended June 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 .....	\$3,134	\$2,558	1.15%	.94%	\$3,070	\$2,404	1.12%	.84%
Other borrowers .....	5,835	4,737	.27	.25	5,661	4,651	.25	.26
Total .....	\$8,969	\$7,295	.58%	.49%	\$8,731	\$7,055	.55%	.46%
<b>Home equity and second mortgages</b>								
Sub-prime borrowers .....	\$ 911	\$ 827	3.08%	1.94%	\$ 911	\$ 813	2.88%	1.74%
Other borrowers .....	925	1,157	1.73	1.39	942	1,208	1.71	1.34
Total .....	\$1,836	\$1,984	2.40%	1.62%	\$1,853	\$2,021	2.29%	1.50%

**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 June 30, 2007, including the risk profile of the portfolios and 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.

At June 30, 2007, the allowance for credit losses was \$2,260 million (1.55 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 503 percent at June 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 295 percent at June 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 June 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

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

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Balance at beginning of period	\$2,260	\$2,251	\$2,256	\$2,251
<b>Charge-offs</b>				
Commercial				
Commercial	34	24	79	52
Lease financing	15	13	29	25
Total commercial	49	37	108	77
Commercial real estate				
Commercial mortgages	8	3	10	6
Construction and development	2	1	2	1
Total commercial real estate	10	4	12	7
Residential mortgages	16	11	28	19
Retail				
Credit card	98	59	187	113
Retail leasing	6	6	11	13
Home equity and second mortgages	18	16	36	32
Other retail	55	43	107	90
Total retail	177	124	341	248
Total charge-offs	252	176	489	351
<b>Recoveries</b>				
Commercial				
Commercial	13	11	26	34
Lease financing	7	6	18	11
Total commercial	20	17	44	45
Commercial real estate				
Commercial mortgages	1	4	2	5
Construction and development	—	—	—	—
Total commercial real estate	1	4	2	5
Residential mortgages	1	—	1	1
Retail				
Credit card	17	9	32	17
Retail leasing	2	4	4	7
Home equity and second mortgages	2	3	4	7
Other retail	18	14	34	29
Total retail	39	30	74	60
Total recoveries	61	51	121	111
<b>Net Charge-offs</b>				
Commercial				
Commercial	21	13	53	18
Lease financing	8	7	11	14
Total commercial	29	20	64	32
Commercial real estate				
Commercial mortgages	7	(1)	8	1
Construction and development	2	1	2	1
Total commercial real estate	9	—	10	2
Residential mortgages	15	11	27	18
Retail				
Credit card	81	50	155	96
Retail leasing	4	2	7	6
Home equity and second mortgages	16	13	32	25
Other retail	37	29	73	61
Total retail	138	94	267	188
Total net charge-offs	191	125	368	240
Provision for credit losses	191	125	368	240
Acquisitions and other changes	—	—	4	—
Balance at end of period	\$2,260	\$2,251	\$2,260	\$2,251
<b>Components</b>				
Allowance for loan losses	\$2,028	\$2,039		
Liability for unfunded credit commitments	232	212		
Total allowance for credit losses	\$2,260	\$2,251		
<b>Allowance for credit losses as a percentage of</b>				
Period-end loans	1.55%	1.61%		
Nonperforming loans	503	500		
Nonperforming assets	400	409		
Annualized net charge-offs	295	449		

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 June 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 June 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 and 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 June 30, 2007. The up 200 basis point scenario resulted in a 9.2 percent decrease in the market value of equity at June 30, 2007, compared

with a 6.7 percent decrease at December 31, 2006. The down 200 basis point scenario resulted in a .6 percent decrease in the market value of equity at June 30, 2007, compared with a 1.8 percent decrease at December 31, 2006. At June 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 June 30, 2007, the duration of assets, liabilities and equity was 2.0 years, 1.8 years and 2.7 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.

**Sensitivity of Net Interest Income:**

	June 30, 2007				December 31, 2006			
	Down 50 Immediate	Up 50 Immediate	Down 200 Gradual	Up 200 Gradual	Down 50 Immediate	Up 50 Immediate	Down 200 Gradual	Up 200 Gradual
Net interest income.....	1.50%	(1.82)%	2.66%	(3.46)%	.42%	(1.43)%	.92%	(2.95)%

**Table 9** Derivative Positions

	June 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 .....	\$ 3,380	\$(137)	42.79	\$ 5,345	\$27	22.97
Pay fixed/receive floating swaps .....	16,387	92	2.25	12,329	—	2.33
Futures and forwards						
Buy .....	5,318	(22)	.11	4,008	—	.22
Sell .....	6,814	42	.13	2,816	3	.09
Options						
Written .....	8,103	(4)	.13	7,544	(1)	.13
Foreign exchange contracts						
Cross-currency swaps .....	1,777	40	9.30	386	14	8.61
Forwards .....	115	(2)	.04	318	1	.02
Equity contracts .....	85	(2)	2.67	86	4	2.95
Credit default swaps .....	66	(1)	4.08	25	(1)	4.72
<b>Customer-related Positions</b>						
Interest rate contracts						
Receive fixed/pay floating swaps .....	\$11,376	\$(160)	5.34	\$10,371	\$(42)	5.42
Pay fixed/receive floating swaps .....	11,370	219	5.34	10,341	98	5.42
Options						
Purchased .....	1,743	10	1.96	1,899	5	1.92
Written .....	1,736	(9)	1.96	1,899	(3)	1.92
Risk participation agreements (a)						
Purchased .....	201	—	7.65	206	—	6.62
Written .....	532	—	5.93	356	—	6.05
Foreign exchange rate contracts						
Forwards and swaps						
Buy .....	2,321	71	.40	2,092	52	.46
Sell .....	2,430	(64)	.37	2,033	(43)	.47
Options						
Purchased .....	328	(3)	.63	408	(3)	.44
Written .....	328	3	.62	408	3	.44

(a) At June 30, 2007, the credit equivalent amount was \$2 million and \$68 million, compared with \$2 million and \$50 million at December 31, 2006, for purchased and written risk participation agreements, respectively.

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company's \$42.0 billion of total notional amount of asset and liability management positions at June 30, 2007, \$26.8 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 \$2.5 billion of forward commitments to sell mortgage loans and \$2.4 billion of unfunded mortgage loan commitments at June 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 June 30, 2007, the Company had less than \$1 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 \$12 million and \$16 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 second quarter and first six months of 2007. Gains or losses on customer-related positions were not material for the second quarter and first six 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 second quarter and first six 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 \$13 million, respectively, at June 30, 2007, compared with \$1 million and \$30 million, respectively, at December 31, 2006. At June 30, 2007, the Company's VaR limit was \$45 million. 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 June 30, 2007, parent company long-term debt outstanding was \$14.5 billion, compared with \$11.4 billion at December 31, 2006. The \$3.1 billion increase was primarily due to the issuances of \$3.0 billion of convertible senior debentures and \$.5 billion of junior subordinated debentures during the first six months of 2007. As of June 30, 2007, there was \$1.3 billion of 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 \$1.2 billion at June 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 six months of 2007, the Company returned 139 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 June 30, 2007, and December 31, 2006. All regulatory ratios continue to be in excess of regulatory "well-capitalized" requirements. Total shareholders' equity was \$20.3 billion at June 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.

**Table 10** Capital Ratios

(Dollars in Millions)	June 30, 2007	December 31, 2006
Tier 1 capital .....	\$16,876	\$17,036
As a percent of risk-weighted assets .....	8.5%	8.8%
As a percent of adjusted quarterly average assets (leverage ratio) .....	7.9%	8.2%
Total risk-based capital .....	\$25,709	\$24,495
As a percent of risk-weighted assets .....	13.0%	12.6%
Tangible common equity .....	\$11,194	\$11,703
As a percent of tangible assets .....	5.2%	5.5%

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

Time Period	Total Number of Shares Purchased as Part of the Program	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Program
April .....	5,052,241	\$34.61	82,529,448
May .....	5,462,142	34.50	77,067,306
June .....	7,167,833	33.82	69,899,473
Total .....	17,682,216	\$34.26	69,899,473

#### 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, 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.

**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** 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 \$278 million of the Company's net income in the second quarter and \$553 million in the first six months of 2007, or decreases of \$27 million (8.9 percent) and \$59 million (9.6 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 \$19 million (2.7 percent) in the second quarter and \$45 million (3.2 percent) in the first six months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, decreased \$32 million (6.6 percent) in the second quarter and \$58 million (6.0 percent) in the first six months of 2007, compared with the same periods of 2006. The decreases were driven by tighter credit spreads and a decline in average noninterest-bearing deposit balances as customers utilized their liquidity to fund business growth and 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 six months of 2007. Noninterest income increased \$13 million (5.8 percent) in the second quarter and \$13 million (2.9 percent) in the first six months of 2007, compared with the same periods of 2006, as an increase in treasury management revenue was offset by lower capital markets revenue.

Total noninterest expense increased \$11 million (4.8 percent) in the second quarter and \$13 million (2.8 percent) in the first six 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 \$12 million in the second quarter and \$33 million in the first six months of 2007, compared with the same periods of 2006. The unfavorable

**Table 11** Line of Business Financial Performance

Three Months Ended June 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2007	2006	Percent Change	2007	2006	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 453	\$ 485	(6.6)%	\$ 968	\$ 967	.1%
Noninterest income	238	223	6.7	472	466	1.3
Securities gains (losses), net	—	2	*	—	—	—
Total net revenue	691	710	(2.7)	1,440	1,433	.5
Noninterest expense	238	227	4.8	633	599	5.7
Other intangibles	4	4	—	13	12	8.3
Total noninterest expense	242	231	4.8	646	611	5.7
Income before provision and income taxes	449	479	(6.3)	794	822	(3.4)
Provision for credit losses	12	—	*	77	55	40.0
Income before income taxes	437	479	(8.8)	717	767	(6.5)
Income taxes and taxable-equivalent adjustment	159	174	(8.6)	261	279	(6.5)
Net income	\$ 278	\$ 305	(8.9)	\$ 456	\$ 488	(6.6)
<b>Average Balance Sheet Data</b>						
Commercial	\$34,410	\$33,266	3.4%	\$ 6,492	\$ 6,386	1.7%
Commercial real estate	16,687	17,344	(3.8)	11,079	10,686	3.7
Residential mortgages	70	54	29.6	21,300	20,363	4.6
Retail	66	38	73.7	35,514	33,618	5.6
Total loans	51,233	50,702	1.0	74,385	71,053	4.7
Goodwill	1,329	1,329	—	2,218	2,108	5.2
Other intangible assets	40	55	(27.3)	1,682	1,453	15.8
Assets	56,869	56,494	.7	85,170	80,777	5.4
Noninterest-bearing deposits	11,112	12,127	(8.4)	12,175	12,672	(3.9)
Interest checking	4,819	3,175	51.8	17,988	17,768	1.2
Savings products	5,054	5,572	(9.3)	19,671	21,365	(7.9)
Time deposits	9,392	13,254	(29.1)	20,094	18,483	8.7
Total deposits	30,377	34,128	(11.0)	69,928	70,288	(.5)
Shareholders' equity	5,720	5,729	(.2)	6,353	6,393	(.6)

Six Months Ended June 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2007	2006	Percent Change	2007	2006	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 906	\$ 964	(6.0)%	\$ 1,930	\$ 1,914	.8%
Noninterest income	463	448	3.3	902	849	6.2
Securities gains (losses), net	—	2	*	—	—	—
Total net revenue	1,369	1,414	(3.2)	2,832	2,763	2.5
Noninterest expense	465	452	2.9	1,258	1,204	4.5
Other intangibles	8	8	—	27	25	8.0
Total noninterest expense	473	460	2.8	1,285	1,229	4.6
Income before provision and income taxes	896	954	(6.1)	1,547	1,534	.8
Provision for credit losses	26	(7)	*	146	117	24.8
Income before income taxes	870	961	(9.5)	1,401	1,417	(1.1)
Income taxes and taxable-equivalent adjustment	317	349	(9.2)	510	516	(1.2)
Net income	\$ 553	\$ 612	(9.6)	\$ 891	\$ 901	(1.1)
<b>Average Balance Sheet Data</b>						
Commercial	\$34,546	\$32,840	5.2%	\$ 6,439	\$ 6,351	1.4%
Commercial real estate	16,759	17,309	(3.2)	11,074	10,639	4.1
Residential mortgages	65	56	16.1	21,171	20,418	3.7
Retail	66	40	65.0	35,413	33,528	5.6
Total loans	51,436	50,245	2.4	74,097	70,936	4.5
Goodwill	1,329	1,329	—	2,212	2,106	5.0
Other intangible assets	42	57	(26.3)	1,640	1,393	17.7
Assets	56,803	55,837	1.7	84,571	80,408	5.2
Noninterest-bearing deposits	10,963	12,063	(9.1)	12,145	12,673	(4.2)
Interest checking	4,662	3,149	48.0	17,896	17,702	1.1
Savings products	5,391	5,431	(.7)	19,736	21,848	(9.7)
Time deposits	10,567	12,750	(17.1)	19,997	18,252	9.6
Total deposits	31,583	33,393	(5.4)	69,774	70,475	(1.0)
Shareholders' equity	5,756	5,653	1.8	6,391	6,323	1.1

\* Not meaningful

Wealth Management			Payment Services			Treasury and Corporate Support			Consolidated Company		
2007	2006	Percent Change	2007	2006	Percent Change	2007	2006	Percent Change	2007	2006	Percent Change
\$ 120	\$ 128	(6.3)%	\$ 166	\$ 156	6.4%	\$ (57)	\$ (39)	(46.2)%	\$ 1,650	\$ 1,697	(2.8)%
403	369	9.2	733	654	12.1	6	40	(85.0)	1,852	1,752	5.7
—	—	—	—	—	—	3	1	*	3	3	—
523	497	5.2	899	810	11.0	(48)	2	*	3,505	3,452	1.5
234	238	(1.7)	336	297	13.1	104	80	30.0	1,545	1,441	7.2
23	22	4.5	55	51	7.8	—	—	—	95	89	6.7
257	260	(1.2)	391	348	12.4	104	80	30.0	1,640	1,530	7.2
266	237	12.2	508	462	10.0	(152)	(78)	(94.9)	1,865	1,922	(3.0)
—	2	*	101	65	55.4	1	3	(66.7)	191	125	52.8
266	235	13.2	407	397	2.5	(153)	(81)	(88.9)	1,674	1,797	(6.8)
97	86	12.8	148	144	2.8	(147)	(87)	(69.0)	518	596	(13.1)
\$ 169	\$ 149	13.4	\$ 259	\$ 253	2.4	\$ (6)	\$ 6	*	\$ 1,156	\$ 1,201	(3.7)
\$ 1,991	\$ 1,539	29.4%	\$ 4,160	\$ 3,759	10.7%	\$ 144	\$ 120	20.0%	\$ 47,197	\$ 45,070	4.7%
672	702	(4.3)	—	—	—	65	63	3.2	28,503	28,795	(1.0)
457	447	2.2	—	—	—	4	4	—	21,831	20,868	4.6
2,335	2,425	(3.7)	10,167	8,512	19.4	40	44	(9.1)	48,122	44,637	7.8
5,455	5,113	6.7	14,327	12,271	16.8	253	231	9.5	145,653	139,370	4.5
1,553	1,378	12.7	2,489	2,463	1.1	—	1	*	7,589	7,279	4.3
425	473	(10.1)	1,122	1,165	(3.7)	—	—	—	3,269	3,146	3.9
8,027	7,533	6.6	19,805	17,295	14.5	52,151	50,308	3.7	222,022	212,407	4.5
4,270	3,682	16.0	367	298	23.2	53	170	(68.8)	27,977	28,949	(3.4)
3,047	2,387	27.6	—	—	—	4	3	33.3	25,858	23,333	10.8
5,251	5,702	(7.9)	21	19	10.5	49	43	14.0	30,046	32,701	(8.1)
3,703	2,859	29.5	3	3	—	1,902	1,651	15.2	35,094	36,250	(3.2)
16,271	14,630	11.2	391	320	22.2	2,008	1,867	7.6	118,975	121,233	(1.9)
2,475	2,339	5.8	4,842	4,744	2.1	1,505	1,351	11.4	20,895	20,556	1.6

Wealth Management			Payment Services			Treasury and Corporate Support			Consolidated Company		
2007	2006	Percent Change	2007	2006	Percent Change	2007	2006	Percent Change	2007	2006	Percent Change
\$ 241	\$ 253	(4.7)%	\$ 335	\$ 319	5.0%	\$ (96)	\$ (28)	***	\$ 3,316	\$ 3,422	(3.1)%
777	719	8.1	1,391	1,244	11.8	14	106	(86.8)	3,547	3,366	5.4
—	—	—	—	—	—	4	1	*	4	3	33.3
1,018	972	4.7	1,726	1,563	10.4	(78)	79	*	6,867	6,791	1.1
466	475	(1.9)	656	591	11.0	151	134	12.7	2,996	2,856	4.9
46	44	4.5	108	97	11.3	—	—	—	189	174	8.6
512	519	(1.3)	764	688	11.0	151	134	12.7	3,185	3,030	5.1
506	453	11.7	962	875	9.9	(229)	(55)	*	3,682	3,761	(2.1)
—	2	*	194	125	55.2	2	3	(33.3)	368	240	53.3
506	451	12.2	768	750	2.4	(231)	(58)	*	3,314	3,521	(5.9)
184	165	11.5	279	272	2.6	(262)	(135)	(94.1)	1,028	1,167	(11.9)
\$ 322	\$ 286	12.6	\$ 489	\$ 478	2.3	\$ 31	\$ 77	(59.7)	\$ 2,286	\$ 2,354	(2.9)
\$ 1,979	\$ 1,528	29.5%	\$ 3,998	\$ 3,647	9.6%	\$ 141	\$ 135	4.4%	\$ 47,103	\$ 44,501	5.8%
675	694	(2.7)	—	—	—	65	64	1.6	28,573	28,706	(.5)
460	449	2.4	—	—	—	4	4	—	21,700	20,927	3.7
2,340	2,415	(3.1)	9,941	8,417	18.1	40	45	(11.1)	47,800	44,445	7.5
5,454	5,086	7.2	13,939	12,064	15.5	250	248	.8	145,176	138,579	4.8
1,551	1,376	12.7	2,473	2,376	4.1	14	1	*	7,579	7,188	5.4
437	484	(9.7)	1,105	1,110	(.5)	21	—	*	3,245	3,044	6.6
8,023	7,512	6.8	19,301	16,884	14.3	52,076	50,581	3.0	220,774	211,222	4.5
4,262	3,662	16.4	410	296	38.5	48	199	(75.9)	27,828	28,893	(3.7)
2,908	2,384	22.0	—	—	—	4	3	33.3	25,470	23,238	9.6
5,370	5,552	(3.3)	21	19	10.5	58	33	75.8	30,576	32,883	(7.0)
3,784	2,449	54.5	3	3	—	1,622	2,233	(27.4)	35,973	35,687	.8
16,324	14,047	16.2	434	318	36.5	1,732	2,468	(29.8)	119,847	120,701	(.7)
2,486	2,342	6.1	4,793	4,555	5.2	1,626	1,480	9.9	21,052	20,353	3.4

changes were primarily due to an increase in gross charge-offs. Credit quality continued to be strong within this business segment. Nonperforming assets were \$230 million at June 30, 2007, \$226 million at March 31, 2007, and \$218 million at June 30, 2006. Nonperforming assets as a percentage of period-end loans were .46 percent at June 30, 2007, .44 percent at March 31, 2007, and .43 percent at June 30, 2006. Refer to the “Corporate Risk Profile” section for further information on factors impacting the credit quality of the loan portfolios.

**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 \$456 million of the Company’s net income in the second quarter and \$891 million in the first six months of 2007, or decreases of \$32 million (6.6 percent) and \$10 million (1.1 percent), respectively, compared with the same periods of 2006. The retail banking division contributed \$428 million of the total contribution in the second quarter and \$838 million in the first six months of 2007, or decreases of 5.9 percent and 3.0 percent, respectively, compared with the same periods in the prior year.

Total net revenue increased \$7 million (.5 percent) in the second quarter and \$69 million (2.5 percent) in the first six months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, increased \$1 million (.1 percent) in the second quarter and \$16 million (.8 percent) in the first six 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 \$1.6 billion (8.7 percent) in the second quarter and \$1.7 billion (9.6 percent) in the first six 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 \$1.7 billion (7.9 percent), in the second quarter and \$2.1 billion (9.7 percent) in the first six 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 \$6 million (1.3 percent) in the second quarter and \$53 million (6.2 percent) in the first six months of 2007, compared with the same periods of 2006. The increase in fee-based revenue in the second quarter of 2007, compared to the same period of 2006 was driven primarily by an increase in deposit service charges. The increase in fee-based revenue in the first six months of 2007, compared to the same period of 2006, was driven by an increase in mortgage banking revenue, principally related to the adoption of fair value accounting for MSRs, as well as an increase in deposit service charges. These increases were partially offset by lower revenue related to student loan sales.

Total noninterest expense increased \$35 million (5.7 percent) in the second quarter and \$56 million (4.6 percent) in the first six months of 2007, compared with the same periods of 2006. The increases were primarily attributable to increases in compensation and employee benefit expenses which reflected the net addition, including the impact of recent acquisitions, of 25 in-store and 40 traditional branches at June 30, 2007, compared with June 30, 2006.

The provision for credit losses increased \$22 million (40.0 percent) in the second quarter and \$29 million (24.8 percent) in the first six 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 .42 percent in the second quarter of 2007, compared with .31 percent in the second quarter of 2006. Commercial and commercial real estate loan net charge-offs increased \$4 million (40.0 percent) in the second quarter of 2007, compared with the second quarter of 2006. Retail loan and residential mortgage net charge-offs increased \$18 million (40.0 percent) in the second quarter of 2007, compared with the second quarter of 2006, reflecting higher levels of bankruptcy-related losses. Nonperforming assets were \$300 million at June 30, 2007, \$312 million at March 31, 2007, and \$275 million at June 30, 2006. Nonperforming assets as a percentage of period-end loans were .42 percent at

June 30, 2007, .44 percent at March 31, 2007, and .40 percent at June 30, 2006. Refer to the “Corporate Risk Profile” section for further information on factors impacting the credit quality of the loan portfolios.

**Wealth Management** provides trust, private banking, financial advisory, investment management, retail brokerage services, insurance, custody and mutual fund servicing through six businesses: Private Client Group, Corporate Trust, U.S. Bancorp Investments & Insurance, FAF Advisors, Institutional Trust & Custody and Fund Services. Wealth Management contributed \$169 million of the Company’s net income in the second quarter and \$322 million in the first six months of 2007, or increases of \$20 million (13.4 percent) and \$36 million (12.6 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 \$26 million (5.2 percent) in the second quarter and \$46 million (4.7 percent) in the first six months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, decreased \$8 million (6.3 percent) in the second quarter and \$12 million (4.7 percent) in the first six months of 2007, compared with the same periods of 2006. The decreases in net interest income were due to the unfavorable impacts from 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 \$34 million (9.2 percent) in the second quarter and \$58 million (8.1 percent) in the first six months of 2007, compared with the same periods of 2006, primarily driven by core account fee growth and favorable equity market conditions.

Total noninterest expense decreased \$3 million (1.2 percent) in the second quarter and \$7 million (1.3 percent) in the first six months of 2007, compared with the same periods of 2006. The decreases were primarily due to the completion of certain acquisition integration activities.

**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 contributed \$259 million of the Company’s net income in the second quarter and \$489 million in the first six months of 2007, or increases of \$6 million (2.4 percent) and \$11 million (2.3 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 \$89 million (11.0 percent) in the second quarter and \$163 million (10.4 percent) in the first six months of 2007, compared with the same periods of 2006. Net interest income, on a taxable-equivalent basis, increased \$10 million (6.4 percent) in the second quarter and \$16 million (5.0 percent) in the first six 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 declining spreads on retail credit cards. Noninterest income increased \$79 million (12.1 percent) in the second quarter and \$147 million (11.8 percent) in the first six months of 2007, compared with the same periods of 2006. The increases in fee-based revenue were driven by higher transaction volumes, rate changes, and business expansion initiatives. The increase in noninterest income for the first six 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 \$43 million (12.4 percent) in the second quarter and \$76 million (11.0 percent) in the first six months of 2007, compared with the same periods of 2006. The increases were primarily attributable to the acquisition of merchant acquiring and corporate payments businesses, and growth in personnel expense, marketing, and consulting expense related to other new business initiatives.

The provision for credit losses increased \$36 million (55.4 percent) in the second quarter and \$69 million (55.2 percent) in the first six months 2007, compared with the same periods of 2006, due to higher net charge-offs, reflecting portfolio growth, the impact of implementing minimum balance repayment requirements for credit cards and other consumer lines and a higher level of losses due to changes in bankruptcy legislation that went into effect in late 2005. As a percentage of average loans outstanding on an annualized basis, net charge-offs were 2.83 percent in the second quarter of 2007, compared with 2.12 percent in the second quarter of 2006.

**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 recorded a net loss of \$6 million in the second quarter and net income of \$31 million in the first six months of 2007, compared with net income of \$6 million and \$77 million in the same periods of 2006, respectively.

Total net revenue decreased \$50 million in the second quarter and \$157 million in the first six months of 2007, compared with the same periods of 2006. The year-over-year decreases in total net revenue were due to unfavorable variances in both net interest income and noninterest income. The declines in net interest income reflected the impact of a flatter yield curve and the impact of issuing higher cost wholesale funding to support earning asset growth. Noninterest income decreased \$32 million (78.0 percent) in the second quarter and \$89 million (83.2 percent) in the first six months of 2007, compared with the same periods of 2006. The decreases were primarily due to a gain recognized in second quarter of 2006 related to the initial public offering of a cardholder association. In addition, the decrease for the first six months of 2007, compared with the same period of the prior year, was due to trading gains realized in the first quarter of 2006 related to terminating certain interest rate derivatives.

Total noninterest expense increased \$24 million (30.0 percent) in the second quarter and \$17 million (12.7 percent) in the first six months of 2007, compared with the same periods of 2006. The increases were driven by increases in compensation and benefits

primarily in the technology development areas, higher costs related to tax-advantaged investments, and higher expenses associated with systems conversions for recent acquisitions.

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 second quarter and 30.3 percent in the first six months of 2007, compared with 32.8 percent and 32.7 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)	June 30, 2007	December 31, 2006
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks .....	\$ 6,534	\$ 8,639
Investment securities		
Held-to-maturity (fair value \$83 and \$92, respectively) .....	81	87
Available-for-sale .....	39,433	40,030
Loans held for sale .....	4,552	3,256
Loans		
Commercial .....	46,459	46,190
Commercial real estate .....	28,421	28,645
Residential mortgages .....	21,992	21,285
Retail .....	48,836	47,477
Total loans .....	145,708	143,597
Less allowance for loan losses .....	(2,028)	(2,022)
Net loans .....	143,680	141,575
Premises and equipment .....	1,798	1,835
Goodwill .....	7,593	7,538
Other intangible assets .....	3,352	3,227
Other assets .....	15,507	13,045
Total assets .....	<u>\$222,530</u>	<u>\$219,232</u>
<b>Liabilities and Shareholders' Equity</b>		
Deposits		
Noninterest-bearing .....	\$ 29,545	\$ 32,128
Interest-bearing .....	70,216	70,330
Time deposits greater than \$100,000 .....	19,941	22,424
Total deposits .....	119,702	124,882
Short-term borrowings .....	27,160	26,933
Long-term debt .....	45,946	37,602
Other liabilities .....	9,392	8,618
Total liabilities .....	202,200	198,035
Shareholders' equity		
Preferred stock, par value \$1.00 a share (liquidation preference of \$25,000 per share) authorized: 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: 6/30/07 and 12/31/06 — 1,972,643,007 shares .....	20	20
Capital surplus .....	5,748	5,762
Retained earnings .....	22,110	21,242
Less cost of common stock in treasury: 6/30/07 — 244,766,681 shares; 12/31/06 — 207,928,756 shares .....	(7,476)	(6,091)
Other comprehensive income .....	(1,072)	(736)
Total shareholders' equity .....	<u>20,330</u>	<u>21,197</u>
Total liabilities and shareholders' equity .....	<u>\$222,530</u>	<u>\$219,232</u>

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Interest Income</b>				
Loans	\$2,616	\$2,425	\$5,194	\$4,732
Loans held for sale	70	57	129	108
Investment securities	516	500	1,032	990
Other interest income	34	36	68	79
Total interest income	3,236	3,018	6,423	5,909
<b>Interest Expense</b>				
Deposits	663	578	1,338	1,081
Short-term borrowings	379	270	707	540
Long-term debt	562	484	1,097	887
Total interest expense	1,604	1,332	3,142	2,508
Net interest income	1,632	1,686	3,281	3,401
Provision for credit losses	191	125	368	240
Net interest income after provision for credit losses	1,441	1,561	2,913	3,161
<b>Noninterest Income</b>				
Credit and debit card revenue	228	202	433	384
Corporate payment products revenue	157	139	302	266
ATM processing services	62	61	121	120
Merchant processing services	285	253	535	466
Trust and investment management fees	342	314	664	611
Deposit service charges	272	264	515	496
Treasury management fees	126	116	237	223
Commercial products revenue	105	107	205	211
Mortgage banking revenue	68	75	135	99
Investment products fees and commissions	38	42	72	80
Securities gains (losses), net	3	3	4	3
Other	169	179	328	410
Total noninterest income	1,855	1,755	3,551	3,369
<b>Noninterest Expense</b>				
Compensation	659	627	1,294	1,260
Employee benefits	123	123	256	256
Net occupancy and equipment	171	161	336	326
Professional services	59	41	106	76
Marketing and business development	64	58	112	98
Technology and communications	126	127	251	244
Postage, printing and supplies	71	66	140	132
Other intangibles	95	89	189	174
Debt prepayment	—	11	—	11
Other	272	227	501	453
Total noninterest expense	1,640	1,530	3,185	3,030
Income before income taxes	1,656	1,786	3,279	3,500
Applicable income taxes	500	585	993	1,146
Net income	\$1,156	\$1,201	\$2,286	\$2,354
Net income applicable to common equity	\$1,141	\$1,184	\$2,256	\$2,337
Earnings per common share	\$ .66	\$ .66	\$ 1.29	\$ 1.30
Diluted earnings per common share	\$ .65	\$ .66	\$ 1.27	\$ 1.29
Dividends declared per common share	\$ .40	\$ .33	\$ .80	\$ .66
Average common shares outstanding	1,736	1,781	1,744	1,791
Average diluted common shares outstanding	1,760	1,805	1,770	1,816

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Shareholders' Equity

(Dollars and Shares in Millions) (Unaudited)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other Comprehensive Income	Total Shareholders' 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 .....					2,354			2,354
Unrealized loss on securities available for sale .....							(1,105)	(1,105)
Unrealized gain on derivatives .....							153	153
Foreign currency translation .....							4	4
Realized loss on derivatives .....							(199)	(199)
Reclassification for realized losses .....							6	6
Income taxes .....							433	433
Total comprehensive income .....								1,646
Cash dividends declared								
Preferred .....					(17)			(17)
Common .....					(1,178)			(1,178)
Issuance of common and treasury stock .....	18			(79)		533		454
Purchase of treasury stock .....	(50)					(1,538)		(1,538)
Stock option and restricted stock grants .....				12				12
Shares reserved to meet deferred compensation obligations .....				1		(3)		(2)
Issuance of preferred stock .....		1,000		(52)				948
<b>Balance June 30, 2006</b> .....	1,783	\$1,000	\$20	\$5,789	\$20,164	\$(5,421)	\$(1,137)	\$20,415
<b>Balance December 31, 2006</b> .....	1,765	\$1,000	\$20	\$5,762	\$21,242	\$(6,091)	\$ (736)	\$21,197
Net income .....					2,286			2,286
Unrealized loss on securities available for sale .....							(701)	(701)
Unrealized gain on derivatives .....							94	94
Foreign currency translation .....							19	19
Reclassification for realized losses .....							46	46
Change in retirement obligation .....							1	1
Income taxes .....							205	205
Total comprehensive income .....								1,950
Cash dividends declared								
Preferred .....					(30)			(30)
Common .....					(1,388)			(1,388)
Issuance of common and treasury stock .....	15			(23)		453		430
Purchase of treasury stock .....	(52)					(1,836)		(1,836)
Stock option and restricted stock grants .....				9				9
Shares reserved to meet deferred compensation obligations .....						(2)		(2)
<b>Balance June 30, 2007</b> .....	1,728	\$1,000	\$20	\$5,748	\$22,110	\$(7,476)	\$(1,072)	\$20,330

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Cash Flows

(Dollars in Millions) (Unaudited)	Six Months Ended June 30,	
	2007	2006
<b>Operating Activities</b>		
Net cash provided by operating activities .....	\$ 975	\$ 2,124
<b>Investing Activities</b>		
Proceeds from sales of available-for-sale investment securities .....	788	859
Proceeds from maturities of investment securities .....	2,204	2,573
Purchases of investment securities .....	(3,117)	(3,649)
Net increase in loans outstanding .....	(1,187)	(2,760)
Proceeds from sales of loans .....	340	369
Purchases of loans .....	(1,073)	(1,563)
Acquisitions, net of cash acquired .....	(73)	(446)
Other, net .....	(1,215)	(290)
Net cash used in investing activities .....	(3,333)	(4,907)
<b>Financing Activities</b>		
Net decrease in deposits .....	(5,488)	(1,990)
Net increase in short-term borrowings .....	220	370
Proceeds from issuance of long-term debt .....	12,634	7,538
Principal payments or redemption of long-term debt .....	(4,242)	(2,384)
Proceeds from issuance of preferred stock .....	—	948
Proceeds from issuance of common stock .....	305	383
Repurchase of common stock .....	(1,781)	(1,528)
Cash dividends paid on preferred stock .....	(30)	—
Cash dividends paid on common stock .....	(1,403)	(1,188)
Net cash provided by financing activities .....	215	2,149
Change in cash and cash equivalents .....	(2,143)	(634)
Cash and cash equivalents at beginning of period .....	8,805	8,202
Cash and cash equivalents at end of period .....	\$ 6,662	\$ 7,568

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** Accounting Changes

**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.

## Note 3 Loans

The composition of the loan portfolio was as follows:

(Dollars in Millions)	June 30, 2007		December 31, 2006	
	Amount	Percent of Total	Amount	Percent of Total
<b>Commercial</b>				
Commercial .....	\$ 40,746	28.0%	\$ 40,640	28.3%
Lease financing .....	5,713	3.9	5,550	3.9
Total commercial .....	46,459	31.9	46,190	32.2
<b>Commercial real estate</b>				
Commercial mortgages .....	19,455	13.3	19,711	13.7
Construction and development .....	8,966	6.2	8,934	6.2
Total commercial real estate .....	28,421	19.5	28,645	19.9
<b>Residential mortgages</b>				
Residential mortgages .....	16,116	11.1	15,316	10.7
Home equity loans, first liens .....	5,876	4.0	5,969	4.1
Total residential mortgages .....	21,992	15.1	21,285	14.8
<b>Retail</b>				
Credit card .....	9,429	6.5	8,670	6.0
Retail leasing .....	6,572	4.5	6,960	4.9
Home equity and second mortgages .....	15,907	10.9	15,523	10.8
Other retail				
Revolving credit .....	2,579	1.8	2,563	1.8
Installment .....	5,022	3.4	4,478	3.1
Automobile .....	8,901	6.1	8,693	6.1
Student .....	426	.3	590	.4
Total other retail .....	16,928	11.6	16,324	11.4
Total retail .....	48,836	33.5	47,477	33.1
Total loans .....	\$145,708	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 June 30, 2007, and December 31, 2006.

## Note 4 Mortgage Servicing Rights

The Company's portfolio of residential mortgages serviced for others was \$89.7 billion and \$82.9 billion at June 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 loss of \$6 million and a net gain of \$10 million for the three months ended June 30, 2007, and 2006, respectively, and a net loss of \$5 million and \$9 million for the six months ended June 30, 2007 and 2006, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue were \$87 million and \$80 million for the three months ended June 30, 2007, and 2006, respectively, and \$173 million and \$156 million for the six months ended June 30, 2007, and 2006, respectively.

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

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Balance at beginning of period	\$1,447	\$1,228	\$1,427	\$1,123
Rights purchased	3	1	6	47
Rights capitalized	104	99	186	170
Changes in fair value of MSRs				
Due to change in valuation assumptions (a)	147	38	124	71
Other changes in fair value (b)	(52)	(43)	(94)	(88)
Balance at end of period	\$1,649	\$1,323	\$1,649	\$1,323

(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 June 30, 2007, was as follows:

(Dollars in Millions)	Down Scenario		Up Scenario	
	50 bps	25 bps	25 bps	50 bps
Net fair value	\$(49)	\$(17)	\$(9)	\$(47)

## 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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income.....	\$1,156	\$1,201	\$2,286	\$2,354
Preferred dividends .....	(15)	(17)	(30)	(17)
Net income applicable to common equity .....	\$1,141	\$1,184	\$2,256	\$2,337
Average common shares outstanding .....	1,736	1,781	1,744	1,791
Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes .....	24	24	26	25
Average diluted common shares outstanding .....	1,760	1,805	1,770	1,816
Earnings per common share .....	\$ .66	\$ .66	\$ 1.29	\$ 1.30
Diluted earnings per common share .....	\$ .65	\$ .66	\$ 1.27	\$ 1.29

Options to purchase 13 million and 4 million common shares for the three months ended June 30, 2007 and 2006, respectively, and 12 million and 4 million common shares for the six months ended June 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 (income) for the Company's retirement plans were:

(Dollars in Millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Plans		Postretirement Medical Plan		Pension Plans		Postretirement Medical Plan	
	2007	2006	2007	2006	2007	2006	2007	2006
Service cost .....	\$ 17	\$ 18	\$ 2	\$ 1	\$ 35	\$ 36	\$ 3	\$ 2
Interest cost .....	32	29	3	4	63	59	7	7
Expected return on plan assets .....	(49)	(47)	(1)	—	(99)	(95)	(3)	—
Prior service (credit) cost and transition (asset) obligation amortization .....	(2)	(1)	—	—	(3)	(3)	—	—
Actuarial (gain) loss amortization .....	15	22	—	—	31	45	—	—
Net periodic benefit cost (income) .....	\$ 13	\$ 21	\$ 4	\$ 5	\$ 27	\$ 42	\$ 7	\$ 9

## Note 7 Income Taxes

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Federal</b>				
Current .....	\$488	\$ 631	\$ 937	\$1,212
Deferred .....	(46)	(154)	(68)	(236)
Federal income tax .....	442	477	869	976
<b>State</b>				
Current .....	62	120	131	188
Deferred .....	(4)	(12)	(7)	(18)
State income tax .....	58	108	124	170
Total income tax provision .....	\$500	\$ 585	\$ 993	\$1,146

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

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Tax at statutory rate (35 percent) .....	\$579	\$625	\$1,147	\$1,225
State income tax, at statutory rates, net of federal tax benefit .....	38	70	81	110
Tax effect of				
Tax credits .....	(71)	(61)	(140)	(119)
Tax-exempt income .....	(31)	(23)	(58)	(43)
Other items .....	(15)	(26)	(37)	(27)
Applicable income taxes .....	\$500	\$585	\$ 993	\$1,146

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 June 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 \$1,218 million at June 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 June 30, 2007:

(Dollars in Millions)	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit .....	\$71	\$11,934
Third-party borrowing arrangements .....	3	386
Securities lending indemnifications.....	—	18,239
Asset sales (a) .....	7	512
Merchant processing.....	50	78,358
Other guarantees .....	34	1,674
Other contingent liabilities .....	—	1,981

(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 June 30, 2007, the value of airline, cruise line and large tour operator tickets purchased to be delivered at a future date was \$5.1 billion, with airline tickets representing 92 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 June 30,  
2007 2006

(Dollars in Millions) (Unaudited)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
<b>Assets</b>							
Investment securities .....	\$ 40,704	\$ 548	5.39%	\$ 40,087	\$ 513	5.12%	1.5%
Loans held for sale .....	4,334	70	6.43	3,555	57	6.34	21.9
Loans (b)							
Commercial .....	47,197	781	6.64	45,070	734	6.53	4.7
Commercial real estate .....	28,503	524	7.37	28,795	528	7.36	(1.0)
Residential mortgages .....	21,831	331	6.06	20,868	302	5.80	4.6
Retail .....	48,122	988	8.23	44,637	867	7.79	7.8
Total loans .....	145,653	2,624	7.22	139,370	2,431	7.00	4.5
Other earning assets .....	1,610	34	8.36	1,878	36	7.60	(14.3)
Total earning assets .....	192,301	3,276	6.83	184,890	3,037	6.58	4.0
Allowance for loan losses .....	(2,039)			(2,051)			.6
Unrealized gain (loss) on available-for-sale securities .....	(771)			(1,431)			(46.1)
Other assets .....	32,531			30,999			4.9
Total assets .....	<u>\$222,022</u>			<u>\$212,407</u>			4.5
<b>Liabilities and Shareholders' Equity</b>							
Noninterest-bearing deposits .....	\$ 27,977			\$ 28,949			(3.4)
Interest-bearing deposits							
Interest checking .....	25,858	84	1.32	23,333	50	.87	10.8
Money market savings .....	24,603	159	2.59	26,981	138	2.05	(8.8)
Savings accounts .....	5,443	5	.38	5,720	5	.33	(4.8)
Time certificates of deposit less than \$100,000 .....	14,716	162	4.40	13,689	126	3.68	7.5
Time deposits greater than \$100,000 .....	20,378	253	4.98	22,561	259	4.61	(9.7)
Total interest-bearing deposits .....	90,998	663	2.92	92,284	578	2.51	(1.4)
Short-term borrowings .....	29,524	401	5.44	22,246	278	5.01	32.7
Long-term debt .....	44,655	562	5.05	41,225	484	4.71	8.3
Total interest-bearing liabilities .....	165,177	1,626	3.95	155,755	1,340	3.45	6.0
Other liabilities .....	7,973			7,147			11.6
Shareholders' equity							
Preferred equity .....	1,000			1,000			—
Common equity .....	19,895			19,556			1.7
Total shareholders' equity .....	20,895			20,556			1.6
Total liabilities and shareholders' equity .....	<u>\$222,022</u>			<u>\$212,407</u>			4.5%
Net interest income .....		<u>\$1,650</u>			<u>\$1,697</u>		
Gross interest margin .....			<u>2.88%</u>			<u>3.13%</u>	
Gross interest margin without taxable-equivalent increments .....			<u>2.84</u>			<u>3.11</u>	
<b>Percent of Earning Assets</b>							
Interest income .....			6.83%			6.58%	
Interest expense .....			3.39			2.90	
Net interest margin .....			<u>3.44%</u>			<u>3.68%</u>	
Net interest margin without taxable-equivalent increments .....			<u>3.40%</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.

# U.S. Bancorp

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

For the Six Months Ended June 30,  
2007 2006

(Dollars in Millions) (Unaudited)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
<b>Assets</b>							
Investment securities .....	\$ 40,791	\$1,094	5.36%	\$ 39,885	\$1,009	5.06%	2.3%
Loans held for sale .....	4,090	129	6.33	3,412	108	6.28	19.9
Loans (b)							
Commercial .....	47,103	1,555	6.65	44,501	1,424	6.44	5.8
Commercial real estate .....	28,573	1,044	7.37	28,706	1,025	7.20	(.5)
Residential mortgages .....	21,700	654	6.04	20,927	596	5.71	3.7
Retail .....	47,800	1,955	8.25	44,445	1,699	7.71	7.5
Total loans .....	145,176	5,208	7.23	138,579	4,744	6.90	4.8
Other earning assets .....	1,664	68	8.18	2,124	79	7.46	(21.7)
Total earning assets .....	191,721	6,499	6.82	184,000	5,940	6.49	4.2
Allowance for loan losses .....	(2,038)			(2,055)			.8
Unrealized gain (loss) on available-for-sale securities .....	(695)			(1,117)			37.8
Other assets .....	31,786			30,394			4.6
Total assets .....	<u>\$220,774</u>			<u>\$211,222</u>			4.5
<b>Liabilities and Shareholders' Equity</b>							
Noninterest-bearing deposits .....	\$ 27,828			\$ 28,893			(3.7)
Interest-bearing deposits							
Interest checking .....	25,470	160	1.27	23,238	95	.82	9.6
Money market savings .....	25,154	322	2.58	27,178	254	1.88	(7.4)
Savings accounts .....	5,422	10	.38	5,705	9	.31	(5.0)
Time certificates of deposit less than \$100,000 .....	14,745	320	4.37	13,598	240	3.55	8.4
Time deposits greater than \$100,000 .....	21,228	526	4.99	22,089	483	4.41	(3.9)
Total interest-bearing deposits .....	92,019	1,338	2.93	91,808	1,081	2.37	.2
Short-term borrowings .....	28,114	748	5.37	23,295	550	4.77	20.7
Long-term debt .....	43,804	1,097	5.04	39,735	887	4.49	10.2
Total interest-bearing liabilities .....	163,937	3,183	3.91	154,838	2,518	3.28	5.9
Other liabilities .....	7,957			7,138			11.5
Shareholders' equity							
Preferred equity .....	1,000			530			88.7
Common equity .....	20,052			19,823			1.2
Total shareholders' equity .....	21,052			20,353			3.4
Total liabilities and shareholders' equity .....	<u>\$220,774</u>			<u>\$211,222</u>			4.5 %
Net interest income .....		<u>\$3,316</u>			<u>\$3,422</u>		
Gross interest margin .....			<u>2.91%</u>			<u>3.21%</u>	
Gross interest margin without taxable-equivalent increments ..			<u>2.87</u>			<u>3.19</u>	
<b>Percent of Earning Assets</b>							
Interest income .....			6.82%			6.49%	
Interest expense .....			3.35			2.75	
Net interest margin .....			<u>3.47%</u>			<u>3.74%</u>	
Net interest margin without taxable-equivalent increments .....			3.43%			3.72%	

(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 second quarter of 2007.

**Item 4. Submission of Matters to a Vote of Security Holders** — The information contained in Part II, Item 4 of the Company’s Form 10-Q for the quarterly period ended March 31, 2007, is incorporated herein by reference.

### **Item 6. Exhibits**

- 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: August 9, 2007

## EXHIBIT 12

### Computation of Ratio of Earnings to Fixed Charges

(Dollars in Millions)	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
<b>Earnings</b>		
1. Net income .....	\$1,156	\$2,286
2. Applicable income taxes, including interest expense related to unrecognized tax positions .....	500	993
3. Income before income taxes (1 + 2) .....	<u>\$1,656</u>	<u>\$3,279</u>
4. Fixed charges:		
a. Interest expense excluding interest on deposits* .....	\$ 941	\$1,804
b. Portion of rents representative of interest and amortization of debt expense .....	19	38
c. Fixed charges excluding interest on deposits (4a + 4b) .....	960	1,842
d. Interest on deposits .....	663	1,338
e. Fixed charges including interest on deposits (4c + 4d) .....	<u>\$1,623</u>	<u>\$3,180</u>
5. Amortization of interest capitalized .....	\$ —	\$ —
6. Earnings excluding interest on deposits (3 + 4c + 5) .....	2,616	5,121
7. Earnings including interest on deposits (3 + 4e + 5) .....	3,279	6,459
8. Fixed charges excluding interest on deposits (4c) .....	960	1,842
9. Fixed charges including interest on deposits (4e) .....	1,623	3,180
<b>Ratio of Earnings to Fixed Charges</b>		
10. Excluding interest on deposits (line 6/line 8) .....	2.73	2.78
11. Including interest on deposits (line 7/line 9) .....	<u>2.02</u>	<u>2.03</u>

\* 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

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Richard K. Davis  
*Chief Executive Officer*

Dated: August 9, 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

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Andrew Cecere  
*Chief Financial Officer*

Dated: August 9, 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 June 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: August 9, 2007

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## 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

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  
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  
Phone: 866-775-9668

### Media Requests

Steven W. Dale  
Senior Vice President, Media Relations  
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