

Form 10-Q/June 30, 2002

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

FORM 10-Q

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

For the quarterly period ended June 30, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES 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)

225 South Sixth Street
Minneapolis, Minnesota 55402
(Address of principal executive offices and Zip Code)

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

(not applicable)
(Former name, former address and former fiscal year,
if changed since last report)

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

YES X NO

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

Class
Common Stock, \$.01 Par Value

Outstanding as of July 31, 2002
1,914,433,862 shares

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Forward-Looking Statements

This Form 10-Q contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including the following, in addition to those contained in U.S. Bancorp's (the "Company") reports on file with the SEC: (i) general economic or industry conditions could be less favorable than expected, resulting in a deterioration in credit quality, a change in the allowance for credit losses, or a reduced demand for credit or fee-based products and services; (ii) the Company could encounter unforeseen complications in connection with the ongoing integration of the products, operations and information systems of Firststar Corporation with the former U.S. Bancorp that could adversely affect the Company's operations or customer relationships; (iii) changes in the domestic interest rate environment could reduce net interest income and could increase credit losses; (iv) the conditions of the securities markets could change, adversely affecting revenues from capital markets businesses, the value or credit quality of the Company's assets, or the availability and terms of funding necessary to meet the Company's liquidity needs; (v) changes in the extensive laws, regulations and policies governing financial services companies could alter the Company's business environment or affect operations; (vi) the potential need to adapt to industry changes in information technology systems, on which the Company is highly dependent, could present operational issues or require significant capital spending; (vii) competitive pressures could intensify and affect the Company's profitability, including as a result of continued industry consolidation, the increased availability of financial services from non-banks, technological developments or bank regulatory reform; (viii) acquisitions may not produce revenue enhancements or cost savings at levels or within time frames originally anticipated, or may result in unforeseen integration difficulties; and (ix) capital investments in the Company's businesses may not produce expected growth in earnings anticipated at the time of the expenditure. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them in light of new information or future events.

Financial Summary

| (Dollars and Shares in Millions, Except Per Share Data) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|-----------------------------|-----------|----------------|---------------------------|------------|----------------|
| | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change |
| Operating earnings (a) | \$ 869.8 | \$ 818.6 | 6.3% | \$ 1,711.4 | \$ 1,615.9 | 5.9% |
| Merger and restructuring-related items (after-tax) | (46.7) | (256.3) | | (95.1) | (643.5) | |
| Cumulative effect of change in accounting principles (after-tax) | — | — | | (37.2) | — | |
| Net income | \$ 823.1 | \$ 562.3 | 46.4 | \$ 1,579.1 | \$ 972.4 | 62.4 |
| Per Common Share | | | | | | |
| Earnings per share before cumulative effect of change in accounting principles | \$.43 | \$.30 | 43.3% | \$.84 | \$.51 | 64.7% |
| Diluted earnings per share before cumulative effect of change in accounting principles | .43 | .29 | 48.3 | .84 | .51 | 64.7 |
| Earnings per share | .43 | .30 | 43.3 | .82 | .51 | 60.8 |
| Diluted earnings per share | .43 | .29 | 48.3 | .82 | .51 | 60.8 |
| Dividends declared per share | .195 | .1875 | 4.0 | .39 | .375 | 4.0 |
| Book value per share | 8.70 | 8.10 | 7.4 | | | |
| Market value per share | 23.35 | 22.79 | 2.5 | | | |
| Average shares outstanding | 1,913.2 | 1,905.3 | .4 | 1,916.5 | 1,903.2 | .7 |
| Average diluted shares outstanding | 1,926.9 | 1,917.2 | .5 | 1,928.5 | 1,916.4 | .6 |
| Financial Ratios | | | | | | |
| Return on average assets | 1.95% | 1.37% | | 1.89% | 1.20% | |
| Return on average equity | 20.0 | 14.4 | | 19.5 | 12.6 | |
| Net interest margin (taxable-equivalent basis) | 4.59 | 4.34 | | 4.60 | 4.36 | |
| Efficiency ratio | 49.1 | 55.3 | | 48.9 | 60.2 | |
| Financial Ratios Excluding Merger and Restructuring-Related Items and Cumulative Effect of Change in Accounting Principles (a) | | | | | | |
| Return on average assets | 2.06% | 1.99% | | 2.05% | 1.99% | |
| Return on average equity | 21.2 | 21.0 | | 21.1 | 21.0 | |
| Efficiency ratio | 46.8 | 47.6 | | 46.5 | 49.1 | |
| Banking efficiency ratio (b) | 43.3 | 42.7 | | 42.9 | 44.2 | |
| Average Balances | | | | | | |
| Loans | \$114,017 | \$119,469 | (4.6)% | \$113,866 | \$120,613 | (5.6)% |
| Loans held for sale | 2,142 | 1,500 | 42.8 | 2,248 | 1,203 | 86.9 |
| Investment securities | 28,016 | 21,257 | 31.8 | 27,325 | 19,575 | 39.6 |
| Earning assets | 147,641 | 145,289 | 1.6 | 146,797 | 144,581 | 1.5 |
| Assets | 169,147 | 164,807 | 2.6 | 168,466 | 163,985 | 2.7 |
| Noninterest-bearing deposits | 27,267 | 24,512 | 11.2 | 27,375 | 24,054 | 13.8 |
| Deposits | 102,450 | 107,268 | (4.5) | 102,232 | 105,884 | (3.4) |
| Short-term borrowings | 11,650 | 11,094 | 5.0 | 13,099 | 12,105 | 8.2 |
| Long-term debt | 30,152 | 24,202 | 24.6 | 28,311 | 23,921 | 18.4 |
| Total shareholders' equity | 16,475 | 15,609 | 5.5 | 16,318 | 15,538 | 5.0 |
| Period End Balances | | | | | | |
| Loans | \$114,570 | \$114,405 | .1% | | | |
| Allowance for credit losses | 2,466 | 2,457 | .4 | | | |
| Investment securities | 30,674 | 26,608 | 15.3 | | | |
| Assets | 172,956 | 171,390 | .9 | | | |
| Deposits | 105,056 | 105,219 | (.2) | | | |
| Long-term debt | 33,008 | 25,716 | 28.4 | | | |
| Total shareholders' equity | 16,650 | 16,461 | 1.1 | | | |
| Regulatory capital ratios | | | | | | |
| Tangible common equity | 5.7% | 5.7% | | | | |
| Tier 1 capital | 7.9 | 7.7 | | | | |
| Total risk-based capital | 12.5 | 11.7 | | | | |
| Leverage | 7.8 | 7.7 | | | | |

- (a) The Company analyzes its performance on a net income basis in accordance with accounting principles generally accepted in the United States, as well as on an operating basis before merger and restructuring-related items and cumulative effect of change in accounting principles referred to as "operating earnings." Operating earnings are presented as supplemental information to enhance the reader's understanding of, and highlight trends in, the Company's financial results excluding the impact of merger and restructuring-related items of specific business acquisitions and restructuring activities and cumulative effect of change in accounting principles. Operating earnings should not be viewed as a substitute for net income and earnings per share as determined in accordance with accounting principles generally accepted in the United States. Merger and restructuring-related items excluded from net income to derive operating earnings may be significant and may not be comparable to other companies.
- (b) Without investment banking and brokerage activity.

Management's Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp (the "Company") reported net income of \$823.1 million for the second quarter of 2002, or \$.43 per diluted share, compared with \$562.3 million, or \$.29 per diluted share, for the second quarter of 2001. Return on average assets and return on average equity were 1.95 percent and 20.0 percent, respectively, for the second quarter of 2002, compared with 1.37 percent and 14.4 percent, respectively, for the second quarter of 2001. Net income includes after-tax merger and restructuring-related items of \$46.7 million (\$71.6 million on a pre-tax basis) for the second quarter of 2002, compared with \$256.3 million (\$391.9 million on a pre-tax basis) for the second quarter of 2001. For the second quarter of 2002, total merger and restructuring-related items on a pre-tax basis included \$60.5 million of net expenses associated with the merger of Firststar Corporation ("Firststar") and the former U.S. Bancorp ("USBM") and \$11.1 million associated with the acquisition of NOVA Corporation ("NOVA") and other smaller acquisitions. For the second quarter of 2001, merger and restructuring-related items on a pre-tax basis included \$62.2 million in gains on the sale of branches offset by \$233.2 million of noninterest expenses and \$201.3 million of provision for credit losses associated with the merger of Firststar and USBM. The second quarter of 2001 merger and restructuring-related items also included \$5.4 million of restructuring charges for U.S. Bancorp Piper Jaffray and \$14.2 million of noninterest expense for other acquisitions including the merger with Mercantile Bancorporation, Scripps Financial Corporation and the purchase of 41 branches in Tennessee from First Union National Bank.

The Company reported operating earnings (net income excluding merger and restructuring-related items and cumulative effect of change in accounting principles) of \$869.8 million for the second quarter of 2002, compared with \$818.6 million for the second quarter of 2001. Operating earnings of \$.45 per diluted share for the second quarter of 2002 were \$.02, or 4.7 percent, higher than the second quarter of 2001. Return on average assets and return on average equity, excluding merger and restructuring-related items and cumulative effect of change in accounting principles, were 2.06 percent and 21.2 percent, respectively, for the second quarter of 2002, compared with returns of 1.99 percent and 21.0 percent, respectively, for the second quarter of 2001. Excluding merger and

restructuring-related items, the efficiency ratio (the ratio of expenses to revenues) was 46.8 percent for the second quarter of 2002, compared with 47.6 percent for the second quarter of 2001. The banking efficiency ratio (the efficiency ratio without the impact of investment banking and brokerage activity), excluding merger and restructuring-related items, was 43.3 percent for the second quarter of 2002, compared with 42.7 percent for the second quarter of 2001. The change in the banking efficiency ratio reflected the impact of acquisitions, growth in core banking operations and the impairment of mortgage servicing rights ("MSRs") in 2002, offset somewhat by the impact in the second quarter of 2002 of adopting new accounting principles related to business combinations and the amortization of intangibles. Refer to the "Accounting Changes" section for further discussion of the earnings impact of changes in accounting principles.

Total net revenue, on a taxable-equivalent basis, was \$3,127.1 million for the second quarter of 2002, compared with \$2,912.6 million in the second quarter of 2001, a 7.4 percent increase from a year ago. Total net revenue, on a taxable-equivalent basis, before merger and restructuring-related gains of \$62.2 million for the second quarter of 2001, represented a \$276.7 million (9.7 percent) increase year-over-year. The increase was the net result of a 7.3 percent increase in net interest income and a 12.7 percent increase in fee-based revenues. Included in total revenue were net securities gains of \$30.6 million and \$31.3 million for the second quarter of 2002 and 2001, respectively. Revenue growth was primarily due to improvement in the net interest margin, acquisitions and core banking growth, partially offset by the impact of portfolio sales in 2001 and capital markets-related revenue.

Total noninterest expense was \$1,520.4 million in the second quarter of 2002, compared with \$1,594.7 million in the second quarter of 2001. Total noninterest expense, before merger and restructuring-related items of \$71.6 million in 2002 and \$252.8 million in 2001, was \$1,448.8 million for the second quarter 2002, compared with \$1,341.9 million for the second quarter of 2001. The year-over-year increase of \$106.9 million (8.0 percent) in noninterest expense, before merger and restructuring-related items, primarily reflected the impact of acquisitions, core banking growth and impairment of MSRs, partially offset by the impact to goodwill and other intangible expense with the required adoption of new accounting

Table 1 Selected Financial Data

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------------|------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| (Dollars and Shares in Millions, Except Per Share Data) | | | | |
| Condensed Income Statement | | | | |
| Interest income (taxable-equivalent basis) | \$ 2,384.6 | \$ 2,832.6 | \$ 4,756.3 | \$ 5,860.1 |
| Interest expense | 694.8 | 1,257.8 | 1,396.1 | 2,721.0 |
| Net interest income (taxable-equivalent basis) | 1,689.8 | 1,574.8 | 3,360.2 | 3,139.1 |
| Securities gains, net | 30.6 | 31.3 | 74.7 | 247.3 |
| Noninterest income (a) | 1,406.7 | 1,244.3 | 2,689.5 | 2,439.0 |
| Total net revenue | 3,127.1 | 2,850.4 | 6,124.4 | 5,825.4 |
| Noninterest expense (a) | 1,448.8 | 1,341.9 | 2,811.4 | 2,736.2 |
| Provision for credit losses (a) | 335.0 | 240.0 | 670.0 | 605.8 |
| Income before taxes, merger and restructuring-related items and cumulative effect of change in accounting principles | 1,343.3 | 1,268.5 | 2,643.0 | 2,483.4 |
| Taxable-equivalent adjustment | 9.0 | 16.8 | 18.1 | 35.3 |
| Income taxes | 464.5 | 433.1 | 913.5 | 832.2 |
| Operating earnings (a) | 869.8 | 818.6 | 1,711.4 | 1,615.9 |
| Merger and restructuring-related items (after-tax) | (46.7) | (256.3) | (95.1) | (643.5) |
| Cumulative effect of change in accounting principles (after-tax) | — | — | (37.2) | — |
| Net income in accordance with GAAP | \$ 823.1 | \$ 562.3 | \$ 1,579.1 | \$ 972.4 |
| Per Common Share | | | | |
| Earnings per share before cumulative effect of change in accounting principles | \$.43 | \$.30 | \$.84 | \$.51 |
| Diluted earnings per share before cumulative effect of change in accounting principles | .43 | .29 | .84 | .51 |
| Earnings per share | .43 | .30 | .82 | .51 |
| Diluted earnings per share | .43 | .29 | .82 | .51 |
| Dividends declared per share | .195 | .1875 | .39 | .375 |
| Book value per share | 8.70 | 8.10 | | |
| Market value per share | 23.35 | 22.79 | | |
| Average shares outstanding | 1,913.2 | 1,905.3 | 1,916.5 | 1,903.2 |
| Average diluted shares outstanding | 1,926.9 | 1,917.2 | 1,928.5 | 1,916.4 |
| Financial Ratios | | | | |
| Return on average assets | 1.95% | 1.37% | 1.89% | 1.20% |
| Return on average equity | 20.0 | 14.4 | 19.5 | 12.6 |
| Net interest margin (taxable-equivalent basis) | 4.59 | 4.34 | 4.60 | 4.36 |
| Efficiency ratio | 49.1 | 55.3 | 48.9 | 60.2 |
| Financial Ratios Excluding Merger and Restructuring-Related Items and Cumulative Effect of Change in Accounting Principles (a) | | | | |
| Return on average assets | 2.06% | 1.99% | 2.05% | 1.99% |
| Return on average equity | 21.2 | 21.0 | 21.1 | 21.0 |
| Efficiency ratio | 46.8 | 47.6 | 46.5 | 49.1 |
| Banking efficiency ratio (b) | 43.3 | 42.7 | 42.9 | 44.2 |
| Average Balances | | | | |
| Loans | \$114,017 | \$119,469 | \$113,866 | \$120,613 |
| Loans held for sale | 2,142 | 1,500 | 2,248 | 1,203 |
| Investment securities | 28,016 | 21,257 | 27,325 | 19,575 |
| Earning assets | 147,641 | 145,289 | 146,797 | 144,581 |
| Assets | 169,147 | 164,807 | 168,466 | 163,985 |
| Noninterest-bearing deposits | 27,267 | 24,512 | 27,375 | 24,054 |
| Deposits | 102,450 | 107,268 | 102,232 | 105,884 |
| Short-term borrowings | 11,650 | 11,094 | 13,099 | 12,105 |
| Long-term debt | 30,152 | 24,202 | 28,311 | 23,921 |
| Total shareholders' equity | 16,475 | 15,609 | 16,318 | 15,538 |
| | June 30, 2002 | December 31, 2001 | | |
| Period End Balances | | | | |
| Loans | \$114,570 | \$114,405 | | |
| Allowance for credit losses | 2,466 | 2,457 | | |
| Investment securities | 30,674 | 26,608 | | |
| Assets | 172,956 | 171,390 | | |
| Deposits | 105,056 | 105,219 | | |
| Long-term debt | 33,008 | 25,716 | | |
| Total shareholders' equity | 16,650 | 16,461 | | |
| Regulatory capital ratios | | | | |
| Tangible common equity | 5.7% | 5.7% | | |
| Tier 1 capital | 7.9 | 7.7 | | |
| Total risk-based capital | 12.5 | 11.7 | | |
| Leverage | 7.8 | 7.7 | | |

(a) The Company analyzes its performance on a net income basis in accordance with accounting principles generally accepted in the United States, as well as on an operating basis before merger and restructuring-related items and cumulative effect of change in accounting principles referred to as "operating earnings." Operating earnings are presented as supplemental information to enhance the reader's understanding of, and highlight trends in, the Company's financial results excluding the impact of merger and restructuring-related items of specific business acquisitions and restructuring activities and cumulative effect of change in accounting principles. Operating earnings should not be viewed as a substitute for net income and earnings per share as determined in accordance with accounting principles generally accepted in the United States. Merger and restructuring-related items excluded from net income to derive operating earnings may be significant and may not be comparable to other companies.

(b) Without investment banking and brokerage activity.

standards and cost savings from the Company's ongoing integration efforts. Refer to the "Acquisition and Divestiture Activity" section for further information on the timing of acquisitions and the "Noninterest Expense" section for further discussion of merger and restructuring-related items.

The provision for credit losses was \$335.0 million for the second quarter of 2002, compared with \$441.3 million for the second quarter of 2001. The provision for credit losses for the second quarter of 2001 included \$201.3 million of merger and restructuring-related items. The provision for credit losses, excluding merger and restructuring-related items, for the second quarter of 2002 increased by \$95.0 million (39.6 percent) from the second quarter of 2001, primarily reflecting higher net charge-offs given the sluggish economic conditions. Refer to the "Corporate Risk Profile" section 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.

Net income for the first six months of 2002 was \$1,579.1 million, or \$.82 per diluted share, compared with \$972.4 million, or \$.51 per diluted share, for the first six months of 2001. Return on average assets and return on average equity were 1.89 percent and 19.5 percent, respectively, for the first six months of 2002, compared with 1.20 percent and 12.6 percent, respectively, for the first six months of 2001. Net income includes after-tax merger and restructuring-related items of \$95.1 million (\$145.8 million on a pre-tax basis) and a cumulative effect of change in accounting principles of \$37.2 million, or \$.02 per diluted share, for the first six months of 2002, compared with \$643.5 million (\$962.7 million on a pre-tax basis) of merger and restructuring-related items for the first six months of 2001.

The Company reported operating earnings (net income excluding merger and restructuring-related items and cumulative effect of change in accounting principles) of \$1,711.4 million for the first six months of 2002, compared with \$1,615.9 million for the first six months of 2001. Operating earnings of \$.89 per diluted share for the first six months of 2002 were \$.05 (6.0 percent) higher than the first six months of 2001. Year-to-date return on average assets and return on average equity, excluding merger and restructuring-related items and cumulative effect of change in accounting principles, were 2.05 percent and 21.1 percent, respectively, compared with returns of 1.99 percent and 21.0 percent, respectively, for the first

half of 2001. Excluding merger and restructuring-related items, the efficiency ratio (the ratio of expenses to revenues) was 46.5 percent for the first six months of 2002, compared with 49.1 percent for the first six months of 2001. The banking efficiency ratio (the efficiency ratio without the impact of investment banking and brokerage activity), excluding merger and restructuring-related items, was 42.9 percent for the first six months of 2002, compared with 44.2 percent for the first six months of 2001. Improvement in the efficiency ratios reflected, in part, the impact in the first six months of 2002 of adopting the new accounting principles and cost savings from ongoing integration efforts, partially offset by the cost of acquisitions and expenses resulting from core banking growth. Table 2 provides a reconciliation of operating earnings to net income in accordance with GAAP. Refer to the "Accounting Changes" section for further discussion of the earnings impact of changes in accounting principles.

Total net revenue on a taxable-equivalent basis was \$6,124.4 million for the first six months of 2002, compared with \$5,887.6 million for the first six months of 2001, a \$236.8 million (4.0 percent) increase from a year ago. Included in total net revenue were net securities gains of \$74.7 million and \$247.3 million, respectively, for the first six months of 2002 and 2001 and merger and restructuring-related gains of \$62.2 million for the first six months of 2001. Total net revenue, on a taxable-equivalent basis, before net securities gains and merger and restructuring-related gains, was \$6,049.7 million for the first six months of 2002, compared with \$5,578.1 million for the first six months of 2001, representing a \$471.6 million (8.5 percent) increase year-over-year. Total net revenue growth was primarily due to improvement in the net interest margin, increased revenue resulting from acquisitions and core banking growth, partially offset by the impact of portfolio sales in 2001 and capital markets-related revenue.

Total noninterest expense was \$2,957.2 million in the first six months of 2002, compared with \$3,393.2 million in the first six months of 2001. Total noninterest expense, before merger and restructuring-related items of \$145.8 million in 2002 and \$657.0 million in 2001, was \$2,811.4 million for the first six months 2002, compared with \$2,736.2 million for the first six months of 2001. The year-over-year increase in operating noninterest expense of \$75.2 million (2.7 percent) primarily reflected the impact of acquisitions, core banking growth and MSR impairments. The increase was partially offset by the impact to goodwill and other intangible expense with the required adoption of new accounting standards and cost savings from the

Table 2 Reconciliation of Operating Earnings to Net Income in Accordance with GAAP

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Operating earnings (a) | \$869.8 | \$ 818.6 | \$1,711.4 | \$1,615.9 |
| Merger and restructuring-related items | | | | |
| Gains on the sale of branches | — | 62.2 | — | 62.2 |
| Integration, conversion and other charges | (71.6) | (252.8) | (145.8) | (657.0) |
| Provision for credit losses (b) | — | (201.3) | — | (367.9) |
| Pre-tax impact | (71.6) | (391.9) | (145.8) | (962.7) |
| Applicable tax benefit | 24.9 | 135.6 | 50.7 | 319.2 |
| Total merger and restructuring-related items (after-tax) | (46.7) | (256.3) | (95.1) | (643.5) |
| Cumulative effect of change in accounting principles (after-tax) | — | — | (37.2) | — |
| Net income in accordance with GAAP | \$823.1 | \$ 562.3 | \$1,579.1 | \$ 972.4 |

(a) The Company analyzes its performance on a net income basis in accordance with accounting principles generally accepted in the United States, as well as on an operating basis before merger and restructuring-related items and cumulative effect of change in accounting principles referred to as “operating earnings.” Operating earnings are presented as supplemental information to enhance the reader’s understanding of, and highlight trends in, the Company’s financial results excluding the impact of merger and restructuring-related items of specific business acquisitions and restructuring activities and cumulative effect of change in accounting principles. Operating earnings should not be viewed as a substitute for net income and earnings per share as determined in accordance with accounting principles generally accepted in the United States. Merger and restructuring-related items excluded from net income to derive operating earnings may be significant and may not be comparable to other companies.

(b) Provision for credit losses in 2001 includes losses of \$201.3 million on the disposition of an unsecured small business credit line portfolio, losses of \$76.6 million on the sales of high loan-to-value home equity and indirect automobile loan portfolios and \$90.0 million of charges to align credit policies and risk management practices.

Company’s ongoing integration efforts. Refer to the “Acquisition and Divestiture Activity” section for further information on the timing of acquisitions and the “Noninterest Expense” section for further discussion of merger and restructuring-related items.

The provision for credit losses was \$670.0 million for the first six months of 2002, compared with \$973.7 million for the first six months of 2001. The provision for credit losses for the first six months of 2001 included \$367.9 million of merger and restructuring-related items and a \$160.0 million provision in the first quarter of 2001 related to an accelerated loan workout strategy. The provision for credit losses, excluding merger and restructuring-related items, for the first six months of 2002 increased by \$64.2 million (10.6 percent) from the first six months of 2001, primarily reflecting higher net charge-offs given the sluggish economic conditions.

The Company analyzes its performance on a net income basis determined in accordance with accounting principles generally accepted in the United States, as well as on an operating basis before merger and restructuring-related items and cumulative effect of change in accounting principles referred to in this analysis as “operating earnings.” Operating earnings and related discussions are presented as supplemental information in this analysis to enhance the reader’s understanding of, and highlight trends in, the Company’s core financial results excluding the effects of discrete business acquisitions and restructuring activities. Operating earnings should not be viewed as a substitute for net income and earnings per share as determined in

accordance with accounting principles generally accepted in the United States. Merger and restructuring-related items excluded from net income to derive operating earnings may be significant and may not be comparable to other companies.

Acquisition and Divestiture Activity U.S. Bancorp and its subsidiaries compose the organization created by the acquisition by Firststar of USBM. The merger was completed on February 27, 2001, and was accounted for as a pooling-of-interests. Accordingly, all financial information has been restated to include the historical information of both companies. Each share of Firststar stock was exchanged for one share of the Company’s common stock while each share of USBM stock was exchanged for 1.265 shares of the Company’s common stock. The Company retained the U.S. Bancorp name.

Operating results for the first six months of 2002 reflected the following transactions accounted for as purchases. On July 24, 2001, the Company acquired NOVA, a merchant processor, in a stock and cash transaction valued at approximately \$2.1 billion. The transaction, representing total assets acquired of \$2.9 billion and total liabilities assumed of \$773 million, was accounted for as a purchase. Included in total assets were merchant contracts and other intangibles of \$650 million and the excess of purchase price over the fair value of identifiable net assets (“goodwill”) of \$1.6 billion.

On September 7, 2001, the Company acquired Pacific Century Bank in a cash transaction. The acquisition included 20 branches located in Southern

California with approximately \$712 million in deposits and \$570 million in assets.

On April 1, 2002, the Company acquired Cleveland-based The Leader Mortgage Company, LLC (“Leader”), a wholly owned subsidiary of First Defiance Financial Corp., in a cash transaction. The transaction, representing total assets acquired of \$527 million and total liabilities assumed of \$446 million, was accounted for as a purchase. Included in total assets were MSRs and other intangibles of \$173 million and goodwill of \$12 million. Leader specializes in acquiring servicing of loans originated for state and local housing authorities. The purchase agreement allows for an additional payment of up to \$5 million if certain performance criteria are met.

On July 22, 2002, the Company announced a definitive agreement to acquire 57 branches in California from Bay View Bank, a wholly owned subsidiary of Bay View Capital Corporation, in a cash transaction. This acquisition includes approximately \$3 billion in retail and small business deposits and \$376 million in selected loans, including single-family residential mortgages, home equity loans and small business loans primarily with depository relationships. The transaction is subject to certain conditions but is anticipated to close in the fourth quarter of 2002.

On August 13, 2002, the Company announced a definitive agreement to acquire the corporate trust business of State Street Bank and Trust Company in a cash transaction valued at \$725 million. This business is a leading provider of corporate trust and agency services to a variety of municipalities, corporations, government agencies and other financial institutions serving approximately 20,000 client issuances representing over \$689 billion of assets under administration. After the acquisition, the Company will be among the nation’s leading providers of a full range of corporate trust products and services. The transaction is subject to certain regulatory approvals and is expected to close in the fourth quarter of 2002.

Refer to Notes 3 and 4 of the Notes to Consolidated Financial Statements for additional information regarding business combinations.

STATEMENT OF INCOME ANALYSIS

Net Interest Income The second quarter of 2002 net interest income, on a taxable-equivalent basis, of \$1,689.8 million, compared with \$1,574.8 million for the second quarter of 2001, represented a \$115.0 million (7.3 percent) increase from a year ago. Year-to-date net interest income on a taxable-equivalent basis was \$3,360.2 million, compared with \$3,139.1 million for the first six months of 2001. The

second quarter and year-to-date average earning assets increased \$2.4 billion (1.6 percent) and \$2.2 billion (1.5 percent), respectively, over the comparable periods of 2001. The growth in net interest income for the second quarter was primarily driven by increases in the investment portfolio, core retail loan growth and the impact of acquisitions, partially offset by a \$1.0 billion reduction related to transfers of high credit quality, low margin commercial loans to Stellar Funding Group, Inc. (the “loan conduit”), a decline in residential mortgages and the securitization of a discontinued unsecured small business product in 2001. The net interest margin for the second quarter of 2002 was 4.59 percent, compared with 4.34 percent for the second quarter of 2001, while the year-to-date net interest margin increased from 4.36 percent in 2001 to 4.60 percent in 2002. The improvement in the net interest margin reflected the funding benefit of the declining rate environment, a more favorable funding mix and improving spreads due to product repricing dynamics and loan conduit transfers, partially offset by lower yields on the investment portfolio.

Total average loans for the second quarter of 2002 were \$5.5 billion (4.6 percent) lower than the second quarter of 2001 and year-to-date average loans were \$6.7 billion (5.6 percent) lower than the first half of 2001. Year-over-year loan growth was impacted by several management actions, including sales of indirect automobile and high loan-to-value (“LTV”) home equity loans during the first quarter of 2001, the securitization of a discontinued unsecured small business product, branch divestitures, and transfers of high credit quality, low margin commercial loans to the loan conduit. In addition, the Company continued to reduce its lower margin residential mortgage portfolio. Excluding residential mortgage loans, average loans for the second quarter and year-to-date for 2002 were lower by \$4.8 billion (4.4 percent) and \$5.8 billion (5.2 percent), respectively, than the same periods of 2001. On a core basis, average loans declined approximately \$3.9 billion (3.2 percent) for the second quarter of 2002, compared with the second quarter of 2001, with growth in average retail loans more than offset by declines in average residential mortgages and commercial and commercial real estate loans.

Average investment securities for the second quarter and the first six months of 2002 were higher by \$6.8 billion (31.8 percent) and \$7.8 billion (39.6 percent), respectively, than the same periods of 2001, reflecting the reinvestment of proceeds from loan sales and declines in commercial and commercial real estate loan balances. During the second quarter of 2002, the Company sold \$2.4 billion of fixed-rate

Table 3 Analysis of Net Interest Income

| (Dollars in Millions) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|-----------------------------|------------|-----------|---------------------------|------------|-------------|
| | 2002 | 2001 | Change | 2002 | 2001 | Change |
| Components of net interest income | | | | | | |
| Income on earning assets (taxable-equivalent basis) | \$ 2,384.6 | \$ 2,832.6 | \$(448.0) | \$ 4,756.3 | \$ 5,860.1 | \$(1,103.8) |
| Expenses on interest-bearing liabilities | 694.8 | 1,257.8 | (563.0) | 1,396.1 | 2,721.0 | (1,324.9) |
| Net interest income (taxable-equivalent basis) | \$ 1,689.8 | \$ 1,574.8 | \$ 115.0 | \$ 3,360.2 | \$ 3,139.1 | \$ 221.1 |
| Net interest income, as reported | \$ 1,680.8 | \$ 1,558.0 | \$ 122.8 | \$ 3,342.1 | \$ 3,103.8 | \$ 238.3 |
| Average yields and rates paid | | | | | | |
| Earning assets yield (taxable-equivalent basis) | 6.47% | 7.81% | (1.34)% | 6.52% | 8.15% | (1.63)% |
| Rate paid on interest-bearing liabilities | 2.32 | 4.21 | (1.89) | 2.36 | 4.59 | (2.23) |
| Gross interest margin (taxable-equivalent basis) | 4.15% | 3.60% | .55% | 4.16% | 3.56% | .60% |
| Net interest margin (taxable-equivalent basis) | 4.59% | 4.34% | .25% | 4.60% | 4.36% | .24% |
| Average balances | | | | | | |
| Investment securities | \$ 28,016 | \$ 21,257 | \$ 6,759 | \$ 27,325 | \$ 19,575 | \$ 7,750 |
| Loans | 114,017 | 119,469 | (5,452) | 113,866 | 120,613 | (6,747) |
| Earning assets | 147,641 | 145,289 | 2,352 | 146,797 | 144,581 | 2,216 |
| Interest-bearing liabilities | 119,851 | 119,877 | (26) | 119,119 | 119,471 | (352) |
| Net free funds (a) | 27,790 | 25,412 | 2,378 | 27,678 | 25,110 | 2,568 |

(a) Represents noninterest-bearing deposits, allowance for credit losses, non-earning assets, other liabilities and equity.

securities. A portion of the fixed-rate securities sold was replaced with floating-rate securities in conjunction with the Company's interest rate risk management strategies.

Average noninterest-bearing deposits for the second quarter and the first six months of 2002 were higher by \$2.8 billion (11.2 percent) and \$3.3 billion (13.8 percent), respectively, than the same periods of 2001. Average interest-bearing deposits for the second quarter and the first six months of 2002 were lower by \$7.6 billion (9.2 percent) and \$7.0 billion (8.5 percent), respectively, than the same periods of 2001. Growth in average savings products year-over-year was more than offset by reductions in the average balances of higher cost time certificates and time deposits greater than \$100,000. The decline in time certificates and time deposits greater than \$100,000 reflected funding decisions toward more favorably priced wholesale funding sources given the recent rate environment. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates on pages 42 and 43 for further information on interest margin detail.

Provision for Credit Losses The provision for credit losses was \$335.0 million for the second quarter of 2002, compared with \$441.3 million for the second quarter of 2001. The provision for credit losses for the second quarter of 2001 included \$201.3 million of merger and restructuring-related items primarily related to discontinuing an unsecured small business product. The provision for credit losses, excluding merger and restructuring-related items, for the second quarter of

2002 increased by \$95.0 million (39.6 percent), from the second quarter of 2001, primarily reflecting higher net charge-offs given the sluggish economic conditions. The provision for credit losses in the first six months of 2002 was \$670.0 million, a decrease of \$303.7 million from \$973.7 million in the same period of 2001. Included in the provision for credit losses during the first six months of 2001 were merger and restructuring-related provisions totaling \$367.9 million consisting of: a \$90.0 million charge to align risk management practices and charge-off policies and to expedite the transition out of a specific segment of the healthcare industry not meeting the risk profile of the Company; a \$76.6 million provision for losses related to the sales of a high LTV home equity portfolio and an indirect automobile loan portfolio; and the \$201.3 million provision associated with the discontinued unsecured small business product. Excluding the merger and restructuring-related provision, the provision for credit losses for the first half of 2002 increased by \$64.2 million over the first half of 2001. Refer to the "Corporate Risk Profile" section for further information on provision for credit losses, net charge-offs, nonperforming assets and other 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 during the second quarter of 2002 was \$1,437.3 million, an increase of \$99.5 million (7.4 percent) from the second

Table 4 Noninterest Income

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Credit and debit card revenue | \$ 131.2 | \$ 118.8 | \$ 240.5 | \$ 227.8 |
| Corporate payment products revenue | 82.5 | 77.4 | 157.7 | 156.2 |
| Merchant processing services | 144.4 | 31.4 | 278.0 | 61.7 |
| ATM processing services | 33.5 | 33.0 | 64.4 | 64.6 |
| Trust and investment management fees | 234.9 | 228.0 | 459.2 | 453.0 |
| Deposit service charges | 170.2 | 176.7 | 322.8 | 323.2 |
| Cash management fees | 104.3 | 84.9 | 208.5 | 161.7 |
| Mortgage banking revenue | 75.4 | 57.0 | 127.4 | 105.2 |
| Trading account profits and commissions | 49.5 | 55.8 | 99.4 | 127.7 |
| Investment products fees and commissions | 107.4 | 114.2 | 218.5 | 239.9 |
| Investment banking revenue | 70.5 | 71.1 | 123.7 | 131.3 |
| Commercial product revenue | 127.0 | 105.0 | 245.9 | 190.9 |
| Securities gains, net | 30.6 | 31.3 | 74.7 | 247.3 |
| Other | 75.9 | 91.0 | 143.5 | 195.8 |
| Total operating noninterest income | 1,437.3 | 1,275.6 | 2,764.2 | 2,686.3 |
| Merger and restructuring-related gains | — | 62.2 | — | 62.2 |
| Total noninterest income | \$1,437.3 | \$1,337.8 | \$2,764.2 | \$2,748.5 |

quarter of 2001. For the six months ended June 30, 2002, noninterest income was \$2,764.2 million, compared with \$2,748.5 million in 2001. During the second quarter and for the first six months of 2001, noninterest income included \$62.2 million of merger and restructuring-related gains in connection with the sale of 14 branches representing \$771 million in deposits. Included in noninterest income during the second quarter of 2002 and 2001 were net securities gains of \$30.6 million and \$31.3 million, respectively. For the first six months of 2002 and 2001, noninterest income included net securities gains of \$74.7 million and \$247.3 million, respectively.

Excluding merger and restructuring-related gains and securities gains, second quarter 2002 noninterest income was \$1,406.7 million, an increase of \$162.4 million (13.1 percent) from the same quarter of 2001. For the first six months of 2002, noninterest income, excluding merger and restructuring-related gains and securities gains, was \$2,689.5 million, an increase of \$250.5 million (10.3 percent) from \$2,439.0 million in the first six months of 2001. The growth in noninterest income over the second quarter and for the first six months of 2001 was primarily driven by acquisitions, including NOVA, Pacific Century Bank and Leader, which contributed approximately \$127.3 million of the favorable variance in the second quarter. Increases in revenue associated with the Company's core banking products also contributed to the strong revenue growth over the same periods of 2001. Credit and debit card revenue, corporate payment

products revenue and ATM processing services were higher in the second quarter and the first six months of 2002, compared with the same periods of 2001, by \$18.0 million (7.9 percent) and \$14.0 million (3.1 percent), respectively, primarily reflecting growth in card usage. Merchant processing services revenue grew by \$113.0 million and \$216.3 million, respectively, for the second quarter and first six months year-over-year, primarily due to the acquisition of NOVA. Trust and investment management fees improved in the second quarter and first six months of 2002 relative to a year ago by \$6.9 million (3.0 percent) and \$6.2 million (1.4 percent), respectively, primarily due to growth in new business. Cash management fees and commercial product revenue grew by \$19.4 million (22.9 percent) and \$22.0 million (21.0 percent), respectively, for the second quarter of 2002, and \$46.8 million (28.9 percent) and \$55.0 million (28.8 percent), respectively, for the first six months of 2002, compared with the same periods of 2001. The increase in cash management fees and commercial product revenue was primarily driven by growth in core business, loan conduit activities and product enhancements. In addition to the impact of the acquisition of Leader, mortgage banking revenue increased in the second quarter and the first six months of 2002, compared with the same periods of 2001, primarily due to gains on the sale of servicing rights of \$5.9 million during the second quarter of 2002. Offsetting these favorable variances were declining capital markets-related revenue of \$13.7 million (5.7 percent) and \$57.3 million

(11.5 percent) for the second quarter and first six months of 2002, respectively, compared with the same periods of 2001, reflecting softness in the equity capital markets, and a decline in deposit service charges of \$6.5 million (3.7 percent) during the second quarter of 2002. Although essentially unchanged for the second quarter, net securities gains for the first six months of 2002 declined \$172.6 million (69.8 percent), compared with the first six months of 2001.

Noninterest Expense Second quarter of 2002 noninterest expense was \$1,520.4 million, a decrease of \$74.3 million (4.7 percent) from the second quarter of 2001. During the second quarter of 2002, noninterest expense included \$71.6 million of merger and restructuring-related charges, compared with \$252.8 million for the second quarter of 2001. Year-to-date noninterest expense was \$2,957.2 million, a decrease of \$436.0 million (12.8 percent) from the first six months of 2001. Year-to-date noninterest expense included \$145.8 million of merger and restructuring-related charges, compared with \$657.0 million for the same period of 2001. Also included in the June 30, 2001, year-to-date noninterest expense was \$36.8 million relating to partnership and equity investments. Second quarter of 2002 noninterest

expense, excluding merger and restructuring-related charges, totaled \$1,448.8 million, an increase of \$106.9 million (8.0 percent) from the second quarter of 2001. On a year-to-date basis, noninterest expense, excluding merger and restructuring-related charges, totaled \$2,811.4 million, an increase of \$75.2 million (2.7 percent) from the first half of 2001. The increase in noninterest expense from a year ago was primarily due to the costs associated with recent acquisitions, including NOVA, Pacific Century and Leader, which accounted for approximately \$113.5 million of the increase in the second quarter of 2002. In addition, the second quarter of 2002 included \$14.3 million of MSR impairment and higher expenses due to core banking growth. Offsetting the increases in expense were cost savings attributable to the Company's ongoing integration activities and the impact of adopting new accounting standards relating to business combinations and the amortization of intangibles.

Merger and Restructuring-Related Items Earnings in the second quarter of 2002 included pre-tax merger and restructuring-related items of \$71.6 million (\$46.7 million after taxes), compared with \$391.9 million (\$256.3 million after taxes) in the same quarter a year ago. Total merger and restructuring-related items for the

Table 5 Noninterest Expense

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Salaries | \$ 607.6 | \$ 570.5 | \$1,195.9 | \$1,161.0 |
| Employee benefits | 91.1 | 90.7 | 187.5 | 198.8 |
| Net occupancy | 101.8 | 101.4 | 201.9 | 211.5 |
| Furniture and equipment | 77.0 | 74.9 | 153.9 | 151.8 |
| Professional services | 36.2 | 30.6 | 63.7 | 61.2 |
| Advertising and marketing | 27.7 | 32.7 | 51.2 | 64.9 |
| Travel and entertainment | 23.1 | 24.6 | 41.2 | 49.7 |
| Capitalized software | 37.7 | 33.2 | 76.1 | 63.3 |
| Data processing | 26.6 | 14.5 | 51.7 | 41.3 |
| Communication | 44.1 | 50.3 | 89.8 | 89.0 |
| Postage | 44.4 | 43.8 | 91.0 | 90.7 |
| Printing | 18.2 | 18.3 | 38.9 | 39.4 |
| Goodwill | — | 58.6 | — | 126.4 |
| Other intangible assets | 104.7 | 54.0 | 184.9 | 100.6 |
| Other | 208.6 | 143.8 | 383.7 | 286.6 |
| Total operating noninterest expense | 1,448.8 | 1,341.9 | 2,811.4 | 2,736.2 |
| Merger and restructuring-related charges | 71.6 | 252.8 | 145.8 | 657.0 |
| Total noninterest expense | \$1,520.4 | \$1,594.7 | \$2,957.2 | \$3,393.2 |
| Efficiency ratio (a) | 49.1% | 55.3% | 48.9% | 60.2% |
| Efficiency ratio, operating basis (b) | 46.8 | 47.6 | 46.5 | 49.1 |
| Banking efficiency ratio, operating basis (b) (c) | 43.3 | 42.7 | 42.9 | 44.2 |

(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.

(b) Operating basis represents the efficiency ratios excluding merger and restructuring-related items.

(c) Without investment banking and brokerage activity.

second quarter of 2002 included \$60.5 million of net expense associated with the Firstar/USBM merger. In addition, \$11.1 million of expense was included in the second quarter of 2002 related to the integration of NOVA and other smaller acquisitions. On a year-to-date basis, merger and restructuring-related items, on a pre-tax basis, totaled \$145.8 million (\$95.1 million after taxes), compared with \$962.7 million (\$643.5 million after taxes) for the same period of 2001.

Merger and restructuring-related items associated with the Firstar/USBM merger in the second quarter of 2002 were primarily related to systems conversions and integration and asset write-downs and lease terminations. Offsetting a portion of these costs were asset gains on the sale of a non-strategic investment in a sub-prime mortgage lending business. Total merger and restructuring-related items associated with the Firstar/USBM merger are expected to approximate \$1.4 billion. In connection with the acquisition of NOVA, the Company anticipates total merger and restructuring-related items of approximately \$70.3 million to be incurred through 2003.

Refer to Notes 3 and 4 of the Notes to Consolidated Financial Statements for further information on these acquired businesses and merger and restructuring-related items.

Income Tax Expense The provision for income taxes was \$439.6 million (an effective rate of 34.8 percent) for the second quarter of 2002 and \$862.8 million (an effective rate of 34.8 percent) for the first six months of 2002, compared with \$297.5 million (an effective rate of 34.6 percent) and \$513.0 million (an effective rate of 34.5 percent) for the same periods of 2001. On an operating basis (excluding the impact of merger and restructuring-related items and the cumulative effect of change in accounting principles), the provision for income taxes was \$464.5 million (an effective rate of 34.8 percent) for the second quarter of 2002 and \$913.5 million (an effective rate of 34.8 percent) for the first six months of 2002, compared with \$433.1 million (an effective rate of 34.6 percent) and \$832.2 million (an effective rate of 34.0 percent) for the same periods of 2001. The increase in the effective rate is primarily due to the impact of adopting new accounting standards related to the amortization of goodwill.

BALANCE SHEET ANALYSIS

Loans The Company's total loan portfolio was \$114.6 billion at June 30, 2002, compared with \$114.4 billion at December 31, 2001, an increase of \$165 million (.1 percent). Commercial loans, including lease financing, totaled \$44.5 billion at June 30, 2002,

compared with \$46.3 billion at December 31, 2001, a decrease of \$1,839 million (4.0 percent). The Company's portfolio of commercial mortgages and construction loans was \$25.3 billion at June 30, 2002, essentially flat, compared with \$25.4 billion at December 31, 2001. The decrease in commercial and commercial real estate loans was primarily driven by lower loan origination and lending activity given the current economic environment. Residential mortgages held in the loan portfolio were \$8.1 billion at June 30, 2002, compared with \$7.8 billion at December 31, 2001, an increase of \$278 million (3.6 percent). Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, were \$36.7 billion at June 30, 2002, compared with \$34.9 billion at December 31, 2001. The increase of \$1.8 billion (5.2 percent) was driven by an increase in home equity lines during the recent declining rate environment and an increase in the retail leasing business. This growth was partially offset by a decline in credit card activity due to seasonality.

Loans Held for Sale At June 30, 2002, loans held for sale, consisting primarily of residential mortgages to be sold in the secondary markets, were \$1.9 billion, compared with \$2.8 billion at December 31, 2001. The \$890 million (31.6 percent) decrease primarily reflected the strong mortgage loan origination volume in late 2001 driven by record low rate levels and high refinancing activity relative to the first six months of 2002.

Investment Securities At June 30, 2002, investment securities, both available-for-sale and held-to-maturity, totaled \$30.7 billion, compared with \$26.6 billion at December 31, 2001. This \$4.1 billion (15.3 percent) increase reflected the reinvestment of proceeds from loan sales and declines in commercial and commercial real estate loan balances. During the first six months of 2002, the Company sold \$6.1 billion of fixed-rate securities. A portion of the fixed-rate securities sold was replaced with floating-rate securities in conjunction with the Company's interest rate risk management strategies.

Deposits Total deposits were \$105.1 billion at June 30, 2002, essentially flat, compared with \$105.2 billion at December 31, 2001. Noninterest-bearing deposits were also essentially flat at \$31.3 billion at June 30, 2002, compared with \$31.2 billion at December 31, 2001. Interest-bearing deposits totaled \$73.8 billion at June 30, 2002, compared with \$74.0 billion at December 31, 2001. The decline in interest-bearing deposits was driven by declines in higher cost time certificates (7.6 percent) and money market accounts

(3.8 percent), which were partially offset by an increase in domestic time deposits greater than \$100,000 (27.0 percent). The decline in time certificates of deposits less than \$100,000 reflected funding decisions toward more favorably priced wholesale funding sources given the recent lower rate environment.

Borrowings Short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings, were \$9.2 billion at June 30, 2002, compared with \$14.7 billion at December 31, 2001. The decrease of \$5.5 billion (37.6 percent) in short-term borrowings reflected a shift toward longer-term funding sources in connection with certain asset/liability decisions related to the management of interest rate risk given the historically low rate environment. Long-term debt was \$33.0 billion at June 30, 2002, compared with \$25.7 billion at December 31, 2001. The \$7.3 billion (28.4 percent) increase in long-term debt included the issuance of \$1.0 billion of fixed-rate subordinated notes in February 2002, the \$5.4 billion issuance of medium-term and long-term bank notes and the issuance of \$3.1 billion in long-term Federal Home Loan Bank advances in the first six months of 2002. The increase in long-term debt was partially offset by repayments and maturities of \$2.4 billion during the first six months of 2002.

On August 6, 2002, the Company repurchased approximately \$1.4 billion in aggregate principle at maturity of its convertible senior notes. Refer to Note 10 of the Notes to Consolidated Financial Statements for additional information regarding long-term debt.

CORPORATE RISK PROFILE

Overview Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, interest rate, market and liquidity. The Company also has exposure related to changes in residual valuations and ongoing operational activities. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Rate movements 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 account 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 and borrowers. Residual 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 such as fraud, legal risk, processing errors and breaches of internal controls.

Credit Risk Management The Company’s strategy for credit risk management includes stringent, centralized credit policies, and uniform underwriting criteria for all loans, including specialized lending categories such as mortgage banking, commercial real estate and real estate construction financing, leveraged financing and consumer credit. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and quarterly management reviews of large loans and loans experiencing deterioration of credit quality. The Company strives to identify potential problem loans early, take any necessary charge-offs promptly and maintain adequate reserve levels. Commercial banking operations rely on a strong credit culture that combines prudent credit policies and individual lender accountability. In addition, the commercial lenders generally focus on middle market companies within their regions or niche national markets. The Company utilizes a credit risk rating system to measure the credit quality of individual commercial loan transactions and regularly forecasts potential changes in risk ratings and nonperforming status. The risk rating system is intended to identify and measure the credit quality of lending relationships. In the Company’s retail banking operations, standard credit scoring systems are used to assess consumer credit risks and to price consumer products accordingly. The Company also engages in nonlending activities that may give rise to credit risk, including interest rate swap contracts for balance sheet hedging purposes, foreign exchange transactions and interest rate swap contracts for customers, and the processing of credit card transactions for merchants. These activities are also subject to a credit review, analysis and approval processes.

In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage and macroeconomic factors. Generally, the domestic economy has experienced slower growth since late 2000. During 2001, corporate earnings weakened and credit quality indicators among certain industry sectors deteriorated. Large corporate

and middle market commercial businesses announced or continued to implement restructuring activities in an effort to improve operating margins. In response to declining economic conditions and Company-specific portfolio trends, the Company initiated several actions during 2001, including aligning the risk management practices and charge-off policies of the Company, restructuring a specific segment of its healthcare portfolio, selling certain consumer loan portfolios and discontinuing an unsecured small business product that was not aligned with the product offerings of the Company. The Company also implemented accelerated loan workout strategies for certain commercial credits and increased the allowance for credit losses. In 2001, the Federal Reserve Board initiated actions to stimulate economic growth through a series of interest rate reductions. During the first six months of 2002, economic conditions have improved somewhat and Company-specific portfolio trends have stabilized relative to the third and fourth quarters of 2001. As a result of the Company's accelerated workout strategies and other credit related initiatives, unfunded commitments to higher risk customers or industries have been reduced, and the risk profile of the commercial loan portfolio has improved since December 31, 2001. However, trends in net charge-offs may continue at elevated levels until the economy is more robust and experiences sustainable growth.

Analysis of Net Loan Charge-offs Total net loan charge-offs were \$330.5 million and \$665.5 million during the second quarter and the first six months of 2002,

respectively, compared with net charge-offs of \$240.3 million and \$717.4 million, respectively, for the same periods of 2001. Included in the 2001 year-to-date net charge-offs were \$90.0 million of merger and restructuring-related write-offs taken to conform risk management practices, align charge-off policies and expedite the transition out of a specific segment of the healthcare portfolio not meeting the risk profile of the Company. The 2001 year-to-date net charge-offs also included \$160.0 million of charge-offs taken in the first quarter of 2001 related to the Company's accelerated loan workout strategy. The level of net charge-offs during the second quarter and the first six months of 2002 reflected the impact of economic conditions and continued stress in various industry sectors. Management expects net charge-offs to remain at elevated levels but expects a lower trend by the end of the year.

Commercial and commercial real estate loan net charge-offs were \$152.2 million (.88 percent of average loans outstanding) for the second quarter of 2002, compared with \$86.9 million (.45 percent of average loans outstanding) for the second quarter of 2001. Commercial and commercial real estate loan net charge-offs for the first half of 2002 were \$315.5 million (.91 percent of average loans outstanding), compared with \$406.1 million (1.04 percent of average loans outstanding) for the first half of 2001. Commercial and commercial real estate loan net charge-offs during the first six months of 2001 included \$255.0 million in merger and restructuring-related charge-offs and

Table 6 Net Charge-offs as a Percent of Average Loans Outstanding

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------|------------------------------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| Commercial | | | | |
| Commercial | 1.14% | .66% | 1.19% | 1.51% |
| Lease financing | 2.52 | .62 | 2.39 | .99 |
| Total commercial | 1.32 | .66 | 1.34 | 1.45 |
| Commercial real estate | | | | |
| Commercial mortgages | .13 | — | .16 | .30 |
| Construction and development | .02 | .14 | .07 | .09 |
| Total commercial real estate | .10 | .04 | .14 | .24 |
| Residential mortgages | .19 | .15 | .16 | .15 |
| Retail | | | | |
| Credit card | 5.23 | 4.86 | 5.03 | 4.51 |
| Retail leasing | .62 | .63 | .73 | .61 |
| Home equity and second mortgages | .77 | .66 | .81 | .78 |
| Other retail | 2.24 | 1.98 | 2.23 | 2.11 |
| Total retail | 1.93 | 1.83 | 1.94 | 1.85 |
| Total loans | 1.16% | .81% | 1.18% | 1.20% |

charge-offs associated with the Company's accelerated loan workout strategy. Excluding net charge-offs associated with merger and restructuring-related items, commercial and commercial real estate loan net charge-offs were .91 percent of average loans outstanding for the first six months of 2002, compared with .80 percent for the first six months of 2001. The increase in commercial and commercial real estate loan net charge-offs reflected continued stress in the transportation, manufacturing, communications and technology sectors as well as leveraged enterprise financings.

Retail loan net charge-offs were \$174.4 million and \$343.4 million during the second quarter and the first six months of 2002, respectively, compared with \$150.1 million and \$304.8 million, respectively, for the same periods of 2001. As a percent of average retail loans outstanding, retail loan net charge-offs were 1.93 percent and 1.94 percent, respectively, for the second quarter and the first six months of 2002, compared with 1.83 percent and 1.85 percent, respectively, for the second quarter and the first six months of 2001. Higher net charge-offs were experienced in credit card, home equity and second mortgages and other retail loan categories relative to a year ago driven by the deterioration in economic conditions impacting consumers.

Analysis of Nonperforming Assets Nonperforming assets include nonaccrual loans, restructured loans, other real estate and other nonperforming assets owned by the Company. Interest payments are typically applied against the principal balance and not recorded as income. At June 30, 2002, nonperforming assets totaled \$1,147.7 million, compared with \$1,120.0 million at December 31, 2001. The ratio of nonperforming assets to loans and other real estate was 1.00 percent at June 30, 2002, compared with a ratio of .98 percent at December 31, 2001. Nonperforming assets are expected to remain at elevated levels for the remainder of the year and may increase in the third quarter of 2002, primarily related to the telecommunications and cable industry sectors and leveraged enterprise financings. The Company does not expect to see a significant reduction in the level of nonperforming assets until the economy rebounds.

Accruing loans 90 days or more past due at June 30, 2002, totaled \$392.6 million, compared with \$462.9 million at December 31, 2001. These loans were not included in nonperforming assets and continue to accrue interest because they are secured by collateral and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. Retail loans 30 to 89 days

or more past due were 2.51 percent of the retail loan portfolio at June 30, 2002, compared with 3.30 percent at December 31, 2001. The percentage of retail loans 90 days or more past due was .74 percent of total retail loans at June 30, 2002, compared with 1.03 percent at December 31, 2001. The improvement in retail loan delinquencies primarily reflected continued focus on collection efforts.

Analysis and Determination of the Allowance for Credit Losses The allowance for credit losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the allowance each quarter to determine that it is adequate to cover inherent losses. The evaluation of each element and the overall allowance is based on a continuing assessment of problem loans and related off-balance sheet items, recent loss experience and other factors, including regulatory guidance and economic conditions.

The allowance for credit losses was \$2,466.4 million (2.15 percent of total loans) at June 30, 2002, compared with \$2,457.3 million (2.15 percent of total loans) at December 31, 2001. Several factors were taken into consideration in evaluating the allowance for credit losses including the risk profile, extent of net charge-offs during the quarter, the trends in nonperforming assets, the decline in accruing loans 90 days past due and the improvement in retail delinquencies from the 30 to 89 days category. Management also considers recent changes in economic trends including corporate earnings, unemployment rates, bankruptcies and economic growth since December 31, 2001. The ratio of allowance for credit losses to nonperforming loans was 241 percent at June 30, 2002, relatively unchanged from a coverage ratio of 245 percent at December 31, 2001. The Company has determined that the allowance for credit losses is adequate.

Interest Rate Risk Management The Company manages its exposure to adverse changes in interest rates through asset and liability management activities within guidelines established by its Asset/Liability Policy Committee ("ALPC"). The Company limits the exposure of interest rate sensitive revenues, which includes both net interest income and selected other income, associated with interest rate movements through asset/liability management strategies. ALPC uses simulation modeling and market value of equity as the primary methods for measuring and managing consolidated interest rate risk.

Interest Sensitive Revenue Simulation The Company performs simulation analysis to estimate the impact of changes in interest rates on net interest income and

interest sensitive revenue. The model, which is updated monthly, incorporates substantially all of the Company's assets and liabilities, off-balance sheet instruments and selected fee based revenues, together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate

environment. ALPC also calculates the sensitivity of the simulation results to changes in key assumptions, such as the Prime/LIBOR spread or core deposit repricing. The results from the simulation are reviewed by ALPC monthly and are used to guide ALPC's hedging strategies. ALPC guidelines, approved by the Company's

Table 7 Nonperforming Assets (a)

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|--|------------------|----------------------|
| Commercial | | |
| Commercial | \$ 549.9 | \$ 526.6 |
| Lease financing | 202.0 | 180.8 |
| Total commercial | 751.9 | 707.4 |
| Commercial real estate | | |
| Commercial mortgages | 133.6 | 131.3 |
| Construction and development | 43.4 | 35.9 |
| Total commercial real estate | 177.0 | 167.2 |
| Residential mortgages | 62.0 | 79.1 |
| Retail | | |
| Retail leasing | .4 | 6.5 |
| Other retail | 33.9 | 41.1 |
| Total retail | 34.3 | 47.6 |
| Total nonperforming loans | 1,025.2 | 1,001.3 |
| Other real estate | 49.8 | 43.8 |
| Other assets | 72.7 | 74.9 |
| Total nonperforming assets | \$1,147.7 | \$1,120.0 |
| Accruing loans 90 days or more past due (b) | \$ 392.6 | \$ 462.9 |
| Nonperforming loans to total loans | .89% | .88% |
| Nonperforming assets to total loans plus other real estate | 1.00 | .98 |

Delinquent Loan Ratios (c)

| 90 days or more past due | June 30, 2002 | December 31, 2001 |
|------------------------------------|------------------|----------------------|
| Commercial | | |
| Commercial | 1.53% | 1.44% |
| Lease financing | 3.61 | 3.53 |
| Total commercial | 1.79 | 1.71 |
| Commercial real estate | | |
| Commercial mortgages | .78 | .73 |
| Construction and development | 1.07 | .56 |
| Total commercial real estate | .85 | .68 |
| Residential mortgages | 1.64 | 1.79 |
| Retail | | |
| Credit card | 1.76 | 2.18 |
| Retail leasing | .11 | .24 |
| Other retail | .64 | .92 |
| Total retail | .74 | 1.03 |
| Total loans | 1.24% | 1.28% |

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

(b) These loans are not included in nonperforming assets and continue to accrue interest because they are secured by collateral and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status.

(c) Ratios include nonperforming loans and are expressed as a percent of ending loan balances.

Table 8 Summary of Allowance for Credit Losses

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Balance at beginning of period | \$2,461.5 | \$1,729.1 | \$2,457.3 | \$1,786.9 |
| Charge-offs | | | | |
| Commercial | | | | |
| Commercial | 136.6 | 86.2 | 267.6 | 369.4 |
| Lease financing | 45.4 | 15.3 | 87.4 | 44.4 |
| Total commercial | 182.0 | 101.5 | 355.0 | 413.8 |
| Commercial real estate | | | | |
| Commercial mortgages | 8.3 | 4.0 | 18.3 | 35.5 |
| Construction and development | .5 | 2.7 | 2.5 | 4.1 |
| Total commercial real estate | 8.8 | 6.7 | 20.8 | 39.6 |
| Residential mortgages | 4.8 | 4.3 | 8.9 | 8.2 |
| Retail | | | | |
| Credit card | 79.8 | 74.7 | 152.7 | 139.2 |
| Retail leasing | 11.0 | 8.2 | 22.7 | 15.1 |
| Home equity and second mortgages | 27.4 | 22.1 | 55.2 | 52.8 |
| Other retail | 79.2 | 73.3 | 163.4 | 157.8 |
| Total retail | 197.4 | 178.3 | 394.0 | 364.9 |
| Total charge-offs | 393.0 | 290.8 | 778.7 | 826.5 |
| Recoveries | | | | |
| Commercial | | | | |
| Commercial | 26.0 | 10.7 | 36.5 | 23.6 |
| Lease financing | 10.2 | 6.2 | 20.1 | 15.7 |
| Total commercial | 36.2 | 16.9 | 56.6 | 39.3 |
| Commercial real estate | | | | |
| Commercial mortgages | 2.3 | 4.2 | 3.5 | 7.2 |
| Construction and development | .1 | .2 | .2 | .8 |
| Total commercial real estate | 2.4 | 4.4 | 3.7 | 8.0 |
| Residential mortgages | .9 | 1.0 | 2.3 | 1.7 |
| Retail | | | | |
| Credit card | 6.4 | 6.2 | 12.3 | 12.9 |
| Retail leasing | 2.7 | 1.2 | 3.9 | 1.9 |
| Home equity and second mortgages | 2.1 | 3.4 | 3.8 | 7.6 |
| Other retail | 11.8 | 17.4 | 30.6 | 37.7 |
| Total retail | 23.0 | 28.2 | 50.6 | 60.1 |
| Total recoveries | 62.5 | 50.5 | 113.2 | 109.1 |
| Net Charge-offs | | | | |
| Commercial | | | | |
| Commercial | 110.6 | 75.5 | 231.1 | 345.8 |
| Lease financing | 35.2 | 9.1 | 67.3 | 28.7 |
| Total commercial | 145.8 | 84.6 | 298.4 | 374.5 |
| Commercial real estate | | | | |
| Commercial mortgages | 6.0 | (.2) | 14.8 | 28.3 |
| Construction and development | .4 | 2.5 | 2.3 | 3.3 |
| Total commercial real estate | 6.4 | 2.3 | 17.1 | 31.6 |
| Residential mortgages | 3.9 | 3.3 | 6.6 | 6.5 |
| Retail | | | | |
| Credit card | 73.4 | 68.5 | 140.4 | 126.3 |
| Retail leasing | 8.3 | 7.0 | 18.8 | 13.2 |
| Home equity and second mortgages | 25.3 | 18.7 | 51.4 | 45.2 |
| Other retail | 67.4 | 55.9 | 132.8 | 120.1 |
| Total retail | 174.4 | 150.1 | 343.4 | 304.8 |
| Total net charge-offs | 330.5 | 240.3 | 665.5 | 717.4 |
| Provision for credit losses | 335.0 | 441.3 | 670.0 | 973.7 |
| Losses from loan sales/transfers | — | (214.4) | — | (328.0) |
| Acquisitions and other changes | .4 | — | 4.6 | .5 |
| Balance at end of period | \$2,466.4 | \$1,715.7 | \$2,466.4 | \$1,715.7 |
| Allowance as a percentage of: | | | | |
| Period-end loans | 2.15% | 1.45% | | |
| Nonperforming loans | 241 | 156 | | |
| Nonperforming assets | 215 | 141 | | |
| Annualized net charge-offs | 186 | 178 | | |

Board of Directors, limit the estimated change in interest rate sensitive income to 5.0 percent of forecasted rate sensitive revenue given a 300 basis point change in interest rates occurring over a 12-month time period. Given the low level of rates, currently the down 300 basis points scenario cannot be computed. In simulations as of June 30, 2002, the interest rate risk position of the Company was relatively neutral as the impact of an upward movement in rates of 300 basis points over a 12-month period resulted in less than 1.0 percent change in net interest income. Given the current low level of rates, the down 300 basis point scenario cannot be computed. At June 30, 2002, the Company was well within policy guidelines.

Market Value of Equity Modeling The Company also utilizes the market value of equity as a measurement tool in managing interest rate sensitivity. The market value of equity 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. The amount of market value risk is subject to a limit, approved by the Company's Board of Directors, of a 15 percent change for an immediate 200 basis point rate shock. Given the low level of rates,

currently the down 200 basis point scenario cannot be computed. ALPC reviews other down-rate scenarios to evaluate the impact of falling rates.

The valuation analysis is dependent upon certain key assumptions about the nature of indeterminate maturity of assets and liabilities. Management estimates the average life and rate characteristics of asset and liability accounts based upon historical analysis and management's expectation of rate behavior. The results of the valuation analysis as of June 30, 2002, were well within policy guidelines.

Use of Derivatives to Manage Interest Rate Risk In the ordinary course of business, the Company enters into derivative transactions to manage interest rate risk and to accommodate the business requirements of its customers. To manage its interest rate risk, the Company may enter into interest rate swap agreements and interest rate options such as caps and floors. Interest rate swaps involve the exchange of fixed-rate and variable-rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. In connection with its mortgage banking operations, the Company enters into forward commitments to sell mortgage loans related to

Table 9 Derivative Positions

| Asset and Liability Management Positions | Maturing | | | | | | Total | Fair Value | Weighted-Average Remaining Maturity In Years |
|--|----------|---------|---------|---------|-------|------------|----------|------------|--|
| | 2002 | 2003 | 2004 | 2005 | 2006 | Thereafter | | | |
| June 30, 2002 (Dollars in Millions) | | | | | | | | | |
| Receive fixed/pay floating swaps | | | | | | | | | |
| Notional amount | \$5,273 | \$ 736 | \$ 473 | \$1,361 | \$370 | \$10,060 | \$18,273 | \$449.4 | 6.25 |
| Weighted-average | | | | | | | | | |
| Receive rate | 4.98% | 6.01% | 6.86% | 6.00% | 4.83% | 5.85% | 5.62% | | |
| Pay rate | 1.86 | 1.89 | 1.87 | 2.05 | 1.84 | 2.10 | 2.01 | | |
| Pay fixed/receive floating swaps | | | | | | | | | |
| Notional amount | \$ — | \$2,200 | \$2,050 | \$ 365 | \$ — | \$ — | \$ 4,615 | \$(39.2) | 1.67 |
| Weighted-average | | | | | | | | | |
| Receive rate | —% | 1.84% | 1.85% | 1.98% | —% | —% | 1.86% | | |
| Pay rate | — | 2.74 | 3.81 | 4.28 | — | — | 3.34 | | |
| Future and forwards | \$2,846 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 2,846 | \$(27.7) | \$.13 |
| Options | — | — | — | — | 45 | — | 45 | — | 4.38 |
| Intermediated for Customers | | | | | | | | | |
| Receive fixed/pay floating swaps | | | | | | | | | |
| Notional amount | \$ 155 | \$ 778 | \$ 407 | \$ 551 | \$491 | \$ 886 | \$ 3,268 | \$ 99.0 | 3.83 |
| Pay fixed/receive floating swaps | | | | | | | | | |
| Notional amount | 155 | 773 | 407 | 551 | 491 | 944 | 3,321 | (85.3) | 3.92 |
| Basis swaps | — | — | 2 | — | — | — | 2 | — | 2.18 |
| Options | 391 | 603 | 74 | 21 | 30 | 73 | 1,192 | — | 1.25 |
| Foreign exchange contracts | | | | | | | | | |
| Purchase | 1,110 | 874 | 1 | — | — | — | 1,985 | 99.7 | .25 |
| Sell | 1,117 | 847 | 1 | — | — | — | 1,965 | (108.9) | .25 |

fixed-rate mortgage loans held for sale and fixed-rate mortgage loan commitments.

The Company acts as an intermediary for interest rate swaps, options, caps, floors and foreign exchange contracts on behalf of customers. The Company minimizes its market and liquidity risks by taking offsetting positions.

All interest rate derivatives that qualify for hedge accounting are recorded at fair value as other assets or liabilities on the balance sheet and designated as either “fair value” or “cash flow” hedges. The Company performs an assessment, both at inception and quarterly thereafter, when required, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items. Hedge ineffectiveness for both cash flow and fair value hedges are immediately recorded in noninterest income. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income until income from the cash flows of the hedged items are recorded. Intermediated interest rate swaps, foreign exchange contracts, and all other derivative contracts that do not qualify for hedge accounting are recorded at fair value and resulting gains or losses are recorded in the trading account gains or losses.

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company’s \$25.8 billion of total notional amount of non-intermediated derivative positions at June 30, 2002, \$25.7 billion was designated as either fair value or cash flow hedges of certain variable-rate LIBOR loans, fixed- or floating-rate debt and deposit obligations, trust preferred securities and fixed-rate mortgage loans.

Derivative instruments are also subject to credit risk associated with counterparties to the derivative contracts. The Company manages this risk through diversification of its derivative positions among various counterparties, requiring collateral to support certain credit exposures, entering into master netting agreements in certain cases, and having a portion of its derivatives in exchange-traded instruments.

Of the Company’s \$339.7 million of accumulated other comprehensive income at June 30, 2002, \$71.2 million was related to unrealized gain on derivatives classified as cash flow hedges. The gain will be reclassified from accumulated other comprehensive income into earnings when the related cash flows or

transactions occur. The reclassifications from other comprehensive income into interest income are offset by the related hedged item. The Company has determined that the occurrence of these transactions continues to be probable. The estimated amount of gain to be reclassified from accumulated other comprehensive income into earnings during the remainder of 2002 and the next 12 months is \$9.2 million and \$18.3 million, respectively.

Gains or losses on intermediated derivative positions for customers were not material for the period ending June 30, 2002. The change in the fair value of non-intermediated derivative positions attributed to hedge ineffectiveness was not material for the period ending June 30, 2002.

Table 9 summarizes information on the Company’s derivative positions at June 30, 2002.

Market Risk Management Market risk is subject to regular monitoring by management. The Company uses a value-at-risk (“VaR”) model to measure and manage market risk in its trading activities. The VaR model uses an estimate of volatility appropriate to each instrument and a ninety-ninth percentile adverse move in the underlying markets. The Company establishes market risk limits, subject to approval by the Company’s Board of Directors. The Company’s VaR limit was \$40 million at June 30, 2002. The market valuation risk inherent in its customer-based derivative trading, mortgage banking pipeline, broker-dealer activities (including equities, fixed-income, and high-yield securities) and foreign exchange, as estimated by the VaR analysis, was \$11.2 million at June 30, 2002.

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

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, such as high levels of deposit withdrawals or loan demand, in a timely and cost-effective manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, public confidence is generated

through profitable operations, sound credit quality and a strong capital position. The Company's performance in these areas has enabled it to develop a large and reliable base of core funding within its market areas and in domestic and global capital markets. Liquidity management is viewed from a long-term and short-term perspective, 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.

The Company maintains strategic liquidity and contingency plans that are subject to the availability of asset liquidity in the balance sheet. ALPC periodically reviews the Company's ability to meet funding deficiencies due to adverse business events. These funding needs are then matched with specific asset-based sources to ensure sufficient funds are available. Also, strategic liquidity policies require diversification of wholesale funding sources to avoid concentrations in any one market source. Subsidiary banks are members of various Federal Home Loan Banks that provide a source of funding through FHLB advances. The Company maintains a Grand Cayman office for issuing eurodollar time deposits. The Company also establishes relationships with dealers to issue national market retail and institutional savings certificates and short- and medium-term bank notes. Also, the Company's subsidiary banks have significant correspondent banking networks and corporate accounts. Accordingly, it has access to national fed funds, funding through repurchase agreements and sources of more stable, regionally based certificates of deposit.

Asset securitization and conduits represent another source of funding the Company's growth through off-balance sheet structures. At June 30, 2002, the Company had two off-balance sheet conduits that hold high-grade assets. The conduits, which are funded by issuing commercial paper, held average assets of \$15.9 billion during the second quarter of 2002, including participations in commercial loans, commercial paper and investment securities. The Company provides liquidity facilities to both conduits and credit enhancement to the loan conduit that may be triggered by certain events. Based on the current performance of each structure, the Company does not anticipate that these triggers will occur in the foreseeable future. Included in noninterest income in the second quarter and first six months of 2002 was \$40 million and \$84 million, respectively, of revenue related to these conduits, including fees for servicing activities, liquidity facilities and credit enhancements.

At June 30, 2002, the Company had two asset-backed securitizations to fund certain indirect

automobile loans and an unsecured small business credit product. The indirect automobile securitization held \$271 million in assets at June 30, 2002, compared with \$432 million at December 31, 2001. The unsecured small business credit securitization held \$497 million in assets at June 30, 2002, compared with \$514 million at December 31, 2001. The Company provided credit enhancements in the form of subordination and reserve accounts at the inception of the transactions. The Company's risk, primarily from losses in the underlying assets, is considered in determining the fair value of the Company's retained interests in these securitizations. The Company recognized income from residual interests and servicing fees from these securitizations of \$15.7 million in the second quarter and \$19.5 million in the first six months of 2002.

With respect to real estate and certain equipment, the Company enters into capital or operating leases to meet its business requirements. Certain operating lease arrangements involve third party lessors that acquire these business assets through leveraged financing structures commonly referred to as "synthetic leases." At June 30, 2002, synthetic lease structures held real estate assets of \$395 million and equipment assets of \$47 million, compared with \$372.7 million and \$41.6 million, respectively at December 31, 2001. The Company provides guarantees to the lender in the event of default by the leveraged financing structures or in the event that the Company does not exercise its option to purchase the property at the end of the lease term and the fair value of the assets is less than the purchase price.

Credit, liquidity, operational and legal structural risks exist due to the nature and complexity of asset securitizations and other off-balance sheet structures. ALPC regularly monitors the performance of each off-balance sheet structure in an effort to minimize these risks and ensure compliance with the requirements of these structures. The Company utilizes its credit risk management systems to evaluate the credit quality of underlying assets and regularly forecast cash flows to evaluate any potential impairment of retained interests. Also, regulatory guidelines require consideration of asset securitizations in the determination of risk-based capital ratios.

The parent company's routine funding requirements consist primarily of operating expenses, dividends to shareholders, debt service and funds used for acquisitions. The parent company obtains funding to meet its obligations from dividends collected from its subsidiaries and the issuance of debt securities. Subsidiary management fees fund operating expenses, while shareholder dividends and debt service are

satisfied primarily through dividends from its subsidiaries.

At June 30, 2002, parent company long-term debt outstanding was \$6.6 billion, compared with \$6.1 billion at December 31, 2001. The increase in long-term debt was driven by the issuance of \$1.0 billion of fixed- and variable-rate medium-term notes, which was partially offset by medium-term note maturities of \$374 million during the first six months of 2002. At June 30, 2002, total parent company debt maturing in the remainder of 2002 was \$939 million. These debt obligations are expected to be met through medium-term note issuances and dividends from subsidiaries, as well as from parent company cash and cash equivalents. 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 was \$963 million at June 30, 2002.

Residual Risk Management The Company manages its risk to changes in the value of lease residual assets through disciplined residual setting and valuation at the inception of a lease, diversification of its vehicles, a focus on a longer term vehicle leases, effective end-of-term marketing of off-lease vehicles, regular asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. To reduce the financial impact of potential changes in vehicle residuals, the Company maintains residual value risk insurance. Also, equipment lease originations are subject to the same stringent underwriting standards referred to in the segment captioned "Credit Risk Management."

Included in the retail leasing portfolio was approximately \$3.1 billion of retail leasing residuals at June 30, 2002, compared with \$2.8 billion at December 31, 2001. At June 30, 2002, the commercial leasing portfolio had \$988 million of residuals, compared with \$985 million at December 31, 2001.

Operational Risk Management Operational risk represents the risk of loss resulting from the Company's operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards.

The Company operates in many different businesses in diverse markets and relies on the ability of its employees and systems to process a high number of

transactions. Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company's objectives. In the event of a breakdown in the internal control system, improper operation of systems or improper employees' actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation.

The Company manages operational risk through a risk management framework and effective internal control processes. The framework involves the business lines, corporate risk management personnel and executive management. Under this framework, business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risk. Clear structures and processes with defined responsibilities are in place. Business managers maintain a system of controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data. Business managers ensure that the controls are appropriate and are implemented as designed.

Each business line within the Company has designated risk managers. These risk managers are responsible, among other things, for coordinating the completion of ongoing risk assessments. The Company's internal audit function validates the system of internal controls through regular and ongoing audit procedures and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board of Directors.

Capital Management The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. Total shareholders' equity was \$16.7 billion at June 30, 2002, compared with \$16.5 billion at December 31, 2001. The increase was the result of increased corporate earnings, including merger and restructuring-related items and cumulative effect of change in accounting principles, offset by dividends, share buybacks and acquisitions.

Tangible common equity to assets was 5.7 percent at June 30, 2002, unchanged from December 31, 2001. The tier 1 capital ratio was 7.9 percent at June 30, 2002, compared with 7.7 percent at December 31, 2001. The total risk-based capital ratio was 12.5 percent at June 30, 2002, compared with 11.7 percent at December 31, 2001. The improvement in the total risk-based capital ratio from December 31, 2001, to June 30, 2002, was driven by the issuance of \$1.0 billion of fixed-rate subordinated notes during the

Table 10 Capital Ratios

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|--|------------------|----------------------|
| Tangible common equity | \$9,511 | \$ 9,374 |
| As a percent of tangible assets | 5.7% | 5.7% |
| Tier 1 capital | \$12,628 | \$12,488 |
| As a percent of risk-weighted assets | 7.9% | 7.7% |
| As a percent of adjusted quarterly average assets (leverage ratio) | 7.8% | 7.7% |
| Total risk-based capital | \$19,937 | \$19,148 |
| As a percent of risk-weighted assets | 12.5% | 11.7% |

first quarter of 2002. The leverage ratio was 7.8 percent at June 30, 2002, compared with 7.7 at December 31, 2001. All regulatory ratios continue to be in excess of stated “well capitalized” requirements.

On July 17, 2001, the Company’s Board of Directors approved a plan to repurchase 56.4 million shares of the Company’s outstanding common stock in connection with the acquisition of NOVA. On December 18, 2001, the Board of Directors approved an authorization to repurchase an additional 100 million shares of outstanding common stock through 2003. During the first quarter of 2002, the Company repurchased 40.0 million shares of common stock in both public and private transactions related to these authorizations, effectively completing the July 17, 2001, authorization. During the second quarter of 2002, the Company repurchased an additional 4.8 million shares of common stock under the December 2001 plan.

LINE OF BUSINESS FINANCIAL REVIEW

Within the Company, financial performance is measured by major lines of business which include Wholesale Banking, Consumer Banking, Private Client, Trust and Asset Management, Payment Services, Capital Markets 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. Business line results are derived from the Company’s business unit profitability reporting systems.

Designations, assignments and allocations may 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 our diverse customer base. During 2002, certain organization and methodology changes were made and, accordingly, 2001 results were restated and presented on a comparable basis.

In 2002, the Company changed certain methods for evaluating the performance of the lines of business. The

provision for credit losses for each business unit is based on its net charge-offs adjusted for changes in the allowance for credit losses reflecting improvement or deterioration in the risk profile of the business lines’ loan portfolios. In connection with the adoption of SFAS 142, goodwill and other intangible assets are assigned to the lines of business based on the mix of business of the acquired entity. To enhance analysis of core business line results, the amortization of goodwill for all prior periods is now reported within Treasury and Corporate Support. Within the Company, capital levels are evaluated and managed centrally; however, capital is allocated to the operating segments to support evaluation of business performance. Capital allocations to the business lines are based on the amount of goodwill and other intangibles, the extent of off-balance sheet managed assets and lending commitments and the ratio of on-balance sheet assets relative to the total Company. Certain lines of business, such as trust, asset management and capital markets, have no significant balance sheet components. For these business units, capital is allocated taking into consideration fiduciary and operational risk, capital levels of independent organizations operating similar businesses and regulatory requirements. Merger and restructuring-related items and cumulative effect of change in accounting principles are not recorded within the lines of business.

Wholesale Banking Wholesale Banking offers lending, depository, treasury management and other financial services to middle market, large corporate and public sector clients. Wholesale Banking contributed \$378.9 million of the Company’s net operating earnings in the second quarter of 2002 and \$771.7 million in the first six months of 2002, a 5.2 percent decrease and 32.9 percent increase, respectively, over the same periods of 2001.

Total net revenue declined 3.4 percent from the second quarter of 2001 and 3.3 percent from the first six months of 2001. Net interest income, on a taxable-equivalent basis, decreased 9.7 percent and 10.7 percent, respectively, compared with the second

Table 11 Line of Business Financial Performance

| For the Three Months Ended June 30 (Dollars in Millions) | Wholesale Banking | | | Consumer Banking | | | Private Client, Trust and Asset Management | | |
|--|-------------------|-----------|----------------|------------------|----------|----------------|--|---------|----------------|
| | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change |
| Condensed Income Statement | | | | | | | | | |
| Net interest income (taxable-equivalent basis) | \$ 492.7 | \$ 545.6 | (9.7)% | \$ 820.2 | \$ 820.5 | —% | \$ 81.5 | \$ 78.6 | 3.7% |
| Noninterest income | 185.3 | 156.6 | 18.3 | 344.2 | 333.8 | 3.1 | 226.9 | 224.0 | 1.3 |
| Total net revenue | 678.0 | 702.2 | (3.4) | 1,164.4 | 1,154.3 | .9 | 308.4 | 302.6 | 1.9 |
| Noninterest expense | 107.0 | 94.8 | 12.9 | 414.3 | 423.8 | (2.2) | 111.0 | 102.4 | 8.4 |
| Other intangible amortization | 5.2 | 6.5 | (20.0) | 52.5 | 33.1 | 58.6 | 7.9 | 7.7 | 2.6 |
| Goodwill amortization | — | — | — | — | — | — | — | — | — |
| Total noninterest expense | 112.2 | 101.3 | 10.8 | 466.8 | 456.9 | 2.2 | 118.9 | 110.1 | 8.0 |
| Operating income | 565.8 | 600.9 | (5.8) | 697.6 | 697.4 | — | 189.5 | 192.5 | (1.6) |
| Provision for credit losses | (29.8) | (27.3) | 9.2 | 73.2 | 88.3 | (17.1) | 2.2 | 4.0 | (45.0) |
| Income before income taxes | 595.6 | 628.2 | (5.2) | 624.4 | 609.1 | 2.5 | 187.3 | 188.5 | (.6) |
| Income taxes and taxable-equivalent adjustment | 216.7 | 228.6 | (5.2) | 227.2 | 221.7 | 2.5 | 68.1 | 68.6 | (.7) |
| Operating earnings, before merger and restructuring-related items and cumulative effect of change in accounting principles | \$ 378.9 | \$ 399.6 | (5.2) | \$ 397.2 | \$ 387.4 | 2.5 | \$119.2 | \$119.9 | (.6) |
| Merger and restructuring-related items (after-tax) | — | — | — | — | — | — | — | — | — |
| Cumulative effect of change in accounting principles | — | — | — | — | — | — | — | — | — |
| Net income | — | — | — | — | — | — | — | — | — |
| Average Balance Sheet Data | | | | | | | | | |
| Commercial | \$32,054 | \$ 38,606 | (17.0) | \$ 7,366 | \$ 8,779 | (16.1) | \$1,829 | \$1,726 | 6.0 |
| Commercial real estate | 15,899 | 17,332 | (8.3) | 8,501 | 8,144 | 4.4 | 593 | 578 | 2.6 |
| Residential mortgages | 174 | 155 | 12.3 | 7,775 | 8,475 | (8.3) | 237 | 170 | 39.4 |
| Retail | 165 | 226 | (27.0) | 26,635 | 23,246 | 14.6 | 2,030 | 1,875 | 8.3 |
| Total loans | 48,292 | 56,319 | (14.3) | 50,277 | 48,644 | 3.4 | 4,689 | 4,349 | 7.8 |
| Goodwill | 1,314 | 1,360 | (3.4) | 1,720 | 1,717 | .2 | 289 | 278 | 4.0 |
| Other intangible assets | 130 | 146 | (11.0) | 1,000 | 721 | 38.7 | 232 | 249 | (6.8) |
| Assets | 54,497 | 63,514 | (14.2) | 58,387 | 56,444 | 3.4 | 5,730 | 5,678 | .9 |
| Noninterest-bearing deposits | 11,966 | 10,366 | 15.4 | 12,549 | 11,848 | 5.9 | 2,330 | 2,046 | 13.9 |
| Savings products | 4,912 | 4,111 | 19.5 | 35,275 | 34,270 | 2.9 | 4,268 | 4,516 | (5.5) |
| Time deposits | 2,292 | 2,481 | (7.6) | 22,905 | 27,379 | (16.3) | 489 | 571 | (14.4) |
| Total deposits | 19,170 | 16,958 | 13.0 | 70,729 | 73,497 | (3.8) | 7,087 | 7,133 | (.6) |
| Shareholders' equity | 5,340 | 6,402 | (16.6) | 4,698 | 5,076 | (7.4) | 1,351 | 1,407 | (4.0) |

| For the Six Months Ended June 30 (Dollars in Millions) | Wholesale Banking | | | Consumer Banking | | | Private Client, Trust and Asset Management | | |
|--|-------------------|-----------|----------------|------------------|-----------|----------------|--|---------|----------------|
| | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change |
| Condensed Income Statement | | | | | | | | | |
| Net interest income (taxable-equivalent basis) | \$ 986.7 | \$1,105.3 | (10.7)% | \$1,619.8 | \$1,638.4 | (1.1)% | \$162.1 | \$154.8 | 4.7% |
| Noninterest income | 366.3 | 294.2 | 24.5 | 637.9 | 629.1 | 1.4 | 448.0 | 444.2 | .9 |
| Total net revenue | 1,353.0 | 1,399.5 | (3.3) | 2,257.7 | 2,267.5 | (.4) | 610.1 | 599.0 | 1.9 |
| Noninterest expense | 199.2 | 196.0 | 1.6 | 826.9 | 849.4 | (2.6) | 222.9 | 226.6 | (1.6) |
| Other intangible amortization | 10.4 | 12.5 | (16.8) | 81.0 | 60.4 | 34.1 | 15.5 | 15.2 | 2.0 |
| Goodwill amortization | — | — | — | — | — | — | — | — | — |
| Total noninterest expense | 209.6 | 208.5 | .5 | 907.9 | 909.8 | (.2) | 238.4 | 241.8 | (1.4) |
| Operating income | 1,143.4 | 1,191.0 | (4.0) | 1,349.8 | 1,357.7 | (.6) | 371.7 | 357.2 | 4.1 |
| Provision for credit losses | (69.7) | 278.2 | * | 193.2 | 200.6 | (3.7) | 5.9 | 5.8 | 1.7 |
| Income before income taxes | 1,213.1 | 912.8 | 32.9 | 1,156.6 | 1,157.1 | — | 365.8 | 351.4 | 4.1 |
| Income taxes and taxable-equivalent adjustment | 441.4 | 332.2 | 32.9 | 420.9 | 421.1 | — | 133.1 | 127.9 | 4.1 |
| Operating earnings, before merger and restructuring-related items and cumulative effect of change in accounting principles | \$ 771.7 | \$ 580.6 | 32.9 | \$ 735.7 | \$ 736.0 | — | \$232.7 | \$223.5 | 4.1 |
| Merger and restructuring-related items (after-tax) | — | — | — | — | — | — | — | — | — |
| Cumulative effect of change in accounting principles | — | — | — | — | — | — | — | — | — |
| Net income | — | — | — | — | — | — | — | — | — |
| Average Balance Sheet Data | | | | | | | | | |
| Commercial | \$32,521 | \$ 39,202 | (17.0) | \$ 7,477 | \$ 8,764 | (14.7) | \$1,819 | \$1,714 | 6.1 |
| Commercial real estate | 15,886 | 17,393 | (8.7) | 8,506 | 8,130 | 4.6 | 595 | 575 | 3.5 |
| Residential mortgages | 157 | 159 | (1.3) | 7,689 | 8,684 | (11.5) | 226 | 171 | 32.2 |
| Retail | 174 | 224 | (22.3) | 26,179 | 23,597 | 10.9 | 1,982 | 1,842 | 7.6 |
| Total loans | 48,738 | 56,978 | (14.5) | 49,851 | 49,175 | 1.4 | 4,622 | 4,302 | 7.4 |
| Goodwill | 1,347 | 1,415 | (4.8) | 1,709 | 1,731 | (1.3) | 288 | 291 | (1.0) |
| Other intangible assets | 132 | 165 | (20.0) | 892 | 604 | 47.7 | 233 | 259 | (10.0) |
| Assets | 55,233 | 64,204 | (14.0) | 58,101 | 56,577 | 2.7 | 5,760 | 5,662 | 1.7 |
| Noninterest-bearing deposits | 12,119 | 10,083 | 20.2 | 12,450 | 11,709 | 6.3 | 2,315 | 1,978 | 17.0 |
| Savings products | 4,873 | 3,750 | 29.9 | 35,308 | 34,121 | 3.5 | 4,258 | 4,466 | (4.7) |
| Time deposits | 2,271 | 2,488 | (8.7) | 23,346 | 28,115 | (17.0) | 473 | 589 | (19.7) |
| Total deposits | 19,263 | 16,321 | 18.0 | 71,104 | 73,945 | (3.8) | 7,046 | 7,033 | .2 |
| Shareholders' equity | 5,362 | 6,507 | (17.6) | 4,617 | 4,962 | (7.0) | 1,352 | 1,424 | (5.1) |

* Not meaningful

| Payment Services | | | Capital Markets | | | Treasury and Corporate Support | | | Consolidated Company | | |
|------------------|----------|----------------|-----------------|---------|----------------|--------------------------------|------------|----------------|----------------------|------------|----------------|
| 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change |
| \$ 168.4 | \$ 145.9 | 15.4% | \$ 3.8 | \$ 9.0 | (57.8)% | \$ 123.2 | \$ (24.8) | *% | \$ 1,689.8 | \$ 1,574.8 | 7.3% |
| 406.2 | 275.5 | 47.4 | 194.0 | 217.5 | (10.8) | 80.7 | 68.2 | 18.3 | 1,437.3 | 1,275.6 | 12.7 |
| 574.6 | 421.4 | 36.4 | 197.8 | 226.5 | (12.7) | 203.9 | 43.4 | * | 3,127.1 | 2,850.4 | 9.7 |
| 161.6 | 108.7 | 48.7 | 180.9 | 195.5 | (7.5) | 369.3 | 304.1 | 21.4 | 1,344.1 | 1,229.3 | 9.3 |
| 38.8 | 6.3 | * | — | — | — | .3 | .4 | (25.0) | 104.7 | 54.0 | 93.9 |
| — | — | — | — | — | — | — | 58.6 | * | — | 58.6 | * |
| 200.4 | 115.0 | 74.3 | 180.9 | 195.5 | (7.5) | 369.6 | 363.1 | 1.8 | 1,448.8 | 1,341.9 | 8.0 |
| 374.2 | 306.4 | 22.1 | 16.9 | 31.0 | (45.5) | (165.7) | (319.7) | 48.2 | 1,678.3 | 1,508.5 | 11.3 |
| 108.1 | 130.3 | (17.0) | — | — | — | 181.3 | 44.7 | * | 335.0 | 240.0 | 39.6 |
| 266.1 | 176.1 | 51.1 | 16.9 | 31.0 | (45.5) | (347.0) | (364.4) | 4.8 | 1,343.3 | 1,268.5 | 5.9 |
| 96.8 | 64.1 | 51.0 | 6.1 | 11.3 | (46.0) | (141.4) | (144.4) | 2.1 | 473.5 | 449.9 | 5.2 |
| \$ 169.3 | \$ 112.0 | 51.2 | \$ 10.8 | \$ 19.7 | (45.2) | \$ (205.6) | \$ (220.0) | 6.5 | 869.8 | 818.6 | 6.3 |
| | | | | | | | | | (46.7) | (256.3) | |
| | | | | | | | | | \$ 823.1 | \$ 562.3 | |
| \$ 2,807 | \$ 2,574 | 9.1 | \$ 243 | \$ 187 | 29.9 | \$ 128 | \$ (375) | * | \$ 44,427 | \$ 51,497 | (13.7) |
| — | — | — | — | — | — | 236 | 297 | (20.5) | 25,229 | 26,351 | (4.3) |
| — | — | — | — | — | — | 8 | 10 | (20.0) | 8,194 | 8,810 | (7.0) |
| 7,291 | 7,394 | (1.4) | 1 | 1 | — | 45 | 69 | (34.8) | 36,167 | 32,811 | 10.2 |
| 10,098 | 9,968 | 1.3 | 244 | 188 | 29.8 | 417 | 1 | * | 114,017 | 119,469 | (4.6) |
| 1,813 | 298 | * | 306 | 311 | (1.6) | — | — | — | 5,442 | 3,964 | 37.3 |
| 773 | 130 | * | — | — | — | 14 | — | * | 2,149 | 1,246 | 72.5 |
| 13,157 | 10,767 | 22.2 | 3,184 | 3,065 | 3.9 | 34,192 | 25,339 | 34.9 | 169,147 | 164,807 | 2.6 |
| 219 | 165 | 32.7 | 204 | 164 | 24.4 | (1) | (77) | (98.7) | 27,267 | 24,512 | 11.2 |
| 4 | 3 | 33.3 | — | — | — | 200 | 499 | (59.9) | 44,659 | 43,399 | 2.9 |
| — | — | — | — | — | — | 4,838 | 8,926 | (45.8) | 30,524 | 39,357 | (22.4) |
| 223 | 168 | 32.7 | 204 | 164 | 24.4 | 5,037 | 9,348 | (46.1) | 102,450 | 107,268 | (4.5) |
| 3,216 | 1,030 | * | 437 | 461 | (5.2) | 1,433 | 1,233 | 16.2 | 16,475 | 15,609 | 5.5 |

| Payment Services | | | Capital Markets | | | Treasury and Corporate Support | | | Consolidated Company | | |
|------------------|----------|----------------|-----------------|---------|----------------|--------------------------------|------------|----------------|----------------------|------------|----------------|
| 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change |
| \$ 340.9 | \$ 291.9 | 16.8% | \$ 11.9 | \$ 17.7 | (32.8)% | \$ 238.8 | \$ (69.0) | *% | \$ 3,360.2 | \$ 3,139.1 | 7.0% |
| 770.8 | 538.2 | 43.2 | 364.6 | 438.9 | (16.9) | 176.6 | 341.7 | (48.3) | 2,764.2 | 2,686.3 | 2.9 |
| 1,111.7 | 830.1 | 33.9 | 376.5 | 456.6 | (17.5) | 415.4 | 272.7 | 52.3 | 6,124.4 | 5,825.4 | 5.1 |
| 324.5 | 215.2 | 50.8 | 336.9 | 389.8 | (13.6) | 716.1 | 632.2 | 13.3 | 2,626.5 | 2,509.2 | 4.7 |
| 77.4 | 12.5 | * | — | — | — | .6 | — | * | 184.9 | 100.6 | 83.8 |
| — | — | — | — | — | — | — | 126.4 | * | — | 126.4 | * |
| 401.9 | 227.7 | 76.5 | 336.9 | 389.8 | (13.6) | 716.7 | 758.6 | (5.5) | 2,811.4 | 2,736.2 | 2.7 |
| 709.8 | 602.4 | 17.8 | 39.6 | 66.8 | (40.7) | (301.3) | (485.9) | 38.0 | 3,313.0 | 3,089.2 | 7.2 |
| 217.9 | 217.3 | .3 | — | — | — | 322.7 | (96.1) | * | 670.0 | 605.8 | 10.6 |
| 491.9 | 385.1 | 27.7 | 39.6 | 66.8 | (40.7) | (624.0) | (389.8) | (60.1) | 2,643.0 | 2,483.4 | 6.4 |
| 179.0 | 140.1 | 27.8 | 14.4 | 24.3 | (40.7) | (257.2) | (178.1) | (44.4) | 931.6 | 867.5 | 7.4 |
| \$ 312.9 | \$ 245.0 | 27.7 | \$ 25.2 | \$ 42.5 | (40.7) | \$ (366.8) | \$ (211.7) | (73.3) | 1,711.4 | 1,615.9 | 5.9 |
| | | | | | | | | | (95.1) | (643.5) | |
| | | | | | | | | | (37.2) | — | |
| | | | | | | | | | \$ 1,579.1 | \$ 972.4 | |
| \$ 2,762 | \$ 2,533 | 9.0 | \$ 245 | \$ 183 | 33.9 | \$ 78 | \$ (364) | * | \$ 44,902 | \$ 52,032 | (13.7) |
| — | — | — | — | — | — | 220 | 306 | (28.1) | 25,207 | 26,404 | (4.5) |
| — | — | — | — | — | — | 6 | 9 | (33.3) | 8,078 | 9,023 | (10.5) |
| 7,301 | 7,396 | (1.3) | 1 | 1 | — | 42 | 94 | (55.3) | 35,679 | 33,154 | 7.6 |
| 10,063 | 9,929 | 1.3 | 246 | 184 | 33.7 | 346 | 45 | * | 113,866 | 120,613 | (5.6) |
| 1,817 | 307 | * | 306 | 331 | (7.6) | — | 3 | * | 5,467 | 4,078 | 34.1 |
| 786 | 132 | * | — | — | — | 11 | — | * | 2,054 | 1,160 | 77.1 |
| 13,201 | 10,751 | 22.8 | 3,202 | 3,109 | 3.0 | 32,969 | 23,682 | 39.2 | 168,466 | 163,985 | 2.7 |
| 273 | 161 | 69.6 | 210 | 162 | 29.6 | 8 | (39) | * | 27,375 | 24,054 | 13.8 |
| 3 | 3 | — | — | — | — | 249 | 597 | (58.3) | 44,691 | 42,937 | 4.1 |
| — | — | — | — | — | — | 4,076 | 7,701 | (47.1) | 30,166 | 38,893 | (22.4) |
| 276 | 164 | 68.3 | 210 | 162 | 29.6 | 4,333 | 8,259 | (47.5) | 102,232 | 105,884 | (3.4) |
| 3,208 | 1,024 | * | 434 | 480 | (9.6) | 1,345 | 1,141 | 17.9 | 16,318 | 15,538 | 5.0 |

quarter and the first six months of 2001 as average loans declined \$8.0 billion and \$8.2 billion over the same periods. The impact of declining average loans on net interest income was offset somewhat by improving spreads on average loan balances and a decrease in the funding cost related to non-earning assets. The decrease in net interest income also reflected the adverse impact of declining interest rates on the funding benefits of customer deposits which was partially offset by the growth in total business deposits of 13.0 percent in the second quarter of 2002 and 18.0 percent in the first six months of 2002 over the same periods of 2001. Additionally, a decline in required capital for Wholesale Banking, driven by lower commercial loan balances and unfunded commitments, reduced the earnings credit in the second quarter and the first six months of 2002, compared with the same periods last year. The decline in commercial loans was due in part to the Company's decisions in 2001 to tighten credit availability to certain types of lending, industries and customers, and reductions due to asset workout strategies. Also contributing to the decline were the transfers of high credit quality, low margin commercial loans to the loan conduit which reduced the average outstanding commercial loans by \$1.1 billion and \$2.2 billion, respectively, for the second quarter and the first six months of 2002. Noninterest income increased 18.3 percent in the second quarter of 2002 to \$185.3 million and 24.5 percent in the first six months of 2002 to \$366.3 million, reflecting core growth in cash management-related fees, driven by lower earnings credit rates and new account growth, an increase in fee income related to the loan conduit and growth in commercial leasing income. Noninterest expense was \$112.2 million in the second quarter of 2002, compared with \$101.3 million in the same quarter of 2001. The \$10.9 million increase in noninterest expense was due in part to equipment financing related write-downs. During the second quarter 2002 and 2001, the provision for credit losses was a net recovery of \$29.8 million and \$27.3 million, respectively. While provision expense remained relatively flat year-over-year, net charge-offs increased by \$62.2 million, offset by improvement in the credit risk profile of the commercial loan portfolio. The improvement in credit quality was driven by the Company's asset workout strategies, reductions in commitments to certain industries and customers and slightly improving loss ratios. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

Consumer Banking Consumer Banking delivers products and services to the broad consumer market and small

businesses through banking offices, telemarketing, on-line services, direct mail and automated teller machines ("ATMs"). It encompasses community banking, metropolitan banking, small business banking, consumer lending, mortgage banking, workplace banking, student banking, 24-hour banking and investment product and insurance sales. Consumer Banking contributed \$397.2 million of the Company's net operating earnings for the second quarter of 2002 and \$735.7 million for the first six months of 2002, a 2.5 percent increase and no change, respectively, over the same periods of 2001.

Total net revenue was relatively flat in the second quarter of 2002 and in the first six months of 2002, compared with the same periods of 2001. Fee-based revenue grew by 3.1 percent for the second quarter and 1.4 percent for the first six months of 2002, compared with the same periods of 2001, while net interest income remained unchanged and declined 1.1 percent, in the second quarter and the first six months of 2001, respectively. The decrease in net interest income reflected the impact of declining interest rates on the funding benefit of consumer deposits, partially offset by improved spreads related to a favorable change in the mix of earning assets. The decline in the funding benefit of consumer deposits was also offset by a decrease in the funding cost related to non-earning assets, improved loan spreads and an increase in the mortgages held for sale portfolio. The increase in average loan balances of 3.4 percent reflected core retail loan growth of 9.1 percent for the second quarter of 2002, compared with the same period of 2001. The increase in average loans of 1.4 percent for the first six months of 2002 was primarily due to the increase in core retail loan growth offset by the sale of approximately \$1.3 billion of home equity and indirect automobile loans in the first quarter of 2001, the securitization of a discontinued unsecured small business product and the divestiture of branches in connection with the merger of Firststar and USBM. The change in average deposits included core growth in noninterest-bearing, interest checking and savings account balances, offset by a reduction in balances associated with time deposits. The decline in lower margin time deposits primarily reflected funding decisions of the Company toward lower cost wholesale funding given the rate environment in late 2001. Fee-based revenue growth for the second quarter of 2002 was driven by an increase in treasury management revenue, mortgage banking servicing revenue, mortgage banking production revenue and investment product revenue, partially offset by lower deposit service charge and insurance revenues and higher end-of-term lease losses. The growth in mortgage banking servicing and production revenue was partially

attributable to the acquisition of Leader in the second quarter of 2002, which contributed \$12.4 million in the second quarter of 2002, compared with the same period of 2001. Noninterest expense was \$466.8 million in the second quarter of 2002 and \$907.9 million in the first six months of 2002, compared with \$456.9 million and \$909.8 million over the same periods of 2001, respectively. The increase in noninterest expense for the second quarter of 2002 was attributable to the \$11.3 million of expenses for the Leader acquisition and higher mortgage servicing rights impairments recognized in second quarter of 2002, partially offset by expense control initiatives. The provision for credit losses decreased \$15.1 million (17.1 percent) and \$7.4 million (3.7 percent) in the second quarter of 2002 and the first six months of 2002, respectively, compared with the same periods of a year ago. The decrease in the provision primarily reflected improvement in the credit risk profile of the community banking commercial loan portfolios and lower commercial loan net charge-offs. The improvement in credit quality within the community bank was driven by a reduction in loan commitments to certain customers, improving loss ratios and slightly lower levels of nonperforming assets.

Private Client, Trust and Asset Management Private Client, Trust and Asset Management provides mutual fund processing services, trust, private banking and financial advisory services through four businesses, including: the Private Client Group, Corporate Trust, Institutional Trust and Custody, and Mutual Fund Services, LLC. The business segment also offers investment management services to several client segments including mutual funds, institutional customers, and private asset management. Private Client, Trust and Asset Management contributed \$119.2 million of the Company's net operating earnings for the second quarter of 2002 and \$232.7 million in the first six months of 2002, a .6 percent decrease and 4.1 percent increase, respectively, from the same periods in 2001.

Total net revenue was \$308.4 million in the second quarter of 2002 and \$610.1 million in the first six months of 2002, an increase of 1.9 percent, compared to the same periods of 2001. The increase was driven by core loan and deposit growth, partially offset by the impact of declining rates on the funding benefit of deposits. Noninterest income increased 1.3 percent, compared with the same quarter for 2001 and .9 percent, compared with the first six months of 2001. Core account growth was approximately 2.8 percent over the second quarter of 2001 and 3.1 percent over the first six months of 2001, contributing \$6.2 million

and \$13.8 million, respectively. This growth was offset by a decrease in the value of assets under management driven by adverse capital market conditions relative to the second quarter of 2001, primarily due to a favorable loss recovery in the second quarter of 2001. Noninterest expense increased \$8.8 million (8.0 percent), compared with the second quarter of 2001 but decreased \$3.4 million (1.4 percent), compared with the first six months of 2001.

Payment Services Payment Services includes consumer and business credit cards, corporate and purchasing card services, consumer lines of credit, ATM processing, merchant processing and debit cards. Payment Services contributed \$169.3 million of the Company's net operating earnings for the second quarter of 2002 and \$312.9 million for the first six months of 2002, a 51.2 percent and 27.7 percent increase, respectively, over the second quarter and the first six months of 2001. The business unit's financial results were, in part, driven by the impact of the NOVA acquisition completed during the third quarter of 2001.

Total net revenue was \$574.6 million for the second quarter and \$1,111.7 million for the first six months of 2002, representing a 36.4 percent and 33.9 percent increase, respectively, over the comparable periods of 2001. Net interest income increased 15.4 percent, while fee-based income increased 47.4 percent over the second quarter of 2001. Net interest income increased 16.8 percent, while fee-based income increased 43.2 percent over the first six months of 2001. Excluding the NOVA acquisition, total net revenue increased approximately 5.6 percent in the second quarter of 2002 and 4.2 percent in the first six months of 2002, compared with the same periods in 2001, primarily due to growth in net interest income of 7.0 percent and 8.7 percent, respectively. Net interest income, excluding NOVA, improved primarily due to an increase in average loans and lower funding costs of the noninterest-bearing corporate card loan portfolio. Noninterest income, excluding NOVA, was up 4.8 percent and 1.6 percent, respectively, for the second quarter and first six months of 2002, primarily due to increases in credit and debit card revenue. Total revenue growth was partially offset by an increase in noninterest expense of \$85.4 million (74.3 percent) and \$174.2 million (76.5 percent) over the second quarter and the first six months of 2001, respectively, primarily due to the NOVA acquisition. Excluding the impact of the NOVA acquisition, noninterest expense for the division was \$8.2 million (8.2 percent) and \$14.5 million (7.3 percent) lower, compared with the second quarter and the first six months of 2001,

respectively. The provision for credit losses was \$108.1 million in the second quarter of 2002, a decrease of \$22.2 million (17.0 percent), compared with the second quarter of 2001. The decrease in provision was primarily a reflection of the improvement in projected loss rates.

Capital Markets Capital Markets engages in equity and fixed income trading activities, offers investment banking and underwriting services for corporate and public sector customers and provides financial advisory services and securities, mutual funds, annuities and insurance products to consumers and regionally based businesses through a network of brokerage offices. Capital Markets contributed \$10.8 million of the Company's net operating earnings for the second quarter of 2002 and \$25.2 million for the first six months of 2002, a 45.2 percent and 40.7 percent decline, respectively, from the second quarter and the first six months of 2001. The unfavorable variance in net operating income from the second quarter and the first six months of 2001 was due to a decline in fees related to trading, investment product fees and commissions, investment banking fees and mark to market valuation adjustments reflecting the recent adverse capital markets conditions. Capital markets activities continued to experience weak sales volumes and lower levels of investment banking and merger and acquisition transactions. Management anticipates continued softness in sales activities and related revenue growth throughout the next several quarters. In response to the adverse market conditions, the Company restructured the division beginning in the second quarter of 2001 to improve the operating model and rationalize the distribution network.

Treasury and Corporate Support Treasury and Corporate Support includes the Company's investment portfolios, funding, capital management and asset securitization activities, interest rate risk management, the net effect of transfer pricing related to average balances, and the change in residual allocations associated with the provision for loan losses. It also includes business activities managed on a corporate basis, including enterprise-wide operations and administrative support functions. Treasury and Corporate Support recorded net operating losses of \$205.6 million in the second quarter of 2002 and \$366.8 million for the first six months of 2002, a 6.5 percent improvement and 73.3 percent decline, respectively, from the comparable periods of 2001. During the second quarter of 2002, total net revenue was \$203.9 million, compared with \$43.4 million in the second quarter of 2001. The \$160.5 million increase was attributable to an increase

in net interest income. The increase in net interest income was primarily due to an increase in average investments of \$6.7 billion from a year ago and the benefit of changes in the mix of funding during the declining rate environment. Noninterest income decreased \$165.1 million during the first six months of 2002, compared with the same period for 2001 with securities gains of \$73.3 million and \$238.2 million, respectively. Noninterest expense was \$369.6 million in the second quarter of 2002, compared with \$363.1 million for the same period of 2001. The provision for credit losses for this business unit represents the residual aggregate of the credit losses allocated to the reportable business units and the Company's recorded provision determined in accordance with generally accepted accounting principles in the United States. The provision for credit losses was \$181.3 million for the second quarter of 2002 and \$322.7 million for the first six months of 2002, compared with \$44.7 million and a net recovery of \$96.1 million, respectively, for the comparable periods in 2001. The increase in provision expense period over period reflected continued elevated levels of net charge-offs and nonperforming assets on a consolidated level, despite the improving credit risk profile in the other reportable business units which was driven by reductions in higher risk loan commitments and the Company's workout strategies. Refer to the "Corporate Risk Profile" section for further information on 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.

ACCOUNTING CHANGES

Accounting for Business Combinations and Goodwill and Other Intangible Assets In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," and Statement of Financial Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 141 mandates the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS 142 addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The Company adopted SFAS 142 on January 1, 2002. The most significant changes made by SFAS 142 are that goodwill and indefinite lived intangible assets are no longer amortized and will be tested for impairment at least

annually, thereafter. Impairment charges from the initial impairment test were recognized as a “cumulative effect of change in accounting principles” in the income statement. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization provisions of SFAS 142 were effective upon adoption of SFAS 142.

Management anticipates that applying the provisions of SFAS 141 to recent acquisitions and the provisions of SFAS 142 to purchase acquisitions completed prior to July 1, 2001, will increase after-tax income for the year ending December 31, 2002, by approximately \$200 million, or \$.10 per diluted share. During the first quarter of 2002, the Company

completed its initial impairment test as required by SFAS 142. As a result of this initial impairment test, the Company recognized an after-tax goodwill impairment charge of \$37.2 million as a “cumulative effect of change in accounting principles” in the income statement in the first quarter of 2002. The impairment was primarily related to the purchase of a transportation leasing company in 1998 by the equipment leasing business. Banking regulations exclude 100 percent of goodwill from the determination of capital adequacy; therefore, the impact of this impairment on the Company’s capital adequacy was not significant.

Refer to Note 7 of the Notes to Consolidated Financial Statements for additional information regarding intangible assets.

U.S. Bancorp

Consolidated Balance Sheet

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|--|------------------|----------------------|
| | (Unaudited) | |
| Assets | | |
| Cash and due from banks | \$ 7,531 | \$ 9,120 |
| Money market investments | 1,113 | 625 |
| Trading account securities | 703 | 982 |
| Investment securities | | |
| Held-to-maturity (fair value \$296 and \$306, respectively) | 290 | 299 |
| Available-for-sale | 30,384 | 26,309 |
| Loans held for sale | 1,930 | 2,820 |
| Loans | | |
| Commercial | 44,491 | 46,330 |
| Commercial real estate | 25,300 | 25,373 |
| Residential mortgages | 8,107 | 7,829 |
| Retail | 36,672 | 34,873 |
| Total loans | 114,570 | 114,405 |
| Less allowance for credit losses | 2,466 | 2,457 |
| Net loans | 112,104 | 111,948 |
| Premises and equipment | 1,718 | 1,741 |
| Customers' liability on acceptances | 157 | 178 |
| Goodwill | 5,442 | 5,459 |
| Other intangible assets | 2,176 | 1,953 |
| Other assets | 9,408 | 9,956 |
| Total assets | <u>\$172,956</u> | <u>\$171,390</u> |
| Liabilities and Shareholders' Equity | | |
| Deposits | | |
| Noninterest-bearing | \$ 31,272 | \$ 31,212 |
| Interest-bearing | 63,172 | 65,447 |
| Time deposits greater than \$100,000 | 10,612 | 8,560 |
| Total deposits | 105,056 | 105,219 |
| Short-term borrowings | 9,156 | 14,670 |
| Long-term debt | 33,008 | 25,716 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company | 2,894 | 2,826 |
| Acceptances outstanding | 157 | 178 |
| Other liabilities | 6,035 | 6,320 |
| Total liabilities | 156,306 | 154,929 |
| Shareholders' equity | | |
| Common stock, par value \$0.01 a share | | |
| authorized: 6/30/02 and 12/31/01 — 4,000,000,000 shares | | |
| issued: 6/30/02 — 1,972,773,566 shares; 12/31/01 — 1,972,777,763 shares | 20 | 20 |
| Capital surplus | 4,875 | 4,906 |
| Retained earnings | 12,756 | 11,918 |
| Less cost of common stock in treasury: 6/30/02 — 58,593,417 shares; 12/31/01 — 21,068,251 shares | (1,341) | (478) |
| Other comprehensive income | 340 | 95 |
| Total shareholders' equity | 16,650 | 16,461 |
| Total liabilities and shareholders' equity | <u>\$172,956</u> | <u>\$171,390</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, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Interest Income | | | | |
| Loans | \$1,936.9 | \$2,426.7 | \$3,868.8 | \$5,077.8 |
| Loans held for sale | 36.6 | 25.9 | 75.8 | 42.5 |
| Investment securities | | | | |
| Taxable | 346.1 | 287.8 | 693.9 | 541.1 |
| Non-taxable | 11.7 | 27.8 | 24.9 | 59.0 |
| Money market investments | 2.2 | 7.4 | 5.5 | 16.3 |
| Trading securities | 9.4 | 14.1 | 17.6 | 30.0 |
| Other interest income | 32.7 | 26.1 | 51.7 | 58.1 |
| Total interest income | 2,375.6 | 2,815.8 | 4,738.2 | 5,824.8 |
| Interest Expense | | | | |
| Deposits | 375.8 | 783.0 | 771.3 | 1,666.7 |
| Short-term borrowings | 68.3 | 124.4 | 147.2 | 310.6 |
| Long-term debt | 197.9 | 315.0 | 371.0 | 680.7 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company | 52.8 | 35.4 | 106.6 | 63.0 |
| Total interest expense | 694.8 | 1,257.8 | 1,396.1 | 2,721.0 |
| Net interest income | 1,680.8 | 1,558.0 | 3,342.1 | 3,103.8 |
| Provision for credit losses | 335.0 | 441.3 | 670.0 | 973.7 |
| Net interest income after provision for credit losses | 1,345.8 | 1,116.7 | 2,672.1 | 2,130.1 |
| Noninterest Income | | | | |
| Credit and debit card revenue | 131.2 | 118.8 | 240.5 | 227.8 |
| Corporate payment products revenue | 82.5 | 77.4 | 157.7 | 156.2 |
| Merchant processing services | 144.4 | 31.4 | 278.0 | 61.7 |
| ATM processing services | 33.5 | 33.0 | 64.4 | 64.6 |
| Trust and investment management fees | 234.9 | 228.0 | 459.2 | 453.0 |
| Deposit service charges | 170.2 | 176.7 | 322.8 | 323.2 |
| Cash management fees | 104.3 | 84.9 | 208.5 | 161.7 |
| Mortgage banking revenue | 75.4 | 57.0 | 127.4 | 105.2 |
| Trading account profits and commissions | 49.5 | 55.8 | 99.4 | 127.7 |
| Investment products fees and commissions | 107.4 | 114.2 | 218.5 | 239.9 |
| Investment banking revenue | 70.5 | 71.1 | 123.7 | 131.3 |
| Commercial product revenue | 127.0 | 105.0 | 245.9 | 190.9 |
| Securities gains, net | 30.6 | 31.3 | 74.7 | 247.3 |
| Merger and restructuring-related gains | — | 62.2 | — | 62.2 |
| Other | 75.9 | 91.0 | 143.5 | 195.8 |
| Total noninterest income | 1,437.3 | 1,337.8 | 2,764.2 | 2,748.5 |
| Noninterest Expense | | | | |
| Salaries | 607.6 | 570.5 | 1,195.9 | 1,161.0 |
| Employee benefits | 91.1 | 90.7 | 187.5 | 198.8 |
| Net occupancy | 101.8 | 101.4 | 201.9 | 211.5 |
| Furniture and equipment | 77.0 | 74.9 | 153.9 | 151.8 |
| Capitalized software | 37.7 | 33.2 | 76.1 | 63.3 |
| Communication | 44.1 | 50.3 | 89.8 | 89.0 |
| Postage | 44.4 | 43.8 | 91.0 | 90.7 |
| Goodwill | — | 58.6 | — | 126.4 |
| Other intangible assets | 104.7 | 54.0 | 184.9 | 100.6 |
| Merger and restructuring-related charges | 71.6 | 252.8 | 145.8 | 657.0 |
| Other | 340.4 | 264.5 | 630.4 | 543.1 |
| Total noninterest expense | 1,520.4 | 1,594.7 | 2,957.2 | 3,393.2 |
| Income before income taxes and cumulative effect of change in accounting principles | 1,262.7 | 859.8 | 2,479.1 | 1,485.4 |
| Applicable income taxes | 439.6 | 297.5 | 862.8 | 513.0 |
| Income before cumulative effect of change in accounting principles | 823.1 | 562.3 | 1,616.3 | 972.4 |
| Cumulative effect of change in accounting principles | — | — | (37.2) | — |
| Net income | \$ 823.1 | \$ 562.3 | \$ 1,579.1 | \$ 972.4 |
| Earnings Per Share | | | | |
| Income before cumulative effect of change in accounting principles | \$.43 | \$.30 | \$.84 | \$.51 |
| Cumulative effect of change in accounting principles | — | — | (.02) | — |
| Net income | \$.43 | \$.30 | \$.82 | \$.51 |
| Diluted Earnings Per Share | | | | |
| Income before cumulative effect of change in accounting principles | \$.43 | \$.29 | \$.84 | \$.51 |
| Cumulative effect of change in accounting principles | — | — | (.02) | — |
| Net income | \$.43 | \$.29 | \$.82 | \$.51 |
| Dividends declared per share | .195 | .1875 | .39 | .375 |
| Average common shares | 1,913.2 | 1,905.3 | 1,916.5 | 1,903.2 |
| Average diluted common shares | 1,926.9 | 1,917.2 | 1,928.5 | 1,916.4 |

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Shareholders' Equity

| (Dollars in Millions) (Unaudited) | Common Shares Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Other Comprehensive Income | Total Shareholders' Equity |
|---|------------------------------|-----------------|--------------------|----------------------|-------------------|----------------------------------|----------------------------------|
| Balance December 31, 2000 | 1,902,083,434 | \$19.4 | \$4,275.6 | \$11,658.0 | \$ (880.1) | \$ 95.5 | \$15,168.4 |
| Net income | | | | 972.4 | | | 972.4 |
| Unrealized gain on securities available for sale | | | | | | 106.4 | 106.4 |
| Unrealized gain on derivatives | | | | | | 8.9 | 8.9 |
| Foreign currency translation adjustment | | | | | | (.5) | (.5) |
| Reclassification adjustment for gains realized in net income | | | | | | (247.3) | (247.3) |
| Income taxes | | | | | | 50.2 | 50.2 |
| Total comprehensive income | | | | | | | 890.1 |
| Cash dividends declared on common stock | | | | (714.9) | | | (714.9) |
| Issuance of common and treasury stock | 5,475,093 | .1 | 39.1 | | 31.4 | | 70.6 |
| Retirement of treasury stock | | (.4) | (823.2) | | 823.6 | | — |
| Shares reserved to meet deferred compensation obligations | | | .5 | | (.5) | | — |
| Amortization of restricted stock | | | 42.1 | | | | 42.1 |
| Balance June 30, 2001 | 1,907,558,527 | \$19.1 | \$3,534.1 | \$11,915.5 | \$ (25.6) | \$ 13.2 | \$15,456.3 |
| Balance December 31, 2001 | 1,951,709,512 | \$19.7 | \$4,906.2 | \$11,918.0 | \$ (478.1) | \$ 95.4 | \$16,461.2 |
| Net income | | | | 1,579.1 | | | 1,579.1 |
| Unrealized gain on securities available for sale | | | | | | 490.0 | 490.0 |
| Unrealized loss on derivatives | | | | | | (82.9) | (82.9) |
| Foreign currency translation adjustment | | | | | | 8.2 | 8.2 |
| Realized gain on derivatives | | | | | | 63.2 | 63.2 |
| Reclassification adjustment for gains realized in net income | | | | | | (84.6) | (84.6) |
| Income taxes | | | | | | (149.6) | (149.6) |
| Total comprehensive income | | | | | | | 1,823.4 |
| Cash dividends declared on common stock | | | | (741.1) | | | (741.1) |
| Issuance of common and treasury stock | 7,333,432 | | (42.2) | | 171.5 | | 129.3 |
| Purchase of treasury stock | (44,814,685) | | | | (1,032.3) | | (1,032.3) |
| Shares reserved to meet deferred compensation obligations | (48,110) | | 2.2 | | (2.2) | | — |
| Amortization of restricted stock | | | 9.0 | | | | 9.0 |
| Balance June 30, 2002 | 1,914,180,149 | \$19.7 | \$4,875.2 | \$12,756.0 | \$(1,341.1) | \$ 339.7 | \$16,649.5 |

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Cash Flows

| (Dollars in Millions) (Unaudited) | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2002 | 2001 |
| Operating Activities | | |
| Net cash provided by (used in) operating activities | \$ 4,045.3 | \$ 829.0 |
| Investing Activities | | |
| Securities | | |
| Sales | 6,407.3 | 11,735.3 |
| Maturities | 3,094.7 | 1,377.5 |
| Purchases | (13,076.3) | (16,449.3) |
| Loans | | |
| Sales and securitization | 952.6 | 3,451.0 |
| Purchases | (1,655.0) | (38.5) |
| Net (increase) decrease in loans outstanding | 74.1 | (1,469.5) |
| Net (purchases) sales of bank premises and equipment | (115.1) | (67.6) |
| Acquisitions, net of cash acquired | (62.7) | — |
| Divestitures of branches | — | (340.0) |
| Other, net | (121.8) | (131.7) |
| Net cash provided by (used in) investing activities | (4,502.2) | (1,932.8) |
| Financing Activities | | |
| Net increase (decrease) in deposits | (154.2) | (1,820.7) |
| Net increase (decrease) in short-term borrowings | (5,956.9) | 2,286.0 |
| Principal payments on long-term debt | (2,391.0) | (3,876.6) |
| Proceeds from issuance of long-term debt | 9,515.0 | 3,225.0 |
| Proceeds from issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company | — | 700.0 |
| Proceeds from issuance of common stock | 109.1 | 47.6 |
| Repurchase of common stock | (1,032.3) | — |
| Cash dividends paid | (733.8) | (511.6) |
| Net cash provided by (used in) financing activities | (644.1) | 49.7 |
| Change in cash and cash equivalents | (1,101.0) | (1,054.1) |
| Cash and cash equivalents at beginning of period | 9,745.3 | 9,131.6 |
| Cash and cash equivalents at end of period | \$ 8,644.3 | \$ 8,077.5 |

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 footnotes 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, and the Company believes such presentation is adequate to make the information presented not misleading. For further information, refer to the consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2001. 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” on pages 22 and 23 provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Accounting for Business Combinations and Goodwill and Other Intangible Assets In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (“SFAS 141”), “Business Combinations” and Statement of Financial Accounting Standard No. 142 (“SFAS 142”), “Goodwill and Other Intangible Assets.” SFAS 141 mandates that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS 142 addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The Company adopted SFAS 142 on January 1, 2002. The most significant changes made by SFAS 142 are that goodwill and indefinite lived intangible assets are no longer amortized and will be tested for impairment at least annually, thereafter. Impairment charges from the initial impairment test were recognized as a “cumulative effect of change in accounting principles” in the income statement. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization provisions of SFAS 142 were effective upon adoption of SFAS 142.

Management anticipates that applying the provisions of SFAS 141 to recent acquisitions and the provisions of SFAS 142 to purchase acquisitions completed prior to July 1, 2001, will increase after-tax income for the year ending December 31, 2002, by approximately \$200 million, or \$.10 per diluted share. During the first quarter of 2002, the Company completed its initial impairment test as required by SFAS 142. As a result of this initial impairment test, the Company recognized an after-tax goodwill impairment charge of \$37.2 million as a “cumulative effect of change in accounting principles” in the income statement in the first quarter of 2002. The impairment was primarily related to the purchase of a transportation leasing company in 1998 by the equipment leasing business. Banking regulations exclude 100 percent of goodwill from the determination of capital adequacy; therefore, the impact of this impairment on the Company’s capital adequacy was not significant.

Refer to Note 7 of the Notes to Consolidated Financial Statements for additional information regarding intangible assets.

Note 3 Business Combinations

On February 27, 2001, Firststar Corporation (“Firststar”) and the former U.S. Bancorp (“USBM”) merged in a pooling-of-interests transaction and accordingly all financial information has been restated to include the historical information of both companies. Each share of Firststar stock was exchanged for one share of the Company’s common stock while each share of USBM stock was exchanged for 1.265 shares of the Company’s common stock. The new Company retained the U.S. Bancorp name.

On July 24, 2001, the Company acquired NOVA Corporation (“NOVA”), a merchant processor, in a stock and cash transaction valued at approximately \$2.1 billion. The transaction, representing total assets acquired of \$2.9 billion and total liabilities assumed of \$773 million, was accounted for as a purchase. Included in total assets were merchant contracts and other intangibles of \$650 million and the excess of purchase price over the fair value of identifiable net assets (“goodwill”) of \$1.6 billion.

On September 7, 2001, the Company acquired Pacific Century Bank in a cash transaction. The acquisition included 20 branches located in Southern California with approximately \$712 million in deposits and \$570 million in assets.

On April 1, 2002, the Company acquired Cleveland-based The Leader Mortgage Company, LLC (“Leader”), a wholly owned subsidiary of First Defiance Financial Corp., in a cash transaction. The transaction, representing total assets acquired of \$527 million and total liabilities assumed of \$446 million, was accounted for as a purchase. Included in total assets were mortgage servicing rights and other intangibles of \$173 million and goodwill of \$12 million. Leader specializes in acquiring servicing of loans originated for state and local housing authorities. The purchase agreement allows for an additional payment of up to \$5 million if certain performance criteria are met.

On July 22, 2002, the Company announced a definitive agreement to acquire 57 branches in California from Bay View Bank, a wholly owned subsidiary of Bay View Capital Corporation, in a cash transaction. This acquisition includes approximately \$3 billion in retail deposits and small business deposits and \$376 million in selected loans, including single-family residential mortgages, home equity loans and small business loans primarily with depository relationships. The transaction is subject to certain conditions but is anticipated to close in the fourth quarter of 2002.

On August 13, 2002, the Company announced a definitive agreement to acquire the corporate trust business of State Street Bank and Trust Company in a cash transaction valued at \$725 million. This business is a leading provider of corporate trust and agency services to a variety of municipalities, corporations, government agencies and other financial institutions serving approximately 20,000 client issuances representing over \$689 billion of assets under administration. After the acquisition, the Company will be among the nation’s leading providers of a full range of corporate trust products and services. The transaction is subject to certain regulatory approvals and is expected to close in the fourth quarter of 2002.

The following table summarizes acquisitions by the Company completed since January 1, 2001, treating Firststar as the original acquiring company:

| (Dollars and Shares in Millions) | Date | Assets (a) | Deposits | Goodwill and Other Intangibles | Cash Paid/(Received) | Shares Issued | Accounting Method |
|--|----------------|------------|----------|--------------------------------|----------------------|---------------|-------------------|
| The Leader Mortgage Company, LLC | April 2002 | \$ 517 | \$ — | \$ 185 | \$ 81 | — | Purchase |
| Pacific Century Bank | September 2001 | 570 | 712 | 134 | (43) | — | Purchase |
| NOVA Corporation | July 2001 | 949 | — | 2,231 | 842 | 56.9 | Purchase |
| U.S. Bancorp | February 2001 | 86,602 | 51,335 | — | — | 952.4 | Pooling |

(a) Assets acquired do not include purchase accounting adjustments.

Note 4 Merger and Restructuring-Related Items

The Company recorded pre-tax merger and restructuring-related items of \$145.8 million in the first six months of 2002. In 2002, merger-related items were primarily incurred in connection with the merger of Firststar and USBM, the NOVA acquisition and the Company’s various other acquisitions. Refer to Note 3 of the Notes to Consolidated Financial Statements for additional information regarding business combinations.

The components of the merger and restructuring-related items are shown below:

| (Dollars in Millions) | Six Months Ended June 30, 2002 | | | Total |
|--|-----------------------------------|---------------|--------------|----------------|
| | USBM | NOVA | Other (a) | |
| Severance and employee-related | \$ (4.5) | \$ — | \$ — | \$ (4.5) |
| Systems conversions and integration | 122.5 | 14.0 | 6.9 | 143.4 |
| Asset write-downs and lease terminations | 32.2 | — | — | 32.2 |
| Balance sheet restructurings | (28.7) | — | — | (28.7) |
| Other merger-related items | 3.4 | — | — | 3.4 |
| Total | \$124.9 | \$14.0 | \$6.9 | \$145.8 |

(a) "Other" primarily includes merger and restructuring-related items pertaining to the Leader, Lyon Financial Services, Inc. and Pacific Century Bank acquisitions.

The Company determines merger and restructuring-related items and related accruals based on its integration strategy and formulated plans. These plans are established as of the acquisition date and are regularly evaluated during the integration process.

Severance and employee-related charges include the cost of severance, other benefits and outplacement costs associated with the termination of employees primarily in branch offices and centralized corporate support and data processing functions. The severance amounts are determined based on the Company's existing severance pay programs and are paid out over a benefit period of up to two years from the time of termination. The total number of employees included in severance amounts has not changed significantly from estimates as of December 31, 2001. In the first quarter of 2002, the Company recognized net curtailment and settlement gains of \$9.0 million in connection with changes to certain non-qualified pension plans. Severance and employee-related costs are included in the determination of goodwill for groups of acquired employees identified at closing to be severed. Severance and employee-related costs are recorded as incurred for groups of employees not specifically identified at the time of closing or acquired in business combinations accounted for as "poolings."

Systems conversions and integration costs are recorded as incurred and are associated with the preparation and mailing of numerous customer communications for the acquisitions and conversion of customer accounts, printing and distribution of training materials and policy and procedure manuals, outside consulting fees, and other expenses related to systems conversions and the integration of acquired branches and operations.

Asset write-downs and lease terminations represent lease termination costs and impairment of assets for redundant office space, branches that will be vacated and equipment disposed of as part of the integration plan. These costs are recognized in the accounting period that contract terminations occur or the asset becomes impaired and is abandoned.

Balance sheet restructurings primarily represent gains or losses incurred by the Company related to the disposal of certain businesses, products, or customer and business relationships that no longer align with the long-term strategy of the Company. It may also include charges to realign risk management practices related to certain credit portfolios. During the first six months of 2002, the Company recognized asset gains related to the sale of a non-strategic investment in a sub-prime lending business.

Other merger-related items of \$3.4 million primarily represents changes to conform accounting policies implemented at the time of systems conversions related to the merger of Firststar and USBM.

The following table presents a summary of activity with respect to the merger and restructuring-related accruals:

| (Dollars in Millions) | USBM | NOVA | Piper | | Total |
|--|----------------|---------------|---------------|----------------|-----------------|
| | | | Restructuring | Other (a) | |
| Balance at December 31, 2001 | \$ 124.3 | \$48.4 | \$18.1 | \$ 14.6 | \$ 205.4 |
| Provision charged to operating expense | 124.9 | 14.0 | — | 6.9 | 145.8 |
| Additions related to purchase acquisitions | — | .4 | — | 2.7 | 3.1 |
| Cash outlays | (189.1) | (15.1) | (6.2) | (12.3) | (222.7) |
| Noncash write-downs and other | 2.3 | — | (1.4) | (1.4) | (.5) |
| Balance at June 30, 2002 | \$ 62.4 | \$47.7 | \$10.5 | \$ 10.5 | \$ 131.1 |

(a) "Other" primarily includes the acquisitions of Leader, Lyon Financial Services, Inc. and Pacific Century Bank.

The adequacy of the accrued liabilities is reviewed regularly taking into consideration actual and projected payments. Adjustments are made to increase or decrease these accruals as needed. Reversals of expenses can reflect a lower utilization of benefits by affected staff, changes in initial assumptions as a result of subsequent mergers and alterations of business plans.

The following table presents a summary of activity with respect to the merger of Firststar and USBM:

| (Dollars in Millions) | Severance and Employee- Related | Systems Conversions and Integration | Asset Write-downs and Lease Terminations | Balance Sheet Restructurings | Other | Total |
|--|--|--|---|------------------------------------|-------|---------|
| Balance at December 31, 2001 | \$ 88.3 | \$ — | \$ 33.1 | \$ 2.1 | \$.8 | \$124.3 |
| Provision charged to operating expense | (6.7) | 57.6 | 14.8 | (3.8) | 2.5 | 64.4 |
| Cash outlays | (37.6) | (57.6) | (3.1) | — | (.1) | (98.4) |
| Noncash write-downs and other | 9.0 | — | (14.5) | 3.8 | (2.5) | (4.2) |
| Balance at March 31, 2002 | \$ 53.0 | \$ — | \$ 30.3 | \$ 2.1 | \$.7 | \$ 86.1 |
| Provision charged to operating expense | 2.2 | 64.9 | 17.4 | (24.9) | .9 | 60.5 |
| Cash outlays | (21.1) | (64.9) | (4.7) | — | — | (90.7) |
| Noncash write-downs and other | — | — | (17.5) | 24.9 | (.9) | 6.5 |
| Balance at June 30, 2002 | \$ 34.1 | \$ — | \$ 25.5 | \$ 2.1 | \$.7 | \$ 62.4 |

The components of the merger and restructuring-related accruals for all acquisitions were as follows:

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|--|------------------|----------------------|
| Severance | \$ 46.0 | \$106.3 |
| Other employee-related costs | 3.7 | 4.7 |
| Lease termination and facility costs | 54.0 | 64.3 |
| Contracts and system write-offs | 18.7 | 18.3 |
| Other | 8.7 | 11.8 |
| Total | \$131.1 | \$205.4 |

The merger and restructuring-related accrual by significant acquisition or business restructuring was as follows:

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|------------------------------------|------------------|----------------------|
| USBM | \$ 62.4 | \$124.3 |
| NOVA | 47.7 | 48.4 |
| Piper Jaffray Companies, Inc. | 10.9 | 20.8 |
| Leader | 2.0 | — |
| Pacific Century Bank | 1.8 | 3.1 |
| Lyon Financial Services, Inc. | 1.0 | 1.0 |
| Other acquisitions | 5.3 | 7.8 |
| Total | \$131.1 | \$205.4 |

In connection with the merger of Firststar and USBM, management estimates the Company will incur pre-tax merger-related charges of approximately \$126.0 million for the remainder of 2002. These are currently estimated to include \$71.7 in occupancy and equipment charges (elimination of duplicate facilities and write-offs of equipment), \$49.2 million for conversions of systems and consolidation of operations, and \$5.1 million in severance and employee-related costs.

With respect to the NOVA acquisition, the Company expects to incur approximately \$54.7 million of additional pre-tax merger-related charges through 2003. In addition, the Company anticipates an additional \$9.4 million of pre-tax merger-related expenses in the remainder of 2002 as a result of other acquisitions.

Note 5 Investment Securities

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

| (Dollars in Millions) | June 30, 2002 | | December 31, 2001 | |
|---|-----------------|-----------------|-------------------|-----------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Held-to-maturity (a) | | | | |
| Mortgage-backed securities | \$ 23 | \$ 23 | \$ 28 | \$ 28 |
| Obligations of state and political subdivisions | 267 | 273 | 271 | 278 |
| Total held-to-maturity securities | \$ 290 | \$ 296 | \$ 299 | \$ 306 |
| Available-for-sale (b) | | | | |
| U.S. Treasuries and agencies | \$ 423 | \$ 434 | \$ 439 | \$ 449 |
| Mortgage-backed securities | 26,349 | 26,751 | 21,937 | 21,964 |
| Other asset-backed securities | 1,715 | 1,739 | 2,091 | 2,064 |
| Obligations of state and political subdivisions | 685 | 705 | 877 | 891 |
| Other | 797 | 755 | 950 | 941 |
| Total available-for-sale securities | \$29,969 | \$30,384 | \$26,294 | \$26,309 |

(a) Held-to-maturity securities are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

(b) Available-for-sale securities are carried at fair value with unrealized net gains or losses reported within other comprehensive income in shareholders' equity.

Note 6 Loans

The composition of the loan portfolio was as follows:

| (Dollars in Millions) | June 30, 2002 | | December 31, 2001 | |
|---|------------------|------------------|-------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| Commercial | | | | |
| Commercial | \$ 38,889 | 33.9% | \$ 40,472 | 35.4% |
| Lease financing | 5,602 | 4.9 | 5,858 | 5.1 |
| Total commercial | 44,491 | 38.8 | 46,330 | 40.5 |
| Commercial real estate | | | | |
| Commercial mortgages | 18,875 | 16.5 | 18,765 | 16.4 |
| Construction and development | 6,425 | 5.6 | 6,608 | 5.8 |
| Total commercial real estate | 25,300 | 22.1 | 25,373 | 22.2 |
| Residential mortgages | 8,107 | 7.1 | 7,829 | 6.8 |
| Retail | | | | |
| Credit card | 5,699 | 5.0 | 5,889 | 5.1 |
| Retail leasing | 5,466 | 4.8 | 4,906 | 4.3 |
| Home equity and second mortgages | 13,434 | 11.7 | 12,235 | 10.7 |
| Other retail | | | | |
| Revolving credit | 2,638 | 2.3 | 2,673 | 2.3 |
| Installment | 2,259 | 2.0 | 2,292 | 2.0 |
| Automobile | 5,811 | 5.1 | 5,660 | 5.0 |
| Student | 1,365 | 1.1 | 1,218 | 1.1 |
| Total other retail | 12,073 | 10.5 | 11,843 | 10.4 |
| Total retail | 36,672 | 32.0 | 34,873 | 30.5 |
| Total loans | \$114,570 | 100.0% | \$114,405 | 100.0% |

Loans are presented net of unearned interest which amounted to \$1.6 billion at June 30, 2002, and December 31, 2001.

Note 7 Intangible Assets

Amortizable intangible assets consisted of the following:

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|-------------------------------------|------------------|----------------------|
| Merchant processing contracts | \$ 649 | \$ 680 |
| Core deposit benefits | 490 | 530 |
| Mortgage servicing rights | 656 | 360 |
| Other identified intangibles | 381 | 383 |
| Total | <u>\$2,176</u> | <u>\$1,953</u> |

Below is the estimated amortization expense for the years ended:

| (Dollars in Millions) | |
|-----------------------|---------|
| Remaining 2002 | \$188.7 |
| 2003 | 356.7 |
| 2004 | 338.1 |
| 2005 | 324.3 |
| 2006 | 309.9 |

The following table reflects the changes in the carrying value of goodwill for the six months ended June 30, 2002:

| (Dollars in Millions) | Wholesale Banking | Consumer Banking | Private Client, Trust and Asset Management | Payment Services | Capital Markets | Consolidated Company |
|------------------------------------|----------------------|---------------------|--|---------------------|--------------------|-------------------------|
| Balance at December 31, 2001 | \$1,348 | \$1,706 | \$289 | \$1,811 | \$305 | \$5,459 |
| Goodwill acquired | 25 | 15 | — | 2 | — | 42 |
| Impairment losses | (59) | — | — | — | — | (59) |
| Balance at June 30, 2002 | <u>\$1,314</u> | <u>\$1,721</u> | <u>\$289</u> | <u>\$1,813</u> | <u>\$305</u> | <u>\$5,442</u> |

Prior to the adoption of SFAS 142, the Company evaluated goodwill for impairment under a projected undiscounted cash flow model. As a result of the initial impairment test from the adoption of SFAS 142, the Company recognized an impairment loss of \$58.8 million resulting in an after-tax loss of \$37.2 million in the first quarter of 2002. The impairment was primarily related to the purchase of a transportation leasing company in 1998 by the equipment leasing business. This charge was recognized as a “cumulative effect of change in accounting principles” in the income statement. The fair value of that reporting unit was estimated using the present value of future expected cash flows.

Of the goodwill acquired in the first six months of 2002, \$25 million related to an earn-out provision connected with the acquisition of Oliver-Allen Corporation, Inc. in April of 2000 in Wholesale Banking and \$17 million related to the purchase of Leader in Consumer Banking and other miscellaneous purchase accounting adjustments in Consumer Banking and Payment Services.

Note 8 Mortgage Servicing Rights

Changes in capitalized mortgage servicing rights are summarized as follows:

| (Dollars in Millions) | Six Months Ended June 30, 2002 | Year Ended December 31, 2001 |
|--------------------------------------|-----------------------------------|---------------------------------|
| Balance at beginning of period | \$360 | \$ 229 |
| Rights purchased | 203 | 25 |
| Rights capitalized | 169 | 315 |
| Amortization | (38) | (45) |
| Rights sold | (24) | (103) |
| Impairment | (14) | (61) |
| Balance at end of period | <u>\$656</u> | <u>\$360</u> |

During the second quarter of 2002, the Company purchased \$188 million in mortgage servicing rights, primarily resulting from the Leader acquisition, and recognized MSR amortization and impairments of \$24 million and \$14 million, respectively.

The fair value of capitalized mortgage servicing rights was \$663 million at June 30, 2002, and \$360 million at December 31, 2001. At June 30, 2002, the reduction in the current fair value of mortgage servicing rights to immediate 25 and 50 basis point adverse interest rate changes would be approximately \$53 million and \$118 million, respectively. The Company has purchased principal-only securities that act as a partial economic hedge to this possible adverse interest rate change. The Company serviced \$37.1 billion and \$22.0 billion of mortgage loans for other investors as of June 30, 2002, and December 31, 2001, respectively.

Note 9 Deposits

The composition of deposits was as follows:

| (Dollars in Millions) | June 30, 2002 | | December 31, 2001 | |
|--|---------------|------------------|-------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| Noninterest-bearing deposits | \$ 31,272 | 29.8% | \$ 31,212 | 29.7% |
| Interest-bearing deposits | | | | |
| Savings accounts | 4,951 | 4.7 | 4,637 | 4.4 |
| Interest checking | 15,168 | 14.4 | 15,251 | 14.5 |
| Money market accounts | 23,898 | 22.8 | 24,835 | 23.6 |
| Subtotal | 44,017 | 41.9 | 44,723 | 42.5 |
| Time certificates of deposit less than \$100,000 | 19,155 | 18.2 | 20,724 | 19.7 |
| Time deposits greater than \$100,000 | | | | |
| Domestic | 9,250 | 8.8 | 7,286 | 6.9 |
| Foreign | 1,362 | 1.3 | 1,274 | 1.2 |
| Total interest-bearing deposits | 73,784 | 70.2 | 74,007 | 70.3 |
| Total deposits | \$105,056 | 100.0% | \$105,219 | 100.0% |

Note 10 Long-Term Debt

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

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|--|---------------|-------------------|
| Fixed-rate subordinated notes (5.70% to 8.35%) — maturities to June 2026 | \$ 6,511 | \$ 5,746 |
| Medium-term notes (1.99% to 7.50%) — maturities to July 2007 | 3,841 | 3,215 |
| Convertible senior notes (1.50%) — due August 2021 | 1,108 | 1,100 |
| Federal Home Loan Bank advances (.50% to 8.25%) — maturities to October 2026 | 9,755 | 7,196 |
| Bank notes (1.76% to 6.25%) — maturities to November 2005 | 10,763 | 7,550 |
| Euro medium-term notes (2.13%) — due April 2004 | 400 | 400 |
| Other | 630 | 509 |
| Total | \$33,008 | \$25,716 |

In February 2002, the Company's subsidiary U.S. Bank National Association issued \$1.0 billion of fixed-rate subordinated notes due February 4, 2014. The interest rate is 6.30% per annum. Also during the first six months of 2002, the Company issued \$5.4 billion of medium-term and long-term bank notes, \$3.1 billion in long-term Federal Home Loan Bank advances and had debt repayments and maturities of \$2.4 billion.

On August 6, 2002, the Company repurchased for cash approximately \$1.4 billion aggregate principal amount at maturity of its convertible senior notes due in 2021 (the "CZARS"), in accordance with the terms of the indenture governing the CZARS. Approximately \$76 million in aggregate principal amount at maturity of the CZARS remain outstanding.

Note 11 Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Junior Subordinated Debentures of the Parent Company

The following table is a summary of the Trust Preferred Securities at June 30, 2002:

| Issuance Trust (Dollars in Millions) | Issuance Date | Trust Preferred Securities Amount | Debentures Amount | Rate Type (a) | Rate at June 30, 2002 | Maturity Date | Redemption Date (b) |
|--------------------------------------|---------------|-----------------------------------|-------------------|---------------|-----------------------|---------------|---------------------|
| Retail | | | | | | | |
| USB Capital V | December 2001 | \$300 | \$309 | Fixed | 7.25% | December 2031 | December 7, 2006 |
| USB Capital IV | November 2001 | 500 | 515 | Fixed | 7.35 | November 2031 | November 1, 2006 |
| USB Capital III | May 2001 | 700 | 722 | Fixed | 7.75 | May 2031 | May 4, 2006 |
| USB Capital II | April 1998 | 350 | 361 | Fixed | 7.20 | April 2028 | April 1, 2003 |
| Institutional | | | | | | | |
| Star Capital I | June 1997 | 150 | 155 | Variable | 2.65 | June 2027 | June 15, 2007 |
| Mercantile Capital Trust I | February 1997 | 150 | 155 | Variable | 2.76 | February 2027 | February 1, 2007 |
| USB Capital I | December 1996 | 300 | 309 | Fixed | 8.27 | December 2026 | December 15, 2006 |
| Firstar Capital Trust I | December 1996 | 150 | 155 | Fixed | 8.32 | December 2026 | December 15, 2006 |
| FBS Capital I | November 1996 | 300 | 309 | Fixed | 8.09 | November 2026 | November 15, 2006 |

(a) The variable-rate Trust Preferred Securities reprice quarterly.

(b) Earliest date of redemption.

Note 12 Shareholders' Equity

At December 31, 2000, the Company had the authority to issue 2 billion shares of common stock and 10 million shares of preferred stock. In connection with the merger of Firstar and USBM, on February 27, 2001, the number of authorized common shares for the Company was increased to 4 billion. Additionally, on February 27, 2001, in connection with the merger of Firstar and USBM, the par value of the Company's common stock was reduced from \$1.25 per share to \$.01 per share. The Company had 1,914.2 million and 1,951.7 million shares of common stock outstanding at June 30, 2002, and December 31, 2001, respectively.

All treasury shares, except those acquired to meet obligations arising from deferred compensation plans, were retired effective February 27, 2001. The stock repurchase programs of Firstar and USBM were rescinded on October 4, 2000, and January 17, 2001, respectively, in connection with the merger. No shares were repurchased by Firstar or USBM from those dates to February 27, 2001, nor were any shares repurchased by the Company from February 27, 2001, to June 30, 2001. On July 17, 2001, the Company's Board of Directors approved a plan to repurchase 56.4 million shares of the Company's outstanding common stock to replace shares issued in connection with the acquisition of NOVA. On December 18, 2001, the Company's Board of Directors approved an authorization to repurchase an additional 100 million shares of outstanding common stock through 2003. During the first quarter of 2002, the Company repurchased 40.0 million shares of common stock in both public and private transactions related to these authorizations, effectively completing the July 17, 2001, authorization. During the second quarter of 2002, the Company repurchased an additional 4.8 million shares of common stock under the December 2001 plan.

Note 13 Earnings Per Share

The components of earnings per share were:

| (Dollars and Shares in Millions, Except Per Share Data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Income before cumulative effect of change in accounting principles | \$ 823.1 | \$ 562.3 | \$1,616.3 | \$ 972.4 |
| Cumulative effect of change in accounting principles | — | — | (37.2) | — |
| Net income | \$ 823.1 | \$ 562.3 | \$1,579.1 | \$ 972.4 |
| Weighted average common shares outstanding | 1,913.2 | 1,905.3 | 1,916.5 | 1,903.2 |
| Net effect of the assumed purchase of stock based on the treasury stock method for options and stock plans | 13.7 | 11.9 | 12.0 | 13.2 |
| Weighted average dilutive common shares outstanding | 1,926.9 | 1,917.2 | 1,928.5 | 1,916.4 |
| Earnings per share | | | | |
| Income before cumulative effect of change in accounting principles | \$.43 | \$.30 | \$.84 | \$.51 |
| Cumulative effect of change in accounting principles | — | — | (.02) | — |
| Net income | \$.43 | \$.30 | \$.82 | \$.51 |
| Diluted earnings per share | | | | |
| Income before cumulative effect of change in accounting principles | \$.43 | \$.29 | \$.84 | \$.51 |
| Cumulative effect of change in accounting principles | — | — | (.02) | — |
| Net income | \$.43 | \$.29 | \$.82 | \$.51 |

Note 14 Income Taxes

The components of income tax expense were:

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|---------|------------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Federal | | | | |
| Current | \$299.7 | \$220.8 | \$631.2 | \$325.1 |
| Deferred | 101.4 | 39.1 | 158.5 | 121.1 |
| Federal income tax | 401.1 | 259.9 | 789.7 | 446.2 |
| State | | | | |
| Current | 26.9 | 23.3 | 49.9 | 51.3 |
| Deferred | 11.6 | 14.3 | 23.2 | 15.5 |
| State income tax | 38.5 | 37.6 | 73.1 | 66.8 |
| Total income tax provision | \$439.6 | \$297.5 | \$862.8 | \$513.0 |

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

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Tax at statutory rate (35%) | \$442.0 | \$300.9 | \$867.7 | \$519.9 |
| State income tax, at statutory rates, net of federal tax benefit | 25.0 | 24.4 | 48.6 | 43.4 |
| Tax effect of | | | | |
| Tax-exempt interest, net | (7.5) | (11.2) | (14.1) | (23.2) |
| Amortization of nondeductible goodwill | — | 22.8 | — | 45.6 |
| Tax credits | (21.7) | (17.4) | (42.5) | (35.0) |
| Nondeductible merger charges | 2.1 | 14.0 | 2.1 | 49.0 |
| Other items | (.3) | (36.0) | 1.0 | (86.7) |
| Applicable income taxes | \$439.6 | \$297.5 | \$862.8 | \$513.0 |

The Company's net deferred tax liability was \$900.0 million at June 30, 2002, and \$573.2 million at December 31, 2001.

Note 15 Supplemental Disclosures to the Consolidated Financial Statements

Consolidated Statement of Cash Flows Listed below are supplemental disclosures to the Consolidated Statement of Cash Flows:

| (Dollars in Millions) | Six Months Ended June 30, | |
|----------------------------------|------------------------------|-----------|
| | 2002 | 2001 |
| Acquisitions and divestitures | | |
| Assets acquired (sold) | \$ 534.6 | \$(369.7) |
| Liabilities (assumed) sold | (446.2) | 771.1 |
| Net | \$ 88.4 | \$ 401.4 |

Money Market Investments are included with cash and due from banks as part of cash and cash equivalents. Money market investments consisted of the following:

| (Dollars in Millions) | June 30, 2002 | December 31, 2001 |
|---|------------------|----------------------|
| Interest-bearing deposits | \$ 100 | \$104 |
| Federal funds sold | 760 | 123 |
| Securities purchased under agreements to resell | 253 | 398 |
| Total money market investments | \$1,113 | \$625 |

Transfers and Servicing of Financial Assets The Company transferred \$32.1 billion and \$30.9 billion of high credit quality, low margin commercial loans to the conduit, Stellar Funding Group, Inc., in the first six months of 2002 and 2001, respectively. The amount of these transfers are reported on a gross basis representing new participations and the renewal of participations. The amount of loan transfers net of repayments was approximately \$(1.5) billion and \$1.6 billion in the first six months of 2002 and 2001, respectively.

U.S. Bancorp

Consolidated Daily Average Balance Sheet and Related Yields and Rates

For the Three Months Ended June 30,
2002 2001

| (Dollars in Millions) (Unaudited) | Balance | Interest | Yields and Rates | Balance | Interest | Yields and Rates | % Change Average Balance |
|---|-----------|-----------|------------------------|-----------|-----------|------------------------|--------------------------------|
| Assets | | | | | | | |
| Money market investments | \$ 779 | \$ 2.2 | 1.09% | \$ 637 | \$ 7.4 | 4.62% | 22.3 % |
| Trading account securities | 1,022 | 10.1 | 3.96 | 769 | 14.9 | 7.72 | 32.9 |
| Taxable securities | 27,051 | 346.1 | 5.12 | 19,064 | 287.8 | 6.04 | 41.9 |
| Non-taxable securities | 965 | 16.5 | 6.87 | 2,193 | 40.1 | 7.32 | (56.0) |
| Loans held for sale | 2,142 | 36.6 | 6.84 | 1,500 | 25.9 | 6.92 | 42.8 |
| Loans | | | | | | | |
| Commercial | 44,427 | 670.0 | 6.05 | 51,497 | 952.6 | 7.42 | (13.7) |
| Commercial real estate | 25,229 | 403.4 | 6.41 | 26,351 | 517.3 | 7.87 | (4.3) |
| Residential mortgages | 8,194 | 147.1 | 7.18 | 8,810 | 171.6 | 7.80 | (7.0) |
| Retail | 36,167 | 719.9 | 7.98 | 32,811 | 788.9 | 9.64 | 10.2 |
| Total loans | 114,017 | 1,940.4 | 6.82 | 119,469 | 2,430.4 | 8.16 | (4.6) |
| Other earning assets | 1,665 | 32.7 | 7.88 | 1,657 | 26.1 | 6.29 | .5 |
| Allowance for credit losses | 2,546 | | | 1,764 | | | 44.3 |
| Total earning assets (a) | 147,641 | 2,384.6 | 6.47 | 145,289 | 2,832.6 | 7.81 | 1.6 |
| Other assets | 24,052 | | | 21,282 | | | 13.0 |
| Total assets | \$169,147 | | | \$164,807 | | | 2.6 |
| Liabilities and Shareholders' Equity | | | | | | | |
| Noninterest-bearing deposits | \$ 27,267 | | | \$ 24,512 | | | 11.2 |
| Interest-bearing deposits | | | | | | | |
| Interest checking | 15,318 | 25.4 | .67 | 13,846 | 55.2 | 1.60 | 10.6 |
| Money market accounts | 24,384 | 76.3 | 1.26 | 25,020 | 199.0 | 3.19 | (2.5) |
| Savings accounts | 4,957 | 6.6 | .54 | 4,533 | 11.6 | 1.03 | 9.4 |
| Time certificates of deposit less than \$100,000 | 19,653 | 192.8 | 3.93 | 23,933 | 327.2 | 5.48 | (17.9) |
| Time deposits greater than \$100,000 | 10,871 | 74.7 | 2.76 | 15,424 | 190.0 | 4.94 | (29.5) |
| Total interest-bearing deposits | 75,183 | 375.8 | 2.00 | 82,756 | 783.0 | 3.79 | (9.2) |
| Short-term borrowings | 11,650 | 68.3 | 2.35 | 11,094 | 124.4 | 4.49 | 5.0 |
| Long-term debt | 30,152 | 197.9 | 2.63 | 24,202 | 315.0 | 5.22 | 24.6 |
| Company-obligated mandatorily redeemable preferred securities | 2,866 | 52.8 | 7.39 | 1,825 | 35.4 | 7.78 | 57.0 |
| Total interest-bearing liabilities | 119,851 | 694.8 | 2.32 | 119,877 | 1,257.8 | 4.21 | — |
| Other liabilities | 5,554 | | | 4,809 | | | 15.5 |
| Shareholders' equity | 16,475 | | | 15,609 | | | 5.5 |
| Total liabilities and shareholders' equity | \$169,147 | | | \$164,807 | | | 2.6 % |
| Net interest income | | \$1,689.8 | | | \$1,574.8 | | |
| Gross interest margin | | | 4.15% | | | 3.60% | |
| Gross interest margin without taxable-equivalent increments | | | 4.13 | | | 3.55 | |
| Percent of Earning Assets | | | | | | | |
| Interest income | | | 6.47% | | | 7.81% | |
| Interest expense | | | 1.88 | | | 3.47 | |
| Net interest margin | | | 4.59 | | | 4.34 | |
| Net interest margin without taxable-equivalent increments | | | 4.57% | | | 4.29% | |

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

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

(a) Before deducting the allowance for credit losses and excluding the unrealized gain (loss) on available-for-sale securities.

Part II — Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

12 Computation of Ratio of Earnings to Fixed Charges

(b) Reports on Form 8-K

During the six months ended June 30, 2002, the Company filed the following current reports on Form 8-K:

- Form 8-K dated April 16, 2002, relating to the Company's first quarter 2002 financial results.
- Form 8-K dated July 17, 2002, relating to the Company's second quarter 2002 financial results.

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)

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges

| | Three Months Ended June 30, | Six Months Ended June 30, |
|--|--------------------------------|------------------------------|
| (Dollars in Millions) | 2002 | 2002 |
| Earnings | | |
| 1. Income before cumulative effect of change in accounting principles | \$ 823.1 | \$1,616.3 |
| 2. Applicable income taxes | 439.6 | 862.8 |
| 3. Income before income taxes and cumulative effect of change in accounting principles (1 + 2) | <u>\$1,262.7</u> | <u>\$2,479.1</u> |
| 4. Fixed charges: | | |
| a. Interest expense excluding interest on deposits | \$ 319.0 | \$ 624.8 |
| b. Portion of rents representative of interest and amortization of debt expense | 19.7 | 39.1 |
| c. Fixed charges excluding interest on deposits (4a + 4b) | 338.7 | 663.9 |
| d. Interest on deposits | 375.8 | 771.3 |
| e. Fixed charges including interest on deposits (4c + 4d) | <u>\$ 714.5</u> | <u>\$1,435.2</u> |
| 5. Amortization of interest capitalized | \$ — | \$ — |
| 6. Earnings excluding interest on deposits (3 + 4c + 5) | 1,601.4 | 3,143.0 |
| 7. Earnings including interest on deposits (3 + 4e + 5) | 1,977.2 | 3,914.3 |
| 8. Fixed charges excluding interest on deposits (4c) | 338.7 | 663.9 |
| 9. Fixed charges including interest on deposits (4e) | 714.5 | 1,435.2 |
| Ratio of Earnings to Fixed Charges | | |
| 10. Excluding interest on deposits (line 6/line 8) | 4.73 | 4.73 |
| 11. Including interest on deposits (line 7/line 9) | <u>2.77</u> | <u>2.73</u> |

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

Corporate Information

Executive Offices

U.S. Bancorp
225 South Sixth Street
Minneapolis, Minnesota 55402

After August 2002:
800 Nicollet Mall
Minneapolis, MN 55402

Common Stock Transfer Agent and Registrar

U.S. Bank National Association, a subsidiary of U.S. Bancorp, acts as our transfer agent and registrar, dividend paying agent and dividend reinvestment plan agent, and maintains all shareholder records for the corporation. Inquiries related to shareholder records, stock transfers, changes of ownership, changes of address and dividend payment should be sent to the transfer agent at the following address:

U.S. Bank National Association
1555 North River Center Drive, Suite 301
Milwaukee, WI 53212
Phone: 800-637-7549
Fax: 414-905-5049
Internet: investorservice.usbank.com

Independent Accountants

PricewaterhouseCoopers LLP serves as the independent accountants of U.S. Bancorp.

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 prior 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:

U.S. Bank National Association
Dividend Reinvestment Department
1555 North River Center Drive, Suite 301
Milwaukee, WI 53212
Phone: 800-637-7549

Investment Community Contacts

Howell D. McCullough
Senior Vice President, Investor Relations
howell.mccullough@usbank.com
Phone: 612-973-2261

Judith T. Murphy
Vice President, Investor Relations
judith.murphy@usbank.com
Phone: 612-973-2264

Financial Information

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

Web site. For information about U.S. Bancorp, including news and financial results and online annual reports, access our home page on the Internet at usbank.com.

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. To be added to U.S. Bancorp's mailing list for quarterly earnings news releases or to request other information, please contact:

U.S. Bancorp Investor Relations
225 South Sixth Street
Minneapolis, Minnesota 55402
corporaterelations@usbank.com
Phone: 612-973-2263

Media Requests

Steve Dale
Senior Vice President, Media Relations
Phone: 612-973-0898

Other Business Information

For product and service information, branch office and ATM locations, information about lines of business, account access, employment opportunities and more, visit usbank.com or firstar.com.

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, skills and abilities rather than race, color, religion, national origin or ancestry, sex, age, disability, veteran status, sexual orientation or any other characteristic 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 and a Drug-Free Workplace.



U.S. Bancorp
Member FDIC

