

US BANCORP \DE\
Form 10-Q
August 11, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

41-0255900

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant's telephone number, including area code)

(not applicable)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

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

| Class | Outstanding as of July 31, 2008 |
|-------------------------------|---------------------------------|
| Common Stock, \$.01 Par Value | 1,742,052,593 shares |

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.

This Quarterly Report on Form 10-Q contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words may, could, would, should, believes, expects, anticipates, estimates, intends, plan, potentially, probably, projects, outlook or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including changes in general business and economic conditions, developments in the residential and commercial real estate markets, changes in interest rates, deterioration in the credit quality of our loan portfolios or in the value of the collateral securing those loans, deterioration in the value of securities held in our investment securities portfolio, legal and regulatory developments, increased competition from both banks and non-banks, changes in customer behavior and preferences, effects of mergers and acquisitions and related integration, effects of critical accounting policies and judgments, and management's ability to effectively manage credit risk, market risk, operational risk, legal risk and regulatory and compliance risk. For discussion of these and other risks that may cause actual results to differ from expectations, refer to our Annual Report on Form 10-K for the year ended

December 31, 2007, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

Table of Contents**Table 1** Selected Financial Data

| | Three Months Ended June 30, | | | Six Months Ended June 30, | |
|---|--------------------------------|------------|-------------------|------------------------------|------------|
| | 2008 | 2007 | Percent Change | 2008 | 2007 |
| (All Shares in Millions, Except Per Share Data) | | | | | |
| Income Statement | | | | | |
| Income (taxable-equivalent basis) (a) | \$ 1,908 | \$ 1,650 | 15.6% | \$ 3,738 | \$ 3,316 |
| Income | 1,955 | 1,882 | 3.9 | 4,250 | 3,604 |
| Gains (losses), net | (63) | 3 | * | (314) | 4 |
| Revenue | 3,800 | 3,535 | 7.5 | 7,674 | 6,924 |
| Expense | 1,835 | 1,670 | 9.9 | 3,631 | 3,242 |
| Provision for credit losses | 596 | 191 | * | 1,081 | 368 |
| Provision for income taxes | 1,369 | 1,674 | (18.2) | 2,962 | 3,314 |
| Dividend adjustment | 33 | 18 | 83.3 | 60 | 35 |
| Income taxes | 386 | 500 | (22.8) | 862 | 993 |
| | \$ 950 | \$ 1,156 | (17.8) | \$ 2,040 | \$ 2,286 |
| Income applicable to common equity | \$ 928 | \$ 1,141 | (18.7) | \$ 2,006 | \$ 2,256 |
| Per Share | | | | | |
| Income per share | \$.53 | \$.66 | (19.7)% | \$ 1.16 | \$ 1.29 |
| Earnings per share | .53 | .65 | (18.5) | 1.14 | 1.27 |
| Dividends declared per share | .425 | .400 | 6.3 | .850 | .800 |
| Book value per share | 11.67 | 11.19 | 4.4 | | |
| Return on equity per share | 27.89 | 32.95 | (15.4) | | |
| Common shares outstanding | 1,740 | 1,736 | .2 | 1,735 | 1,744 |
| Adjusted common shares outstanding | 1,756 | 1,760 | (.2) | 1,752 | 1,770 |
| Ratios | | | | | |
| Return on average assets | 1.58% | 2.09% | | 1.71% | 2.09% |
| Return on average common equity | 17.9 | 23.0 | | 19.6 | 22.7 |
| Profit margin (taxable-equivalent basis) (a) | 3.61 | 3.44 | | 3.58 | 3.47 |
| Dividend ratio (b) | 47.5 | 47.3 | | 45.5 | 46.8 |
| Assets | | | | | |
| Assets available for sale | \$ 163,070 | \$ 145,653 | 12.0% | \$ 159,151 | \$ 145,176 |
| Loans | 3,417 | 4,334 | (21.2) | 4,267 | 4,090 |
| Securities | 42,999 | 40,704 | 5.6 | 43,446 | 40,791 |
| Other assets | 212,089 | 192,301 | 10.3 | 209,552 | 191,721 |
| Total assets | 242,221 | 222,022 | 9.1 | 239,448 | 220,774 |
| Non-interest-bearing deposits | 27,851 | 27,977 | (.5) | 27,485 | 27,828 |
| Total deposits | 135,809 | 118,975 | 14.1 | 133,333 | 119,847 |
| Other borrowings | 38,018 | 29,524 | 28.8 | 36,954 | 28,114 |
| Total debt | 37,879 | 44,655 | (15.2) | 38,851 | 43,804 |
| Total equity | 22,320 | 20,895 | 6.8 | 21,899 | 21,052 |

| | June 30, 2008 | December 31, 2007 | |
|--------------------------------|------------------|----------------------|-------|
| Capital Balances | | | |
| Reserves for credit losses | \$ 165,890 | \$ 153,827 | 7.8% |
| Reserves for securities | 2,648 | 2,260 | 17.2 |
| Reserves for other assets | 41,122 | 43,116 | (4.6) |
| Reserves for other liabilities | 246,538 | 237,615 | 3.8 |
| Reserves for other assets | 135,131 | 131,445 | 2.8 |
| Reserves for debt | 39,943 | 43,440 | (8.1) |
| Reserves for equity | 21,828 | 21,046 | 3.7 |
| Capital ratios | | | |
| Return on assets | 8.5% | 8.3% | |
| Return on equity | 12.5 | 12.2 | |
| Return on common equity | 7.9 | 7.9 | |
| Return on common equity | 5.2 | 5.1 | |

* *Not meaningful.*

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

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

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Management's Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income of \$950 million for the second quarter of 2008 or \$.53 per diluted common share, compared with \$1,156 million, or \$.65 per diluted common share for the second quarter of 2007. Return on average assets and return on average common equity were 1.58 percent and 17.9 percent, respectively, for the second quarter of 2008, compared with returns of 2.09 percent and 23.0 percent, respectively, for the second quarter of 2007. Significant items included in the second quarter of 2008 results were net securities losses of \$63 million, which primarily reflected impairment charges on structured investment securities, and an incremental provision for credit losses, which exceeded net charge-offs by \$200 million. Together these items reduced earnings per diluted common share by approximately \$.11.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2008, was \$265 million (7.5 percent) higher than the second quarter of 2007, reflecting a 15.6 percent increase in net interest income and a modest increase in noninterest income. The increase in net interest income from a year ago was driven by growth in earning assets and an improvement in the net interest margin. Noninterest income from a year ago was relatively flat as strong growth in the majority of revenue categories was muted by impairment charges primarily related to certain structured investment securities and higher retail lease residual losses.

Total noninterest expense in the second quarter of 2008 was \$165 million (9.9 percent) higher than in the second quarter of 2007, principally due to higher costs associated with business initiatives designed to expand the Company's geographical presence and strengthen customer relationships, including investments in relationship managers, branch initiatives and Wealth Management and Payment Services businesses. The increase in operating expense also included higher credit collection costs and incremental costs associated with investments in tax-advantaged projects.

The provision for credit losses for the second quarter of 2008 increased \$405 million over the second quarter of 2007. This reflected an increase to the allowance for credit losses of \$200 million in the second quarter of 2008. The increases in the provision and allowance for credit losses from a year ago reflected continuing stress in the residential real estate markets, including homebuilding and related supplier industries, driven by declining home prices in most geographic regions. It also reflected the current economic conditions and the corresponding impact on the commercial and consumer loan portfolios. Net charge-offs in the second quarter of 2008 were \$396 million, compared with \$191 million in the second quarter of 2007. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income of \$2,040 million for the first six months of 2008, or \$1.14 per diluted common share, compared with \$2,286 million, or \$1.27 per diluted common share for the first six months of 2007. Return on average assets and return on average common equity were 1.71 percent and 19.6 percent, respectively, for the first six months of 2008, compared with returns of 2.09 percent and 22.7 percent, respectively, for the first six months of 2007. Several significant items were reflected in the Company's results for the first six months of 2008, including a \$492 million gain related to the Visa Inc. initial public offering that occurred in March 2008 (Visa Gain), an unfavorable change in net securities gains (losses) of \$318 million, which primarily reflected impairment charges on structured investment securities, and an incremental provision for credit losses, which exceeded net charge-offs by \$392 million. The first six months of 2008 also included a \$62 million reduction in pretax income related to the adoption of a new accounting standard, a \$25 million contribution to the U.S. Bancorp Foundation and a \$22 million accrual for certain litigation matters.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2008, was \$750 million (10.8 percent) higher than the first six months of 2007, reflecting a 12.7 percent increase in net interest income and a 9.1 percent increase in noninterest income. The increase in net interest income from a year ago was driven by growth in earning assets and an improved net interest margin. Noninterest income growth was driven by organic business growth and the Visa Gain, partially offset by impairment charges on structured investment securities, higher retail lease residual losses and the adoption of a new accounting standard during the first six months of 2008.

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Total noninterest expense in the first six months of 2008 was \$389 million (12.0 percent) higher than in the first six months of 2007, primarily due to investments in business initiatives, higher credit collection costs and incremental expenses associated with investments in tax-advantaged projects.

The provision for credit losses for the first six months of 2008 increased \$713 million over the same period of 2007. This reflected an increase to the allowance for credit losses of \$392 million in the first six months of 2008. The increases in the provision and allowance for credit losses from a year ago reflected continuing stress in the residential real estate markets, including homebuilding and related supplier industries, driven by declining home prices in most geographic regions. It also reflected the current economic conditions and the corresponding impact on the commercial and consumer loan portfolios. Net charge-offs in the first six months of 2008 were \$689 million, compared with \$368 million in the first six months of 2007. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was \$1,908 million in the second quarter of 2008, compared with \$1,650 million in the second quarter of 2007. Net interest income, on a taxable-equivalent basis, was \$3,738 million in the first six months of 2008, compared with \$3,316 million in the first six months of 2007. The increases were due to strong growth in average earning assets, as well as an improving net interest margin from a year ago. Average earning assets increased \$19.8 billion (10.3 percent) and \$17.8 billion (9.3 percent) in the second quarter and first six months of 2008, respectively, compared with the same periods of 2007, primarily driven by increases in average loans and investment securities. The net interest margin in the second quarter and first six months of 2008 was 3.61 percent and 3.58 percent, respectively, compared with 3.44 percent and 3.47 percent, respectively, for the same periods of 2007. The improvement in the net interest margin was due to several factors, including growth in higher spread assets, the benefit of the Company's current asset/liability position in a declining interest rate environment and related asset/liability repricing dynamics. Also, short-term funding rates were lower due to market volatility and changing liquidity in the overnight fed fund markets, given current market conditions. In addition, the Company's net interest margin benefited from an increase in yield-related loan fees. Given the current rate environment, asset repricing dynamics and yield curve, the Company expects the net interest margin to remain relatively stable or decline slightly during the remainder of 2008. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates table for further information on net interest income.

Average loans for the second quarter and first six months of 2008 were \$17.4 billion (12.0 percent) and \$14.0 billion (9.6 percent) higher, respectively, than the same periods of 2007, driven by growth in all major loan categories. The increase in commercial loans was primarily driven by growth in corporate and commercial banking balances, reflective of new customer growth, along with business customers utilizing bank credit facilities to fund business growth and liquidity requirements, rather than relying upon the capital markets. Retail loans experienced strong growth in installment products, home equity lines and credit card balances, offset somewhat by lower retail leasing balances. In addition, retail loan growth in the second quarter and first six months of 2008 included increases of \$2.9 billion and \$1.4 billion, respectively, in average federally guaranteed student loan balances due to both the transfer of balances from loans held for sale and a portfolio purchase. The increase in residential mortgages reflected higher balances in the consumer finance division. The growth in commercial real estate loans reflected changing market conditions that have limited borrower access to the capital markets and the impact of an acquisition.

Average investment securities in the second quarter and first six months of 2008 were \$2.3 billion (5.6 percent) and \$2.7 billion (6.5 percent) higher, respectively, than the same periods of 2007. The increases were driven by the purchase in the fourth quarter of 2007 of structured investment securities from certain money market funds managed by an affiliate and an increase in tax-exempt municipal securities, partially offset by a reduction in mortgage-backed securities.

Average noninterest-bearing deposits for the second quarter and first six months of 2008 decreased \$.1 billion (.5 percent) and \$.3 billion (1.2 percent), respectively, compared with the same periods of 2007, reflecting a decline in

personal and business demand deposits, partially offset by higher trust and other demand deposits. The decline in personal demand deposit balances occurred in Consumer Banking. The decline in business demand deposits occurred within most business lines as business customers utilized deposit balances to fund business growth and meet other liquidity requirements.

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Average total savings deposits increased \$8.4 billion (15.0 percent) in the second quarter and \$6.6 billion (11.8 percent) in the first six months of 2008, compared with the same periods of 2007, due to an increase in interest checking balances driven by higher balances from broker-dealer, government and institutional trust customers, and an increase in money market savings balances driven by higher broker-dealer balances. The increases in interest checking and money market savings balances were partially offset by a modest decline in average savings accounts, primarily within Consumer Banking.

Average time certificates of deposit less than \$100,000 were lower in the second quarter and first six months of 2008 by \$2.1 billion (14.1 percent) and \$1.6 billion (11.0 percent), respectively, compared with the same periods of 2007. The decline in time certificates of deposit less than \$100,000 was due to the Company's funding and pricing decisions and competition for these deposits by other financial institutions that have more limited access to wholesale funding sources, given the current market environment. Average time deposits greater than \$100,000 increased by \$10.7 billion (52.3 percent) and \$8.8 billion (41.7 percent) in the second quarter and first six months of 2008, respectively, compared with the same periods of 2007, as a result of both the Company's wholesale funding decisions and its ability to attract larger customer deposits, given the current market conditions.

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2008 increased \$405 million and \$713 million, respectively, compared with the same periods of 2007. This reflected increases to the allowance for credit losses of \$200 million in the second quarter and \$392 million in the first six months of 2008. The increases in the provision and allowance for credit losses from a year ago reflected continuing stress in the residential real estate markets, including homebuilding and related supplier industries, driven by declining home prices in many geographic regions, including Florida and the Southwest. It also reflected the current economic conditions and the corresponding impact on the commercial and consumer loan portfolios. Net charge-offs were \$396 million in the second quarter and \$689 million in the first six months of 2008, compared with \$191 million in the second quarter and \$368 million in the first six months of 2007. Given current economic conditions and the continuing decline in home and other collateral values, the Company expects net charge-offs to increase in the third quarter of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income in the second quarter and first six months of 2008 was \$1,892 million and \$3,936 million, respectively, compared with \$1,885 million and \$3,608 million in the same periods of 2007. The \$7 million (.4 percent) increase during the second quarter and \$328 million (9.1 percent) increase during the first six months of 2008, compared with the same periods in 2007, were driven by strong fee-based revenue growth in several categories, partially offset by impairment charges on certain structured investment securities and higher retail lease residual losses from a year ago. In addition, noninterest income for the first six months of 2008 was impacted by the recognition of the \$492 million Visa Gain in the first quarter of 2008 and the adoption of Statement of Financial Accounting

Table 2 Noninterest Income

| (Dollars in Millions) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|-------------------------------|--------------------------------|--------|-------------------|------------------------------|--------|-------------------|
| | 2008 | 2007 | Percent Change | 2008 | 2007 | Percent Change |
| Credit and debit card revenue | \$ 266 | \$ 230 | 15.7% | \$ 514 | \$ 436 | 17.9% |

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|--|----------|----------|--------|----------|----------|------|
| Corporate payment products revenue | 174 | 159 | 9.4 | 338 | 306 | 10.5 |
| ATM processing services | 93 | 82 | 13.4 | 177 | 159 | 11.3 |
| Merchant processing services | 309 | 286 | 8.0 | 580 | 538 | 7.8 |
| Trust and investment management fees | 350 | 342 | 2.3 | 685 | 664 | 3.2 |
| Deposit service charges | 278 | 277 | .4 | 535 | 524 | 2.1 |
| Treasury management fees | 137 | 126 | 8.7 | 261 | 237 | 10.1 |
| Commercial products revenue | 117 | 105 | 11.4 | 229 | 205 | 11.7 |
| Mortgage banking revenue | 81 | 68 | 19.1 | 186 | 135 | 37.8 |
| Investment products fees and commissions | 37 | 38 | (2.6) | 73 | 72 | 1.4 |
| Securities gains (losses), net | (63) | 3 | * | (314) | 4 | * |
| Other | 113 | 169 | (33.1) | 672 | 328 | * |
| Total noninterest income | \$ 1,892 | \$ 1,885 | .4% | \$ 3,936 | \$ 3,608 | 9.1% |

* *Not meaningful.*

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Standards No. 157 (SFAS 157), Fair Value Measurements , effective January 1, 2008. Upon adoption of SFAS 157, trading revenue decreased \$62 million, as primary market and nonperformance risk is now required to be considered when determining the fair value of derivative positions. In addition, under SFAS 157 mortgage production gains included in mortgage banking revenue increased, because the deferral of costs related to the origination of mortgage loans held for sale (MLHFS) is not permitted.

The strong growth in credit and debit card revenue was primarily driven by an increase in customer accounts and higher customer transaction volumes over a year ago. Corporate payment products revenue growth reflected growth in sales volumes, card usage and business expansion. ATM processing services increased primarily due to growth in transaction volumes. Merchant processing services revenue growth reflected higher core transaction volume and business expansion. Trust and investment management fees increased year-over-year due to core account growth, partially offset by unfavorable equity market conditions. Deposit service charges remained relatively flat and increased modestly in the second quarter and first six months of 2008, respectively, compared with the same periods of the prior year. Higher transaction-related fees and the impact of continued growth in net new checking accounts were muted as deposit account-related revenue continued to migrate to yield-related loan fees, as customers utilized new consumer products. Treasury management fees increased due primarily to the favorable impact of declining rates on customer compensating balances. Commercial products revenue increased year-over-year due to higher commercial lending-related fees, foreign exchange and commercial leasing revenue. Mortgage banking revenue increased due to an increase in mortgage servicing income and production revenue, including the impact of SFAS 157, partially offset by the unfavorable net change in the value of mortgage servicing rights (MSR) and related economic hedges. Securities gains (losses) were lower year-over-year due primarily to the impact of the impairment charges on structured investment securities recognized in the first and second quarters of 2008. Other income in the second quarter of 2008 declined year-over-year due primarily to the \$42 million adverse impact of higher retail lease residual losses compared with the second quarter of 2007. Other income for the first six months of 2008 was higher than the same period of the prior year due to the Visa Gain recognized in the first quarter of 2008, partially offset by lower retail lease revenue and the \$62 million unfavorable impact to trading income upon adoption of SFAS 157.

Noninterest Expense Noninterest expense was \$1,835 million in the second quarter and \$3,631 million in the first six months of 2008, reflecting increases of \$165 million (9.9 percent) and \$389 million (12.0 percent), respectively, from the same periods of 2007. Compensation expense was higher due to growth in ongoing bank operations, acquired businesses and other bank initiatives and the adoption of SFAS 157 in the first quarter of 2008. Under this new accounting standard, compensation expense is no longer deferred for the origination of MLHFS. Employee benefits expense increased year-over-year as higher payroll taxes and medical costs were partially offset by lower pension costs. Net occupancy and equipment expense increased over the prior year primarily due to acquisitions and branch-based and other business expansion initiatives. Technology and communications expense increased primarily due to higher processing volumes and business expansion. Other expense increased year-over-year due

Table 3 Noninterest Expense

| (Dollars in Millions) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------|--------------------------------|--------|-------------------|------------------------------|----------|-------------------|
| | 2008 | 2007 | Percent Change | 2008 | 2007 | Percent Change |
| Compensation | \$ 761 | \$ 659 | 15.5% | \$ 1,506 | \$ 1,294 | 16.4% |
| Employee benefits | 129 | 123 | 4.9 | 266 | 256 | 3.9 |

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|------------------------------------|----------|----------|-------|----------|----------|-------|
| Net occupancy and equipment | 190 | 184 | 3.3 | 380 | 361 | 5.3 |
| Professional services | 59 | 59 | | 106 | 106 | |
| Marketing and business development | 66 | 68 | (2.9) | 145 | 120 | 20.8 |
| Technology and communications | 149 | 138 | 8.0 | 289 | 273 | 5.9 |
| Postage, printing and supplies | 73 | 71 | 2.8 | 144 | 140 | 2.9 |
| Other intangibles | 87 | 95 | (8.4) | 174 | 189 | (7.9) |
| Other | 321 | 273 | 17.6 | 621 | 503 | 23.5 |
| Total noninterest expense | \$ 1,835 | \$ 1,670 | 9.9% | \$ 3,631 | \$ 3,242 | 12.0% |
| Efficiency ratio (a) | 47.5% | 47.3% | | 45.5% | 46.8% | |

(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.*

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primarily to credit-related costs for other real estate owned and loan collection activities, investments in tax-advantaged projects, and higher litigation and fraud costs. In addition, marketing and business development expense for the first six months of 2008, increased over the same period of the prior year primarily due to \$25 million recognized in the first quarter of 2008 for a charitable contribution to the Company's foundation. These increases were partially offset by a decrease in other intangibles expense.

Income Tax Expense The provision for income taxes was \$386 million (an effective rate of 28.9 percent) for the second quarter and \$862 million (an effective rate of 29.7 percent) for the first six months of 2008, compared with \$500 million (an effective rate of 30.2 percent) and \$993 million (an effective rate of 30.3 percent) for the same periods of 2007. The decreases in the effective rates for the second quarter and first six months of 2008, compared with the same periods of the prior year, primarily reflected higher tax-exempt income from investment securities and insurance products as well as incremental tax credits from affordable housing and other tax-advantaged investments. For further information on income taxes, refer to Note 8 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company's total loan portfolio was \$165.9 billion at June 30, 2008, compared with \$153.8 billion at December 31, 2007, an increase of \$12.1 billion (7.8 percent). The increase was driven by growth in all major loan categories. The \$4.1 billion (8.0 percent) increase in commercial loans was primarily driven by new and existing business customers utilizing bank credit facilities, rather than the capital markets, to fund business growth and liquidity requirements, as well as growth in corporate payment card balances. Commercial real estate loans increased \$2.0 billion (7.0 percent) at June 30, 2008, compared with December 31, 2007, reflecting changing market conditions that have limited borrower access to the capital markets and the impact of an acquisition.

Residential mortgages held in the loan portfolio increased \$.5 billion (2.3 percent) at June 30, 2008, compared with December 31, 2007, reflecting an increase in mortgage banking activity and higher consumer finance originations. Total retail loans outstanding, which include credit card, retail leasing, student loans, home equity and second mortgages and other retail loans, increased \$5.4 billion (10.7 percent) at June 30, 2008, compared with December 31, 2007. The increase reflected higher student loans due to the purchase of a portfolio during the first six months of 2008 and the reclassification of certain student loans held for sale into the student loan portfolio in response to a change in business strategy. The increase also reflected growth in home equity, credit card and installment loans. These increases were partially offset by a decrease in retail leasing balances.

Loans Held for Sale At June 30, 2008, loans held for sale, consisting primarily of residential mortgages and student loans to be sold in the secondary market, were \$3.8 billion, compared with \$4.8 billion at December 31, 2007. The decrease in loans held for sale was principally due to a change in business strategy to discontinue selling federally guaranteed student loans in the secondary market and, instead, hold them in the loan portfolio.

Investment Securities Investment securities, both available-for-sale and held-to-maturity, totaled \$41.1 billion at June 30, 2008, compared with \$43.1 billion at December 31, 2007, reflecting purchases of \$3.1 billion of securities, more than offset by sales, maturities and prepayments. As of June 30, 2008, approximately 38 percent of the investment securities portfolio represented adjustable-rate financial instruments, compared with 39 percent at December 31, 2007. Adjustable-rate financial instruments include collateralized mortgage obligations, mortgage-backed securities, agency securities, money market accounts, asset-backed securities, corporate debt securities and preferred stock.

The Company conducts a regular assessment of its investment portfolios to determine whether any securities are other-than-temporarily impaired. At June 30, 2008, the available-for-sale securities portfolio included a \$2.0 billion net unrealized loss, compared with a net unrealized loss of \$1.1 billion at December 31, 2007. The substantial portion of securities with unrealized losses were either government securities, issued by government-backed agencies or

privately issued securities with high investment grade credit ratings and limited credit exposure. Some securities classified within obligations of state and political subdivisions are supported by mono-line insurers. As mono-line insurers have experienced credit rating downgrades, management continuously monitors the underlying credit quality of the issuers and the support of the mono-line insurers. The Company held interests in structured investment securities at June 30, 2008. The valuation of these securities is determined through estimates of expected cash flows, discount rates and management's assessment of various market factors, which are judgmental in nature. The Company

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periodically completes a valuation of these structured investment securities and, as a result, recorded \$66 million and \$319 million of impairment charges during the second quarter and first six months of 2008, respectively, primarily as a result of wider market spreads for these types of securities caused by the continuing decline in housing prices and an increase in foreclosure activity. Further adverse changes in market conditions may result in additional impairment charges in future periods. The Company expects that approximately \$131 million of principal payments will not be received for certain structured investment securities. During the first six months of 2008, the Company exchanged its interest in certain structured investment securities and received its pro rata share of the underlying investment securities as an in-kind distribution according to the applicable restructuring agreements. In addition, during the second quarter and first six months of 2008, the Company recorded \$11 million of other-than-temporary impairment charges on non-structured investment securities. Refer to Note 3 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were \$135.1 billion at June 30, 2008, compared with \$131.4 billion at December 31, 2007, an increase of \$3.7 billion (2.8 percent). The increase in total deposits was primarily the result of increases in interest checking accounts, money market savings accounts and noninterest-bearing deposits, partially offset by decreases in time certificates of deposit less than \$100,000 and time deposits greater than \$100,000. The \$2.7 billion (9.2 percent) increase in interest checking account balances was due primarily to higher broker-dealer balances. The \$2.2 billion (9.2 percent) increase in money market savings account balances reflected higher broker-dealer and branch-based balances and the impact of an acquisition. Noninterest-bearing deposits increased \$.6 billion (1.9 percent) at June 30, 2008, compared with December 31, 2007, reflecting an acquisition and higher other demand deposits, partially offset by lower business demand balances. Time certificates of deposit less than \$100,000 decreased \$1.5 billion (10.6 percent) at June 30, 2008, compared with December 31, 2007, primarily within Consumer Banking, reflecting the Company's funding and pricing decisions and competition for these deposits by other financial institutions that have more limited access to wholesale funding sources given the current market environment. Time deposits greater than \$100,000 decreased \$.8 billion (3.1 percent) at June 30, 2008, compared with December 31, 2007. Time deposits greater than \$100,000 are largely viewed as purchased funds and are managed to levels deemed appropriate given alternative funding sources.

Borrowings The Company utilizes both short-term and long-term borrowings to fund growth of assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were \$41.1 billion at June 30, 2008, compared with \$32.4 billion at December 31, 2007. Short-term funding is managed within approved liquidity policies. The increase of \$8.7 billion (27.0 percent) in short-term borrowings reflected wholesale funding associated with the Company's asset growth and asset/liability management activities. Long-term debt was \$39.9 billion at June 30, 2008, compared with \$43.4 billion at December 31, 2007, primarily reflecting the repayment of \$2.9 billion of convertible senior debentures and \$5.2 billion of medium-term note maturities, partially offset by the issuance of \$4.7 billion of medium-term notes, in the first six months of 2008. The \$3.5 billion (8.1 percent) decrease in long-term debt reflected asset/liability management decisions to fund balance sheet growth with other funding sources. Refer to the "Liquidity Risk Management" section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE**Overview**

Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, residual value, operational, interest rate, market and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets or the residual cash flows related to asset securitization and other off-balance sheet structures. Operational risk includes risks related to fraud, legal and compliance risk, processing errors, technology, breaches of internal controls and business continuation and disaster recovery risk.

Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the repricing of assets and liabilities differently, as well as their market value. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. In addition, corporate strategic decisions, as well as the

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risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company's stock value, customer base, funding sources or revenue.

Credit Risk Management

The Company's strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors. Refer to Management's Discussion and Analysis - Credit Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part through diversification of its loan portfolio. As part of its normal business activities, the Company offers a broad array of commercial and retail lending products. The Company's retail lending business utilizes several distinct business processes and channels to originate retail credit, including traditional branch lending, indirect lending, portfolio acquisitions and a consumer finance division. Generally, loans managed by the consumer finance division exhibit higher credit risk characteristics, but are priced commensurate with the differing risk profile. With respect to residential mortgages originated through these channels, the Company may either retain the loans on its balance sheet or sell its interest in the balances into the secondary market while retaining the servicing rights and customer relationships. For residential mortgages that are retained in the Company's portfolio and for home equity and second mortgages, credit risk is also diversified by geography and monitoring loan-to-values during the underwriting process.

The following tables provide summary information of the loan-to-values of residential mortgages and home equity and second mortgages by distribution channel and type at June 30, 2008:

| Residential mortgages (Dollars in Millions) | Interest Only | Amortizing | Total | Percent of Total |
|--|------------------|------------|-----------|---------------------|
| Consumer Finance | | | | |
| Less than or equal to 80% | \$ 834 | \$ 2,557 | \$ 3,391 | 34.0% |
| Over 80% through 90% | 773 | 1,618 | 2,391 | 24.0 |
| Over 90% through 100% | 821 | 3,205 | 4,026 | 40.4 |
| Over 100% | | 165 | 165 | 1.6 |
| Total | \$ 2,428 | \$ 7,545 | \$ 9,973 | 100.0% |
| Other Retail | | | | |
| Less than or equal to 80% | \$ 2,397 | \$ 9,637 | \$ 12,034 | 90.3% |
| Over 80% through 90% | 86 | 573 | 659 | 4.9 |
| Over 90% through 100% | 134 | 501 | 635 | 4.8 |
| Over 100% | | | | |

| | | | | |
|---------------------------|----------|-----------|-----------|--------|
| Total | \$ 2,617 | \$ 10,711 | \$ 13,328 | 100.0% |
| Total Company | | | | |
| Less than or equal to 80% | \$ 3,231 | \$ 12,194 | \$ 15,425 | 66.2% |
| Over 80% through 90% | 859 | 2,191 | 3,050 | 13.1 |
| Over 90% through 100% | 955 | 3,706 | 4,661 | 20.0 |
| Over 100% | | 165 | 165 | .7 |

| | | | | |
|--------------|----------|-----------|-----------|--------|
| Total | \$ 5,045 | \$ 18,256 | \$ 23,301 | 100.0% |
|--------------|----------|-----------|-----------|--------|

Note: Loan-to-values determined as of the date of origination and consider mortgage insurance, as applicable.

| Home equity and second mortgages (Dollars in Millions) | Lines | Loans | Total | Percent of Total |
|---|-----------|----------|-----------|---------------------|
| Consumer Finance (a) | | | | |
| Less than or equal to 80% | \$ 267 | \$ 160 | \$ 427 | 20.3% |
| Over 80% through 90% | 256 | 174 | 430 | 20.5 |
| Over 90% through 100% | 413 | 554 | 967 | 46.1 |
| Over 100% | 90 | 184 | 274 | 13.1 |
| Total | \$ 1,026 | \$ 1,072 | \$ 2,098 | 100.0% |
| Other Retail | | | | |
| Less than or equal to 80% | \$ 9,310 | \$ 2,159 | \$ 11,469 | 74.3% |
| Over 80% through 90% | 1,858 | 506 | 2,364 | 15.3 |
| Over 90% through 100% | 984 | 468 | 1,452 | 9.4 |
| Over 100% | 137 | 16 | 153 | 1.0 |
| Total | \$ 12,289 | \$ 3,149 | \$ 15,438 | 100.0% |
| Total Company | | | | |
| Less than or equal to 80% | \$ 9,577 | \$ 2,319 | \$ 11,896 | 67.9% |
| Over 80% through 90% | 2,114 | 680 | 2,794 | 15.9 |
| Over 90% through 100% | 1,397 | 1,022 | 2,419 | 13.8 |
| Over 100% | 227 | 200 | 427 | 2.4 |
| Total | \$ 13,315 | \$ 4,221 | \$ 17,536 | 100.0% |

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

Note: Loan-to-values determined at current amortized loan balance, or maximum of current commitment or current balance on lines.

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Within the consumer finance division, approximately \$3.1 billion of residential mortgages were to customers that may be defined as sub-prime borrowers, compared with \$3.3 billion at December 31, 2007. The following table provides further information on residential mortgages for the consumer finance division:

| (Dollars in Millions) | Interest Only | Amortizing | Total | Percent of Division |
|-------------------------------|------------------|------------|----------|------------------------|
| Sub-Prime Borrowers | | | | |
| Less than or equal to 80% | \$ 4 | \$ 1,112 | \$ 1,116 | 11.2% |
| Over 80% through 90% | 6 | 773 | 779 | 7.8 |
| Over 90% through 100% | 20 | 1,102 | 1,122 | 11.3 |
| Over 100% | | 111 | 111 | 1.1 |
| Total | \$ 30 | \$ 3,098 | \$ 3,128 | 31.4% |
| Other Borrowers | | | | |
| Less than or equal to 80% | \$ 830 | \$ 1,445 | \$ 2,275 | 22.8% |
| Over 80% through 90% | 767 | 845 | 1,612 | 16.2 |
| Over 90% through 100% | 801 | 2,103 | 2,904 | 29.1 |
| Over 100% | | 54 | 54 | .5 |
| Total | \$ 2,398 | \$ 4,447 | \$ 6,845 | 68.6% |
| Total Consumer Finance | \$ 2,428 | \$ 7,545 | \$ 9,973 | 100.0% |

In addition to residential mortgages, the consumer finance division had \$.8 billion of home equity and second mortgage loans to customers that may be defined as sub-prime borrowers at June 30, 2008, compared with \$.9 billion at December 31, 2007. The following table provides further information on home equity and second mortgages for the consumer finance division:

| (Dollars in Millions) | Lines | Loans | Total | Percent of Division |
|----------------------------|-------|--------|--------|------------------------|
| Sub-Prime Borrowers | | | | |
| Less than or equal to 80% | \$ 16 | \$ 105 | \$ 121 | 5.8% |
| Over 80% through 90% | 16 | 118 | 134 | 6.4 |
| Over 90% through 100% | | 355 | 355 | 16.9 |
| Over 100% | 54 | 129 | 183 | 8.7 |
| Total | \$ 86 | \$ 707 | \$ 793 | 37.8% |
| Other Borrowers | | | | |

| | | | | |
|-------------------------------|-----------------|-----------------|-----------------|---------------|
| Less than or equal to 80% | \$ 251 | \$ 55 | \$ 306 | 14.6% |
| Over 80% through 90% | 240 | 56 | 296 | 14.1 |
| Over 90% through 100% | 413 | 199 | 612 | 29.2 |
| Over 100% | 36 | 55 | 91 | 4.3 |
| Total | \$ 940 | \$ 365 | \$ 1,305 | 62.2% |
| Total Consumer Finance | \$ 1,026 | \$ 1,072 | \$ 2,098 | 100.0% |

Table 4 Delinquent Loan Ratios as a Percent of Ending Loan Balances

| | June 30, 2008 | December 31, 2007 |
|---|------------------|----------------------|
| 90 days or more past due excluding nonperforming loans | | |
| Commercial | | |
| Commercial | .10% | .08% |
| Lease financing | | |
| Total commercial | .09 | .07 |
| Commercial real estate | | |
| Commercial mortgages | .02 | .02 |
| Construction and development | .24 | .02 |
| Total commercial real estate | .09 | .02 |
| Residential mortgages | 1.09 | .86 |
| Retail | | |
| Credit card | 1.85 | 1.94 |
| Retail leasing | .13 | .10 |
| Other retail | .33 | .37 |
| Total retail | .63 | .68 |
| Total loans | .41% | .38% |
| | June 30, 2008 | December 31, 2007 |
| 90 days or more past due including nonperforming loans | | |
| Commercial | .71% | .43% |
| Commercial real estate | 1.57 | 1.02 |
| Residential mortgages (a) | 1.55 | 1.10 |
| Retail (b) | .74 | .73 |
| Total loans | 1.00% | .74% |

(a) Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the

ratio of residential mortgages 90 days or more past due including nonperforming loans was 4.73 percent at June 30, 2008, and 3.78 percent at December 31, 2007.

- (b) *Beginning in 2008, delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including the guaranteed amounts, the ratio of retail loans 90 days or more past due including nonperforming loans was .83 percent at June 30, 2008.*

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Including residential mortgages, and home equity and second mortgage loans, the total amount of loans to customers that may be defined as sub-prime borrowers represented only 1.6 percent of the Company's total assets at June 30, 2008, compared with 1.7 percent at December 31, 2007. The Company does not have any residential mortgages whose payment schedule would cause balances to increase over time.

Loan Delinquencies Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the Company's loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$687 million at June 30, 2008, compared with \$584 million at December 31, 2007. Consistent with banking industry practices, these loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. The ratio of accruing loans 90 days or more past due to total loans was .41 percent at June 30, 2008, compared with .38 percent at December 31, 2007.

To monitor credit risk associated with retail loans, the Company monitors delinquency ratios in the various stages of collection, including nonperforming status. The following table provides summary delinquency information for residential mortgages and retail loans:

| (Dollars in Millions) | Amount | | As a Percent of Ending Loan Balances | |
|---|------------------|----------------------|---|----------------------|
| | June 30, 2008 | December 31, 2007 | June 30, 2008 | December 31, 2007 |
| Residential Mortgages | | | | |
| 30-89 days | \$327 | \$233 | 1.41% | 1.02% |
| 90 days or more | 254 | 196 | 1.09 | .86 |
| Nonperforming | 108 | 54 | .46 | .24 |
| Total | \$689 | \$483 | 2.96% | 2.12% |
| Retail | | | | |
| Credit card | | | | |
| 30-89 days | \$284 | \$268 | 2.38% | 2.44% |
| 90 days or more | 221 | 212 | 1.85 | 1.94 |
| Nonperforming | 39 | 14 | .33 | .13 |
| Total | \$544 | \$494 | 4.56% | 4.51% |
| Retail leasing | | | | |
| 30-89 days | \$36 | \$39 | .67% | .65% |
| 90 days or more | 7 | 6 | .13 | .10 |
| Nonperforming | | | | |
| Total | \$43 | \$45 | .80% | .75% |
| Home equity and second mortgages | | | | |
| 30-89 days | \$111 | \$107 | .63% | .65% |
| 90 days or more | 73 | 64 | .42 | .39 |
| Nonperforming | 11 | 11 | .06 | .07 |
| Total | \$195 | \$182 | 1.11% | 1.11% |

| | | | | |
|---------------------|--------------|--------------|--------------|--------------|
| Other retail | | | | |
| 30-89 days | \$177 | \$177 | .83% | 1.02% |
| 90 days or more | 55 | 62 | .25 | .36 |
| Nonperforming | 8 | 4 | .04 | .02 |
| Total | \$240 | \$243 | 1.12% | 1.40% |

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

| | Consumer Finance (a) | | Other Retail | |
|---|----------------------|----------------------|------------------|----------------------|
| | June 30, 2008 | December 31, 2007 | June 30, 2008 | December 31, 2007 |
| Residential mortgages | | | | |
| 30-89 days | 2.19% | 1.58% | .82% | .61% |
| 90 days or more | 1.75 | 1.33 | .59 | .51 |
| Nonperforming | .72 | .31 | .27 | .18 |
| Total | 4.66% | 3.22% | 1.68% | 1.30% |
| Retail | | | | |
| Credit card | | | | |
| 30-89 days | % | % | 2.38% | 2.44% |
| 90 days or more | | | 1.85 | 1.94 |
| Nonperforming | | | .33 | .13 |
| Total | % | % | 4.56% | 4.51% |
| Retail leasing | | | | |
| 30-89 days | % | % | .67% | .65% |
| 90 days or more | | | .13 | .10 |
| Nonperforming | | | | |
| Total | % | % | .80% | .75% |
| Home equity and second mortgages | | | | |
| 30-89 days | 2.29% | 2.53% | .41% | .41% |
| 90 days or more | 1.81 | 1.78 | .23 | .21 |
| Nonperforming | .14 | .11 | .05 | .06 |
| Total | 4.24% | 4.42% | .69% | .68% |
| Other retail | | | | |
| 30-89 days | 5.48% | 6.38% | .73% | .88% |
| 90 days or more | 1.32 | 1.66 | .23 | .33 |
| Nonperforming | | | .04 | .02 |
| Total | 6.80% | 8.04% | 1.00% | 1.23% |

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

Within the consumer finance division at June 30, 2008, approximately \$296 million and \$88 million of these delinquent and nonperforming residential mortgages and retail loans, respectively, were with customers that may be defined as sub-prime borrowers, compared with \$227 million and \$89 million, respectively, at December 31, 2007.

The Company expects delinquencies to continue to increase due to general economic conditions and continuing stress in the residential mortgage portfolio and residential construction industry.

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. At June 30, 2008, total nonperforming assets were \$1,135 million, compared with \$690 million at December 31, 2007. The ratio of total nonperforming assets to total loans and other real estate was .68 percent at June 30, 2008, compared with .45 percent at December 31, 2007. The increase in nonperforming assets was driven primarily by the residential construction portfolio and related industries, an increase in foreclosed residential properties and the impact of the economic slowdown on other commercial customers.

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| (Dollars in Millions) | June 30, 2008 | December 31, 2007 |
|--|------------------|----------------------|
| Commercial | | |
| Commercial | \$ 265 | \$ 128 |
| Lease financing | 75 | 53 |
| Total commercial | 340 | 181 |
| Commercial real estate | | |
| Commercial mortgages | 139 | 84 |
| Construction and development | 326 | 209 |
| Total commercial real estate | 465 | 293 |
| Residential mortgages | 108 | 54 |
| Retail | | |
| Credit card | 39 | 14 |
| Retail leasing | | |
| Other retail | 19 | 15 |
| Total retail | 58 | 29 |
| Total nonperforming loans | 971 | 557 |
| Other real estate (b) | 142 | 111 |
| Other assets | 22 | 22 |
| Total nonperforming assets | \$ 1,135 | \$ 690 |
| Accruing loans 90 days or more past due | \$ 687 | \$ 584 |
| Nonperforming loans to total loans | .59% | .36% |
| Nonperforming assets to total loans plus other real estate (b) | .68% | .45% |

Changes in Nonperforming Assets

| (Dollars in Millions) | Commercial and Commercial Real Estate | Retail and Residential Mortgages (d) | Total |
|--|--|--|--------|
| Balance December 31, 2007 | \$ 485 | \$ 205 | \$ 690 |
| Additions to nonperforming assets | | | |
| New nonaccrual loans and foreclosed properties | 610 | 126 | 736 |
| Advances on loans | 13 | | 13 |
| Total additions | 623 | 126 | 749 |
| Reductions in nonperforming assets | | | |

| | | | |
|---------------------------------------|---------------|---------------|-----------------|
| Paydowns, payoffs | (107) | (16) | (123) |
| Net sales | (3) | | (3) |
| Return to performing status | (15) | (4) | (19) |
| Charge-offs (c) | (143) | (16) | (159) |
| Total reductions | (268) | (36) | (304) |
| Net additions to nonperforming assets | 355 | 90 | 445 |
| Balance June 30, 2008 | \$ 840 | \$ 295 | \$ 1,135 |

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

Excludes \$143 million and \$102 million at June 30, 2008, and December 31, 2007, respectively, of foreclosed

(b) GNMA loans which continue to accrue interest.

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

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

Included in nonperforming loans were restructured loans of \$56 million at June 30, 2008, compared with \$17 million at December 31, 2007. At June 30, 2008, the Company had \$1 million of commitments to lend additional funds under restructured loans, compared with no commitments at December 31, 2007.

Other real estate included in nonperforming assets was \$142 million at June 30, 2008, compared with \$111 million at December 31, 2007, and was primarily related to properties that the Company has taken ownership of that once secured residential mortgages and home equity and second mortgage loan balances. The increase in other real estate assets was due to higher residential mortgage loan foreclosures as customers experienced financial difficulties, given inflationary factors, changing interest rates and other current economic conditions.

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

| (Dollars in Millions) | Amount | | As a Percent of Ending Loan Balances | |
|-----------------------|---------------|-------------------|--------------------------------------|-------------------|
| | June 30, 2008 | December 31, 2007 | June 30, 2008 | December 31, 2007 |
| Residential | | | | |
| Michigan | \$ 16 | \$ 22 | 2.88% | 3.47% |
| Minnesota | 15 | 12 | .29 | .23 |
| California | 9 | 5 | .22 | .15 |
| Ohio | 8 | 10 | .32 | .40 |
| Florida | 8 | 6 | 1.03 | .70 |
| All other states | 63 | 55 | .23 | .21 |
| Total residential | 119 | 110 | .29 | .28 |
| Commercial | 23 | 1 | .07 | |
| Total OREO | \$ 142 | \$ 111 | .09% | .07% |

Within other real estate in the table above, approximately \$54 million at June 30, 2008, and \$61 million at December 31, 2007, were from portfolios that may be defined as sub-prime.

The Company expects nonperforming assets to continue to increase due to general economic conditions and continuing stress in the residential mortgage portfolio and residential construction industry.

Restructured Loans Accruing Interest In certain circumstances, management may modify the terms of a loan to maximize the collection of the loan balance. In most cases, the modification is either a reduction in interest rate, extension of the maturity date or a reduction in the principal balance. Generally, the borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term so concessionary modification is granted to the borrower that would otherwise not be considered. Restructured loans, except those where the principal balance has been reduced, accrue interest as long as the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Loans restructured at a rate equal to or greater than a market rate for a new loan with comparable risk at the time the contract is modified, are classified as restructured loans in the calendar year the restructuring occurs, but are excluded from restructured loans in subsequent years once repayment performance, in accordance with the modified agreement, has been demonstrated. Loans that have interest rates reduced below market rates for borrowers with comparable risk, remain classified as restructured loans for the remaining life of the loan.

The majority of the Company's loan restructurings occur on a case-by-case basis in connection with ongoing loan collection processes. However, in late 2007, the Company began implementing a mortgage loan restructuring program for certain qualifying borrowers. In general, borrowers with sub-prime credit quality, that are current in their repayment status, are allowed to retain the lower of their existing interest rate or the market interest rate as of their interest reset date.

The following table provides a summary of restructured loans that are performing, and therefore, continue to accrue interest:

| (Dollars in Millions) | Amount | | As a Percent of Ending Loan Balances | |
|------------------------|------------------|----------------------|---|----------------------|
| | June 30, 2008 | December 31, 2007 | June 30, 2008 | December 31, 2007 |
| Commercial | \$ 26 | \$ 21 | .05% | .04% |
| Commercial real estate | 92 | | .29 | |
| Residential mortgages | 468 | 157 | 2.01 | .69 |
| Credit card | 384 | 324 | 3.22 | 2.96 |
| Other retail | 59 | 49 | .13 | .12 |
| Total | \$ 1,029 | \$ 551 | .62% | .36% |

Restructured loans that continue to accrue interest were \$478 million (86.8 percent) higher at June 30, 2008, compared with December 31, 2007, reflecting the impact of restructurings for certain commercial real estate, residential mortgage and credit card customers in light of current economic conditions. The Company expects this trend to continue during 2008 as softness continues in the commercial real estate markets, residential home valuations continue to decline and certain borrowers take advantage of the Company's mortgage loan restructuring programs.

Analysis of Loan Net Charge-Offs Total loan net charge-offs were \$396 million and \$689 million during the second quarter and first six months of 2008, respectively, compared with net charge-offs of \$191 million and \$368 million, respectively, for the same periods of 2007. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis in the second quarter and first six months of 2008 was .98 percent and .87 percent, respectively, compared with .53 percent and .51 percent, respectively, for the same periods of 2007. The year-over-year increases in total net charge-offs were driven by the factors affecting the residential housing markets, as well as credit costs associated with credit card and other consumer loan growth over the past several quarters.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2008 increased to \$87 million (.41 percent of average loans outstanding on an annualized basis), compared with \$38 million (.20 percent of average loans outstanding on an annualized basis) for the second quarter of 2007. Commercial and commercial real estate loan net charge-

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

| | Three Months Ended | | Six Months Ended | |
|----------------------------------|--------------------|------|------------------|------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Commercial | | | | |
| Commercial | .43% | .20% | .39% | .26% |
| Lease financing | 1.14 | .57 | 1.09 | .40 |
| Total commercial | .51 | .25 | .47 | .27 |
| Commercial real estate | | | | |
| Commercial mortgages | .11 | .14 | .10 | .08 |
| Construction and development | .52 | .09 | .44 | .05 |
| Total commercial real estate | .24 | .13 | .20 | .07 |
| Residential mortgages | .91 | .28 | .69 | .25 |
| Retail | | | | |
| Credit card | 4.84 | 3.56 | 4.39 | 3.52 |
| Retail leasing | .58 | .24 | .53 | .21 |
| Home equity and second mortgages | 1.13 | .41 | .93 | .41 |
| Other retail | 1.16 | .89 | 1.20 | .89 |
| Total retail | 1.86 | 1.15 | 1.73 | 1.13 |
| Total loans | .98% | .53% | .87% | .51% |

offs for the first six months of 2008 increased to \$154 million (.37 percent of average loans outstanding on an annualized basis), compared with \$74 million (.20 percent of average loans outstanding on an annualized basis) for the first six months of 2007. The year-over-year increases in net charge-offs reflected increases in nonperforming loans and delinquencies within the portfolios, especially residential homebuilding and related industry sectors.

Residential mortgage loan net charge-offs for the second quarter of 2008 were \$53 million (.91 percent of average loans outstanding on an annualized basis), compared with \$15 million (.28 percent of average loans outstanding on an annualized basis) for the second quarter of 2007. Residential mortgage loan net charge-offs for the first six months of 2008 were \$79 million (.69 percent of average loans outstanding on an annualized basis), compared with \$27 million (.25 percent of average loans outstanding on an annualized basis) for the first six months of 2007. The year-over-year increases in residential mortgage losses were primarily related to loans originated within the consumer finance division and reflected the impact of rising foreclosures on sub-prime mortgages and current economic conditions.

Retail loan net charge-offs for the second quarter of 2008 were \$256 million (1.86 percent of average loans outstanding on an annualized basis), compared with \$138 million (1.15 percent of average loans outstanding on an annualized basis) for the second quarter of 2007. Retail loan net charge-offs for the first six months of 2008 were \$456 million (1.73 percent of average loans outstanding on an annualized basis), compared with \$267 million (1.13 percent of average loans outstanding on an annualized basis) for the first six months of 2007. The year-over-year

increase in retail loan net charge-offs reflected the Company's growth in credit card and other consumer loan balances, as well as the adverse impact of current economic conditions on consumers.

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|----------------------------------|-----------------------------|----------|--------------------------|------|---------------------------|----------|--------------------------|------|
| | Average Loans | | Percent of Average Loans | | Average Loans | | Percent of Average Loans | |
| (Dollars in Millions) | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Consumer Finance (a) | | | | | | | | |
| Residential mortgages | \$9,990 | \$8,969 | 1.69% | .58% | \$9,944 | \$8,731 | 1.27% | .55% |
| Home equity and second mortgages | 2,031 | 1,836 | 6.93 | 2.40 | 1,952 | 1,853 | 5.67 | 2.29 |
| Other retail | 450 | 412 | 4.47 | 1.95 | 440 | 406 | 5.03 | 2.48 |
| Other Retail | | | | | | | | |
| Residential mortgages | \$13,317 | \$12,862 | .33% | .06% | \$13,198 | \$12,969 | .24% | .05% |
| Home equity and second mortgages | 15,075 | 13,899 | .35 | .14 | 14,865 | 13,793 | .31 | .16 |
| Other retail | 20,673 | 16,193 | 1.09 | .87 | 18,937 | 16,116 | 1.12 | .85 |
| Total Company | | | | | | | | |
| Residential mortgages | \$23,307 | \$21,831 | .91% | .28% | \$23,142 | \$21,700 | .69% | .25% |
| Home equity and second mortgages | 17,106 | 15,735 | 1.13 | .41 | 16,817 | 15,646 | .93 | .41 |
| Other retail | 21,123 | 16,605 | 1.16 | .89 | 19,377 | 16,522 | 1.20 | .89 |

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|-----------------------------|---------|--------------------------|-------|---------------------------|---------|--------------------------|-------|
| | Average Loans | | Percent of Average Loans | | Average Loans | | Percent of Average Loans | |
| (Dollars in Millions) | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Residential mortgages | | | | | | | | |
| Sub-prime borrowers | \$ 3,152 | \$3,134 | 3.19% | 1.15% | \$3,186 | \$3,070 | 2.40% | 1.12% |
| Other borrowers | 6,838 | 5,835 | 1.00 | .27 | 6,758 | 5,661 | .74 | .25 |
| Total | \$ 9,990 | \$8,969 | 1.69% | .58% | \$9,944 | \$8,731 | 1.27% | .55% |
| Home equity and second mortgages | | | | | | | | |
| Sub-prime borrowers | \$ 808 | \$911 | 12.44% | 3.08% | \$831 | \$911 | 9.44% | 2.88% |
| Other borrowers | 1,223 | 925 | 3.29 | 1.73 | 1,121 | 942 | 2.87 | 1.71 |
| Total | \$ 2,031 | \$1,836 | 6.93% | 2.40% | \$1,952 | \$1,853 | 5.67% | 2.29% |

Analysis and Determination of the Allowance for Credit Losses The allowance for loan losses provides coverage for probable and estimable losses inherent in the Company's loan and lease portfolio. Management evaluates the allowance each quarter to determine that it is adequate to cover these inherent losses. Several factors were taken into consideration in evaluating the allowance for credit losses at June 30, 2008, including the risk profile of the portfolios, loan net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in restructured loan balances compared with December 31, 2007. Management also considered the uncertainty related to certain industry sectors, and the extent of credit exposure to specific borrowers within the portfolio. In addition, concentration risks associated with commercial real estate and the mix of loans, including credit cards, loans originated through the consumer finance division and residential mortgage balances, and their relative credit risks, were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio.

At June 30, 2008, the allowance for credit losses was \$2,648 million (1.60 percent of loans), compared with an allowance of \$2,260 million (1.47 percent of loans) at December 31, 2007. The \$388 million (17.2 percent) increase in the allowance for credit losses reflected deterioration in the credit quality within the loan portfolios related to stress in the residential real estate markets, including homebuilding and related supplier industries. It also reflected the current economic conditions and the corresponding impact on the commercial and consumer loan portfolios. The ratio of the allowance for credit losses to nonperforming loans was 273 percent at June 30, 2008, compared with 406 percent at December 31, 2007. The ratio of the allowance for credit losses to annualized loan net charge-offs was 166 percent at June 30, 2008, compared with 285 percent at December 31, 2007.

Residual Value Risk Management

The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of June 30, 2008, no significant change in the amount of residuals or concentration of the portfolios has occurred since December 31, 2007. However, during

the first half of 2008 the Company experienced higher retail lease residual losses as a result of softening market conditions for used vehicles. Refer to Management's Discussion and Analysis - Residual Value Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on residual value risk management.

Operational Risk Management

The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Corporate Risk Committee (Risk Committee) provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. Refer to Management's Discussion and Analysis - Operational Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on operational risk management.

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Table of Contents**Table 7** Summary of Allowance for Credit Losses

| (Dollars in Millions) | Three Months Ended | | Six Months Ended | |
|----------------------------------|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| Balance at beginning of period | 2008 | 2007 | 2008 | 2007 |
| | \$ 2,435 | \$ 2,260 | \$ 2,260 | \$ 2,256 |
| Charge-offs | | | | |
| Commercial | | | | |
| Commercial | 58 | 34 | 104 | 79 |
| Lease financing | 24 | 15 | 46 | 29 |
| Total commercial | 82 | 49 | 150 | 108 |
| Commercial real estate | | | | |
| Commercial mortgages | 7 | 8 | 11 | 10 |
| Construction and development | 12 | 2 | 20 | 2 |
| Total commercial real estate | 19 | 10 | 31 | 12 |
| Residential mortgages | 54 | 16 | 80 | 28 |
| Retail | | | | |
| Credit card | 152 | 98 | 283 | 187 |
| Retail leasing | 9 | 6 | 17 | 11 |
| Home equity and second mortgages | 49 | 18 | 81 | 36 |
| Other retail | 74 | 55 | 145 | 107 |
| Total retail | 284 | 177 | 526 | 341 |
| Total charge-offs | 439 | 252 | 787 | 489 |
| Recoveries | | | | |
| Commercial | | | | |
| Commercial | 7 | 13 | 14 | 26 |
| Lease financing | 6 | 7 | 12 | 18 |
| Total commercial | 13 | 20 | 26 | 44 |
| Commercial real estate | | | | |
| Commercial mortgages | 1 | 1 | 1 | 2 |
| Construction and development | | | | |
| Total commercial real estate | 1 | 1 | 1 | 2 |
| Residential mortgages | 1 | 1 | 1 | 1 |
| Retail | | | | |
| Credit card | 13 | 17 | 36 | 32 |
| Retail leasing | 1 | 2 | 2 | 4 |
| Home equity and second mortgages | 1 | 2 | 3 | 4 |
| Other retail | 13 | 18 | 29 | 34 |
| Total retail | 28 | 39 | 70 | 74 |

| | | | | |
|---|----------|----------|----------|----------|
| Total recoveries | 43 | 61 | 98 | 121 |
| Net Charge-offs | | | | |
| Commercial | | | | |
| Commercial | 51 | 21 | 90 | 53 |
| Lease financing | 18 | 8 | 34 | 11 |
| Total commercial | 69 | 29 | 124 | 64 |
| Commercial real estate | | | | |
| Commercial mortgages | 6 | 7 | 10 | 8 |
| Construction and development | 12 | 2 | 20 | 2 |
| Total commercial real estate | 18 | 9 | 30 | 10 |
| Residential mortgages | 53 | 15 | 79 | 27 |
| Retail | | | | |
| Credit card | 139 | 81 | 247 | 155 |
| Retail leasing | 8 | 4 | 15 | 7 |
| Home equity and second mortgages | 48 | 16 | 78 | 32 |
| Other retail | 61 | 37 | 116 | 73 |
| Total retail | 256 | 138 | 456 | 267 |
| Total net charge-offs | 396 | 191 | 689 | 368 |
| Provision for credit losses | 596 | 191 | 1,081 | 368 |
| Acquisitions and other changes | 13 | | (4) | 4 |
| Balance at end of period | \$ 2,648 | \$ 2,260 | \$ 2,648 | \$ 2,260 |
| Components | | | | |
| Allowance for loan losses | \$ 2,518 | \$ 2,028 | | |
| Liability for unfunded credit commitments | 130 | 232 | | |
| Total allowance for credit losses | \$ 2,648 | \$ 2,260 | | |
| Allowance for credit losses as a percentage of | | | | |
| Period-end loans | 1.60% | 1.55% | | |
| Nonperforming loans | 273 | 503 | | |
| Nonperforming assets | 233 | 400 | | |
| Annualized net charge-offs | 166 | 295 | | |

Table of Contents**Interest Rate Risk Management**

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

Net Interest Income Simulation Analysis Through this simulation, management estimates the impact on net interest income of gradual upward or downward changes of market interest rates over a one-year period, the effect of immediate and sustained parallel shifts in the yield curve and the effect of immediate and sustained flattening or steepening of the yield curve. The table below summarizes the interest rate risk of net interest income based on forecasts over the succeeding 12 months. At June 30, 2008, the Company's overall interest rate risk position was liability sensitive to changes in interest rates. ALPC policy limits the estimated change in net interest income to 4.0 percent of forecasted net interest income over the succeeding 12 months. At June 30, 2008, and December 31, 2007, the Company was within policy. Refer to Management's Discussion and Analysis Net Interest Income Simulation Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on net interest income simulation analysis.

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company's assets and liabilities and off-balance sheet instruments will change given a change in interest rates. ALPC policy limits the change in market value of equity in a 200 basis point parallel rate shock to 15 percent of the market value of equity assuming interest rates at June 30, 2008. The up 200 basis point scenario resulted in a 10.7 percent decrease in the market value of equity at June 30, 2008, compared with a 7.6 percent decrease at December 31, 2007. The down 200 basis point scenario resulted in an immaterial change in the market value of equity at June 30, 2008, compared with a 3.5 percent decrease at December 31, 2007. At June 30, 2008, and December 31, 2007, the Company was within its ALPC policy. The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. At June 30, 2008, the duration of assets, liabilities and equity was 1.8 years, 1.6 years and 3.1 years, respectively, compared with 1.8 years, 1.9 years and 1.2 years, respectively, at December 31, 2007. The change in duration of equity reflects a change in market rates and credit spreads. The duration of equity measures show that sensitivity of the market value of equity of the Company was liability sensitive to changes in interest rates. Refer to Management's Discussion and Analysis Market Value of Equity Modeling in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on market value of equity modeling.

Use of Derivatives to Manage Interest Rate and Other Risks In the ordinary course of business, the Company enters into derivative transactions to manage its interest rate, prepayment, credit, price and foreign currency risks (asset and liability management positions) and to accommodate the business requirements of its customers (customer-related positions). Refer to Management's Discussion and Analysis Use of Derivatives to Manage Interest Rate and Other Risks in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on the use of derivatives to manage interest rate and other risks.

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company's \$43.4 billion of total notional amount of asset and liability management positions at June 30, 2008, \$20.1 billion was designated as either fair value or cash flow hedges or net investment hedges of foreign operations. The cash flow hedge derivative positions are interest rate swaps that hedge the forecasted cash flows from underlying variable-rate debt. The fair value hedges are primarily interest rate swaps that

hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and subordinated obligations.

Sensitivity of Net Interest Income

| | June 30, 2008 | | | | December 31, 2007 | | | |
|------------------------|-------------------------|--------------------|-------------------------|-------------------|-------------------------|--------------------|------------------------|-------------------|
| | Down 50 Immediate | Up 50 Immediate | Down 200 Gradual* | Up 200 Gradual | Down 50 Immediate | Up 50 Immediate | Down 200 Gradual | Up 200 Gradual |
| Net interest income | .61% | (.53)% | 1.10% | (.69)% | .54% | (1.01)% | 1.28% | (2.55)% |

* Market rates in the Down 200 Gradual Ramp have been floored in the later months of the ramp.

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| (Dollars in Millions) | June 30, 2008 | | | December 31, 2007 | | |
|---|-----------------|------------|--|-------------------|------------|--|
| | Notional Amount | Fair Value | Weighted-Average Remaining Maturity In Years | Notional Amount | Fair Value | Weighted-Average Remaining Maturity In Years |
| Asset and Liability Management Positions | | | | | | |
| Interest rate contracts | | | | | | |
| Receive fixed/pay floating swaps | \$ 4,750 | \$ (41) | 33.63 | \$ 3,750 | \$ 17 | 40.87 |
| Pay fixed/receive floating swaps | 14,054 | (316) | 3.33 | 15,979 | (307) | 3.00 |
| Futures and forwards | | | | | | |
| Buy | 6,200 | (31) | .04 | 12,459 | (51) | .12 |
| Sell | 6,653 | 26 | .11 | 11,427 | (33) | .16 |
| Options | | | | | | |
| Written | 8,350 | 8 | .05 | 10,689 | 10 | .12 |
| Foreign exchange contracts | | | | | | |
| Cross-currency swaps | 2,017 | 290 | 8.58 | 1,913 | 196 | 8.80 |
| Forwards | 1,275 | (6) | .04 | 1,111 | (15) | .03 |
| Equity contracts | 70 | (6) | 1.78 | 73 | (3) | 2.33 |
| Credit default swaps | 56 | 1 | 3.10 | 56 | 1 | 3.60 |
| Customer-related Positions | | | | | | |
| Interest rate contracts | | | | | | |
| Receive fixed/pay floating swaps | \$ 17,683 | \$ 241 | 5.07 | \$ 14,260 | \$ 386 | 5.10 |
| Pay fixed/receive floating swaps | 17,676 | (223) | 5.00 | 14,253 | (309) | 5.08 |
| Options | | | | | | |
| Purchased | 2,002 | (12) | 1.98 | 1,939 | 1 | 2.25 |
| Written | 1,998 | 12 | 1.98 | 1,932 | 1 | 2.25 |
| Risk participation agreements (a) | | | | | | |
| Purchased | 571 | 1 | 5.30 | 370 | 1 | 6.23 |
| Written | 1,543 | (1) | 3.29 | 628 | (1) | 4.98 |
| Foreign exchange rate contracts | | | | | | |
| Forwards and swaps | | | | | | |
| Buy | 4,595 | 156 | .37 | 3,486 | 109 | .44 |
| Sell | 4,544 | (143) | .38 | 3,426 | (95) | .44 |
| Options | | | | | | |
| Purchased | 515 | 15 | 1.01 | 308 | 6 | .68 |
| Written | 515 | (15) | 1.01 | 293 | (6) | .71 |

(a) At June 30, 2008, the credit equivalent amount was \$6 million and \$116 million, compared with \$4 million and \$69 million at December 31, 2007, for purchased and written risk participation agreements, respectively.

At June 30, 2008, the Company had \$190 million in accumulated other comprehensive income related to realized and unrealized losses on derivatives classified as cash flow hedges. Unrealized gains and losses are reflected in earnings when the related cash flows or hedged transactions occur and offset the related performance of the hedged items. The estimated amount to be reclassified from accumulated other comprehensive income into earnings during the remainder of 2008 and the next 12 months is a loss of \$36 million and \$67 million, respectively.

The change in the fair value of all other asset and liability management positions attributed to hedge ineffectiveness recorded in noninterest income was not material for the second quarter and first six months of 2008. Gains or losses on customer-related positions were not material for the second quarter and first six months of 2008. The impact of adopting a new accounting standard in the first quarter of 2008 reduced noninterest income by \$62 million for the first six months of 2008 as it required the Company to consider the primary market and nonperformance risk in determining the fair value of derivative positions.

The Company enters into derivatives to protect its net investment in certain foreign operations. The Company uses forward commitments to sell specified amounts of certain foreign currencies to hedge fluctuations in foreign currency exchange rates. The net amount of gains or losses included in the cumulative translation adjustment for the second quarter and first six months of 2008 was not material.

The Company uses forward commitments to sell residential mortgage loans to economically hedge its interest rate risk related to residential MLHFS. In connection with its mortgage banking operations, the Company held \$5.7 billion of forward commitments to

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sell mortgage loans and \$3.4 billion of unfunded mortgage loan commitments at June 30, 2008, that were derivatives in accordance with the provisions of the Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedge Activities*. The unfunded mortgage loan commitments are reported at fair value as options in Table 8.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, and elected to measure certain MLHFS originated on or after January 1, 2008 at fair value. The fair value election for MLHFS will reduce certain timing differences and better match changes in the value of these mortgage loans with changes in the value of the derivatives used as economic hedges for these mortgage loans. The Company also utilizes U.S. Treasury futures, options on U.S. Treasury futures contracts, interest rate swaps and forward commitments to buy residential mortgage loans to economically hedge the change in fair value of its residential MSRs.

Market Risk Management

In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. These trading activities principally support the risk management processes of the Company's customers including their management of foreign currency and interest rate risks. The Company also manages market risk of non-trading business activities, including its MSRs and loans held-for-sale. Value at Risk (VaR) is a key measure of market risk for the Company. Theoretically, VaR represents the maximum amount that the Company has placed at risk of loss, with a ninety-ninth percentile degree of confidence, to adverse market movements in the course of its risk taking activities.

The Company's market valuation risk for trading and non-trading positions, as estimated by the VaR analysis, was \$2 million and \$15 million, respectively, at June 30, 2008, compared with \$1 million and \$15 million at December 31, 2007, respectively. The Company's VaR limit was \$45 million at June 30, 2008. Refer to *Management's Discussion and Analysis - Market Risk Management* in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on market risk management.

Liquidity Risk Management

ALPC establishes policies, as well as analyzes and manages liquidity, to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, as well as from an asset and liability perspective. Management monitors liquidity through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. Refer to *Management's Discussion and Analysis - Liquidity Risk Management* in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on liquidity risk management.

At June 30, 2008, parent company long-term debt outstanding was \$11.0 billion, compared with \$10.7 billion at December 31, 2007. The \$.3 billion increase was primarily due to the issuance of \$3.4 billion of medium-term notes, partially offset by the repayment of \$2.9 billion of convertible senior debentures during the first six months of 2008. As of June 30, 2008, there was no parent company debt scheduled to mature in the remainder of 2008.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately \$1.2 billion at June 30, 2008.

Off-Balance Sheet Arrangements The Company sponsors an off-balance sheet conduit to which it transferred high-grade investment securities, initially funded by the issuance of commercial paper. These investment securities include primarily (i) private label asset-backed securities, which are insurance wrapped by mono-line insurance companies and (ii) collateralized mortgage obligations. The conduit held assets with a fair value of \$.9 billion at June 30, 2008, and \$1.2 billion at December 31, 2007. The Company also provides a liquidity facility to the conduit which can be utilized by the conduit when it is unable to, or does not, issue commercial paper. In March 2008, the conduit ceased issuing commercial paper and began to draw upon the Company-provided liquidity facility to replace

outstanding commercial paper as it matures. The draws upon the liquidity resulted in the conduit becoming a non-qualifying special purpose entity. However, the Company is not the primary beneficiary and, therefore, does not consolidate the conduit. At June 30, 2008, the amount advanced to the conduit under the liquidity facility was \$.9 billion, which is recorded on the Company's balance sheet in commercial loans. The conduit's remaining commercial paper (\$17 million) will mature during 2008, resulting in additional draws against the liquidity facility. Proceeds from the conduit's investment securities, including payments from mono-line insurance companies to the extent necessary, will be used to repay draws on the liquidity facility. The Company has recorded a liability for future draws upon

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| (Dollars in Millions) | June 30, 2008 | December 31, 2007 |
|--|------------------|----------------------|
| Tier 1 capital | \$ 18,624 | \$ 17,539 |
| As a percent of risk-weighted assets | 8.5% | 8.3% |
| As a percent of adjusted quarterly average assets (leverage ratio) | 7.9% | 7.9% |
| Total risk-based capital | \$ 27,502 | \$ 25,925 |
| As a percent of risk-weighted assets | 12.5% | 12.2% |
| Tangible common equity | \$ 12,408 | \$ 11,820 |
| As a percent of tangible assets | 5.2% | 5.1% |

the liquidity facility, however, such amount was immaterial at June 30, 2008. The Company believes there is sufficient collateral and insurance to repay all liquidity draws.

Capital Management

The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. In the first six months of 2008, the Company returned 77 percent of earnings to its common shareholders primarily through dividends and limited net share repurchases. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Table 9 provides a summary of capital ratios as of June 30, 2008, and December 31, 2007. All regulatory ratios continue to be in excess of regulatory well-capitalized requirements. Total shareholders equity was \$21.8 billion at June 30, 2008, compared with \$21.0 billion at December 31, 2007. The increase was the result of corporate earnings and the issuance of \$.5 billion of non-cumulative, perpetual preferred stock, partially offset by dividends and share repurchases.

On August 3, 2006, the Company announced that the Board of Directors approved an authorization to repurchase 150 million shares of common stock through December 31, 2008. The Company does not anticipate significant repurchases for the remainder of 2008.

The following table provides a detailed analysis of all shares repurchased under this authorization during the second quarter of 2008:

| Time Period | Total Number of Shares Purchased as Part of the Program | Average Price Paid per Share | Maximum Number of Shares that May Yet Be Purchased Under the Program |
|-------------|---|------------------------------------|---|
| April | 51,423 | \$ 34.25 | 61,807,555 |
| May | 158,607 | 34.80 | 61,648,948 |
| June | 4,290 | 29.72 | 61,644,658 |
| Total | 214,320 | \$ 34.57 | 61,644,658 |

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company's business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to Management's Discussion and Analysis - Line of Business Financial Review in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company's diverse customer base. During 2008, certain organization and methodology changes were made and, accordingly, 2007 results were restated and presented on a comparable basis.

Wholesale Banking Wholesale Banking offers lending, equipment finance and small-ticket leasing, depository, treasury management, capital markets, foreign exchange, international trade services and other financial services to middle market, large corporate, commercial real estate and public sector clients. Wholesale Banking contributed \$255 million of the Company's net income in the second quarter and \$509 million in the first six months of 2008, or decreases of \$23 million (8.3 percent) and \$36 million (6.6 percent), respectively, compared with the same periods of 2007. The decreases were primarily driven by an increase in the provision for credit losses and higher noninterest expense, partially offset by higher total net revenue.

Table of Contents**Table 10** Line of Business Financial Performance

| Three Months Ended June 30 (Dollars in Millions) | Wholesale Banking | | | Consumer Banking | | |
|--|-------------------|-----------|----------------|------------------|----------|----------------|
| | 2008 | 2007 | Percent Change | 2008 | 2007 | Percent Change |
| Condensed Income Statement | | | | | | |
| Net interest income (taxable-equivalent basis) | \$ 483 | \$ 453 | 6.6% | \$ 945 | \$ 969 | (2.5)% |
| Noninterest income | 240 | 237 | 1.3 | 550 | 572 | (3.8) |
| Securities gains (losses), net | (11) | 1 | * | | | |
| Total net revenue | 712 | 691 | 3.0 | 1,495 | 1,541 | (3.0) |
| Noninterest expense | 260 | 238 | 9.2 | 795 | 700 | 13.6 |
| Other intangibles | 4 | 4 | | 15 | 17 | (11.8) |
| Total noninterest expense | 264 | 242 | 9.1 | 810 | 717 | 13.0 |
| Income before provision and income taxes | 448 | 449 | (.2) | 685 | 824 | (16.9) |
| Provision for credit losses | 47 | 12 | * | 180 | 73 | * |
| Income before income taxes | 401 | 437 | (8.2) | 505 | 751 | (32.8) |
| Income taxes and taxable-equivalent adjustment | 146 | 159 | (8.2) | 184 | 273 | (32.6) |
| Net income | \$ 255 | \$ 278 | (8.3) | \$ 321 | \$ 478 | (32.8) |
| Average Balance Sheet Data | | | | | | |
| Commercial | \$ 39,646 | \$ 34,427 | 15.2% | \$ 6,872 | \$ 6,587 | 4.3% |
| Commercial real estate | 18,562 | 16,663 | 11.4 | 11,276 | 11,152 | 1.1 |
| Residential mortgages | 80 | 71 | 12.7 | 22,771 | 21,332 | 6.7 |
| Retail | 79 | 66 | 19.7 | 40,581 | 35,798 | 13.4 |
| Total loans | 58,367 | 51,227 | 13.9 | 81,500 | 74,869 | 8.9 |
| Goodwill | 1,385 | 1,329 | 4.2 | 2,420 | 2,420 | |
| Other intangible assets | 49 | 40 | 22.5 | 1,712 | 1,735 | (1.3) |
| Assets | 64,055 | 56,863 | 12.6 | 91,845 | 86,168 | 6.6 |
| Noninterest-bearing deposits | 10,687 | 11,131 | (4.0) | 11,958 | 12,231 | (2.2) |
| Interest checking | 8,916 | 4,826 | 84.7 | 18,309 | 18,115 | 1.1 |
| Savings products | 6,495 | 5,094 | 27.5 | 20,002 | 19,680 | 1.6 |
| Time deposits | 15,252 | 9,455 | 61.3 | 17,263 | 20,128 | (14.2) |
| Total deposits | 41,350 | 30,506 | 35.5 | 67,532 | 70,154 | (3.7) |
| Shareholders' equity | 6,564 | 5,729 | 14.6 | 7,164 | 6,668 | 7.4 |

| Six Months Ended June 30 (Dollars in Millions) | Wholesale Banking | | | Consumer Banking | | |
|--|-------------------|-----------|----------------|------------------|----------|----------------|
| | 2008 | 2007 | Percent Change | 2008 | 2007 | Percent Change |
| Condensed Income Statement | | | | | | |
| Net interest income (taxable-equivalent basis) | \$ 969 | \$ 905 | 7.1% | \$ 1,891 | \$ 1,930 | (2.0)% |
| Noninterest income | 433 | 455 | (4.8) | 1,110 | 1,092 | 1.6 |
| Securities gains (losses), net | (11) | | * | | | |
| Total net revenue | 1,391 | 1,360 | 2.3 | 3,001 | 3,022 | (.7) |
| Noninterest expense | 502 | 468 | 7.3 | 1,557 | 1,384 | 12.5 |
| Other intangibles | 7 | 8 | (12.5) | 30 | 34 | (11.8) |
| Total noninterest expense | 509 | 476 | 6.9 | 1,587 | 1,418 | 11.9 |
| Income before provision and income taxes | 882 | 884 | (.2) | 1,414 | 1,604 | (11.8) |
| Provision for credit losses | 82 | 24 | * | 300 | 147 | * |
| Income before income taxes | 800 | 860 | (7.0) | 1,114 | 1,457 | (23.5) |
| Income taxes and taxable-equivalent adjustment | 291 | 315 | (7.6) | 406 | 530 | (23.4) |
| Net income | \$ 509 | \$ 545 | (6.6) | \$ 708 | \$ 927 | (23.6) |
| Average Balance Sheet Data | | | | | | |
| Commercial | \$ 39,171 | \$ 34,565 | 13.3% | \$ 6,678 | \$ 6,532 | 2.2% |
| Commercial real estate | 18,133 | 16,734 | 8.4 | 11,224 | 11,145 | .7 |
| Residential mortgages | 87 | 65 | 33.8 | 22,611 | 21,205 | 6.6 |
| Retail | 76 | 66 | 15.2 | 38,685 | 35,697 | 8.4 |
| Total loans | 57,467 | 51,430 | 11.7 | 79,198 | 74,579 | 6.2 |
| Goodwill | 1,357 | 1,329 | 2.1 | 2,420 | 2,413 | .3 |
| Other intangible assets | 40 | 42 | (4.8) | 1,611 | 1,695 | (5.0) |
| Assets | 62,855 | 56,796 | 10.7 | 90,392 | 85,570 | 5.6 |
| Noninterest-bearing deposits | 10,485 | 10,982 | (4.5) | 11,757 | 12,208 | (3.7) |
| Interest checking | 8,465 | 4,667 | 81.4 | 18,098 | 18,025 | .4 |
| Savings products | 6,159 | 5,423 | 13.6 | 19,666 | 19,752 | (.4) |
| Time deposits | 14,827 | 10,627 | 39.5 | 18,033 | 20,031 | (10.0) |
| Total deposits | 39,936 | 31,699 | 26.0 | 67,554 | 70,016 | (3.5) |
| Shareholders equity | 6,372 | 5,764 | 10.5 | 6,984 | 6,706 | 4.1 |

* Not meaningful

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| Financial Management & Securities Services | | | Payment Services | | | Treasury and Corporate Support | | | Consolidated Company | | Per Ch |
|--|----------------|----------|------------------|----------------|----------|--------------------------------|----------------|-----------|----------------------|----|--------|
| 2007 | Percent Change | 2008 | 2007 | Percent Change | 2008 | 2007 | Percent Change | 2008 | 2007 | Ch | |
| \$ 117 | (6.0)% | \$ 243 | \$ 169 | 43.8% | \$ 127 | \$ (58) | *% | \$ 1,908 | \$ 1,650 | | |
| 376 | 2.4 | 762 | 689 | 10.6 | 18 | 8 | * | 1,955 | 1,882 | | |
| | | | | | (52) | 2 | * | (63) | 3 | | |
| 493 | .4 | 1,005 | 858 | 17.1 | 93 | (48) | * | 3,800 | 3,535 | | |
| 228 | 5.7 | 351 | 308 | 14.0 | 101 | 101 | | 1,748 | 1,575 | | |
| 23 | (17.4) | 49 | 51 | (3.9) | | | | 87 | 95 | | |
| 251 | 3.6 | 400 | 359 | 11.4 | 101 | 101 | | 1,835 | 1,670 | | |
| 242 | (2.9) | 605 | 499 | 21.2 | (8) | (149) | 94.6 | 1,965 | 1,865 | | |
| 1 | | 168 | 101 | 66.3 | 200 | 4 | * | 596 | 191 | | |
| 241 | (2.9) | 437 | 398 | 9.8 | (208) | (153) | (35.9) | 1,369 | 1,674 | | |
| 88 | (3.4) | 159 | 145 | 9.7 | (155) | (147) | (5.4) | 419 | 518 | | |
| \$ 153 | (2.6) | \$ 278 | \$ 253 | 9.9 | \$ (53) | \$ (6) | * | \$ 950 | \$ 1,156 | | |
| \$ 1,919 | (6.9)% | \$ 4,577 | \$ 4,120 | 11.1% | \$ 1,098 | \$ 144 | *% | \$ 53,979 | \$ 47,197 | | |
| 636 | (6.6) | | | | 41 | 52 | (21.2) | 30,473 | 28,503 | | |
| 424 | 6.8 | | | | 3 | 4 | (25.0) | 23,307 | 21,831 | | |
| 2,051 | .7 | 12,551 | 10,167 | 23.4 | 35 | 40 | (12.5) | 55,311 | 48,122 | | |
| 5,030 | (2.6) | 17,128 | 14,287 | 19.9 | 1,177 | 240 | * | 163,070 | 145,653 | | |
| 1,553 | .6 | 2,371 | 2,287 | 3.7 | | | | 7,738 | 7,589 | | |
| 425 | (20.7) | 1,027 | 1,069 | (3.9) | | | | 3,125 | 3,269 | | |
| 7,597 | (4.3) | 22,371 | 19,256 | 16.2 | 56,681 | 52,138 | 8.7 | 242,221 | 222,022 | | |
| 4,222 | 3.3 | 490 | 341 | 43.7 | 353 | 52 | * | 27,851 | 27,977 | | |
| 2,901 | 79.7 | 37 | 12 | * | 3 | 4 | (25.0) | 32,479 | 25,858 | | |
| 5,202 | .3 | 19 | 21 | (9.5) | 68 | 49 | 38.8 | 31,803 | 30,046 | | |
| 3,606 | 14.1 | 1 | 3 | (66.7) | 7,046 | 1,902 | * | 43,676 | 35,094 | | |
| 15,931 | 18.7 | 547 | 377 | 45.1 | 7,470 | 2,007 | * | 135,809 | 118,975 | | |
| 2,454 | (3.3) | 4,906 | 4,566 | 7.4 | 1,312 | 1,478 | (11.2) | 22,320 | 20,895 | | |

Financial Management &

Payment

Treasury and

Consolidated

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| Securities Services | | | Services | | | Corporate Support | | | Company | |
|---------------------|----------------|----------|----------|----------------|---------|-------------------|----------------|-----------|-----------|--|
| 2007 | Percent Change | 2008 | 2007 | Percent Change | 2008 | 2007 | Percent Change | 2008 | 2007 | |
| \$ 234 | (2.6)% | \$ 497 | \$ 341 | 45.7% | \$ 153 | \$ (94) | *% | \$ 3,738 | \$ 3,316 | |
| 733 | 2.9 | 1,460 | 1,309 | 11.5 | 493 | 15 | * | 4,250 | 3,604 | |
| | | | | | (303) | 4 | * | (314) | 4 | |
| 967 | 1.6 | 1,957 | 1,650 | 18.6 | 343 | (75) | * | 7,674 | 6,924 | |
| 452 | 5.3 | 677 | 602 | 12.5 | 245 | 147 | 66.7 | 3,457 | 3,053 | |
| 47 | (17.0) | 98 | 100 | (2.0) | | | | 174 | 189 | |
| 499 | 3.2 | 775 | 702 | 10.4 | 245 | 147 | 66.7 | 3,631 | 3,242 | |
| 468 | (.2) | 1,182 | 948 | 24.7 | 98 | (222) | * | 4,043 | 3,682 | |
| 1 | * | 302 | 193 | 56.5 | 395 | 3 | * | 1,081 | 368 | |
| 467 | (.4) | 880 | 755 | 16.6 | (297) | (225) | (32.0) | 2,962 | 3,314 | |
| 169 | | 320 | 274 | 16.8 | (264) | (260) | (1.5) | 922 | 1,028 | |
| \$ 298 | (.7) | \$ 560 | \$ 481 | 16.4 | \$ (33) | \$ 35 | * | \$ 2,040 | \$ 2,286 | |
| \$ 1,905 | (2.3)% | \$ 4,409 | \$ 3,960 | 11.3% | \$ 725 | \$ 141 | *% | \$ 52,844 | \$ 47,103 | |
| 642 | (5.6) | | | | 42 | 52 | (19.2) | 30,005 | 28,573 | |
| 426 | 3.5 | | | | 3 | 4 | (25.0) | 23,142 | 21,700 | |
| 2,056 | .2 | 12,303 | 9,941 | 23.8 | 36 | 40 | (10.0) | 53,160 | 47,800 | |
| 5,029 | (1.2) | 16,712 | 13,901 | 20.2 | 806 | 237 | * | 159,151 | 145,176 | |
| 1,551 | .8 | 2,361 | 2,272 | 3.9 | | 14 | * | 7,701 | 7,579 | |
| 437 | (20.8) | 1,026 | 1,050 | (2.3) | 1 | 21 | (95.2) | 3,024 | 3,245 | |
| 7,594 | (2.9) | 21,545 | 18,749 | 14.9 | 57,284 | 52,065 | 10.0 | 239,448 | 220,774 | |
| 4,214 | 5.8 | 479 | 376 | 27.4 | 305 | 48 | * | 27,485 | 27,828 | |
| 2,764 | 73.3 | 33 | 10 | * | 3 | 4 | (25.0) | 31,390 | 25,470 | |
| 5,322 | .6 | 19 | 21 | (9.5) | 65 | 58 | 12.1 | 31,264 | 30,576 | |
| 3,690 | 6.9 | 1 | 3 | (66.7) | 6,388 | 1,622 | * | 43,194 | 35,973 | |
| 15,990 | 16.0 | 532 | 410 | 29.8 | 6,761 | 1,732 | * | 133,333 | 119,847 | |
| 2,465 | (3.3) | 4,818 | 4,515 | 6.7 | 1,342 | 1,602 | (16.2) | 21,899 | 21,052 | |

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Total net revenue increased \$21 million (3.0 percent) in the second quarter and \$31 million (2.3 percent) in the first six months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, increased \$30 million (6.6 percent) in the second quarter and \$64 million (7.1 percent) in the first six months of 2008, compared with the same periods of 2007, driven by strong growth in earning assets, partially offset by declining margins in the loan portfolio and a decrease in the margin benefit of deposits. Noninterest income decreased \$9 million (3.8 percent) in the second quarter and \$33 million (7.3 percent) in the first six months of 2008, compared with the same periods of 2007. The decreases were primarily due to market-related valuation losses and lower earnings from equity investments, partially offset by higher treasury management fees, commercial lending-related fees, foreign exchange and commercial leasing revenue.

Total noninterest expense increased \$22 million (9.1 percent) in the second quarter and \$33 million (6.9 percent) in the first six months of 2008, compared with the same periods of 2007, primarily due to higher compensation and employee benefits expenses attributable to expansion of the business line's national corporate banking presence, investments to enhance customer relationship management, and an acquisition. The provision for credit losses increased \$35 million in the second quarter and \$58 million in the first six months of 2008, compared with the same periods of 2007. The unfavorable change was due to continued credit deterioration in the homebuilding and commercial home supplier industries. Nonperforming assets were \$652 million at June 30, 2008, \$424 million at March 31, 2008, and \$230 million at June 30, 2007. Nonperforming assets as a percentage of period-end loans were 1.09 percent at June 30, 2008, .74 percent at March 31, 2008, and .46 percent at June 30, 2007. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Consumer Banking Consumer Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATM processing. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer Banking contributed \$321 million of the Company's net income in the second quarter and \$708 million in the first six months of 2008, or decreases of \$157 million (32.8 percent) and \$219 million (23.6 percent), respectively, compared with the same periods of 2007. Within Consumer Banking, the retail banking division contributed \$285 million of the total net income in the second quarter and \$625 million in the first six months of 2008, or decreases of 36.7 percent and 28.4 percent, respectively, compared with the same periods in the prior year. Mortgage banking contributed \$36 million and \$83 million of the business line's net income in the second quarter and first six months of 2008, respectively, or increases of 28.6 percent and 53.7 percent, respectively, compared with the same periods in the prior year.

Total net revenue decreased \$46 million (3.0 percent) in the second quarter and \$21 million (.7 percent) in the first six months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, decreased \$24 million (2.5 percent) in the second quarter and \$39 million (2.0 percent) in the first six months of 2008, compared with same periods of 2007. Net interest income declined year-over-year as increases in average loan balances and yield-related loan fees were more than offset by lower deposit balances, as customers utilized balances to fund higher living costs, and a decline in the margin benefit of deposits, given the declining interest rate environment. The increase in average loan balances reflected growth in most loan categories, with the largest increases in residential mortgages and retail loans. The favorable change in retail loans was principally driven by an increase in installment products, home equity lines and federally guaranteed student loan balances due to both the transfer of balances from loans held for sale and a portfolio purchase. The year-over-year decrease in average deposits primarily reflected a reduction in time and noninterest-bearing deposit products. Average time deposit balances declined \$2.9 billion (14.2 percent) in the second quarter and \$2.0 billion (10.0 percent) in the first six months of 2008, compared with the same periods of 2007. These declines reflected the Company's funding and pricing decisions and competition for these deposits by other financial institutions that have more limited access to the wholesale funding sources given the current market environment. Fee-based noninterest income decreased \$22 million (3.8 percent) in the second quarter and increased \$18 million (1.6 percent) in the first six months of 2008, compared with the same periods of 2007. The decrease in fee-based revenue in the second quarter of 2008, compared to the same period of 2007, was driven by lower retail lease revenue related to higher retail lease residual losses, partially offset by growth in revenue from ATM

processing services and higher mortgage banking income principally related to an increase in mortgage servicing income and

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production gains, including the adoption of SFAS 157. These favorable impacts to mortgage banking revenue were partially offset by an unfavorable net change in the valuation of MSRs and related economic hedging activities. The increase in noninterest income in the first six months of 2008, compared to the same period of 2007, was due to growth in ATM processing services, deposit service charges and mortgage banking revenue, partially offset by lower retail lease revenue related to higher retail lease residual losses.

Total noninterest expense increased \$93 million (13.0 percent) in the second quarter and \$169 million (11.9 percent) in the first six months of 2008, compared with the same periods of 2007. The increases included the net addition of 36 in-store and 7 traditional branches at June 30, 2008, compared with June 30, 2007. In addition, the increases were primarily attributable to higher compensation and employee benefit expense, which reflected business investments in customer service and various promotional activities, including further deployment of the PowerBank initiative, the adoption of SFAS 157 and higher credit related costs associated with other real estate owned and foreclosures.

The provision for credit losses increased \$107 million in the second quarter and \$153 million in the first six months of 2008, compared with the same periods of 2007. The increases were attributable to higher net charge-offs, reflecting portfolio growth and credit deterioration in residential mortgages, home equity and other installment and consumer loan portfolios from a year ago. As a percentage of average loans outstanding on an annualized basis, net charge-offs were .89 percent in the second quarter of 2008, compared with .39 percent in the second quarter of 2007. Commercial and commercial real estate loan net charge-offs increased \$10 million (83.3 percent) in the second quarter of 2008, compared with the second quarter of 2007. Retail loan and residential mortgage net charge-offs increased \$97 million in the second quarter of 2008, compared with the second quarter of 2007. Nonperforming assets were \$417 million at June 30, 2008, \$371 million at March 31, 2008, and \$300 million at June 30, 2007. Nonperforming assets as a percentage of period-end loans were .53 percent at June 30, 2008, .52 percent at March 31, 2008, and .42 percent at June 30, 2007. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Wealth Management & Securities Services Wealth Management & Securities Services provides trust, private banking, financial advisory, investment management, retail brokerage services, insurance, custody and mutual fund servicing through five businesses: Wealth Management, Corporate Trust, FAF Advisors, Institutional Trust & Custody and Fund Services. Wealth Management & Securities Services contributed \$149 million of the Company's net income in the second quarter and \$296 million in the first six months of 2008, or decreases of \$4 million (2.6 percent) and \$2 million (.7 percent), respectively, compared with the same periods of 2007.

Total net revenue increased \$2 million (.4 percent) in the second quarter and \$15 million (1.6 percent) in the first six months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, decreased \$7 million (6.0 percent) in the second quarter and \$6 million (2.6 percent) in the first six months of 2008, compared with the same periods of 2007, primarily due to a reduction in the margin benefit of deposits, partially offset by deposit growth. Noninterest income increased \$9 million (2.4 percent) in the second quarter and \$21 million (2.9 percent) in the first six months of 2008, compared with the same periods of 2007, primarily driven by core account fee growth, partially offset by unfavorable equity market conditions.

Total noninterest expense increased \$9 million (3.6 percent) in the second quarter and \$16 million (3.2 percent) in the first six months of 2008, compared with the same periods of 2007. The increases in noninterest expense were primarily due to higher compensation and employee benefits expense, partially offset by lower other intangibles expense.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit, and merchant processing. Payment Services are highly inter-related with banking products and services of the other lines of business and rely on access to the bank subsidiary's settlement network, lower cost funding available to the Company, cross-selling opportunities and operating efficiencies. Payment Services contributed \$278 million of the Company's net income in the second quarter and \$560 million in the first six months of 2008, or increases of \$25 million (9.9 percent) and \$79 million (16.4 percent), respectively, compared with the same periods of 2007. The increases were due to growth in total net

revenue, driven by loan growth and higher transaction volumes, partially offset by an increase in total noninterest expense and a higher provision for credit losses.

Total net revenue increased \$147 million (17.1 percent) in the second quarter and \$307 million (18.6 percent) in the first six months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, increased \$74 million

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(43.8 percent) in the second quarter and \$156 million (45.7 percent) in the first six months of 2008, compared with the same periods of 2007. The increases were primarily due to growth in higher spread credit card balances and the timing of asset repricing in a declining rate environment. Noninterest income increased \$73 million (10.6 percent) in the second quarter and \$151 million (11.5 percent) in the first six months of 2008, compared with the same periods of 2007. The increases in fee-based revenue were driven by account growth, higher transaction volumes and business expansion initiatives.

Total noninterest expense increased \$41 million (11.4 percent) in the second quarter and \$73 million (10.4 percent) in the first six months of 2008, compared with the same periods of 2007, due primarily to new business initiatives, including costs associated with transaction processing and recent acquisitions.

The provision for credit losses increased \$67 million (66.3 percent) in the second quarter and \$109 million (56.5 percent) in the first six months of 2008, compared with the same periods of 2007, due to higher net charge-offs, which reflected average retail credit card portfolio growth and higher delinquency rates from a year ago. As a percentage of average loans outstanding on an annualized basis, net charge-offs were 3.94 percent in the second quarter of 2008, compared with 2.84 percent in the second quarter of 2007.

Treasury and Corporate Support Treasury and Corporate Support includes the Company's investment portfolios, funding, capital management, asset securitization, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded a net loss of \$53 million in the second quarter and \$33 million in the first six months of 2008, compared with a net loss of \$6 million and net income of \$35 million in the same periods of the prior year, respectively.

Total net revenue increased \$141 million in the second quarter and \$418 million in the first six months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, increased \$185 million in the second quarter and \$247 million in the first six months of 2008, compared with the same periods of 2007, due to a steepening yield curve, wholesale funding decisions and the Company's asset and liability position. Noninterest income decreased \$44 million in the second quarter and increased \$171 million in the first six months of 2008, compared with the same periods of 2007. The decrease in the second quarter of 2008, compared with the same period of 2007, was primarily due to the impairment charges for certain structured investment securities. The increase for the first six months of 2008, compared with the same period of the prior year, was primarily due to the net impact of the Visa Gain, partially offset by impairment charges for structured investment securities and the transition impact of adopting SFAS 157 during the first quarter of 2008.

Total noninterest expense was flat in the second quarter and increased \$98 million (66.7 percent) in the first six months of 2008, compared with the same periods of 2007. The increase in noninterest expense in the first six months of 2008 was driven by higher compensation and employee benefits expense, higher litigation costs, incremental costs associated with investments in tax-advantaged projects and a charitable contribution made to the U.S. Bancorp Foundation, partially offset by a reduction in net shared services expense.

The provision for credit losses for this business unit represents the residual aggregate of the net credit losses allocated to the reportable business units and the Company's recorded provision determined in accordance with accounting principles generally accepted in the United States. The provision for credit losses increased \$196 million in the second quarter and \$392 million in the first six months of 2008, compared with the same periods of the prior year, driven by incremental provision expense recorded in the first six months of 2008, reflecting deterioration in the credit quality within the loan portfolios related to stress in the residential real estate markets, including homebuilding and related supplier industries, and the impact of economic conditions on the loan portfolios. Refer to the Corporate Risk Profile section for further information on the provision for credit losses, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support. The consolidated effective tax rate of the Company was 28.9 percent in the second quarter and 29.7 percent in the first six months of 2008, compared with 30.2 percent in the second quarter and 30.3 percent in the first six months of 2007.

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CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company's financial statements. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, estimations of fair value, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company's Audit Committee. These accounting policies are discussed in detail in Management's Discussion and Analysis Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

CONTROLS AND PROCEDURES

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

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

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Consolidated Balance Sheet

| (Dollars in Millions, Except Per Share Data) | June 30, 2008 (Unaudited) | December 31, 2007 |
|--|---------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 7,956 | \$ 8,884 |
| Investment securities | | |
| Held-to-maturity (fair value \$65 and \$78, respectively) | 64 | 74 |
| Available-for-sale | 41,058 | 43,042 |
| Loans held for sale (included \$3,393 of mortgage loans carried at fair value at 6/30/08) | 3,788 | 4,819 |
| Loans | | |
| Commercial | 55,138 | 51,074 |
| Commercial real estate | 31,247 | 29,207 |
| Residential mortgages | 23,301 | 22,782 |
| Retail | 56,204 | 50,764 |
| Total loans | 165,890 | 153,827 |
| Less allowance for loan losses | (2,518) | (2,058) |
| Net loans | 163,372 | 151,769 |
| Premises and equipment | 1,811 | 1,779 |
| Goodwill | 7,851 | 7,647 |
| Other intangible assets | 3,313 | 3,043 |
| Other assets | 17,325 | 16,558 |
| Total assets | \$ 246,538 | \$ 237,615 |
| Liabilities and Shareholders Equity | | |
| Deposits | | |
| Noninterest-bearing | \$ 33,970 | \$ 33,334 |
| Interest-bearing | 76,300 | 72,458 |
| Time deposits greater than \$100,000 | 24,861 | 25,653 |
| Total deposits | 135,131 | 131,445 |
| Short-term borrowings | 41,107 | 32,370 |
| Long-term debt | 39,943 | 43,440 |
| Other liabilities | 8,529 | 9,314 |
| Total liabilities | 224,710 | 216,569 |
| Shareholders equity | | |
| Preferred stock, par value \$1.00 a share (liquidation preference of \$25,000 per share) authorized: 50,000,000 shares; issued and outstanding: 6/30/08 60,000 shares and 12/31/07 40,000 shares | 1,500 | 1,000 |
| Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 6/30/08 and 12/31/07 1,972,643,007 shares | 20 | 20 |

| | | |
|---|------------|------------|
| Capital surplus | 5,682 | 5,749 |
| Retained earnings | 23,220 | 22,693 |
| Less cost of common stock in treasury: 6/30/08 231,226,312 shares; 12/31/07 244,786,039 shares | (7,075) | (7,480) |
| Other comprehensive income | (1,519) | (936) |
| Total shareholders' equity | 21,828 | 21,046 |
| Total liabilities and shareholders' equity | \$ 246,538 | \$ 237,615 |

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Table of ContentsU.S. Bancorp
Consolidated Statement of Income

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| (Dollars and Shares in Millions, Except Per Share Data) (Unaudited) | 2008 | 2007 | 2008 | 2007 |
| Interest Income | | | | |
| Loans | \$ 2,429 | \$ 2,616 | \$ 4,989 | \$ 5,194 |
| Loans held for sale | 49 | 70 | 122 | 129 |
| Investment securities | 494 | 516 | 1,029 | 1,032 |
| Other interest income | 43 | 34 | 80 | 68 |
| Total interest income | 3,015 | 3,236 | 6,220 | 6,423 |
| Interest Expense | | | | |
| Deposits | 458 | 663 | 1,064 | 1,338 |
| Short-term borrowings | 263 | 379 | 585 | 707 |
| Long-term debt | 419 | 562 | 893 | 1,097 |
| Total interest expense | 1,140 | 1,604 | 2,542 | 3,142 |
| Net interest income | 1,875 | 1,632 | 3,678 | 3,281 |
| Provision for credit losses | 596 | 191 | 1,081 | 368 |
| Net interest income after provision for credit losses | 1,279 | 1,441 | 2,597 | 2,913 |
| Noninterest Income | | | | |
| Credit and debit card revenue | 266 | 230 | 514 | 436 |
| Corporate payment products revenue | 174 | 159 | 338 | 306 |
| ATM processing services | 93 | 82 | 177 | 159 |
| Merchant processing services | 309 | 286 | 580 | 538 |
| Trust and investment management fees | 350 | 342 | 685 | 664 |
| Deposit service charges | 278 | 277 | 535 | 524 |
| Treasury management fees | 137 | 126 | 261 | 237 |
| Commercial products revenue | 117 | 105 | 229 | 205 |
| Mortgage banking revenue | 81 | 68 | 186 | 135 |
| Investment products fees and commissions | 37 | 38 | 73 | 72 |
| Securities gains (losses), net | (63) | 3 | (314) | 4 |
| Other | 113 | 169 | 672 | 328 |
| Total noninterest income | 1,892 | 1,885 | 3,936 | 3,608 |
| Noninterest Expense | | | | |
| Compensation | 761 | 659 | 1,506 | 1,294 |
| Employee benefits | 129 | 123 | 266 | 256 |
| Net occupancy and equipment | 190 | 184 | 380 | 361 |
| Professional services | 59 | 59 | 106 | 106 |
| Marketing and business development | 66 | 68 | 145 | 120 |
| Technology and communications | 149 | 138 | 289 | 273 |
| Postage, printing and supplies | 73 | 71 | 144 | 140 |

| | | | | |
|---|---------|----------|----------|----------|
| Other intangibles | 87 | 95 | 174 | 189 |
| Other | 321 | 273 | 621 | 503 |
| Total noninterest expense | 1,835 | 1,670 | 3,631 | 3,242 |
| Income before income taxes | 1,336 | 1,656 | 2,902 | 3,279 |
| Applicable income taxes | 386 | 500 | 862 | 993 |
| Net income | \$ 950 | \$ 1,156 | \$ 2,040 | \$ 2,286 |
| Net income applicable to common equity | \$ 928 | \$ 1,141 | \$ 2,006 | \$ 2,256 |
| Earnings per common share | \$.53 | \$.66 | \$ 1.16 | \$ 1.29 |
| Diluted earnings per common share | \$.53 | \$.65 | \$ 1.14 | \$ 1.27 |
| Dividends declared per common share | \$.425 | \$.400 | \$.850 | \$.800 |
| Average common shares outstanding | 1,740 | 1,736 | 1,735 | 1,744 |
| Average diluted common shares outstanding | 1,756 | 1,760 | 1,752 | 1,770 |

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Shareholders' Equity

| | Common Shares Outstanding | Preferred Stock | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Comprehensive Income | Other | Total Shareholders Equity |
|--|---------------------------------|--------------------|-----------------|--------------------|----------------------|-------------------|-------------------------|---------|---------------------------------|
| (Dollars and Shares in Millions) (Unaudited) | | | | | | | | | |
| Balance December 31, 2006 | 1,765 | \$ 1,000 | \$ 20 | \$ 5,762 | \$ 21,242 | \$ (6,091) | \$ (736) | | \$ 21,197 |
| Net income | | | | | 2,286 | | | | 2,286 |
| Unrealized loss on securities available-for-sale | | | | | | | | (701) | (701) |
| Unrealized gain on derivatives | | | | | | | | 94 | 94 |
| Foreign currency translation | | | | | | | | 19 | 19 |
| Reclassification for realized losses | | | | | | | | 46 | 46 |
| Change in retirement obligation | | | | | | | | 1 | 1 |
| Income taxes | | | | | | | | 205 | 205 |
| Total comprehensive income | | | | | | | | | 1,950 |
| Cash dividends declared | | | | | | | | | |
| Preferred | | | | | (30) | | | | (30) |
| Common | | | | | (1,388) | | | | (1,388) |
| Issuance of common and treasury stock | 15 | | | (23) | | 453 | | | 430 |
| Purchase of treasury stock | (52) | | | | | (1,836) | | | (1,836) |
| Stock option and restricted stock grants | | | | 9 | | | | | 9 |
| Shares reserved to meet deferred compensation obligations | | | | | | | | (2) | (2) |
| Balance June 30, 2007 | 1,728 | \$ 1,000 | \$ 20 | \$ 5,748 | \$ 22,110 | \$ (7,476) | \$ (1,072) | | \$ 20,330 |
| Balance December 31, 2007 | 1,728 | \$ 1,000 | \$ 20 | \$ 5,749 | \$ 22,693 | \$ (7,480) | \$ (936) | | \$ 21,046 |
| Net income | | | | | 2,040 | | | | 2,040 |
| Unrealized loss on securities available-for-sale | | | | | | | | (1,264) | (1,264) |
| Unrealized gain on derivatives | | | | | | | | 16 | 16 |
| Foreign currency translation | | | | | | | | (43) | (43) |
| Reclassification for realized losses | | | | | | | | 345 | 345 |
| Change in retirement obligation | | | | | | | | 6 | 6 |
| Income taxes | | | | | | | | 357 | 357 |
| Total comprehensive income | | | | | | | | | 1,457 |
| Cash dividends declared | | | | | | | | | |
| Preferred | | | | | (34) | | | | (34) |
| Common | | | | | (1,479) | | | | (1,479) |
| Issuance of preferred stock | | 500 | | (9) | | | | | 491 |

| | | | | | | | | |
|---|-------|----------|-------|----------|-----------|------------|------------|-----------|
| Issuance of common and treasury stock | 15 | | | (59) | | 496 | | 437 |
| Purchase of treasury stock | (2) | | | | | (88) | | (88) |
| Stock option and restricted stock grants | | | | 1 | | | | 1 |
| Shares reserved to meet deferred compensation obligations | | | | | | (3) | | (3) |
| Balance June 30, 2008 | 1,741 | \$ 1,500 | \$ 20 | \$ 5,682 | \$ 23,220 | \$ (7,075) | \$ (1,519) | \$ 21,828 |

See Notes to Consolidated Financial Statements.

U.S. Bancorp

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Consolidated Statement of Cash Flows

| | Six Months Ended June 30, | |
|---|------------------------------|---------|
| | 2008 | 2007 |
| (Dollars in Millions) | | |
| (Unaudited) | | |
| Operating Activities | | |
| Net cash provided by operating activities | \$2,158 | \$975 |
| Investing Activities | | |
| Proceeds from sales of available-for-sale investment securities | 1,802 | 788 |
| Proceeds from maturities of investment securities | 2,809 | 2,204 |
| Purchases of investment securities | (3,122) | (3,117) |
| Net increase in loans outstanding | (7,721) | (1,187) |
| Proceeds from sales of loans | 59 | 340 |
| Purchases of loans | (2,462) | (1,073) |
| Acquisitions, net of cash acquired | 631 | (73) |
| Other, net | (244) | (1,215) |
| Net cash used in investing activities | (8,248) | (3,333) |
| Financing Activities | | |
| Net increase (decrease) in deposits | 907 | (5,488) |
| Net increase in short-term borrowings | 8,738 | 220 |
| Proceeds from issuance of long-term debt | 6,241 | 12,634 |
| Principal payments or redemption of long-term debt | (9,762) | (4,242) |
| Proceeds from issuance of preferred stock | 491 | |
| Proceeds from issuance of common stock | 333 | 305 |
| Repurchase of common stock | | (1,781) |
| Cash dividends paid on preferred stock | (27) | (30) |
| Cash dividends paid on common stock | (1,473) | (1,403) |
| Net cash provided by financing activities | 5,448 | 215 |
| Change in cash and cash equivalents | (642) | (2,143) |
| Cash and cash equivalents at beginning of period | 9,185 | 8,805 |
| Cash and cash equivalents at end of period | \$8,543 | \$6,662 |

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. 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 10 Line of Business Financial Performance provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Fair Value Option In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, effective for the Company beginning on January 1, 2008. This Statement provides entities with an irrevocable option to measure and report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company elected the fair value option pursuant to SFAS 159 on January 1, 2008, for certain mortgage loans held for sale (MLHFS) originated on or after January 1, 2008. There was no impact of adopting SFAS 159 on the Company's financial statements as of the date of adoption. MLHFS subject to the fair value option are initially measured at fair value with subsequent changes in fair value recognized as a component of mortgage banking revenue. For additional information on the fair value of certain financial assets and liabilities, refer to Note 9 in the Notes to Consolidated Financial Statements.

Fair Value Measurements In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, effective for the Company beginning on January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement provides a consistent definition of fair value which focuses on exit price and prioritizes market-based inputs obtained from sources independent of the entity over those from the entity's own inputs that are not corroborated by observable market data. SFAS 157 also requires consideration of nonperformance risk when determining fair value measurements. This statement expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The adoption of SFAS 157 reduced the Company's income by approximately \$62 million (\$38 million after-tax) for the six months ended June 30, 2008. For additional information on the fair value of certain financial assets and liabilities, refer to Note 9 in the Notes to

Consolidated Financial Statements.

Written Loan Commitments In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109 (SAB 109), Written Loan Commitments Recorded at Fair Value Through Earnings , effective for the Company beginning on January 1, 2008. SAB 109 expresses the SEC 's view that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written

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loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 did not have a material impact on the Company's financial statements. For additional information on the fair value of certain financial assets and liabilities, refer to Note 9 in the Notes to Consolidated Financial Statements.

Business Combinations In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), Business Combinations, effective for the Company beginning on January 1, 2009. SFAS 141R establishes principles and requirements for the acquirer in a business combination, including the recognition and measurement of the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity as of the acquisition date; the recognition and measurement of the goodwill acquired in the business combination or gain from a bargain purchase as of the acquisition date; and the determination of additional disclosures needed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Under SFAS 141R, nearly all acquired assets and liabilities assumed are required to be recorded at fair value at the acquisition date, including loans. This will eliminate separate recognition of the acquired allowance for loan losses on the acquirer's balance sheet as credit related factors will be incorporated directly into the fair value of the loans recorded at the acquisition date. Other significant changes include recognizing transaction costs and most restructuring costs as expenses when incurred. The accounting requirements of SFAS 141R are applied on a prospective basis for all transactions completed after the effective date and early adoption is not permitted.

Noncontrolling Interests In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, effective for the Company beginning on January 1, 2009. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity, separate from the Company's own equity, in the consolidated balance sheet. This Statement also requires the amount of net income attributable to the entity and to the noncontrolling interests to be shown separately on the face of the consolidated statement of income. SFAS 160 also requires expanded disclosures that clearly identify and distinguish between the interests of the entity and those of the noncontrolling owners. The Company is currently assessing the impact of this guidance on its financial statements.

Note 3 Investment Securities

The amortized cost, fair value, weighted-average maturity and weighted-average yield of held-to-maturity and available-for-sale securities was as follows:

| (Dollars in Millions) | June 30, 2008 | | | | December 31, 2007 | | | | |
|---|-------------------|---------------|---|--|-------------------|---------------|---|--|--|
| | Amortized Cost | Fair Value | Weighted- Average Maturity in Years | Weighted- Average Yield in (c) | Amortized Cost | Fair Value | Weighted- Average Maturity in Years | Weighted- Average Yield in (c) | |
| Held-to-maturity | | | | | | | | | |
| Mortgage-backed securities (a) | \$ 5 | \$ 5 | 3.1 | 6.13% | \$ 6 | \$ 6 | 3.1 | 6.29% | |
| Obligations of state and political subdivisions (b) | 50 | 51 | 10.4 | 5.61 | 56 | 60 | 10.2 | 6.03 | |
| Other debt securities | 9 | 9 | 1.7 | 5.01 | 12 | 12 | 1.8 | 5.26 | |

| | | | | | | | | |
|---|-----------|-----------|------|-------|-----------|-----------|------|-------|
| Total held-to-maturity securities | \$ 64 | \$ 65 | 8.5 | 5.57% | \$ 74 | \$ 78 | 8.3 | 5.92% |
| Available-for-sale | | | | | | | | |
| U.S. Treasury and agencies | \$ 123 | \$ 123 | 3.0 | 3.90% | \$ 407 | \$ 405 | 7.5 | 5.95% |
| Mortgage-backed securities (a) | 32,341 | 31,178 | 7.3 | 4.60 | 31,300 | 30,603 | 5.6 | 5.12 |
| Asset-backed securities (a)(d) | 1,085 | 1,060 | 4.1 | 6.03 | 2,922 | 2,928 | 5.2 | 5.72 |
| Obligations of state and political subdivisions (b) | 7,099 | 6,775 | 17.3 | 6.78 | 7,131 | 7,055 | 10.7 | 6.78 |
| Other debt securities | 1,914 | 1,514 | 29.1 | 5.22 | 1,840 | 1,603 | 29.8 | 6.19 |
| Other investments | 510 | 408 | 40.2 | 6.40 | 506 | 448 | 33.5 | 7.16 |
| Total available-for-sale securities | \$ 43,072 | \$ 41,058 | 10.2 | 5.04% | \$ 44,106 | \$ 43,042 | 7.7 | 5.51% |

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the market price is above par, yield to maturity if market price is below par.
- (c) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances.
- (d) Primarily includes investments in structured investment vehicles with underlying collateral that includes a mix of various mortgage and other asset-backed securities. Certain amounts included in asset-backed securities at December 31, 2007, are reflected in other categories at June 30, 2008, based on the collateral received upon the exchange of the structured investment vehicle securities.

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Included in available-for-sale investment securities are structured investment vehicle securities (SIVs) which were purchased in the fourth quarter of 2007 from certain money market funds managed by FAF Advisors, Inc., an affiliate of the Company. During the first six months of 2008, the Company exchanged its interest in certain SIVs and received its share of the underlying investment securities as in-kind distributions according to the applicable restructuring agreements. The SIVs and the investment securities received are collectively referred to as SIV-related investments. Some of these securities evidenced credit deterioration at time of acquisition by the Company. Statement of Position No. 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer , requires the difference between the total expected cash flows for these securities and the initial recorded investment to be recognized in earnings over the life of the securities, using a level yield. If subsequent decreases in the fair value of these securities are accompanied by an adverse change in the expected cash flows, an other-than-temporary impairment will be recorded through earnings. Subsequent increases in the expected cash flows will be recognized as income prospectively over the remaining life of the security by increasing the level yield. During the second quarter and first six months of 2008, the Company recorded \$52 million and \$305 million, respectively, of impairment charges on these investments, primarily as a result of widening credit spreads during these time periods.

Upon acquiring the collateral, the Company evaluated each individual security to determine whether there was evidence of credit deterioration at the acquisition date to determine which securities were subject to SOP 03-3 accounting. The reconciliation below of the securities subject to SOP 03-3 accounting reflects the removal of \$523 million and \$1,071 million of SIVs that were exchanged during the second quarter and first six months of 2008, respectively, and the addition of \$54 million and \$134 million of underlying investment securities received in the exchange during the second quarter and first six months of 2008, respectively, that have evidence of credit deterioration as of their acquisition date.

The gross undiscounted cash flows that were due under the contractual terms of the purchased securities subject to SOP 03-3, were \$1.3 billion at June 30, 2008, compared with \$2.5 billion at December 31, 2007, which included payments receivable of \$37 million and \$33 million at June 30, 2008, and December 31, 2007, respectively.

Changes in the carrying amount and accretable yield of these securities subject to SOP 03-3 were as follows:

| | Three Months Ended June 30, 2008 | | Six Months Ended June 30, 2008 | |
|--------------------------------|-------------------------------------|---|-----------------------------------|---|
| | Accretable Yield | Carrying Amount of Debt Securities | Accretable Yield | Carrying Amount of Debt Securities |
| (Dollars in Millions) | | | | |
| Balance at beginning of period | \$ 303 | \$ 1,670 | \$ 105 | \$ 2,427 |
| Transfers in (a) | 30 | 54 | 49 | 134 |
| Payments received | | (103) | | (145) |
| Impairment writedowns | (12) | (52) | 183 | (305) |
| Accretion | (9) | 9 | (15) | 15 |
| Transfers out (b) | (121) | (523) | (131) | (1,071) |
| Balance at end of period | \$ 191 | \$ 1,055 | \$ 191 | \$ 1,055 |

(a) Represents the fair value of the securities at their transfer date. Includes certain securities received upon the exchange of certain SIV securities.

(b) Includes SIV securities exchanged for underlying collateral as of June 30, 2008.

The Company conducts a regular assessment of its investment portfolios to determine whether any securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or

financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and the Company's ability to hold the securities through the anticipated recovery period. In addition to the impairment taken on the securities subject to SOP 03-3 accounting, the Company recorded other-than-temporary impairment charges of \$25 million in the second quarter and first six months of 2008, on certain other SIV-related and other investment securities.

At June 30, 2008, certain investment securities included in the held-to-maturity and available-for-sale categories had a fair value that was below their amortized cost.

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The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired based on the period the investments have been in a continuous unrealized loss position at June 30, 2008:

| (Dollars in Millions) | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---------------------|-------------------|----------------------|-------------------|------------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Held-to-maturity | | | | | | |
| Obligations of state and political subdivisions | \$ 15 | \$ (1) | \$ 5 | \$ | \$ 20 | \$ (1) |
| Total | \$ 15 | \$ (1) | \$ 5 | \$ | \$ 20 | \$ (1) |
| Available-for-sale | | | | | | |
| U.S. Treasury and agencies | \$ 66 | \$ (1) | \$ | \$ | \$ 66 | \$ (1) |
| Mortgage-backed securities | 14,309 | (487) | 12,275 | (720) | 26,584 | (1,207) |
| Asset-backed securities | 603 | (25) | | | 603 | (25) |
| Obligations of state and political subdivisions | 3,976 | (139) | 2,658 | (186) | 6,634 | (325) |
| Other securities and investments | 835 | (186) | 866 | (317) | 1,701 | (503) |
| Total | \$ 19,789 | \$ (838) | \$ 15,799 | \$ (1,223) | \$ 35,588 | \$ (2,061) |

The unrealized losses within each investment category have occurred as a result of changes in interest rates and credit spreads. The substantial portion of securities that have unrealized losses are either government securities, issued by government-backed agencies or privately issued securities with high investment grade credit ratings. Unrealized losses within other securities and investments are also the result of a widening of credit spreads since the initial purchase date. In general, the issuers of the investment securities are contractually prohibited from paying them off at less than par at maturity or any earlier call date. As of the reporting date, the Company expects to receive all contractual principal and interest related to these securities other than certain SIV-related investments, and expected that approximately \$131 million of principal payments will not be received for certain SIV-related investments for which it has recorded impairment charges. The Company has the intent and ability to hold all of its investment securities that are in an unrealized loss position at June 30, 2008, until their anticipated recovery in value or maturity. As a result, none of these securities were considered to be other-than-temporarily impaired at June 30, 2008.

Table of Contents**Note 4** Loans

The composition of the loan portfolio was as follows:

| (Dollars in Millions) | June 30, 2008 | | December 31, 2007 | |
|----------------------------------|---------------|------------------|-------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| Commercial | | | | |
| Commercial | \$ 48,714 | 29.4 % | \$ 44,832 | 29.1 % |
| Lease financing | 6,424 | 3.9 | 6,242 | 4.1 |
| Total commercial | 55,138 | 33.3 | 51,074 | 33.2 |
| Commercial real estate | | | | |
| Commercial mortgages | 21,948 | 13.2 | 20,146 | 13.1 |
| Construction and development | 9,299 | 5.6 | 9,061 | 5.9 |
| Total commercial real estate | 31,247 | 18.8 | 29,207 | 19.0 |
| Residential mortgages | | | | |
| Residential mortgages | 17,745 | 10.7 | 17,099 | 11.1 |
| Home equity loans, first liens | 5,556 | 3.3 | 5,683 | 3.7 |
| Total residential mortgages | 23,301 | 14.0 | 22,782 | 14.8 |
| Retail | | | | |
| Credit card | 11,930 | 7.2 | 10,956 | 7.1 |
| Retail leasing | 5,367 | 3.2 | 5,969 | 3.9 |
| Home equity and second mortgages | 17,536 | 10.6 | 16,441 | 10.7 |
| Other retail | | | | |
| Revolving credit | 2,835 | 1.7 | 2,731 | 1.8 |
| Installment | 5,518 | 3.4 | 5,246 | 3.4 |
| Automobile | 9,487 | 5.7 | 8,970 | 5.8 |
| Student | 3,531 | 2.1 | 451 | .3 |
| Total other retail | 21,371 | 12.9 | 17,398 | 11.3 |
| Total retail | 56,204 | 33.9 | 50,764 | 33.0 |
| Total loans | \$ 165,890 | 100.0 % | \$ 153,827 | 100.0 % |

Loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.3 billion at June 30, 2008, and \$1.4 billion at December 31, 2007.

Note 5 Mortgage Servicing Rights

The Company's portfolio of residential mortgages serviced for others was \$107.3 billion and \$97.0 billion at June 30, 2008, and December 31, 2007, respectively. The Company records mortgage servicing rights (MSRs) initially at fair

value and at each subsequent reporting date, and records changes in fair value in noninterest income in the period in which they occur. In conjunction with its MSRs, the Company may utilize derivatives, including futures, forwards and interest rate swaps to offset the effect of interest rate changes on the fair value of MSRs. The net impact of assumption changes on the fair value of MSRs, excluding decay, and the related derivatives included in mortgage banking revenue was a net loss of \$16 million and \$6 million for the three months ended June 30, 2008, and 2007, respectively, and a net loss of \$27 million and \$5 million for the six months ended June 30, 2008 and 2007, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue were \$99 million and \$87 million for the three months ended June 30, 2008, and 2007, respectively, and \$194 million and \$173 million for the six months ended June 30, 2008, and 2007, respectively.

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

| (Dollars in Millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Balance at beginning of period | \$ 1,390 | \$ 1,447 | \$ 1,462 | \$ 1,427 |
| Rights purchased | 13 | 3 | 17 | 6 |
| Rights capitalized | 136 | 104 | 279 | 186 |
| Changes in fair value of MSRs | | | | |
| Due to change in valuation assumptions (a) | 258 | 147 | 99 | 124 |
| Other changes in fair value (b) | (66) | (52) | (126) | (94) |
| Balance at end of period | \$ 1,731 | \$ 1,649 | \$ 1,731 | \$ 1,649 |

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

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

The Company determines fair value by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys, and independent third party appraisals. Risks inherent in the valuation of MSRs include higher than expected prepayment rates and/or delayed receipt of cash flows. The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments at June 30, 2008, was as follows:

| (Dollars in Millions) | Down Scenario | | Up Scenario | |
|-----------------------|---------------|---------|-------------|---------|
| | 50 bps | 25 bps | 25 bps | 50 bps |
| Net fair value | \$ (46) | \$ (18) | \$ (8) | \$ (43) |

Note 6 Earnings Per Common Share

The components of earnings per common share were:

| (Dollars and Shares in Millions, Except Per Share Data) | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$ 950 | \$ 1,156 | \$ 2,040 | \$ 2,286 |
| Preferred dividends | (22) | (15) | (34) | (30) |
| Net income applicable to common equity | \$ 928 | \$ 1,141 | \$ 2,006 | \$ 2,256 |
| Average common shares outstanding | 1,740 | 1,736 | 1,735 | 1,744 |
| Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes | 16 | 24 | 17 | 26 |
| Average diluted common shares outstanding | 1,756 | 1,760 | 1,752 | 1,770 |

| | | | | |
|-----------------------------------|--------|--------|---------|---------|
| Earnings per common share | \$.53 | \$.66 | \$ 1.16 | \$ 1.29 |
| Diluted earnings per common share | \$.53 | \$.65 | \$ 1.14 | \$ 1.27 |

Options to purchase 27 million and 13 million common shares for the three months ended June 30, 2008 and 2007, respectively, and 27 million and 12 million common shares for the six months ended June 30, 2008 and 2007, respectively, were outstanding but not included in the computation of diluted earnings per common share because they were antidilutive.

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

| (Dollars in Millions) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|-------|-----------------------------|------|---------------------------|-------|------------------------------|------|
| | Pension Plans | | Postretirement Medical Plan | | Pension Plans | | Postretirement Medical Plans | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 19 | \$ 17 | \$ 2 | \$ 2 | \$ 38 | \$ 35 | \$ 3 | \$ 3 |
| Interest cost | 35 | 32 | 3 | 3 | 70 | 63 | 6 | 7 |
| Expected return on plan assets | (56) | (49) | (2) | (1) | (112) | (99) | (3) | (3) |
| Prior service (credit) cost and transition (asset) obligation amortization | (2) | (2) | | | (3) | (3) | | |
| Actuarial (gain) loss amortization | 8 | 15 | (1) | | 16 | 31 | (2) | |
| Net periodic benefit cost | \$ 4 | \$ 13 | \$ 2 | \$ 4 | \$ 9 | \$ 27 | \$ 4 | \$ 7 |

Note 8 Income Taxes

The components of income tax expense were:

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|-----------------------------|--------|---------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Federal | | | | |
| Current | \$ 363 | \$ 488 | \$ 819 | \$ 937 |
| Deferred | (42) | (46) | (84) | (68) |
| Federal income tax | 321 | 442 | 735 | 869 |
| State | | | | |
| Current | 68 | 62 | 133 | 131 |
| Deferred | (3) | (4) | (6) | (7) |
| State income tax | 65 | 58 | 127 | 124 |
| Total income tax provision | \$ 386 | \$ 500 | \$ 862 | \$ 993 |

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

| Three Months Ended | Six Months Ended |
|--------------------|------------------|
|--------------------|------------------|

| (Dollars in Millions) | June 30, | | June 30, | |
|--|----------|--------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Tax at statutory rate (35 percent) | \$ 468 | \$ 579 | \$ 1,016 | \$ 1,147 |
| State income tax, at statutory rates, net of federal tax benefit | 42 | 38 | 82 | 81 |
| Tax effect of | | | | |
| Tax credits | (63) | (71) | (123) | (140) |
| Tax-exempt income | (44) | (31) | (85) | (58) |
| Other items | (17) | (15) | (28) | (37) |
| Applicable income taxes | \$ 386 | \$ 500 | \$ 862 | \$ 993 |

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of June 30, 2008, the federal taxing authority has completed its examination of the Company through the fiscal year ended December 31, 2004. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax liability was \$917 million at June 30, 2008, and \$1,279 million at December 31, 2007.

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Effective January 1, 2008, the Company adopted SFAS 157 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Under SFAS 157, a fair value measurement should reflect all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Upon adoption of SFAS 157, the Company considered the principal market and nonperformance risk when determining the fair value measurements for derivatives which reduced trading revenue by \$62 million. SFAS 157 no longer allows the deferral of origination fees or compensation expense related to the closing of MLHFS for which the fair value option is elected, resulting in additional mortgage banking revenue and recognition of compensation expense in the period the MLHFS are originated.

SFAS 157 specifies a three level hierarchy for valuation techniques used to measure financial assets and financial liabilities at fair value. This hierarchy is based on whether the valuation inputs are observable or unobservable. These levels are:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 includes U.S. Treasury and exchange-traded instruments.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 includes debt securities that are traded less frequently than exchange-traded instruments and which are valued using third party pricing services; derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data; and MLHFS whose values are determined using quoted prices for similar assets or pricing models with inputs that are observable in the market or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

This category generally includes residential MSRs, certain debt securities and derivative contracts.

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities at fair value and includes an indication of the level in the fair value hierarchy in which the assets or liabilities are classified. Where appropriate, the description includes details of the valuation models and key inputs to those models.

Derivatives Exchange-traded derivatives are measured at fair value based on quoted market (i.e. exchange) prices. Because prices are available for the identical instrument in an active market, these fair values are classified within Level 1 of the fair value hierarchy.

The majority of derivatives held by the Company are executed over-the-counter and are valued using standard cash flow, Black-Scholes and Monte Carlo valuation techniques. The models incorporate various inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. The majority of these derivatives are classified within Level 2 of the fair value hierarchy as the significant inputs to the models are observable. An exception to the Level 2 classification are certain derivative transactions for which the risk of nonperformance cannot be observed in the market. These derivatives are classified within Level 3 of the fair value hierarchy. In addition, commitments to sell, purchase and originate mortgage loans, that meet the requirements of a

derivative, are valued by pricing models that include market observable and unobservable inputs. Due to the significant unobservable inputs, these commitments are classified within Level 3 of the fair value hierarchy.

Investments When available, quoted market prices are used to determine the fair value of investment securities and such items are classified within Level 1 of the fair value hierarchy. An example is U.S. Treasury securities. For other securities, the Company determines fair value based on various sources and may apply matrix pricing with observable prices for similar bonds where a price for the identical bond is not observable. Prices are verified,

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where possible, to prices obtained from independent sources. Securities measured at fair value by such methods are classified as Level 2.

Certain securities are not valued based on observable transactions and are, therefore, classified as Level 3. The fair value of these securities is based on management's best estimates. These securities include SIV-related investments and certain trust-preferred securities. For the SIV-related investments held by the Company, the majority of the collateral is residential mortgage-backed securities with the remaining collateral consisting of commercial mortgage-backed and asset-backed securities, collateralized debt obligations and collateralized loan obligations. The estimation process for these securities involves the use of a cash-flow methodology and other market valuation techniques involving management judgment. The cash flow methodology uses assumptions that reflect housing price changes, interest rates, borrower loan-to-value and borrower credit scores. Inputs used for estimation are refined and updated to reflect market developments. The fair value of these securities are sensitive to changes in the estimated cash flows and related assumptions used and given market conditions are updated on a regular basis. The collateral cash flows are aggregated and passed through a distribution waterfall to determine allocation to tranches. Cash flows are then discounted at an interest rate to estimate the fair value of the security held by the Company. Discount rates reflect current market conditions and the relative risk of these investment securities. The primary drivers that impact the valuations of these securities are the prepayment and default rates associated with the underlying collateral, as well as the discount rate used to calculate the present value of the projected cash flows. Securities measured at fair value by this methodology are classified as Level 3. Related interest income for investment securities is recorded in interest income in the Consolidated Statement of Income.

Certain mortgage loans held for sale Effective January 1, 2008, the Company elected the fair value option under SFAS 159 for MLHFS originated on or after January 1, 2008, for which an active secondary market and readily available market prices exist to reliably support fair value pricing models used for these loans. These MLHFS loans are initially measured at fair value, with subsequent changes in fair value recognized as a component of mortgage banking revenue. Electing to measure these MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS 133. There was no transition adjustment required upon adoption of SFAS 159 for MLHFS, because the Company continued to account for MLHFS originated prior to 2008 under the lower-of-cost-or-market accounting method.

MLHFS measured at fair value are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. Included in mortgage banking revenue in the second quarter and first six months of 2008 was \$46 million and \$58 million of net losses, respectively, from the initial measurement and subsequent changes to fair value of the MLHFS under the fair value option. Changes in fair value due to instrument specific credit risk was immaterial. The fair value of MLHFS under the fair value option was \$3.4 billion as of June 30, 2008, which exceeded the unpaid principal balance by \$18 million as of that date. Related interest income for MLHFS continues to be measured based on contractual interest rates and reported as interest income in the Consolidated Statement of Income.

Mortgage servicing rights MSR are valued using a cash flow methodology and third-party prices, if available. Accordingly, MSR are classified in Level 3. Refer to Note 5 in the Notes to Consolidated Financial Statements for further information on the methodology used by the Company in determining the fair value of its MSR.

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The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis:

| June 30, 2008 (Dollars in Millions) | Level | | | FIN 39 | |
|--|-------------|------------------|-----------------|-----------------|------------------|
| | 1 | Level 2 | Level 3 | Netting (a) | Total |
| Investment securities available-for-sale | \$ 2 | \$ 39,065 | \$ 1,991 | \$ | \$ 41,058 |
| Mortgage loans held for sale | | 3,393 | | | 3,393 |
| Mortgage servicing rights | | | 1,731 | | 1,731 |
| Other assets (b) | | 628 | 374 | (125) | 877 |
| Total | \$ 2 | \$ 43,086 | \$ 4,096 | \$ (125) | \$ 47,059 |
| Derivative liabilities | \$ | \$ 944 | \$ 104 | \$ (125) | \$ 923 |

(a) *Financial Accounting Standards Board Interpretation No. 39 (FIN 39), Offsetting of Amounts Related to Certain Contracts*, permits the netting of derivative receivables and derivative payables when a legally enforceable master netting agreement exists between the Company and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

(b) *Represents primarily derivative receivables.*

At June 30, 2008, MLHFS excluded \$47 million of mortgage loans that were not subject to the fair value option election, and therefore, are excluded from the table above.

The table below presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Level 3 instruments presented in the table include SIV-related and certain trust-preferred securities investments, MSRs and derivatives:

| (Dollars in Millions) | Three Months Ended June 30, 2008 | | | Six Months Ended June 30, 2008 | | |
|---|--|---------------------------|----------------------------------|--|---------------------------|----------------------------------|
| | Investment Securities Available-for-Sale | Mortgage Servicing Rights | Net Other Assets and Liabilities | Investment Securities Available-for-Sale | Mortgage Servicing Rights | Net Other Assets and Liabilities |
| Balance at beginning of period | \$ 2,528 | \$ 1,390 | \$ 824 | \$ 2,923 | \$ 1,462 | \$ 338 |
| Net gains (losses) included in net income | (66)(a) | 192(b) | (646)(c) | (319)(a) | (27)(b) | (184)(e) |
| Net gains (losses) included in other comprehensive income | (81) | | | (87) | | |
| Discount accretion | 19 | | | 25 | | |
| Purchases, sales, issuances and settlements | (434) 25 | 149 | 82 10 | (576) 25 | 296 | 116 |

Transfers in and/or out of
Level 3

| | | | | | | |
|--|----------|-----------|-------------|----------|------------|------------|
| Balance at end of period | \$ 1,991 | \$ 1,731 | \$ 270 | \$ 1,991 | \$ 1,731 | \$ 270 |
| Net change in unrealized gains (losses) relating to assets still held at June 30, 2008 | \$ (81) | \$ 192(b) | \$ (462)(d) | \$ (87) | \$ (27)(b) | \$ (33)(f) |

(a) *Included in securities gains (losses)*

(b) *Included in mortgage banking revenue.*

(c) *Approximately \$(605) million included in other noninterest income and \$(41) million included in mortgage banking revenue.*

(d) *Approximately \$(470) million included in other noninterest income and \$8 million included in mortgage banking revenue.*

(e) *Approximately \$(154) million included in other noninterest income and \$(30) million included in mortgage banking revenue.*

(f) *Approximately \$(41) million included in other noninterest income and \$8 million included in mortgage banking revenue.*

The Company may also be required periodically to measure certain other financial assets at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States. These measurements of fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the adjusted carrying values and the level of valuation assumptions used to determine each adjustment to the related individual assets or portfolios at June 30, 2008:

| | Carrying Value at June 30, 2008 | | | Total Losses Recognized | |
|-----------------------------|---------------------------------|---------|---------|----------------------------------|--------------------------------|
| | Level 1 | Level 2 | Level 3 | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2008 |
| (Dollars in Millions) | | | | | |
| Loans held for sale | \$ | \$ 42 | \$ | \$ 2 | \$ 6 |
| Loans (a) | | 55 | | 17 | 21 |
| Other real estate owned (b) | | 54 | | 20 | 30 |
| Other intangible assets | | | 1 | 1 | |

(a) *Represents carrying value and related write-downs of loans for which adjustments are based on the appraised value of the collateral. The carrying value of loans fully charged-off is zero.*

(b) *Represents the fair value and related losses of properties that the Company has taken ownership of that once secured residential mortgages and home equity and second mortgage loan balances that were measured at fair value subsequent to their initial classification as other real estate owned.*

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The following table summarizes the differences between the aggregate fair value carrying amount of MLHFS for which the fair value option has been elected and the aggregate unpaid principal amount that the Company is contractually obligated to receive at maturity:

| | Fair Value | Aggregate | Excess of |
|-------------------------------------|------------|-----------|-----------|
| | Carrying | Unpaid | Carrying |
| | Amount | Principal | Amount |
| | | | Over |
| | | | (Under) |
| | | | Unpaid |
| | | | Principal |
| June 30, 2008 (Dollars in Millions) | | | |
| Total loans | \$ 3,393 | \$ 3,375 | \$ 18 |
| Nonaccrual loans | | | |
| Loans 90 days or more past due | | | |

Note 10 Guarantees and Contingent Liabilities

Visa Restructuring and Card Association Litigation The Company's payment services business issues and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively "Visa"). On October 3, 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of its initial public offering ("IPO") completed in the first quarter of 2008 (the "Visa Reorganization"). As a part of the Visa Reorganization, the Company received its proportionate number of Class U.S.A. shares of Visa Inc. common stock. In addition, the Company and certain of its subsidiaries have been named as defendants along with Visa U.S.A. Inc. and MasterCard International (collectively, the "Card Associations"), as well as several other banks, in antitrust lawsuits challenging the practices of the Card Associations (the "Visa Litigation"). Visa U.S.A. member banks have a contingent obligation to indemnify Visa, Inc. under the Visa U.S.A. bylaws (which were modified at the time of the restructuring in October 2007) for potential losses arising from the Visa Litigation. The Company has also entered into judgment and loss sharing agreements with Visa U.S.A. and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Visa Litigation.

On November 7, 2007, Visa announced the settlement of the portion of the Visa Litigation involving American Express, and accordingly, the Company recorded a \$115 million charge in the third quarter of 2007 for its proportionate share of this settlement. In addition to the liability related to the settlement with American Express, Visa U.S.A. member banks were required to recognize the contingent obligation to indemnify Visa Inc. under the Visa U.S.A. bylaws for potential losses arising from the remaining Visa Litigation at the estimated fair value of such obligation in accordance with Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The contingent obligation of member banks under the Visa U.S.A. bylaws has no specific maximum amount. While the estimation of any potential losses related to this litigation is highly judgmental, the Company recognized a charge of approximately \$215 million in the fourth quarter of 2007.

In March 2008, Visa Inc. completed its IPO, redeemed a portion of the Class U.S.A. shares, and set aside \$3 billion of the proceeds from the IPO in an escrow account for the benefit of member financial institutions to fund the expenses of the Visa Litigation, as well as the members' proportionate share of any judgments or settlements that may arise out of the Visa Litigation. The Company recorded a \$339 million gain for the portion of its shares that were redeemed for cash and a \$153 million gain for its proportionate share of the escrow account in the first quarter of 2008. The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation liabilities and will decline as amounts are paid out of the escrow account. As of June 30, 2008, the carrying amount of the liability related to the Visa Litigation, net of the related escrow account receivable, was \$172 million, and is not reflected in the following summary of guarantees and contingent liabilities table. The remaining Visa Inc. shares held by the Company will be eligible for conversion to Class A shares three years after the IPO or upon settlement of the Visa Litigation, whichever is later.

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The following table is a summary of other guarantees and contingent liabilities of the Company at June 30, 2008:

| (Dollars in Millions) | Carrying Amount | Maximum Potential Future Payments |
|-------------------------------------|--------------------|--|
| Standby letters of credit | \$ 100 | \$ 15,066 |
| Third-party borrowing arrangements | | 328 |
| Securities lending indemnifications | | 16,769 |
| Asset sales (a) | 7 | 367 |
| Merchant processing | 61 | 77,480 |
| Other guarantees | 9 | 7,215 |
| Other contingent liabilities | 72 | 2,091 |

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

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

The Company currently processes card transactions in the United States, Canada and Europe for airlines, cruise lines and large tour operators. In the event of liquidation of these merchants, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At June 30, 2008, the value of airline, cruise line and large tour operator tickets purchased to be delivered at a future date was \$6.0 billion, with airline tickets representing 94 percent of that amount. The Company held collateral of \$1.4 billion in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

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

For additional information on the nature of the Company's guarantees and contingent liabilities, refer to Note 21 in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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

| (Dollars in Millions) (Unaudited) | For the Three Months Ended June 30, | | | | | | |
|--|-------------------------------------|----------|------------------------|---------------------|----------|------------------------|-------------------------------|
| | 2008 | | | 2007 | | | % |
| | Average Balances | Interest | Yields and Rates | Average Balances | Interest | Yields and Rates | Change Average Balances |
| Assets | | | | | | | |
| Investment securities | \$ 42,999 | \$ 538 | 5.01% | \$ 40,704 | \$ 548 | 5.39% | 5.6% |
| Loans held for sale | 3,417 | 49 | 5.70 | 4,334 | 70 | 6.43 | (21.2) |
| Loans (b) | | | | | | | |
| Commercial | 53,979 | 645 | 4.80 | 47,197 | 781 | 6.64 | 14.4 |
| Commercial real estate | 30,473 | 429 | 5.67 | 28,503 | 524 | 7.37 | 6.9 |
| Residential mortgages | 23,307 | 354 | 6.08 | 21,831 | 331 | 6.06 | 6.8 |
| Retail | 55,311 | 1,009 | 7.34 | 48,122 | 988 | 8.23 | 14.9 |
| Total loans | 163,070 | 2,437 | 6.01 | 145,653 | 2,624 | 7.22 | 12.0 |
| Other earning assets | 2,603 | 43 | 6.58 | 1,610 | 34 | 8.36 | 61.7 |
| Total earning assets | 212,089 | 3,067 | 5.81 | 192,301 | 3,276 | 6.83 | 10.3 |
| Allowance for loan losses | (2,292) | | | (2,039) | | | (12.4) |
| Unrealized gain (loss) on available-for-sale securities | (1,548) | | | (771) | | | * |
| Other assets | 33,972 | | | 32,531 | | | 4.4 |
| Total assets | \$ 242,221 | | | \$ 222,022 | | | 9.1 |
| Liabilities and Shareholders Equity | | | | | | | |
| Noninterest-bearing deposits | \$ 27,851 | | | \$ 27,977 | | | (.5) |
| Interest-bearing deposits | | | | | | | |
| Interest checking | 32,479 | 67 | .83 | 25,858 | 84 | 1.32 | 25.6 |
| Money market savings | 26,426 | 79 | 1.21 | 24,603 | 159 | 2.59 | 7.4 |
| Savings accounts | 5,377 | 2 | .18 | 5,443 | 5 | .38 | (1.2) |
| Time certificates of deposit less than \$100,000 | 12,635 | 109 | 3.48 | 14,716 | 162 | 4.40 | (14.1) |
| Time deposits greater than \$100,000 | 31,041 | 201 | 2.59 | 20,378 | 253 | 4.98 | 52.3 |
| Total interest-bearing deposits | 107,958 | 458 | 1.71 | 90,998 | 663 | 2.92 | 18.6 |
| Short-term borrowings | 38,018 | 282 | 2.99 | 29,524 | 401 | 5.44 | 28.8 |
| Long-term debt | 37,879 | 419 | 4.44 | 44,655 | 562 | 5.05 | (15.2) |
| Total interest-bearing liabilities | 183,855 | 1,159 | 2.53 | 165,177 | 1,626 | 3.95 | 11.3 |

| | | | |
|---|------------|------------|-------|
| Other liabilities | 8,195 | 7,973 | 2.8 |
| Shareholders' equity | | | |
| Preferred equity | 1,500 | 1,000 | 50.0 |
| Common equity | 20,820 | 19,895 | 4.6 |
| Total shareholders' equity | 22,320 | 20,895 | 6.8 |
| Total liabilities and shareholders' equity | \$ 242,221 | \$ 222,022 | 9.1% |
| Net interest income | \$ 1,908 | \$ 1,650 | |
| Gross interest margin | | 3.28% | 2.88% |
| Gross interest margin without taxable-equivalent increments | | 3.22 | 2.84 |
| Percent of Earning Assets | | | |
| Interest income | | 5.81% | 6.83% |
| Interest expense | | 2.20 | 3.39 |
| Net interest margin | | 3.61% | 3.44% |
| Net interest margin without taxable-equivalent increments | | 3.55% | 3.40% |

* *Not meaningful.*

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

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

U.S. Bancorp

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

| (Dollars in Millions) (Unaudited) | For the Six Months Ended June 30, | | | | | | % Change Average Balances |
|--|-----------------------------------|----------|------------------------|---------------------|----------|------------------------|------------------------------------|
| | 2008 | | | 2007 | | | |
| | Average Balances | Interest | Yields and Rates | Average Balances | Interest | Yields and Rates | |
| Assets | | | | | | | |
| Investment securities | \$ 43,446 | \$ 1,118 | 5.15% | \$ 40,791 | \$ 1,094 | 5.36% | 6.5% |
| Loans held for sale | 4,267 | 122 | 5.71 | 4,090 | 129 | 6.33 | 4.3 |
| Loans (b) | | | | | | | |
| Commercial | 52,844 | 1,366 | 5.19 | 47,103 | 1,555 | 6.65 | 12.2 |
| Commercial real estate | 30,005 | 892 | 5.98 | 28,573 | 1,044 | 7.37 | 5.0 |
| Residential mortgages | 23,142 | 712 | 6.16 | 21,700 | 654 | 6.04 | 6.6 |
| Retail | 53,160 | 2,035 | 7.70 | 47,800 | 1,955 | 8.25 | 11.2 |
| Total loans | 159,151 | 5,005 | 6.32 | 145,176 | 5,208 | 7.23 | 9.6 |
| Other earning assets | 2,688 | 80 | 5.96 | 1,664 | 68 | 8.18 | 61.5 |
| Total earning assets | 209,552 | 6,325 | 6.06 | 191,721 | 6,499 | 6.82 | 9.3 |
| Allowance for loan losses | (2,183) | | | (2,038) | | | (7.1) |
| Unrealized gain (loss) on available-for-sale securities | (1,327) | | | (695) | | | (90.9) |
| Other assets | 33,406 | | | 31,786 | | | 5.1 |
| Total assets | \$ 239,448 | | | \$ 220,774 | | | 8.5 |
| Liabilities and Shareholders Equity | | | | | | | |
| Noninterest-bearing deposits | \$ 27,485 | | | \$ 27,828 | | | (1.2) |
| Interest-bearing deposits | | | | | | | |
| Interest checking | 31,390 | 155 | .99 | 25,470 | 160 | 1.27 | 23.2 |
| Money market savings | 26,008 | 193 | 1.49 | 25,154 | 322 | 2.58 | 3.4 |
| Savings accounts | 5,256 | 5 | .20 | 5,422 | 10 | .38 | (3.1) |
| Time certificates of deposit less than \$100,000 | 13,121 | 248 | 3.81 | 14,745 | 320 | 4.37 | (11.0) |
| Time deposits greater than \$100,000 | 30,073 | 463 | 3.09 | 21,228 | 526 | 4.99 | 41.7 |
| Total interest-bearing deposits | 105,848 | 1,064 | 2.02 | 92,019 | 1,338 | 2.93 | 15.0 |
| Short-term borrowings | 36,954 | 630 | 3.43 | 28,114 | 748 | 5.37 | 31.4 |
| Long-term debt | 38,851 | 893 | 4.62 | 43,804 | 1,097 | 5.04 | (11.3) |
| Total interest-bearing liabilities | 181,653 | 2,587 | 2.86 | 163,937 | 3,183 | 3.91 | 10.8 |

| | | | |
|---|------------|------------|-------|
| Other liabilities | 8,411 | 7,957 | 5.7 |
| Shareholders' equity | | | |
| Preferred equity | 1,291 | 1,000 | 29.1 |
| Common equity | 20,608 | 20,052 | 2.8 |
| Total shareholders' equity | 21,899 | 21,052 | 4.0 |
| Total liabilities and shareholders' equity | \$ 239,448 | \$ 220,774 | 8.5% |
| Net interest income | \$ 3,738 | \$ 3,316 | |
| Gross interest margin | | 3.20% | 2.91% |
| Gross interest margin without taxable-equivalent increments | | 3.14 | 2.87 |
| Percent of Earning Assets | | | |
| Interest income | | 6.06% | 6.82% |
| Interest expense | | 2.48 | 3.35 |
| Net interest margin | | 3.58% | 3.47% |
| Net interest margin without taxable-equivalent increments | | 3.52% | 3.43% |

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

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

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Part II Other Information

Item 1A. Risk Factors There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for discussion of these risks.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Refer to the "Capital Management" section within Management's Discussion and Analysis in Part I for information regarding shares repurchased by the Company during the second quarter of 2008.

Item 4. Submission of Matters to a Vote of Security Holders The information contained in Part II, Item 4 of the Company's Form 10-Q for the quarterly period ended March 31, 2008, is incorporated herein by reference.

Item 6. Exhibits

- 3.2 Amended and Restated Bylaws. Filed as Exhibit 3.2 to Form 8-K filed on June 18, 2008
- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. BANCORP

By: /s/ Terrance R. Dolan

Terrance R. Dolan
Executive Vice President and Controller
(Chief Accounting Officer and Duly Authorized Officer)
DATE: August 11, 2008

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Table of Contents**EXHIBIT 12****Computation of Ratio of Earnings to Fixed Charges**

| (Dollars in Millions) | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2008 |
|--|---|---|
| Earnings | | |
| 1. Net income | \$ 950 | \$ 2,040 |
| 2. Applicable income taxes, including interest expense related to unrecognized tax positions | 386 | 862 |
| 3. Income before income taxes (1 + 2) | \$ 1,336 | \$ 2,902 |
| 4. Fixed charges: | | |
| a. Interest expense excluding interest on deposits* | \$ 682 | \$ 1,478 |
| b. Portion of rents representative of interest and amortization of debt expense | 20 | 40 |
| c. Fixed charges excluding interest on deposits (4a + 4b) | 702 | 1,518 |
| d. Interest on deposits | 458 | 1,064 |
| e. Fixed charges including interest on deposits (4c + 4d) | \$ 1,160 | \$ 2,582 |
| 5. Amortization of interest capitalized | \$ | \$ |
| 6. Earnings excluding interest on deposits (3 + 4c + 5) | 2,038 | 4,420 |
| 7. Earnings including interest on deposits (3 + 4e + 5) | 2,496 | 5,484 |
| 8. Fixed charges excluding interest on deposits (4c) | 702 | 1,518 |
| 9. Fixed charges including interest on deposits (4e) | 1,160 | 2,582 |
| Ratio of Earnings to Fixed Charges | | |
| 10. Excluding interest on deposits (line 6/line 8) | 2.90 | 2.91 |
| 11. Including interest on deposits (line 7/line 9) | 2.15 | 2.12 |

* Excludes interest expense related to unrecognized tax positions.

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EXHIBIT 31.1

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

I, Richard K. Davis, certify that:

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

/s/ Richard K. Davis
Richard K. Davis

Chief Executive Officer

Dated: August 11, 2008

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EXHIBIT 31.2

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

I, Andrew Cecere, certify that:

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

/s/ Andrew Cecere
Andrew Cecere

Chief Financial Officer

Dated: August 11, 2008

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EXHIBIT 32

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

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard K. Davis

Richard K. Davis
Chief Executive Officer

/s/
Andrew Cecere
Andrew Cecere
Chief Financial Officer

Dated: August 11, 2008

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

Executive Offices

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

Common Stock Transfer Agent and Registrar

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

BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015
Phone: 888-778-1311 or 201-680-6578
Internet: bnymellon.com/shareowner

For Registered or Certified Mail:
BNY Mellon Shareowner Services
500 Ross St., 6th Floor
Pittsburgh, PA 15219

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

Independent Auditor

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

Common Stock Listing and Trading

U.S. Bancorp common stock is listed and traded on the New York Stock Exchange under the ticker symbol USB.

Dividends and Reinvestment Plan

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

Investor Relations Contacts

Judith T. Murphy
Executive Vice President, Investor and Public Relations

judith.murphy@usbank.com
Phone: 612-303-0783 or 866-775-9668

Financial Information

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

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

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

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

Media Requests

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

Privacy

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

Code of Ethics

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

Diversity

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

Equal Employment Opportunity/Affirmative Action

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

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

U.S. Bancorp
Member FDIC

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