

US BANCORP \DE\  
Form 10-Q  
May 10, 2007

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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2007**

**OR**

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

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

**Commission file number 1-6880**

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-0255900**

(I.R.S. Employer  
Identification Number)

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

(Address of principal executive offices, including zip code)

**651-466-3000**

(Registrant's telephone number, including area code)

**(not applicable)**

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

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

YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

YES  NO

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

Class  
Common Stock, \$.01 Par Value

Outstanding as of April 30, 2007  
1,738,723,885 shares



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

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



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| (Dollars and Shares in Millions, Except Per Share Data) | Three Months Ended<br>March 31, |           | Percent<br>Change |
|---|---------------------------------|-----------|-------------------|
|   | 2007                            | 2006      |                   |
| <b>Condensed Income Statement</b>                       |                                 |           |                   |
| Net interest income (taxable-equivalent basis)(a)       | \$ 1,666                        | \$ 1,725  | (3.4)%            |
| Noninterest income                                      | 1,695                           | 1,614     | 5.0               |
| Securities gains (losses), net                          | 1                               |           | *                 |
| Total net revenue                                       | 3,362                           | 3,339     | .7                |
| Noninterest expense                                     | 1,545                           | 1,500     | 3.0               |
| Provision for credit losses                             | 177                             | 115       | 53.9              |
| Income before taxes                                     | 1,640                           | 1,724     | (4.9)             |
| Taxable-equivalent adjustment                           | 17                              | 10        | 70.0              |
| Applicable income taxes                                 | 493                             | 561       | (12.1)            |
| Net income  | \$ 1,130                        | \$ 1,153  | (2.0)             |
| Net income applicable to common equity                  | \$ 1,115                        | \$ 1,153  | (3.3)             |
| <b>Per Common Share</b>                                 |                                 |           |                   |
| Earnings per share                                      | \$ .64                          | \$ .64    | %                 |
| Diluted earnings per share                              | .63                             | .63       |                   |
| Dividends declared per share                            | .40                             | .33       | 21.2              |
| Book value per share                                    | 11.37                           | 10.80     | 5.3               |
| Market value per share                                  | 34.97                           | 30.50     | 14.7              |
| Average common shares outstanding                       | 1,752                           | 1,801     | (2.7)             |
| Average diluted common shares outstanding               | 1,780                           | 1,826     | (2.5)             |
| <b>Financial Ratios</b>                                 |                                 |           |                   |
| Return on average assets                                | 2.09%                           | 2.23%     |                   |
| Return on average common equity                         | 22.4                            | 23.3      |                   |
| Net interest margin (taxable-equivalent basis)(a)       | 3.51                            | 3.80      |                   |
| Efficiency ratio(b)                                     | 46.0                            | 44.9      |                   |
| <b>Average Balances</b>                                 |                                 |           |                   |
| Loans   | \$144,693                       | \$137,779 | 5.0%              |
| Loans held for sale                                     | 3,843                           | 3,269     | 17.6              |
| Investment securities                                   | 40,879                          | 39,680    | 3.0               |
| Earning assets  | 191,135                         | 183,101   | 4.4               |
| Assets  | 219,512                         | 210,025   | 4.5               |
| Noninterest-bearing deposits                            | 27,677                          | 28,837    | (4.0)             |
| Deposits  | 120,728                         | 120,163   | .5                |
| Short-term borrowings                                   | 26,687                          | 24,356    | 9.6               |
| Long-term debt  | 42,944                          | 38,229    | 12.3              |

|                     |        |        |     |
|---------------------|--------|--------|-----|
| Shareholders equity | 21,210 | 20,148 | 5.3 |
|---------------------|--------|--------|-----|

|                             | March 31,<br>2007 | December<br>31,<br>2006 |       |
|-----------------------------|-------------------|-------------------------|-------|
| <b>Period End Balances</b>  |                   |                         |       |
| Loans                       | \$144,845         | \$143,597               | .9%   |
| Allowance for credit losses | 2,260             | 2,256                   | .2    |
| Investment securities       | 40,591            | 40,117                  | 1.2   |
| Assets                      | 221,448           | 219,232                 | 1.0   |
| Deposits                    | 118,060           | 124,882                 | (5.5) |
| Long-term debt              | 44,698            | 37,602                  | 18.9  |
| Shareholders equity         | 20,800            | 21,197                  | (1.9) |
| Regulatory capital ratios   |                   |                         |       |
| Tier 1 capital              | 8.6%              | 8.8%                    |       |
| Total risk-based capital    | 13.1              | 12.6                    |       |
| Leverage                    | 8.0               | 8.2                     |       |
| Tangible common equity      | 5.3               | 5.5                     |       |

\* *Not meaningful.*

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

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

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## Management's Discussion and Analysis

**OVERVIEW**

**Earnings Summary** U.S. Bancorp and its subsidiaries (the Company) reported net income of \$1,130 million for the first quarter of 2007 or \$.63 per diluted share, compared with \$1,153 million, or \$.63 per diluted share for the first quarter of 2006. Return on average assets and return on average common equity were 2.09 percent and 22.4 percent, respectively, for the first quarter of 2007, compared with returns of 2.23 percent and 23.3 percent, respectively, for the first quarter of 2006. The Company's results for the first quarter of 2007 declined modestly from the first quarter of 2006, as growth in fee-based revenues was more than offset by lower net interest income due to the current yield curve, increased credit costs reflecting the favorable impact on net charge-offs a year ago of changes in bankruptcy laws, and operating costs of acquired businesses.

Total net revenue, on a taxable-equivalent basis, for the first quarter of 2007, was \$23 million (.7 percent) higher than the first quarter of 2006, primarily reflecting a 5.1 percent increase in noninterest income, partially offset by a 3.4 percent decline in net interest income from a year ago. Noninterest income growth was driven by organic business growth and expansion in payment processing and trust businesses. Fee-based revenue growth was offset somewhat by the net favorable impact in the first quarter of 2006 of \$17 million from several previously reported items, including a \$44 million trading gain related to certain derivatives and a \$10 million gain related to a favorable settlement in the merchant processing business, offset by a \$37 million reduction in mortgage banking revenue due principally to the adoption of fair value accounting standards for mortgage servicing rights (MSRs).

Total noninterest expense in the first quarter of 2007 was \$45 million (3.0 percent) higher than in the first quarter of 2006, principally due to investments in business initiatives, operating and business integration costs associated with recent acquisitions and higher expenses related to investments in tax-advantaged projects relative to a year ago.

The provision for credit losses for the first quarter of 2007 increased \$62 million (53.9 percent), compared with the first quarter of 2006. The provision for credit losses in the first quarter of 2006 reflected the favorable impact on net charge-offs of changes in bankruptcy laws in the fourth quarter of 2005. Net charge-offs in the first quarter of 2007 were \$177 million, compared with \$115 million in the first quarter of 2006. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**STATEMENT OF INCOME ANALYSIS**

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$1,666 million in the first quarter of 2007, compared with \$1,725 million in the first quarter of 2006. Average earning assets increased \$8.0 billion (4.4 percent) in the first quarter of 2007, compared with the first quarter of 2006. The increase in average earning assets was primarily driven by an increase of \$6.9 billion (5.0 percent) in total average loans. The positive impact on net interest income from the growth in earning assets was more than offset by a lower net interest margin. The net interest margin in the first quarter of 2007 was 3.51 percent, compared with 3.80 percent in the first quarter of 2006, reflecting the competitive environment and the impact of changes in the yield curve from a year ago. Since the first quarter of 2006, credit spreads have tightened by approximately 11 basis points across most lending products due to competitive loan pricing and a change in mix reflecting growth in lower-spread credit products. Also, fewer interest recoveries from commercial loans occurred in the current period given the stage of the business cycle. In addition, funding costs increased year-over-year given rising rates on interest-bearing deposits and the mix of funding continuing to shift toward higher cost deposits and other wholesale sources. An increase in the margin benefit of net free funds partially offset these factors. 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 first quarter of 2007 were \$6.9 billion (5.0 percent) higher than the first quarter of 2006, driven by growth in average retail loans of \$3.2 billion (7.3 percent), commercial loans of \$3.1 billion (7.0 percent) and residential mortgages of \$.6 billion (2.8 percent). Average credit card balances increased \$1.5 billion (21.3 percent) in the first quarter of 2007, compared with the first quarter of 2006, as a result of organic growth initiatives and portfolios acquired from financial partners.

Average investment securities in the first quarter of 2007 were \$1.2 billion (3.0 percent) higher than the



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first quarter of 2006, driven primarily by an increase in the municipal securities portfolio, partially offset by a reduction in mortgage-backed assets. These changes reflected asset/liability management decisions to reduce the focus on residential mortgage-backed assets given the changing rate environment and mix of loan growth.

Average noninterest-bearing deposits for the first quarter of 2007 decreased \$1.2 billion (4.0 percent) compared with the first quarter of 2006, reflecting a decline in business demand deposits within most lines of business as customers reduced excess liquidity to fund business growth and migrated balances to higher rate interest-bearing deposit products. The decline in business demand account balances was partially offset by higher corporate trust deposits, driven by acquisitions and business growth.

Average total savings deposits remained relatively flat year-over-year as an increase of \$1.9 billion (8.4 percent) in interest checking balances due to higher broker-dealer, government and institutional trust balances, was offset by a decline of \$2.0 billion (5.9 percent) in average money market and savings balances primarily within Consumer Banking. A portion of branch-based money market savings accounts migrated to fixed-rate time certificates, as customers took advantage of higher interest rates for these products.

Average time certificates of deposit less than \$100,000 were higher in the first quarter of 2007 than in the first quarter of 2006 by \$1.3 billion (9.4 percent). Average time deposits greater than \$100,000 grew \$.5 billion (2.2 percent) in the first quarter of 2007, compared with the same period of 2006. This year-over-year growth included increases in corporate trust balances and consumer-based time deposits, reflecting migration to higher rate deposit products.

**Provision for Credit Losses** The provision for credit losses for the first quarter of 2007 increased \$62 million (53.9 percent), compared with the first quarter of 2006. The lower provision for credit losses in the first quarter of 2006 reflected the favorable impact on net charge-offs of changes in bankruptcy laws in the fourth quarter of 2005. Net charge-offs were \$177 million in the first quarter of 2007, compared with \$115 million in the first quarter of 2006. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income in the first quarter of 2007 was \$1,696 million, compared with \$1,614 million in the first quarter of 2006. The \$82 million (5.1 percent) increase in the first quarter of 2007 over the first quarter of 2006, was driven by organic growth in the majority of fee income categories and the benefit of acquired businesses. In addition, certain revenue categories were impacted by accounting items in the first quarter of 2006.

The growth in credit and debit card revenue was primarily driven by higher transaction volumes from a year ago. The corporate payment products revenue growth reflected organic growth in sales volumes and card usage, and acquired business expansion. Merchant processing services revenue growth reflected an increase in sales volume driven by acquisitions and higher same-store sales. Trust and investment management fees

**Table 2** Noninterest Income

| (Dollars in Millions)                | Three Months Ended<br>March 31, |        | Percent<br>Change |
|--------------------------------------|---------------------------------|--------|-------------------|
|                                      | 2007                            | 2006   |                   |
| Credit and debit card revenue        | \$ 205                          | \$ 182 | 12.6%             |
| Corporate payment products revenue   | 145                             | 127    | 14.2              |
| ATM processing services              | 59                              | 59     |                   |
| Merchant processing services         | 250                             | 213    | 17.4              |
| Trust and investment management fees | 322                             | 297    | 8.4               |

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|  |                |                |             |
|--|----------------|----------------|-------------|
| Deposit service charges                  | 243            | 232            | 4.7         |
| Treasury management fees                 | 111            | 107            | 3.7         |
| Commercial products revenue              | 100            | 104            | (3.8)       |
| Mortgage banking revenue                 | 67             | 24             | *           |
| Investment products fees and commissions | 34             | 38             | (10.5)      |
| Securities gains (losses), net           | 1              |                | *           |
| Other                                    | 159            | 231            | (31.2)      |
| <b>Total noninterest income</b>          | <b>\$1,696</b> | <b>\$1,614</b> | <b>5.1%</b> |

\* *Not meaningful.*

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increased year-over-year due to favorable equity market conditions and core account growth. Deposit service charges grew year-over-year primarily due to increased transaction-related fees and the impact of 78,000 net new checking accounts (5.3 percent annualized growth). Mortgage banking revenue increased \$43 million in the first quarter of 2007 compared with the same quarter of 2006. This was primarily due to changes in accounting for MSRs and mortgage banking revenue that resulted in a \$37 million reduction in revenue in the first quarter of 2006. The increase in mortgage banking revenue also reflected higher year-over-year servicing income and mortgage production gains.

Favorable changes in fee-based revenue were partially offset by a decline in other income. The reduction in other income resulted from a \$44 million trading gain recognized in the first quarter of 2006 related to terminating certain interest rate swaps previously designated as cash flow hedges that did not qualify as hedges in accordance with Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities*, as well as a \$10 million favorable settlement within the merchant processing business recorded in the prior year. In addition, revenues from equity investments and student loan sales were lower in the first quarter of 2007, as compared with the first quarter of 2006.

**Noninterest Expense** Noninterest expense was \$1,545 million in the first quarter of 2007, an increase of \$45 million (3.0 percent) from the first quarter of 2006. Compensation expense remained relatively flat as compared with the same period of 2006 as increases in salary costs related to business expansion were offset by lower stock-based compensation expense. In the first quarter of 2006, the Company adopted new accounting standards for share-based compensation that required immediate recognition of stock awards to employees that met retiree status, despite their continued active employment service. Professional services expense increased due primarily to revenue enhancement-related business initiatives, including the cost involved with establishing a bank in Ireland to support pan-European payment processing. Marketing and business development and technology and communications expenses both increased year-over-year due to the timing of customer campaigns and increased volumes for business expansion initiatives, including prepaid card programs. Other intangibles expense increased from the same period of 2006 due to recent acquisitions in Consumer Banking, Wealth Management and Payment Services.

**Income Tax Expense** The provision for income taxes was \$493 million (an effective rate of 30.4 percent) for the first quarter of 2007, compared with \$561 million (an effective rate of 32.7 percent) for the first quarter of 2006. The reduction in the effective rate from the same quarter of the prior year primarily reflected investments in tax-exempt municipal securities and bank-owned life insurance, as well as incremental tax credits from affordable housing projects and other tax-advantaged investments. For further information on income taxes, refer to Note 7 of the Notes to Consolidated Financial Statements.

**BALANCE SHEET ANALYSIS**

**Loans** The Company's total loan portfolio was \$144.8 billion at March 31, 2007, compared with \$143.6 billion at December 31, 2006, an increase of \$1.2 billion (.9 percent). The increase was driven by growth in commercial loans and residential mortgages, partially offset by decreases in retail and commercial real estate loans. The \$1.1 billion (2.4 percent) increase

**Table 3** Noninterest Expense

| (Dollars in Millions)              | Three Months Ended |        | Percent Change |
|------------------------------------|--------------------|--------|----------------|
|                                    | 2007               | 2006   |                |
| Compensation                       | \$ 635             | \$ 633 | .3%            |
| Employee benefits                  | 133                | 133    |                |
| Net occupancy and equipment        | 165                | 165    |                |
| Professional services              | 47                 | 35     | 34.3           |
| Marketing and business development | 48                 | 40     | 20.0           |

|                                |         |         |      |
|--------------------------------|---------|---------|------|
| Technology and communications  | 125     | 117     | 6.8  |
| Postage, printing and supplies | 69      | 66      | 4.5  |
| Other intangibles              | 94      | 85      | 10.6 |
| Other                          | 229     | 226     | 1.3  |
| <br>                           |         |         |      |
| Total noninterest expense      | \$1,545 | \$1,500 | 3.0% |
| <br>                           |         |         |      |
| Efficiency ratio (a)           | 46.0%   | 44.9%   |      |

(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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in commercial loans was primarily driven by new customer relationships, utilization under lines of credit and growth in corporate payment card and commercial leasing balances.

Commercial real estate loans decreased slightly to \$28.5 billion at March 31, 2007, compared with \$28.6 billion at December 31, 2006. The decline in commercial real estate balances reflected current real estate market conditions and the excess liquidity in the capital markets.

Residential mortgages held in the loan portfolio increased \$.5 billion (2.3 percent) at March 31, 2007, compared with December 31, 2006, reflecting an increase in consumer finance originations.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, decreased \$.2 billion (.5 percent) at March 31, 2007, compared with December 31, 2006. The decrease was primarily driven by lower seasonal credit card activity and a decline in retail leasing and student loan balances, partially offset by increases in installment and home equity loans.

At March 31, 2007, the residential and home equity and second mortgage portfolios included approximately \$3.1 billion and \$.9 billion, respectively, of loans to customers that may be defined as sub-prime borrowers. Together, these balances represented 2.7 percent of the Company's total loans outstanding at March 31, 2007.

**Loans Held for Sale** At March 31, 2007, loans held for sale, consisting of residential mortgages, student loans and other selective loans to be sold in the secondary market, were \$4.1 billion, compared with \$3.3 billion at December 31, 2006. The increase in loans held for sale was principally due to seasonal loan originations and the timing of sales during the first quarter of 2007.

**Investment Securities** Investment securities, both available-for-sale and held-to-maturity, totaled \$40.6 billion at March 31, 2007, compared with \$40.1 billion at December 31, 2006, reflecting purchases of \$1.7 billion of securities, partially offset by sales, maturities and prepayments. As of March 31, 2007, and December 31, 2006, approximately 37 percent of the investment securities portfolio represented adjustable-rate financial instruments. Adjustable-rate financial instruments include variable-rate collateralized mortgage obligations, mortgage-backed securities, agency securities, adjustable-rate money market accounts and asset-backed securities.

**Deposits** Total deposits were \$118.1 billion at March 31, 2007, compared with \$124.9 billion at December 31, 2006, a decrease of \$6.8 billion (5.5 percent). The decrease in total deposits was primarily the result of decreases in noninterest-bearing deposits, money market savings accounts and time deposits greater than \$100,000, partially offset by an increase in interest checking accounts and time certificates of deposits less than \$100,000. The \$3.5 billion (10.8 percent) decrease in noninterest-bearing deposits was primarily due to a seasonal decline of business demand and corporate trust deposits. The \$2.0 billion (7.7 percent) decrease in money market savings account balances reflected the Company's deposit pricing decisions for money market products in relation to other fixed-rate deposit products offered. A portion of branch-based money market savings accounts have migrated to fixed-rate time certificates to take advantage of higher interest rates for these products. Time deposits greater than \$100,000 decreased \$3.6 billion (16.0 percent) at March 31, 2007, compared with December 31, 2006. Time deposits greater than \$100,000 are largely viewed as purchased funds and are managed to levels deemed appropriate

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

|                            | March 31, 2007    |               |   |                                   | December 31, 2006 |               |   |                                   |
|----------------------------|-------------------|---------------|---|-----------------------------------|-------------------|---------------|---|-----------------------------------|
|                            | Amortized<br>Cost | Fair<br>Value | Weighted-<br>Average<br>Maturity<br>in<br>Years | Weighted-<br>Average<br>Yield (c) | Amortized<br>Cost | Fair<br>Value | Weighted-<br>Average<br>Maturity<br>in<br>Years | Weighted-<br>Average<br>Yield (c) |
| U.S. Treasury and agencies | \$479             | \$475         | 10.1  | 5.94%                             | \$472             | \$467         | 10.1  | 5.94%                             |
|                            | 33,628            | 33,082        | 5.5   | 5.11                              | 34,465            | 33,787        | 5.6   | 5.10                              |

|   |          |           |      |       |          |           |      |       |
|---|----------|-----------|------|-------|----------|-----------|------|-------|
| Mortgage-backed securities (a)                      |          |           |      |       |          |           |      |       |
| Asset-backed securities (a)                         | 6        | 6         | .1   | 5.65  | 7        | 7         | .1   | 5.32  |
| Obligations of state and political subdivisions (b) | 5,101    | 5,163     | 9.8  | 6.68  | 4,463    | 4,539     | 9.7  | 6.68  |
| Other debt securities                               | 1,488    | 1,483     | 22.8 | 5.84  | 994      | 993       | 23.8 | 6.08  |
| Other investments                                   | 290      | 299       |      | 6.69  | 229      | 237       |      | 6.26  |
| Total available-for-sale investment securities      | \$40,992 | \$ 40,508 | 6.7  | 5.36% | \$40,630 | \$ 40,030 | 6.6  | 5.32% |

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.
- (c) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

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given alternative funding sources. Time certificates of deposit less than \$100,000 increased \$.8 billion (5.7 percent) at March 31, 2007, compared with December 31, 2006. Interest checking accounts increased \$1.3 billion (5.1 percent) due to the seasonal increase in consumer banking account balances, higher trust and custody balances and a migration from noninterest-bearing accounts within government banking.

**Borrowings** The Company utilizes both short-term and long-term borrowings to fund growth of assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, securities sold under agreements to repurchase and other short-term borrowings, were \$28.5 billion at March 31, 2007, compared with \$26.9 billion at December 31, 2006. Short-term funding is managed within approved liquidity policies. The increase of \$1.6 billion (5.9 percent) in short-term borrowings reflected wholesale funding associated with the Company's asset growth and asset/liability management activities. Long-term debt was \$44.7 billion at March 31, 2007, compared with \$37.6 billion at December 31, 2006, reflecting the issuances of \$3.0 billion of convertible senior debentures, \$1.3 billion of subordinated notes, \$.5 billion of junior subordinated debentures and the net addition of \$3.9 billion of Federal Home Loan Bank ( FHLB ) advances, partially offset by \$1.5 billion of medium-term note maturities. The \$7.1 billion (18.9 percent) increase in long-term debt reflected wholesale funding associated with the Company's asset growth and asset/liability management activities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

**CORPORATE RISK PROFILE**

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

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

**Loan Delinquencies** Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the Company's loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$397 million at March 31, 2007, compared with \$349 million at December 31, 2006. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. The ratio of accruing loans 90 days or more past due to total loans was .27 percent at March 31, 2007, compared with .24 percent at December 31, 2006.



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

|   | March 31,<br>2007 | December 31,<br>2006 |
|---|-------------------|----------------------|
| 90 days or more past due <b>excluding</b> nonperforming loans |                   |                      |
| <b>Commercial</b>   |                   |                      |
| Commercial  | .07%              | .06%                 |
| Lease financing   |                   |                      |
| Total commercial  | .07               | .05                  |
| <b>Commercial real estate</b>                                 |                   |                      |
| Commercial mortgages  | .01               | .01                  |
| Construction and development                                  | .12               | .01                  |
| Total commercial real estate                                  | .04               | .01                  |
| <b>Residential mortgages</b>                                  | .46               | .45                  |
| <b>Retail</b>   |                   |                      |
| Credit card   | 2.01              | 1.75                 |
| Retail leasing  | .06               | .03                  |
| Other retail  | .24               | .23                  |
| Total retail  | .54               | .48                  |
| Total loans   | .27%              | .24%                 |

|   | March 31,<br>2007 | December 31,<br>2006 |
|---|-------------------|----------------------|
| 90 days or more past due <b>including</b> nonperforming loans |                   |                      |
| Commercial  | .46%              | .57%                 |
| Commercial real estate  | .69               | .53                  |
| Residential mortgages (a)                                     | .63               | .62                  |
| Retail  | .63               | .58                  |
| Total loans   | .59%              | .57%                 |

(a) *Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association ( GNMA ) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due was 2.93 percent at March 31, 2007, and 3.11 percent at December 31, 2006.*

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



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

| (Dollars in Millions)                   | Amount         |                   | As a Percent of Ending Loan Balances |                   |
|---|----------------|-------------------|--------------------------------------|-------------------|
|   | March 31, 2007 | December 31, 2006 | March 31, 2007                       | December 31, 2006 |
| <b>Residential mortgages</b>            |                |                   |                                      |                   |
| 30-89 days                              | \$136          | \$154             | .63%                                 | .72%              |
| 90 days or more                         | 100            | 95                | .46                                  | .45               |
| Nonperforming                           | 38             | 36                | .17                                  | .17               |
| <b>Total</b>                            | <b>\$274</b>   | <b>\$285</b>      | <b>1.26%</b>                         | <b>1.34%</b>      |
| <b>Retail</b>                           |                |                   |                                      |                   |
| <b>Credit card</b>                      |                |                   |                                      |                   |
| 30-89 days                              | \$186          | \$204             | 2.18%                                | 2.35%             |
| 90 days or more                         | 172            | 152               | 2.01                                 | 1.75              |
| Nonperforming                           | 25             | 31                | .29                                  | .36               |
| <b>Total</b>                            | <b>\$383</b>   | <b>\$387</b>      | <b>4.48%</b>                         | <b>4.46%</b>      |
| <b>Retail leasing</b>                   |                |                   |                                      |                   |
| 30-89 days                              | \$28           | \$34              | .41%                                 | .49%              |
| 90 days or more                         | 4              | 2                 | .06                                  | .03               |
| Nonperforming                           |                |                   |                                      |                   |
| <b>Total</b>                            | <b>\$32</b>    | <b>\$36</b>       | <b>.47%</b>                          | <b>.52%</b>       |
| <b>Home equity and second mortgages</b> |                |                   |                                      |                   |
| 30-89 days                              | \$65           | \$79              | .42%                                 | .51%              |
| 90 days or more                         | 31             | 28                | .20                                  | .18               |
| Nonperforming                           | 14             | 14                | .09                                  | .09               |
| <b>Total</b>                            | <b>\$110</b>   | <b>\$121</b>      | <b>.71%</b>                          | <b>.78%</b>       |
| <b>Other retail</b>                     |                |                   |                                      |                   |
| 30-89 days                              | \$124          | \$131             | .76%                                 | .80%              |
| 90 days or more                         | 47             | 44                | .29                                  | .27               |
| Nonperforming                           | 4              | 3                 | .02                                  | .02               |
| <b>Total</b>                            | <b>\$175</b>   | <b>\$178</b>      | <b>1.07%</b>                         | <b>1.09%</b>      |

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

|  | Consumer Finance |                   | Other Retail   |                   |
|--|------------------|-------------------|----------------|-------------------|
|  | March 31, 2007   | December 31, 2006 | March 31, 2007 | December 31, 2006 |
|  |                  |                   |                |                   |

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| <b>Residential mortgages</b>            |              |              |              |              |
| 30-89 days                              | .69%         | .83%         | .58%         | .66%         |
| 90 days or more                         | .65          | .64          | .33          | .32          |
| Nonperforming                           | .21          | .19          | .15          | .16          |
| <b>Total</b>                            | <b>1.55%</b> | <b>1.66%</b> | <b>1.06%</b> | <b>1.14%</b> |
| <b>Retail</b>                           |              |              |              |              |
| <b>Credit card</b>                      |              |              |              |              |
| 30-89 days                              | %            | %            | 2.18%        | 2.35%        |
| 90 days or more                         |              |              | 2.01         | 1.75         |
| Nonperforming                           |              |              | .29          | .36          |
| <b>Total</b>                            | <b>%</b>     | <b>%</b>     | <b>4.48%</b> | <b>4.46%</b> |
| <b>Retail leasing</b>                   |              |              |              |              |
| 30-89 days                              | %            | %            | .41%         | .49%         |
| 90 days or more                         |              |              | .06          | .03          |
| Nonperforming                           |              |              |              |              |
| <b>Total</b>                            | <b>%</b>     | <b>%</b>     | <b>.47%</b>  | <b>.52%</b>  |
| <b>Home equity and second mortgages</b> |              |              |              |              |
| 30-89 days                              | 1.19%        | 1.64%        | .31%         | .35%         |
| 90 days or more                         | 1.03         | .79          | .09          | .10          |
| Nonperforming                           | .05          | .11          | .10          | .09          |
| <b>Total</b>                            | <b>2.27%</b> | <b>2.54%</b> | <b>.50%</b>  | <b>.54%</b>  |
| <b>Other retail</b>                     |              |              |              |              |
| 30-89 days                              | 2.98%        | 4.30%        | .70%         | .71%         |
| 90 days or more                         | .74          | .76          | .27          | .26          |
| Nonperforming                           |              |              | .03          | .02          |
| <b>Total</b>                            | <b>3.72%</b> | <b>5.06%</b> | <b>1.00%</b> | <b>.99%</b>  |

**Table of Contents****Table 6** Nonperforming Assets (a)

| (Dollars in Millions)  | March 31,<br>2007 | December 31,<br>2006 |
|--|-------------------|----------------------|
| <b>Commercial</b>  |                   |                      |
| Commercial   | \$147             | \$196                |
| Lease financing  | 41                | 40                   |
| Total commercial   | 188               | 236                  |
| <b>Commercial real estate</b>                                  |                   |                      |
| Commercial mortgages   | 114               | 112                  |
| Construction and development                                   | 71                | 38                   |
| Total commercial real estate                                   | 185               | 150                  |
| <b>Residential mortgages</b>                                   | 38                | 36                   |
| <b>Retail</b>  |                   |                      |
| Credit card  | 25                | 31                   |
| Retail leasing   |                   |                      |
| Other retail   | 18                | 17                   |
| Total retail   | 43                | 48                   |
| Total nonperforming loans                                      | 454               | 470                  |
| <b>Other real estate (b)</b>                                   | 113               | 95                   |
| <b>Other assets</b>  | 15                | 22                   |
| Total nonperforming assets                                     | \$582             | \$587                |
| Accruing loans 90 days or more past due                        | \$397             | \$349                |
| Nonperforming loans to total loans                             | .31%              | .33%                 |
| Nonperforming assets to total loans plus other real estate (b) | .40%              | .41%                 |

**Changes in Nonperforming Assets**

| (Dollars in Millions)                          | Commercial<br>and<br>Commercial<br>Real Estate | Retail and<br>Residential<br>Mortgages (d) | Total |
|--|--|--|-------|
| <b>Balance December 31, 2006</b>               | \$406  | \$181                                      | \$587 |
| Additions to nonperforming assets              |  |  |       |
| New nonaccrual loans and foreclosed properties | 106  | 23   | 129   |
| Advances on loans                              | 4  |  | 4     |
| Total additions                                | 110  | 23   | 133   |
| Reductions in nonperforming assets             |  |  |       |
| Paydowns, payoffs                              | (36)   | (4)  | (40)  |

|   |              |              |              |
|---|--------------|--------------|--------------|
| Net sales   | (31)         |              | (31)         |
| Return to performing status                           | (16)         | (1)          | (17)         |
| Charge-offs (c)                                       | (47)         | (3)          | (50)         |
| Total reductions                                      | (130)        | (8)          | (138)        |
| Net additions to (reductions in) nonperforming assets | (20)         | 15           | (5)          |
| <b>Balance March 31, 2007</b>                         | <b>\$386</b> | <b>\$196</b> | <b>\$582</b> |

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$77 million and \$83 million of foreclosed GNMA loans which continue to accrue interest at March 31, 2007, and December 31, 2006, respectively.
- (c) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.
- (d) Residential mortgage information excludes changes related to residential mortgages serviced by others.

Within the consumer finance division at March 31, 2007, approximately \$104 million and \$42 million of these delinquent and nonperforming residential mortgages and other retail loans, respectively, were to customers that may be defined as sub-prime borrowers, compared with \$105 million and \$50 million, respectively, at December 31, 2006.

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. At March 31, 2007, total nonperforming assets were \$582 million, compared with \$587 million at December 31, 2006. The ratio of total nonperforming assets to total loans and other real estate decreased to .40 percent at March 31, 2007, compared with .41 percent at December 31, 2006.

Included in nonperforming loans were restructured loans of \$29 million at March 31, 2007, compared with \$38 million at December 31, 2006. At March 31, 2007, and December 31, 2006, the Company had no commitments to lend additional funds under restructured loans.

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



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

| (Dollars in Millions)   | Amount         |                   | As a Percent of Ending Loan Balances |                   |
|---|----------------|-------------------|--------------------------------------|-------------------|
|   | March 31, 2007 | December 31, 2006 | March 31, 2007                       | December 31, 2006 |
| <b>Residential mortgages and home equity and second mortgages</b> |                |                   |                                      |                   |
| Michigan  | \$23           | \$17              | 4.03%                                | 2.90%             |
| Ohio  | 13             | 12                | .49                                  | .48               |
| Minnesota   | 13             | 11                | .25                                  | .21               |
| Colorado  | 9              | 7                 | .31                                  | .28               |
| Missouri  | 5              | 6                 | .22                                  | .25               |
| All other states  | 45             | 38                | .19                                  | .16               |
| Total residential mortgages and home equity and second mortgages  | 108            | 91                | .29                                  | .25               |
| <b>Commercial real estate and construction</b>                    | 5              | 4                 | .02                                  | .01               |
| Total   | \$113          | \$95              | .08%                                 | .07%              |

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

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

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

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

| (Dollars in Millions)  | Amount         |                   | As a Percent of Ending Loan Balances |                   |
|------------------------|----------------|-------------------|--------------------------------------|-------------------|
|                        | March 31, 2007 | December 31, 2006 | March 31, 2007                       | December 31, 2006 |
| Commercial             | \$10           | \$18              | .02%                                 | .04%              |
| Commercial real estate |                | 1                 |                                      |                   |
| Residential mortgages  | 82             | 80                | .38                                  | .38               |
| Credit card            | 278            | 267               | 3.25                                 | 3.08              |

|              |       |       |      |      |
|--------------|-------|-------|------|------|
| Other retail | 41    | 39    | .11  | .10  |
| Total        | \$411 | \$405 | .28% | .28% |

**Analysis of Loan Net Charge-Offs** Total loan net charge-offs were \$177 million for the first quarter of 2007, compared with net charge-offs of \$115 million for the first quarter of 2006. The ratio of total loan net charge-offs to average loans for the first quarter of 2007 was .50 percent, compared with .34 percent, for the first quarter of 2006. The year-over-year increase in total net charge-offs was due, in part, to the implementation of minimum balance payment programs for credit cards, as well as an expected increase in consumer bankruptcies. Bankruptcy levels declined substantially in 2006 as a result of changes in bankruptcy legislation that went into effect in late 2005.

Commercial and commercial real estate loan net charge-offs for the first quarter of 2007 increased to \$36 million (.19 percent of average loans outstanding on an annualized basis), compared with \$14 million (.08 percent of average loans outstanding on an annualized basis) for the first quarter of 2006. The Company expects commercial net charge-offs to continue to increase modestly over the next several quarters, due to slightly higher gross charge-offs and lower commercial loan recoveries.

Retail loan net charge-offs for the first quarter of 2007 were \$129 million (1.10 percent of average loans outstanding on an annualized basis), compared with \$94 million (.86 percent of average loans outstanding on an annualized basis) for the first quarter of 2006. The increase in retail loan net charge-offs reflected the impact of bankruptcy legislation changes that occurred in the fourth quarter of 2005 and implementing the minimum balance payment requirements for credit cards. The Company anticipates modestly higher delinquencies and net charge-offs in the retail portfolios during 2007.

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

|                                  | Three Months Ended<br>March 31, |      |
|----------------------------------|---------------------------------|------|
|                                  | 2007                            | 2006 |
| <b>Commercial</b>                |                                 |      |
| Commercial                       | .31%                            | .05% |
| Lease financing                  | .22                             | .56  |
| Total commercial                 | .30                             | .11  |
| <b>Commercial real estate</b>    |                                 |      |
| Commercial mortgages             | .02                             | .04  |
| Construction and development     |                                 |      |
| Total commercial real estate     | .01                             | .03  |
| <b>Residential mortgages</b>     |                                 |      |
|                                  | .23                             | .14  |
| <b>Retail</b>                    |                                 |      |
| Credit card                      | 3.48                            | 2.62 |
| Retail leasing                   | .18                             | .22  |
| Home equity and second mortgages | .42                             | .33  |
| Other retail                     | .89                             | .87  |
| Total retail                     | 1.10                            | .86  |
| Total loans                      | .50%                            | .34% |

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 March 31<br>(Dollars in Millions) | Average Loans |          | Percent of<br>Average Loans |      |
|--|---------------|----------|-----------------------------|------|
|  | 2007          | 2006     | 2007                        | 2006 |
| <b>Consumer Finance (a)</b>                          |               |          |                             |      |
| Residential mortgages                                | \$ 8,491      | \$ 6,814 | .53%                        | .42% |
| Home equity and second mortgages                     | 1,871         | 2,057    | 2.17                        | 1.38 |
| Other retail   | 399           | 403      | 3.05                        | 5.03 |
| <b>Other Retail</b>                                  |               |          |                             |      |
| Residential mortgages                                | \$13,078      | \$14,173 | .03%                        | %    |
| Home equity and second mortgages                     | 13,684        | 12,878   | .18                         | .16  |
| Other retail   | 16,039        | 14,543   | .83                         | .75  |
| <b>Total Company</b>                                 |               |          |                             |      |
| Residential mortgages                                | \$21,569      | \$20,987 | .23%                        | .14% |
| Home equity and second mortgages                     | 15,555        | 14,935   | .42                         | .33  |

|              |        |        |     |     |
|--------------|--------|--------|-----|-----|
| Other retail | 16,438 | 14,946 | .89 | .87 |
|--------------|--------|--------|-----|-----|

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

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

| Three Months Ended March 31<br>(Dollars in Millions) | Average Loans |          | Percent of<br>Average<br>Loans |       |
|--|---------------|----------|--------------------------------|-------|
|  | 2007          | 2006     | 2007                           | 2006  |
| <b>Residential mortgages</b>                         |               |          |                                |       |
| Sub-prime borrowers                                  | \$ 3,005      | \$ 2,250 | 1.08%                          | .72%  |
| Other borrowers                                      | 5,486         | 4,564    | .22                            | .27   |
| Total  | \$ 8,491      | \$ 6,814 | .53%                           | .42%  |
| <b>Home equity and second mortgages</b>              |               |          |                                |       |
| Sub-prime borrowers                                  | \$ 911        | \$ 798   | 2.67%                          | 1.52% |
| Other borrowers                                      | 960           | 1,259    | 1.69                           | 1.29  |
| Total  | \$ 1,871      | \$ 2,057 | 2.17%                          | 1.38% |

***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 March 31, 2007, including the risk profile of the portfolios and loan net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in restructured loan balances compared with December 31, 2006. Management also considered the uncertainty related to certain industry sectors, and the extent of credit exposure to specific borrowers within the portfolio. In addition,

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

| (Dollars in Millions)            | Three Months Ended<br>March 31, |         |
|----------------------------------|---------------------------------|---------|
|                                  | 2007                            | 2006    |
| Balance at beginning of period   | \$2,256                         | \$2,251 |
| <b>Charge-offs</b>               |                                 |         |
| Commercial                       |                                 |         |
| Commercial                       | 45                              | 28      |
| Lease financing                  | 14                              | 12      |
| Total commercial                 | 59                              | 40      |
| Commercial real estate           |                                 |         |
| Commercial mortgages             | 2                               | 3       |
| Construction and development     |                                 |         |
| Total commercial real estate     | 2                               | 3       |
| Residential mortgages            | 12                              | 8       |
| Retail                           |                                 |         |
| Credit card                      | 89                              | 54      |
| Retail leasing                   | 5                               | 7       |
| Home equity and second mortgages | 18                              | 16      |
| Other retail                     | 52                              | 47      |
| Total retail                     | 164                             | 124     |
| Total charge-offs                | 237                             | 175     |
| <b>Recoveries</b>                |                                 |         |
| Commercial                       |                                 |         |
| Commercial                       | 13                              | 23      |
| Lease financing                  | 11                              | 5       |
| Total commercial                 | 24                              | 28      |
| Commercial real estate           |                                 |         |
| Commercial mortgages             | 1                               | 1       |
| Construction and development     |                                 |         |
| Total commercial real estate     | 1                               | 1       |
| Residential mortgages            |                                 | 1       |
| Retail                           |                                 |         |
| Credit card                      | 15                              | 8       |
| Retail leasing                   | 2                               | 3       |
| Home equity and second mortgages | 2                               | 4       |
| Other retail                     | 16                              | 15      |
| Total retail                     | 35                              | 30      |

|   |         |         |
|---|---------|---------|
| Total recoveries                                      | 60      | 60      |
| <b>Net Charge-offs</b>                                |         |         |
| Commercial  |         |         |
| Commercial  | 32      | 5       |
| Lease financing                                       | 3       | 7       |
| Total commercial                                      | 35      | 12      |
| Commercial real estate                                |         |         |
| Commercial mortgages                                  | 1       | 2       |
| Construction and development                          |         |         |
| Total commercial real estate                          | 1       | 2       |
| Residential mortgages                                 | 12      | 7       |
| Retail  |         |         |
| Credit card   | 74      | 46      |
| Retail leasing  | 3       | 4       |
| Home equity and second mortgages                      | 16      | 12      |
| Other retail  | 36      | 32      |
| Total retail  | 129     | 94      |
| Total net charge-offs                                 | 177     | 115     |
| Provision for credit losses                           | 177     | 115     |
| Acquisitions and other changes                        | 4       |         |
| Balance at end of period                              | \$2,260 | \$2,251 |
| <b>Components</b>                                     |         |         |
| Allowance for loan losses                             | \$2,027 | \$2,035 |
| Liability for unfunded credit commitments             | 233     | 216     |
| Total allowance for credit losses                     | \$2,260 | \$2,251 |
| <b>Allowance for credit losses as a percentage of</b> |         |         |
| Period-end loans                                      | 1.56%   | 1.64%   |
| Nonperforming loans                                   | 498     | 432     |
| Nonperforming assets                                  | 388     | 364     |
| Annualized net charge-offs                            | 315     | 483     |

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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 March 31, 2007, the allowance for credit losses was \$2,260 million (1.56 percent of loans), compared with an allowance of \$2,256 million (1.57 percent of loans) at December 31, 2006. The ratio of the allowance for credit losses to nonperforming loans was 498 percent at March 31, 2007, compared with 480 percent at December 31, 2006. The ratio of the allowance for credit losses to annualized loan net charge-offs was 315 percent at March 31, 2007, compared with 415 percent at December 31, 2006.

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

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

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

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

**Market Value of Equity Modeling** The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company's assets and liabilities and off-balance sheet instruments will change given a change in interest rates. ALPC guidelines limit the change in market value of equity in a 200 basis

Sensitivity of Net Interest Income:

March 31, 2007

December 31, 2006

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|                     | Down<br>50<br>Immediate | Up 50<br>Immediate | Down<br>200<br>Gradual | Up 200<br>Gradual | Down<br>50<br>Immediate | Up 50<br>Immediate | Down<br>200<br>Gradual* | Up 200<br>Gradual* |
|---------------------|-------------------------|--------------------|------------------------|-------------------|-------------------------|--------------------|-------------------------|--------------------|
| Net interest income | .27%                    | (2.02)%            | .69%                   | (3.49)%           | .42%                    | (1.43)%            | .92%                    | (2.95)%            |



**Table of Contents****Table 9** Derivative Positions

| (Dollars in Millions)                           | March 31, 2007  |            |  | December 31, 2006 |            |  |
|---|-----------------|------------|--|-------------------|------------|--|
|   | Notional Amount | Fair Value | Weighted-Average Remaining Maturity In Years | Notional Amount   | Fair Value | Weighted-Average Remaining Maturity In Years |
| <b>Asset and Liability Management Positions</b> |                 |            |  |                   |            |  |
| Interest rate contracts                         |                 |            |  |                   |            |  |
| Receive fixed/pay floating swaps                | \$4,880         | \$26       | 31.24  | \$5,345           | \$27       | 22.97  |
| Pay fixed/receive floating swaps                | 16,577          | (19)       | 2.08   | 12,329            |            | 2.33   |
| Futures and forwards                            |                 |            |  |                   |            |  |
| Buy   | 6,652           | (9)        | .13  | 4,008             |            | .22  |
| Sell  | 6,185           | 1          | .15  | 2,816             | 3          | .09  |
| Options   |                 |            |  |                   |            |  |
| Written   | 11,874          | (3)        | .13  | 7,544             | (1)        | .13  |
| Foreign exchange contracts                      |                 |            |  |                   |            |  |
| Cross-currency swaps                            | 1,725           | 26         | 9.57   | 386               | 14         | 8.61   |
| Forwards  | 122             | (1)        | .05  | 318               | 1          | .02  |
| Equity contracts                                | 85              | (1)        | 2.87   | 86                | 4          | 2.95   |
| Credit default swaps                            | 25              | (1)        | 4.48   | 25                | (1)        | 4.72   |
| <b>Customer-related Positions</b>               |                 |            |  |                   |            |  |
| Interest rate contracts                         |                 |            |  |                   |            |  |
| Receive fixed/pay floating swaps                | \$10,866        | \$(8)      | 5.33   | \$10,371          | \$(42)     | 5.42   |
| Pay fixed/receive floating swaps                | 10,860          | 67         | 5.33   | 10,341            | 98         | 5.42   |
| Options   |                 |            |  |                   |            |  |
| Purchased                                       | 1,837           | 3          | 1.92   | 1,899             | 5          | 1.92   |
| Written   | 1,837           | (2)        | 1.92   | 1,899             | (3)        | 1.92   |
| Risk participation agreements (a)               |                 |            |  |                   |            |  |
| Purchased                                       | 207             |            | 6.54   | 206               |            | 6.62   |
| Written   | 535             | (1)        | 6.02   | 356               |            | 6.05   |
| Foreign exchange rate contracts                 |                 |            |  |                   |            |  |
| Forwards, spots and swaps                       |                 |            |  |                   |            |  |
| Buy   | 2,334           | 36         | .40  | 2,092             | 52         | .46  |
| Sell  | 2,287           | (29)       | .41  | 2,033             | (43)       | .47  |
| Options   |                 |            |  |                   |            |  |
| Purchased                                       | 386             | (1)        | .27  | 408               | (3)        | .44  |
| Written   | 386             | 1          | .27  | 408               | 3          | .44  |

(a) At March 31, 2007, the credit equivalent amount was \$2 million and \$72 million, compared with \$2 million and \$50 million at December 31, 2006, for purchased and written risk participation agreements, respectively.

point parallel rate shock to 15 percent of the market value of equity assuming interest rates at March 31, 2007. The up 200 basis point scenario resulted in a 8.4 percent decrease in the market value of equity at March 31, 2007, compared with a 6.7 percent decrease at December 31, 2006. The down 200 basis point scenario resulted in a 3.5 percent decrease in the market value of equity at March 31, 2007, compared with a 1.8 percent decrease at December 31, 2006. At March 31, 2007, and December 31, 2006, the Company was within its policy guidelines.

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. At March 31, 2007, the duration of assets, liabilities and equity was 1.9 years, 2.0 years and 1.4 years, respectively, compared with 1.8 years, 1.9 years and 1.6 years, respectively, at December 31, 2006. 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, 2006, for further discussion on market value of equity modeling.

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

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company's \$48.1 billion of total notional amount of asset and liability management positions at March 31, 2007, \$27.7 billion was designated as either cash flow or fair value hedges or net investment hedges of foreign operations. The cash flow hedge derivative positions are interest rate swaps that hedge the forecasted cash flows from the underlying variable-rate debt. The fair value hedges are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and subordinated obligations.

In addition, the Company uses forward commitments to sell residential mortgage loans to hedge its interest rate risk related to residential mortgage loans held for sale. In connection with its mortgage banking operations, the Company held \$1.7 billion of forward commitments to sell mortgage loans and \$2.2 billion of unfunded mortgage loan commitments at March 31, 2007, that were derivatives in accordance with the provisions of the Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedge Activities. The unfunded mortgage loan commitments are reported at fair value as options in Table 9. The Company also utilizes U.S. Treasury futures, options on U.S. Treasury futures contracts and forward commitments to buy residential mortgage loans to economically hedge the change in fair value of its residential MSRs.

At March 31, 2007, the Company had \$83 million in accumulated other comprehensive income related to realized and unrealized losses on derivatives classified as cash flow hedges. Unrealized gains and losses are reflected in earnings when the related cash flows or hedged transactions occur and offset the related performance of the hedged items. The estimated amount to be reclassified from accumulated other comprehensive income into earnings during the remainder of 2007 and the next 12 months is a loss of \$35 million and \$42 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 first quarter of 2007. Gains or losses on customer-related positions were not material for the first quarter of 2007.

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

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

The Company's market valuation risk, as estimated by the VaR analysis, was \$1 million and \$26 million at March 31, 2007, compared with \$1 million and \$30 million at December 31, 2006, for trading and non-trading positions, respectively. At March 31, 2007, the Company's VaR limit was \$45 million. Refer to Management's Discussion and Analysis Market Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on market risk management.

**Liquidity Risk Management** ALPC establishes policies, as well as analyzes and manages liquidity, to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, as well as from an asset and liability perspective. Management monitors liquidity through a regular

review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. Refer to Management's Discussion and Analysis - Liquidity Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, for further discussion on liquidity risk management.

**Table of Contents****Table 10** Capital Ratios

| (Dollars in Millions)  | March 31,<br>2007 | December 31,<br>2006 |
|--|-------------------|----------------------|
| Tier 1 capital   | \$16,917          | \$17,036             |
| As a percent of risk-weighted assets                               | 8.6%              | 8.8%                 |
| As a percent of adjusted quarterly average assets (leverage ratio) | 8.0%              | 8.2%                 |
| Total risk-based capital   | \$25,826          | \$24,495             |
| As a percent of risk-weighted assets                               | 13.1%             | 12.6%                |
| Tangible common equity   | \$11,211          | \$11,703             |
| As a percent of tangible assets                                    | 5.3%              | 5.5%                 |

The Company's ability to raise negotiated funding at competitive prices is influenced by rating agencies' views of the Company's credit quality, liquidity, capital and earnings. On February 14, 2007, Standard & Poor's Ratings Services upgraded the Company's credit ratings to AA/ A-1+. At February 14, 2007, the credit ratings outlook for the Company was considered Positive by Fitch and Stable by Standard & Poor's Ratings Services, Moody's Investors Service and Dominion Bond Rating Services.

At March 31, 2007, parent company long-term debt outstanding was \$14.8 billion, compared with \$11.4 billion at December 31, 2006. The \$3.4 billion increase was primarily due to the issuances of \$3.0 billion of convertible senior debentures and \$.5 billion of junior subordinated debentures during the first three months of 2007. As of March 31, 2007, there was \$1.4 billion of parent company debt scheduled to mature in the remainder of 2007.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately \$1.1 billion at March 31, 2007.

**Capital Management** The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. In the first quarter of 2007, the Company returned 165 percent of earnings to its common shareholders through a combination of dividends and net share repurchases. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Table 10 provides a summary of capital ratios as of March 31, 2007, and December 31, 2006. All regulatory ratios continue to be in excess of regulatory well-capitalized requirements. Total shareholders' equity was \$20.8 billion at March 31, 2007, compared with \$21.2 billion at December 31, 2006. The decrease was the result of share repurchases and dividends, partially offset by corporate earnings.

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

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

| Time Period | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of the<br>Program | Average<br>Price<br>Paid<br>per<br>Share | Maximum<br>Number of<br>Shares that May<br>Yet Be Purchased<br>Under the<br>Program |
|-------------|---|--|---|
|             |   |  |   |

|          |            |         |             |
|----------|------------|---------|-------------|
| January  | 141,969    | \$35.67 | 121,829,400 |
| February | 26,656,752 | 35.80   | 95,172,648  |
| March    | 7,590,959  | 35.64   | 87,581,689  |
| Total    | 34,389,680 | \$35.76 | 87,581,689  |

Approximately 25 million of the 34 million common shares repurchased in the first quarter of 2007 were purchased in connection with an accelerated stock repurchase agreement initiated in the first quarter of 2007.

#### **LINE OF BUSINESS FINANCIAL REVIEW**

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

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

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Line of Business Financial Performance

| Three Months Ended March 31 (Dollars in Millions) | Wholesale Banking |        |                | Consumer Banking |        |                |
|---|-------------------|--------|----------------|------------------|--------|----------------|
|   | 2007              | 2006   | Percent Change | 2007             | 2006   | Percent Change |
| <b>Condensed Income Statement</b>                 |                   |        |                |                  |        |                |
| Net interest income (taxable-equivalent basis)    | \$ 453            | \$ 479 | (5.4)%         | \$ 962           | \$ 947 | 1.6%           |
| Noninterest income                                | 224               | 225    | (.4)           | 424              | 383    | 10.7           |
| Securities gains (losses), net                    |                   |        |                |                  |        |                |
| Total net revenue                                 | 677               | 704    | (3.8)          | 1,386            | 1,330  | 4.2            |
| Noninterest expense                               | 226               | 225    | .4             | 628              | 608    | 3.3            |
| Other intangibles                                 | 4                 | 4      |                | 14               | 13     | 7.7            |
| Total noninterest expense                         | 230               | 229    | .4             | 642              | 621    | 3.4            |
| Income before provision and income taxes          | 447               | 475    | (5.9)          | 744              | 709    | 4.9            |
| Provision for credit losses                       | 14                | (8)    | *              | 69               | 63     | 9.5            |
| Income before income taxes                        | 433               | 483    | (10.4)         | 675              | 646    | 4.5            |
| Income taxes and taxable-equivalent adjustment    | 158               | 176    | (10.2)         | 246              | 235    | 4.7            |
| Net income  | \$ 275            | \$ 307 | (10.4)         | \$ 429           | \$ 411 | 4.4            |

**Average Balance Sheet Data**

|                              |           |           |        |          |          |        |
|------------------------------|-----------|-----------|--------|----------|----------|--------|
| Commercial                   | \$ 34,702 | \$ 32,421 | 7.0%   | \$ 6,393 | \$ 6,320 | 1.2%   |
| Commercial real estate       | 16,830    | 17,282    | (2.6)  | 11,070   | 10,591   | 4.5    |
| Residential mortgages        | 71        | 63        | 12.7   | 21,043   | 20,475   | 2.8    |
| Retail                       | 66        | 44        | 50.0   | 35,311   | 33,437   | 5.6    |
| Total loans                  | 51,669    | 49,810    | 3.7    | 73,817   | 70,823   | 4.2    |
| Goodwill                     | 1,329     | 1,329     |        | 2,206    | 2,107    | 4.7    |
| Other intangible assets      | 43        | 59        | (27.1) | 1,597    | 1,329    | 20.2   |
| Assets                       | 56,746    | 55,186    | 2.8    | 83,993   | 80,060   | 4.9    |
| Noninterest-bearing deposits | 10,784    | 11,995    | (10.1) | 12,146   | 12,685   | (4.2)  |
| Interest checking            | 4,503     | 3,123     | 44.2   | 17,804   | 17,636   | 1.0    |
| Savings products             | 5,732     | 5,293     | 8.3    | 19,804   | 22,334   | (11.3) |
| Time deposits                | 11,691    | 12,191    | (4.1)  | 19,961   | 18,050   | 10.6   |
| Total deposits               | 32,710    | 32,602    | .3     | 69,715   | 70,705   | (1.4)  |
| Shareholders equity          | 5,792     | 5,579     | 3.8    | 6,435    | 6,249    | 3.0    |

\* *not meaningful*

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

**Wholesale Banking** offers lending, equipment finance and small-ticket leasing, depository, treasury management, capital markets, foreign exchange, international trade services and other financial services to middle market, large corporate, commercial real estate and public sector clients. Wholesale Banking contributed \$275 million of the Company's net income in the first quarter of 2007, a decrease of \$32 million (10.4 percent), compared with the first quarter of 2006. The decrease was primarily driven by lower total net revenue and an increase in the provision for credit losses.

Total net revenue decreased \$27 million (3.8 percent) in the first quarter of 2007, compared with the first quarter of 2006. Net interest income, on a taxable-equivalent basis, decreased \$26 million (5.4 percent) in the first quarter of 2007, compared with the first quarter of 2006, driven by tighter credit spreads and a decline in average noninterest-bearing deposit balances as customers utilized their liquidity to fund business growth and to generate higher returns by investing excess funds in interest-bearing deposit products, partially offset by growth in average loan balances of 3.7 percent and the margin benefit of deposits. The increase in average loans was driven by commercial loan growth during 2006 and the first three months of 2007. Noninterest income remained relatively flat in the first quarter of 2007, compared with the first quarter of 2006, as an increase in treasury management revenue was offset by lower equity investment revenue.

Noninterest expense also remained relatively flat in the first quarter of 2007, compared with the first quarter of 2006, as increases in personnel expenses were offset by a decline in net shared services. The provision for credit losses increased \$22 million in the first quarter of 2007, compared with the first quarter of 2006. The unfavorable change was primarily due to fewer commercial loan recoveries and an increase in gross charge-offs. Credit quality continued to be strong within this business segment. Nonperforming assets within Wholesale Banking were \$226 million at March 31, 2007, \$241 million at December 31, 2006, and \$260 million at March 31, 2006. Nonperforming assets as a percentage of period-end loans were .44 percent at March 31, 2007, .47 percent at December 31, 2006, and .52 percent at March 31, 2006. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

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| Wealth Management |              |        | Payment Services |              |        | Treasury and Corporate Support |              |        | Consolidated Company |              |        |
|-------------------|--------------|--------|------------------|--------------|--------|--------------------------------|--------------|--------|----------------------|--------------|--------|
| 2007              | Percent 2006 | Change | 2007             | Percent 2006 | Change | 2007                           | Percent 2006 | Change | 2007                 | Percent 2006 | Change |
| \$120             | \$ 125       | (4.0)% | \$ 169           | \$ 163       | 3.7%   | \$(38)                         | \$ 11        | *%     | \$ 1,666             | \$ 1,725     | (3.4)% |
| 372               | 350          | 6.3    | 657              | 590          | 11.4   | 18                             | 66           | (72.7) | 1,695                | 1,614        | 5.0    |
|                   |              |        |                  |              |        | 1                              |              | *      | 1                    |              | *      |
| 492               | 475          | 3.6    | 826              | 753          | 9.7    | (19)                           | 77           | *      | 3,362                | 3,339        | .7     |
| 229               | 237          | (3.4)  | 320              | 294          | 8.8    | 48                             | 51           | (5.9)  | 1,451                | 1,415        | 2.5    |
| 23                | 22           | 4.5    | 53               | 46           | 15.2   |                                |              |        | 94                   | 85           | 10.6   |
| 252               | 259          | (2.7)  | 373              | 340          | 9.7    | 48                             | 51           | (5.9)  | 1,545                | 1,500        | 3.0    |
| 240               | 216          | 11.1   | 453              | 413          | 9.7    | (67)                           | 26           | *      | 1,817                | 1,839        | (1.2)  |
|                   |              |        | 93               | 60           | 55.0   | 1                              |              | *      | 177                  | 115          | 53.9   |
| 240               | 216          | 11.1   | 360              | 353          | 2.0    | (68)                           | 26           | *      | 1,640                | 1,724        | (4.9)  |
| 87                | 79           | 10.1   | 131              | 128          | 2.3    | (112)                          | (47)         | *      | 510                  | 571          | (10.7) |
| \$153             | \$ 137       | 11.7   | \$ 229           | \$ 225       | 1.8    | \$44                           | \$ 73        | (39.7) | \$ 1,130             | \$ 1,153     | (2.0)  |
| \$1,952           | \$ 1,499     | 30.2%  | \$ 3,834         | \$ 3,535     | 8.5%   | \$138                          | \$ 150       | (8.0)% | \$ 47,019            | \$ 43,925    | 7.0%   |
| 667               | 677          | (1.5)  |                  |              |        | 65                             | 66           | (1.5)  | 28,632               | 28,616       | .1     |
| 451               | 445          | 1.3    |                  |              |        | 4                              | 4            |        | 21,569               | 20,987       | 2.8    |
| 2,343             | 2,403        | (2.5)  | 9,712            | 8,321        | 16.7   | 41                             | 46           | (10.9) | 47,473               | 44,251       | 7.3    |
| 5,413             | 5,024        | 7.7    | 13,546           | 11,856       | 14.3   | 248                            | 266          | (6.8)  | 144,693              | 137,779      | 5.0    |
| 1,550             | 1,375        | 12.7   | 2,456            | 2,286        | 7.4    | 28                             |              | *      | 7,569                | 7,097        | 6.7    |
| 450               | 495          | (9.1)  | 1,088            | 1,056        | 3.0    | 42                             |              | *      | 3,220                | 2,939        | 9.6    |
| 7,981             | 7,458        | 7.0    | 18,792           | 16,464       | 14.1   | 52,000                         | 50,857       | 2.2    | 219,512              | 210,025      | 4.5    |
| 4,250             | 3,637        | 16.9   | 453              | 293          | 54.6   | 44                             | 227          | (80.6) | 27,677               | 28,837       | (4.0)  |
| 2,766             | 2,380        | 16.2   |                  |              |        | 3                              | 2            | 50.0   | 25,076               | 23,141       | 8.4    |
| 5,490             | 5,398        | 1.7    | 20               | 18           | 11.1   | 67                             | 24           | *      | 31,113               | 33,067       | (5.9)  |
| 3,868             | 2,053        | 88.4   | 3                | 3            |        | 1,339                          | 2,821        | (52.5) | 36,862               | 35,118       | 5.0    |
| 16,374            | 13,468       | 21.6   | 476              | 314          | 51.6   | 1,453                          | 3,074        | (52.7) | 120,728              | 120,163      | .5     |

|       |       |     |       |       |     |       |       |     |        |        |     |
|-------|-------|-----|-------|-------|-----|-------|-------|-----|--------|--------|-----|
| 2,496 | 2,345 | 6.4 | 4,741 | 4,362 | 8.7 | 1,746 | 1,613 | 8.2 | 21,210 | 20,148 | 5.3 |
|-------|-------|-----|-------|-------|-----|-------|-------|-----|--------|--------|-----|

**Consumer Banking** delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATMs. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer Banking contributed \$429 million of the Company's net income in the first quarter of 2007, an increase of \$18 million (4.4 percent), compared with the first quarter of 2006. Within Consumer Banking, the retail banking division contributed \$401 million of the total contribution in the first quarter of 2007, a 1.7 percent decline on a year-over-year basis.

Total net revenue increased \$56 million (4.2 percent) in the first quarter of 2007, compared with the first quarter of 2006. Net interest income, on a taxable-equivalent basis, increased \$15 million (1.6 percent) in the first quarter of 2007, compared with the first quarter of 2006. The year-over-year increase in net interest income was due to growth in average loans of 4.2 percent, higher loan fees and the funding benefit of deposits. Partially offsetting these increases were reduced spreads on commercial and retail loans due to competitive pricing within the Company's markets. The increase in average loan balances reflected growth in all loan categories, with the largest increase in retail loans. The growth in retail loans was principally driven by an increase in installment and home equity loans, partially offset by a reduction in retail leasing balances due to customer demand for installment loan products and pricing competition. The year-over-year decrease in average deposits reflected a reduction in savings and noninterest-bearing deposit products, partially offset by growth in time deposits and interest checking. Average time deposit balances in the first quarter of 2007 grew \$1.9 billion (10.6 percent), compared with the first quarter of 2006, as a portion of noninterest-bearing and money market balances migrated to fixed-rate time deposit products. Average savings balances declined \$2.5 billion (11.3 percent), compared with the first quarter of 2006, primarily related to a decrease in money market account balances. Fee-based noninterest income increased \$41 million (10.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. The year-over-year increase in fee-based revenue was driven by an increase in mortgage banking revenue, principally related to the adoption of fair value accounting for MSRs, as well as an increase in deposit service charges. These increases were partially offset by lower revenue related to student loan sales.

Noninterest expense increased \$21 million (3.4 percent) in the first quarter of 2007, compared with the first quarter of 2006. The increase was primarily attributable to increases in compensation and

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employee benefit expenses which reflected the net addition, including the impact of recent acquisitions, of 21 in-store and 47 traditional branches at March 31, 2007, compared with March 31, 2006.

The provision for credit losses increased \$6 million (9.5 percent) in the first quarter of 2007, compared with the first quarter of 2006. The increase was attributable to higher net charge-offs. As a percentage of average loans outstanding, net charge-offs increased to .38 percent in the first quarter of 2007, compared with .36 percent in the first quarter of 2006. Commercial and commercial real estate loan net charge-offs decreased \$2 million (16.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. Retail loan and residential mortgage net charge-offs increased \$8 million (15.7 percent) in the first quarter of 2007, compared with the first quarter of 2006, reflecting higher levels of bankruptcy-related losses. Nonperforming assets within Consumer Banking were \$312 million at March 31, 2007, \$283 million at December 31, 2006, and \$291 million at March 31, 2006. Nonperforming assets as a percentage of period-end loans were .44 percent at March 31, 2007, .40 percent at December 31, 2006, and .43 percent at March 31, 2006. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

**Wealth Management** provides trust, private banking, financial advisory, investment management, retail brokerage services, insurance, custody and mutual fund servicing through six businesses: Private Client Group, Corporate Trust, U.S. Bancorp Investments and Insurance, FAF Advisors, Institutional Trust and Custody and Fund Services. Wealth Management contributed \$153 million of the Company's net income in the first quarter of 2007, an increase of \$16 million (11.7 percent), compared with the first quarter of 2006. The growth was primarily attributable to core account fee growth and improved equity market conditions relative to a year ago.

Total net revenue increased \$17 million (3.6 percent) in the first quarter of 2007, compared with the first quarter of 2006. Net interest income, on a taxable-equivalent basis, decreased \$5 million (4.0 percent) in the first quarter of 2007, compared with the first quarter of 2006. The decrease in net interest income was due to unfavorable impacts of deposit pricing and tightening credit spreads, partially offset by earnings from deposit growth. The increase in total deposits was attributable to growth in noninterest-bearing deposits, interest checking and time deposits, principally due to acquired businesses. Noninterest income increased \$22 million (6.3 percent) in the first quarter of 2007, compared with the first quarter of 2006, primarily driven by core account fee growth and favorable equity market conditions.

Noninterest expense decreased \$7 million (2.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. The decrease in noninterest expense was primarily due to the completion of certain acquisition integration activities and a reduction in net shared services expense.

**Payment Services** includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit, ATM processing and merchant processing. Payment Services contributed \$229 million of the Company's net income in the first quarter of 2007, an increase of \$4 million (1.8 percent), compared with the first quarter of 2006. The increase was 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 \$73 million (9.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. Net interest income, on a taxable-equivalent basis, increased \$6 million (3.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. The increase was primarily due to growth in higher yielding retail credit card loan balances, partially offset by declining spreads on retail credit cards. Noninterest income increased \$67 million (11.4 percent) in the first quarter of 2007, compared with the first quarter of 2006. The increase in fee-based revenue was driven by higher transaction volumes, rate changes, and business expansion initiatives. The increase in noninterest income was partially offset by a merchant processing settlement recorded in the first quarter of 2006.

Noninterest expense increased \$33 million (9.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. The increase in noninterest expense was primarily attributable to the acquisition of merchant acquiring and corporate payments businesses, and other new business initiatives.

The provision for credit losses increased \$33 million in the first quarter of 2007, compared with the first quarter of 2006, due to higher net charge-offs, reflecting the impact of implementing minimum balance repayment requirements for credit cards and a higher level of bankruptcy-related losses. As a percentage of average loans outstanding, net

charge-offs were 2.78 percent in the first quarter of 2007, compared with 2.05 percent in the first quarter of 2006.

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**Treasury and Corporate Support** includes the Company's investment portfolios, funding, capital management and asset securitization activities, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of \$44 million in the first quarter of 2007, a decrease of \$29 million (39.7 percent), compared with the first quarter of 2006.

Total net revenue decreased \$96 million in the first quarter of 2007, compared with the first quarter of 2006. The year-over-year decrease in total net revenue was primarily due to unfavorable variances in both net interest income and noninterest income. The decline in net interest income reflected the impact of a flatter yield curve and the impact of issuing higher cost wholesale funding to support earning asset growth. Noninterest income decreased \$48 million (72.7 percent) in the first quarter of 2007, compared with the first quarter of 2006. The decrease was primarily due to trading gains realized in the first quarter of 2006 related to terminating certain interest rate derivatives.

Noninterest expense decreased \$3 million (5.9 percent) in the first quarter of 2007, compared with the first quarter of 2006. The decrease in noninterest expense was driven by a decrease in compensation and benefits expense due to the immediate recognition in the first quarter of 2006 of the value of stock awards for employees that met retiree status. Partially offsetting this decrease was an unfavorable change in net shared services allocated to the business lines.

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

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support. The consolidated effective tax rate of the Company was 30.4 percent in the first quarter of 2007, compared with 32.7 percent in the first quarter of 2006. The decrease in the effective tax rate primarily reflected higher tax exempt income from municipal securities, incremental tax credits generated from investments in affordable housing and similar tax-advantaged projects, and expansion of a bank-owned life insurance program.

**CRITICAL ACCOUNTING POLICIES**

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

**CONTROLS AND PROCEDURES**

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

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

**Table of Contents**U.S. Bancorp  
Consolidated Balance Sheet

| (Dollars in Millions)   | March 31,<br>2007 | December 31,<br>2006 |
|---|-------------------|----------------------|
|   | (Unaudited)       |                      |
| <b>Assets</b>   |                   |                      |
| Cash and due from banks   | \$6,287           | \$8,639              |
| Investment securities   |                   |                      |
| Held-to-maturity (fair value \$87 and \$92, respectively)   | 83                | 87                   |
| Available-for-sale  | 40,508            | 40,030               |
| Loans held for sale   | 4,075             | 3,256                |
| Loans   |                   |                      |
| Commercial  | 47,315            | 46,190               |
| Commercial real estate  | 28,530            | 28,645               |
| Residential mortgages   | 21,765            | 21,285               |
| Retail  | 47,235            | 47,477               |
| Total loans   | 144,845           | 143,597              |
| Less allowance for loan losses  | (2,027)           | (2,022)              |
| Net loans   | 142,818           | 141,575              |
| Premises and equipment  | 1,818             | 1,835                |
| Goodwill  | 7,585             | 7,538                |
| Other intangible assets   | 3,215             | 3,227                |
| Other assets  | 15,059            | 13,045               |
| Total assets  | \$221,448         | \$219,232            |
| <b>Liabilities and Shareholders Equity</b>  |                   |                      |
| <b>Deposits</b>   |                   |                      |
| Noninterest-bearing   | \$28,666          | \$32,128             |
| Interest-bearing  | 70,557            | 70,330               |
| Time deposits greater than \$100,000  | 18,837            | 22,424               |
| Total deposits  | 118,060           | 124,882              |
| Short-term borrowings   | 28,516            | 26,933               |
| Long-term debt  | 44,698            | 37,602               |
| Other liabilities   | 9,374             | 8,618                |
| Total liabilities   | 200,648           | 198,035              |
| <b>Shareholders equity</b>  |                   |                      |
| Preferred stock, par value \$1.00 a share (liquidation preference of \$25,000 per share) authorized: 50,000,000 shares; issued and outstanding: 40,000 shares | 1,000             | 1,000                |
| Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 3/31/07 and 12/31/06 1,972,643,007 shares                                    | 20                | 20                   |
| Capital surplus   | 5,745             | 5,762                |

|  |                              |                  |                  |
|--|------------------------------|------------------|------------------|
| Retained earnings                                |                              | 21,660           | 21,242           |
| Less cost of common stock in treasury: 3/31/07   | 230,455,149 shares; 12/31/06 |                  |                  |
| 207,928,756 shares                               |                              | (6,972)          | (6,091)          |
| Other comprehensive income                       |                              | (653)            | (736)            |
| <b>Total shareholders equity</b>                 |                              | <b>20,800</b>    | <b>21,197</b>    |
| <b>Total liabilities and shareholders equity</b> |                              | <b>\$221,448</b> | <b>\$219,232</b> |

*See Notes to Consolidated Financial Statements.*



**Table of Contents**U.S. Bancorp  
Consolidated Statement of Income

|  | Three Months<br>Ended<br>March 31, |         |
|--|------------------------------------|---------|
| (Dollars and Shares in Millions, Except Per Share Data)<br>(Unaudited) | 2007                               | 2006    |
| <b>Interest Income</b>   |                                    |         |
| Loans  | \$2,578                            | \$2,307 |
| Loans held for sale  | 59                                 | 51      |
| Investment securities  | 516                                | 490     |
| Other interest income  | 34                                 | 43      |
| Total interest income  | 3,187                              | 2,891   |
| <b>Interest Expense</b>  |                                    |         |
| Deposits   | 675                                | 503     |
| Short-term borrowings  | 328                                | 270     |
| Long-term debt   | 535                                | 403     |
| Total interest expense   | 1,538                              | 1,176   |
| Net interest income  | 1,649                              | 1,715   |
| Provision for credit losses  | 177                                | 115     |
| Net interest income after provision for credit losses                  | 1,472                              | 1,600   |
| <b>Noninterest Income</b>  |                                    |         |
| Credit and debit card revenue  | 205                                | 182     |
| Corporate payment products revenue                                     | 145                                | 127     |
| ATM processing services  | 59                                 | 59      |
| Merchant processing services   | 250                                | 213     |
| Trust and investment management fees                                   | 322                                | 297     |
| Deposit service charges  | 243                                | 232     |
| Treasury management fees   | 111                                | 107     |
| Commercial products revenue  | 100                                | 104     |
| Mortgage banking revenue   | 67                                 | 24      |
| Investment products fees and commissions                               | 34                                 | 38      |
| Securities gains (losses), net   | 1                                  |         |
| Other  | 159                                | 231     |
| Total noninterest income   | 1,696                              | 1,614   |
| <b>Noninterest Expense</b>   |                                    |         |
| Compensation   | 635                                | 633     |
| Employee benefits  | 133                                | 133     |
| Net occupancy and equipment  | 165                                | 165     |
| Professional services  | 47                                 | 35      |
| Marketing and business development                                     | 48                                 | 40      |
| Technology and communications  | 125                                | 117     |

|   |                |                |
|---|----------------|----------------|
| Postage, printing and supplies                | 69             | 66             |
| Other intangibles                             | 94             | 85             |
| Other   | 229            | 226            |
| <b>Total noninterest expense</b>              | <b>1,545</b>   | <b>1,500</b>   |
| Income before income taxes                    | 1,623          | 1,714          |
| Applicable income taxes                       | 493            | 561            |
| Net income                                    | \$1,130        | \$1,153        |
| <b>Net income applicable to common equity</b> | <b>\$1,115</b> | <b>\$1,153</b> |
| Earnings per common share                     | \$.64          | \$.64          |
| Diluted earnings per common share             | \$.63          | \$.63          |
| Dividends declared per common share           | \$.40          | \$.33          |
| Average common shares outstanding             | 1,752          | 1,801          |
| Average diluted common shares outstanding     | 1,780          | 1,826          |

*See Notes to Consolidated Financial Statements.*

**Table of Contents**U.S. Bancorp  
Consolidated Statement of Shareholders' Equity

| (Dollars and Shares in<br>Millions)<br>(Unaudited)                 | Common<br>Shares<br>Outstanding | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Other<br>Comprehensive<br>Income | Total<br>Shareholders'<br>Equity |
|--|---------------------------------|--------------------|-----------------|--------------------|----------------------|-------------------|----------------------------------|----------------------------------|
| <b>Balance December 31,<br/>2005</b>                               | 1,815                           | \$                 | \$20            | \$5,907            | \$19,001             | \$(4,413)         | \$(429)                          | \$20,086                         |
| Change in accounting<br>principle                                  |                                 |                    |                 |                    | 4                    |                   |                                  | 4                                |
| Net income   |                                 |                    |                 |                    | 1,153                |                   |                                  | 1,153                            |
| Unrealized loss on<br>securities available for<br>sale             |                                 |                    |                 |                    |                      |                   | (481)                            | (481)                            |
| Unrealized gain on<br>derivatives                                  |                                 |                    |                 |                    |                      |                   | 104                              | 104                              |
| Foreign currency<br>translation                                    |                                 |                    |                 |                    |                      |                   | 9                                | 9                                |
| Realized loss on<br>derivatives                                    |                                 |                    |                 |                    |                      |                   | (153)                            | (153)                            |
| Reclassification for<br>realized gains                             |                                 |                    |                 |                    |                      |                   | (7)                              | (7)                              |
| Income taxes   |                                 |                    |                 |                    |                      |                   | 200                              | 200                              |
| Total<br>comprehensive<br>income                                   |                                 |                    |                 |                    |                      |                   |                                  | 825                              |
| Cash dividends<br>declared on common<br>stock                      |                                 |                    |                 |                    | (590)                |                   |                                  | (590)                            |
| Issuance of preferred<br>stock                                     |                                 | 1,000              |                 | (52)               |                      |                   |                                  | 948                              |
| Issuance of common<br>and treasury stock                           | 9                               |                    |                 | (51)               |                      | 261               |                                  | 210                              |
| Purchase of treasury<br>stock                                      | (41)                            |                    |                 |                    |                      | (1,240)           |                                  | (1,240)                          |
| Stock option and<br>restricted stock grants                        |                                 |                    |                 | 15                 |                      |                   |                                  | 15                               |
| Shares reserved to<br>meet deferred<br>compensation<br>obligations |                                 |                    |                 |                    |                      |                   | (2)                              | (2)                              |
| <b>Balance March 31,<br/>2006</b>                                  | 1,783                           | \$1,000            | \$20            | \$5,819            | \$19,568             | \$(5,394)         | \$(757)                          | \$20,256                         |
|  | 1,765                           | \$1,000            | \$20            | \$5,762            | \$21,242             | \$(6,091)         | \$(736)                          | \$21,197                         |

**Balance December 31,  
2006**

|   |      |  |  |       |  |         |  |         |
|---|------|--|--|-------|--|---------|--|---------|
| Net income  |      |  |  | 1,130 |  |         |  | 1,130   |
| Unrealized gain on securities available for sale          |      |  |  |       |  | 115     |  | 115     |
| Unrealized loss on derivatives                            |      |  |  |       |  | (17)    |  | (17)    |
| Foreign currency translation                              |      |  |  |       |  | 17      |  | 17      |
| Reclassification for realized losses                      |      |  |  |       |  | 18      |  | 18      |
| Change in retirement obligation                           |      |  |  |       |  | 1       |  | 1       |
| Income taxes  |      |  |  |       |  | (51)    |  | (51)    |
| Total comprehensive income                                |      |  |  |       |  |         |  | 1,213   |
| Cash dividends declared:                                  |      |  |  |       |  |         |  |         |
| Preferred   |      |  |  |       |  | (15)    |  | (15)    |
| Common  |      |  |  |       |  | (697)   |  | (697)   |
| Issuance of common and treasury stock                     | 11   |  |  | (15)  |  | 350     |  | 335     |
| Purchase of treasury stock                                | (34) |  |  |       |  | (1,230) |  | (1,230) |
| Stock option and restricted stock grants                  |      |  |  | (3)   |  |         |  | (3)     |
| Shares reserved to meet deferred compensation obligations |      |  |  | 1     |  | (1)     |  |         |

**Balance March 31,  
2007**

|       |         |      |         |          |           |         |          |
|-------|---------|------|---------|----------|-----------|---------|----------|
| 1,742 | \$1,000 | \$20 | \$5,745 | \$21,660 | \$(6,972) | \$(653) | \$20,800 |
|-------|---------|------|---------|----------|-----------|---------|----------|

*See Notes to Consolidated Financial Statements.*

**Table of Contents**U.S. Bancorp  
Consolidated Statement of Cash Flows

|   | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
| (Dollars in Millions)<br>(Unaudited)                            | 2007                               | 2006    |
| <b>Operating Activities</b>                                     |                                    |         |
| Net cash provided by operating activities                       | \$527                              | \$1,814 |
| <b>Investing Activities</b>                                     |                                    |         |
| Proceeds from sales of available-for-sale investment securities | 246                                | 188     |
| Proceeds from maturities of investment securities               | 1,093                              | 1,216   |
| Purchases of investment securities                              | (1,733)                            | (1,866) |
| Net increase in loans outstanding                               | (798)                              | (423)   |
| Proceeds from sales of loans                                    | 249                                | 208     |
| Purchases of loans  | (520)                              | (921)   |
| Acquisitions, net of cash acquired                              | (60)                               | (443)   |
| Other, net  | (1,238)                            | (57)    |
| Net cash used in investing activities                           | (2,761)                            | (2,098) |
| <b>Financing Activities</b>                                     |                                    |         |
| Net decrease in deposits  | (7,130)                            | (2,965) |
| Net increase in short-term borrowings                           | 1,576                              | 451     |
| Proceeds from issuance of long-term debt                        | 9,778                              | 4,046   |
| Principal payments or redemption of long-term debt              | (2,726)                            | (1,621) |
| Proceeds from issuance of preferred stock                       |                                    | 948     |
| Proceeds from issuance of common stock                          | 227                                | 169     |
| Repurchase of common stock                                      | (1,217)                            | (1,149) |
| Cash dividends paid on preferred stock                          | (15)                               |         |
| Cash dividends paid on common stock                             | (706)                              | (599)   |
| Net cash used in financing activities                           | (213)                              | (720)   |
| Change in cash and cash equivalents                             | (2,447)                            | (1,004) |
| Cash and cash equivalents at beginning of period                | 8,805                              | 8,202   |
| Cash and cash equivalents at end of period                      | \$6,358                            | \$7,198 |

*See Notes to Consolidated Financial Statements.*

U.S. Bancorp

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**Table of Contents**Notes to Consolidated Financial Statements  
(Unaudited)**Note 1** Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Certain amounts in prior periods have been reclassified to conform to the current presentation.

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

**Note 2** Accounting Changes

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

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

**Accounting for Uncertainty in Income Taxes** In June 2006, the FASB issued Interpretation No. 48 (FIN 48),

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

**Table of Contents****Note 3** Loans

The composition of the loan portfolio was as follows:

| (Dollars in Millions)            | March 31, 2007 |                  | December 31, 2006 |                  |
|----------------------------------|----------------|------------------|-------------------|------------------|
|                                  | Amount         | Percent of Total | Amount            | Percent of Total |
| <b>Commercial</b>                |                |                  |                   |                  |
| Commercial                       | \$41,679       | 28.8%            | \$40,640          | 28.3%            |
| Lease financing                  | 5,636          | 3.9              | 5,550             | 3.9              |
| Total commercial                 | 47,315         | 32.7             | 46,190            | 32.2             |
| <b>Commercial real estate</b>    |                |                  |                   |                  |
| Commercial mortgages             | 19,668         | 13.6             | 19,711            | 13.7             |
| Construction and development     | 8,862          | 6.1              | 8,934             | 6.2              |
| Total commercial real estate     | 28,530         | 19.7             | 28,645            | 19.9             |
| <b>Residential mortgages</b>     |                |                  |                   |                  |
| Residential mortgages            | 15,808         | 10.9             | 15,316            | 10.7             |
| Home equity loans, first liens   | 5,957          | 4.1              | 5,969             | 4.1              |
| Total residential mortgages      | 21,765         | 15.0             | 21,285            | 14.8             |
| <b>Retail</b>                    |                |                  |                   |                  |
| Credit card                      | 8,555          | 5.9              | 8,670             | 6.0              |
| Retail leasing                   | 6,750          | 4.7              | 6,960             | 4.9              |
| Home equity and second mortgages | 15,551         | 10.7             | 15,523            | 10.8             |
| <b>Other retail</b>              |                |                  |                   |                  |
| Revolving credit                 | 2,498          | 1.7              | 2,563             | 1.8              |
| Installment                      | 4,629          | 3.2              | 4,478             | 3.1              |
| Automobile                       | 8,823          | 6.1              | 8,693             | 6.1              |
| Student                          | 429            | .3               | 590               | .4               |
| Total other retail               | 16,379         | 11.3             | 16,324            | 11.4             |
| Total retail                     | 47,235         | 32.6             | 47,477            | 33.1             |
| Total loans                      | \$144,845      | 100.0%           | \$143,597         | 100.0%           |

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

**Note 4** Mortgage Servicing Rights

The Company's portfolio of residential mortgages serviced for others was \$87.1 billion and \$82.9 billion at March 31, 2007, and December 31, 2006, respectively. The Company records mortgage servicing rights (MSRs) initially at fair value and at each subsequent reporting date, and records changes in fair value in noninterest income in the period in which they occur. In conjunction with its MSRs, the Company may utilize derivatives, including futures and option contracts to manage the volatility of changes in the fair value of MSRs. The net impact of assumption changes on the fair value of MSRs and the related derivatives included in mortgage banking revenue was a net gain of \$1 million and

net loss of \$19 million for the three months ended March 31, 2007, and 2006, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue were \$86 million and \$76 million for the three months ended March 31, 2007, and 2006, respectively.

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

| (Dollars in Millions)                     | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2007                         | 2006    |
| Balance at beginning of period            | \$1,427                      | \$1,123 |
| Rights purchased                          | 3                            | 46      |
| Rights capitalized                        | 82                           | 71      |
| Changes in fair value of MSRs             |                              |         |
| Due to change in valuation assumptions(a) | (23)                         | 33      |
| Other changes in fair value(b)            | (42)                         | (45)    |
| Balance at end of period                  | \$1,447                      | \$1,228 |

(a) *Primarily 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.*

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 March 31, 2007, was as follows:

| (Dollars in Millions) | Down Scenario |        | Up Scenario |        |
|-----------------------|---------------|--------|-------------|--------|
|                       | 50bps         | 25bps  | 25bps       | 50bps  |
| Net fair value        | \$(43)        | \$(18) | \$(16)      | \$(73) |

**Note 5 Earnings Per Share**

The components of earnings per share were:

| (Dollars and Shares in Millions, Except Per Share Data) | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2007                         | 2006    |
| Net income  | \$1,130                      | \$1,153 |
| Preferred dividends                                     | (15)                         |         |
| Net income applicable to common equity                  | \$1,115                      | \$1,153 |

|   |       |       |
|---|-------|-------|
| Average common shares outstanding   | 1,752 | 1,801 |
| Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes | 28    | 25    |
| Average diluted common shares outstanding   | 1,780 | 1,826 |
| Earnings per common share   | \$.64 | \$.64 |
| Diluted earnings per common share   | \$.63 | \$.63 |

For the three months ended March 31, 2007 and 2006, options to purchase 12 million and 8 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive.

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**Table of Contents****Note 6** Employee Benefits

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

| (Dollars in Millions)  | Three Months Ended<br>March 31, |      |                                   |      |
|--|---------------------------------|------|-----------------------------------|------|
|  | Pension<br>Plans                |      | Postretirement<br>Medical<br>Plan |      |
|  | 2007                            | 2006 | 2007                              | 2006 |
| Service cost   | \$18                            | \$18 | \$1                               | \$1  |
| Interest cost  | 31                              | 30   | 4                                 | 3    |
| Expected return on plan assets   | (50)                            | (48) | (2)                               |      |
| Prior service (credit) cost and transition (asset) obligation amortization | (1)                             | (2)  |                                   |      |
| Actuarial (gain) loss amortization   | 16                              | 23   |                                   |      |
| Net periodic benefit cost (income)   | \$14                            | \$21 | \$3                               | \$4  |

**Note 7** Income Taxes

The components of income tax expense were:

| (Dollars in Millions)      | Three Months<br>Ended<br>March 31, |       |
|----------------------------|------------------------------------|-------|
|                            | 2007                               | 2006  |
| <b>Federal</b>             |                                    |       |
| Current                    | \$449                              | \$581 |
| Deferred                   | (22)                               | (82)  |
| Federal income tax         | 427                                | 499   |
| <b>State</b>               |                                    |       |
| Current                    | 69                                 | 68    |
| Deferred                   | (3)                                | (6)   |
| State income tax           | 66                                 | 62    |
| Total income tax provision | \$493                              | \$561 |

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

| (Dollars in Millions)  | March 31, |       |
|--|-----------|-------|
|  | 2007      | 2006  |
| Tax at statutory rate (35 percent)                               | \$568     | \$600 |
| State income tax, at statutory rates, net of federal tax benefit | 43        | 40    |
| Tax effect of  |           |       |
| Tax credits  | (69)      | (58)  |
| Tax-exempt income  | (27)      | (20)  |
| Other items  | (22)      | (1)   |
| Applicable income taxes  | \$493     | \$561 |

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

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

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The Company's net deferred tax liability was \$1,531 million at March 31, 2007, and \$1,483 million at December 31, 2006.

**Note 8 Guarantees and Contingent Liabilities**

The following table is a summary of the guarantees and contingent liabilities of the Company at March 31, 2007:

| (Dollars in Millions)               | Carrying<br>Amount | Maximum<br>Potential<br>Future<br>Payments |
|-------------------------------------|--------------------|--|
| Standby letters of credit           | \$73               | \$11,772                                   |
| Third-party borrowing arrangements  | 4                  | 465  |
| Securities lending indemnifications |                    | 17,173                                     |
| Asset sales (a)                     | 7                  | 475  |
| Merchant processing                 | 43                 | 69,883                                     |
| Other guarantees                    | 12                 | 2,072                                      |
| Other contingent liabilities        |                    | 1,872                                      |

(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 March 31, 2007, the value of airline, cruise line and large tour operator tickets purchased to be delivered at a future date was \$3.6 billion, with airline tickets representing 94 percent of that amount. The Company held collateral of \$2.2 billion in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

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

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

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

For the Three Months Ended March 31,  
2007 2006

| (Dollars in Millions)<br>(Unaudited)                       | Average<br>Balances | Interest | Yields<br>and<br>Rates | Average<br>Balances | Interest | Yields<br>and<br>Rates | %<br>Change<br>Average<br>Balances |
|--|---------------------|----------|------------------------|---------------------|----------|------------------------|------------------------------------|
| <b>Assets</b>  |                     |          |                        |                     |          |                        |                                    |
| Investment securities                                      | \$ 40,879           | \$ 546   | 5.34%                  | \$ 39,680           | \$ 496   | 5.00%                  | 3.0%                               |
| Loans held for sale  | 3,843               | 59       | 6.22                   | 3,269               | 51       | 6.23                   | 17.6                               |
| Loans (b)  |                     |          |                        |                     |          |                        |                                    |
| Commercial   | 47,019              | 774      | 6.66                   | 43,925              | 690      | 6.36                   | 7.0                                |
| Commercial real estate                                     | 28,632              | 520      | 7.36                   | 28,616              | 497      | 7.04                   | .1                                 |
| Residential mortgages                                      | 21,569              | 323      | 6.02                   | 20,987              | 294      | 5.62                   | 2.8                                |
| Retail   | 47,473              | 967      | 8.26                   | 44,251              | 832      | 7.63                   | 7.3                                |
| Total loans  | 144,693             | 2,584    | 7.23                   | 137,779             | 2,313    | 6.79                   | 5.0                                |
| Other earning assets                                       | 1,720               | 34       | 8.02                   | 2,373               | 43       | 7.33                   | (27.5)                             |
| Total earning assets                                       | 191,135             | 3,223    | 6.81                   | 183,101             | 2,903    | 6.40                   | 4.4                                |
| Allowance for loan losses                                  | (2,036)             |          |                        | (2,059)             |          |                        | 1.1                                |
| Unrealized gain (loss) on<br>available-for-sale securities | (619)               |          |                        | (799)               |          |                        | 22.5                               |
| Other assets   | 31,032              |          |                        | 29,782              |          |                        | 4.2                                |
| Total assets   | \$ 219,512          |          |                        | \$ 210,025          |          |                        | 4.5                                |
| <b>Liabilities and Shareholders</b>                        |                     |          |                        |                     |          |                        |                                    |
| <b>Equity</b>  |                     |          |                        |                     |          |                        |                                    |
| Noninterest-bearing deposits                               | \$ 27,677           |          |                        | \$ 28,837           |          |                        | (4.0)                              |
| Interest-bearing deposits                                  |                     |          |                        |                     |          |                        |                                    |
| Interest checking  | 25,076              | 76       | 1.22                   | 23,141              | 45       | .78                    | 8.4                                |
| Money market savings                                       | 25,712              | 163      | 2.57                   | 27,378              | 116      | 1.72                   | (6.1)                              |
| Savings accounts   | 5,401               | 5        | .39                    | 5,689               | 4        | .29                    | (5.1)                              |
| Time certificates of deposit<br>less than \$100,000        | 14,775              | 158      | 4.35                   | 13,505              | 114      | 3.42                   | 9.4                                |
| Time deposits greater than<br>\$100,000                    | 22,087              | 273      | 5.00                   | 21,613              | 224      | 4.20                   | 2.2                                |
| Total interest-bearing<br>deposits                         | 93,051              | 675      | 2.94                   | 91,326              | 503      | 2.23                   | 1.9                                |
| Short-term borrowings                                      | 26,687              | 347      | 5.28                   | 24,356              | 272      | 4.54                   | 9.6                                |
| Long-term debt   | 42,944              | 535      | 5.04                   | 38,229              | 403      | 4.26                   | 12.3                               |
|  | 162,682             | 1,557    | 3.88                   | 153,911             | 1,178    | 3.10                   | 5.7                                |

|   |            |            |       |
|---|------------|------------|-------|
| <b>Total interest-bearing liabilities</b>                   |            |            |       |
| Other liabilities   | 7,943      | 7,129      | 11.4  |
| <b>Shareholders equity</b>                                  |            |            |       |
| Preferred equity  | 1,000      | 55         | *     |
| Common equity   | 20,210     | 20,093     | .6    |
| Total shareholders equity                                   | 21,210     | 20,148     | 5.3   |
| <b>Total liabilities and shareholders equity</b>            |            |            |       |
|   | \$ 219,512 | \$ 210,025 | 4.5%  |
| Net interest income   | \$ 1,666   | \$ 1,725   |       |
| Gross interest margin                                       |            | 2.93%      | 3.30% |
| Gross interest margin without taxable-equivalent increments |            | 2.89       | 3.28  |
| <b>Percent of Earning Assets</b>                            |            |            |       |
| Interest income   |            | 6.81%      | 6.40% |
| Interest expense  |            | 3.30       | 2.60  |
| Net interest margin   |            | 3.51%      | 3.80% |
| Net interest margin without taxable-equivalent increments   |            | 3.47%      | 3.78% |

\* *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.*

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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, 2006, for discussion of these risks. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks that the Company currently does not know about or currently views as immaterial may also impair the Company's business or adversely impact its financial results or stock price.

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

**Item 4. Submission of Matters to a Vote of Security Holders** The 2007 Annual Meeting of Shareholders of U.S. Bancorp was held Tuesday, April 17, 2007, at the Westin Cincinnati, Cincinnati, Ohio. Jerry A. Grundhofer, Chairman of the Board, presided.

The holders of 1,519,437,773 shares of common stock, 87 percent of the outstanding shares entitled to vote as of the record date, were represented at the meeting in person or by proxy. The candidates for election as Class III Directors listed in the proxy statement were elected to serve three-year terms expiring at the annual shareholders' meeting in 2010, and the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2007, was ratified. The proposal to approve the U.S. Bancorp 2007 Stock Incentive Plan and the proposal to approve an amendment to the Company's restated Certificate of Incorporation to provide for the annual election of all directors were approved. The shareholder proposal urging the adoption of a policy that shareholders be given an opportunity to annually ratify the compensation paid to the executive officers named in the Company's proxy statement and the shareholder proposal urging the adoption of a policy to limit the benefits provided under the Company's supplemental executive retirement plan were not approved.

**Summary of Matters Voted Upon by Shareholders**

|   | Number of Shares |             | Abstain    | Broker Non-Vote |
|---|------------------|-------------|------------|-----------------|
|   | For              | Withheld    |            |                 |
| Election of Class II Directors:   |                  |             |            |                 |
| Victoria Buyniski Gluckman  | 1,484,300,656    | 35,137,117  |            |                 |
| Arthur D. Collins, Jr.  | 1,471,766,266    | 47,671,507  |            |                 |
| Olivia F. Kirtley   | 1,482,680,179    | 36,757,594  |            |                 |
| Jerry W. Levin  | 1,466,462,613    | 52,975,160  |            |                 |
| Richard G. Reiten   | 1,480,693,489    | 38,744,284  |            |                 |
|   | For              | Against     | Abstain    | Broker Non-Vote |
| Ratification of Selection of Auditor  | 1,481,298,955    | 25,679,520  | 12,459,295 |                 |
| Proposal to Approve the U.S. Bancorp 2007 Stock Incentive Plan  | 1,085,203,983    | 137,394,656 | 24,171,210 | 272,667,924     |
| Proposal to Approve an Amendment to the Company's Restated Certificate of Incorporation to Provide for the Annual Election of All Directors | 1,479,752,398    | 21,060,366  | 18,625,006 |                 |
| Proposal to Annually Ratify the Compensation Paid to the Executive Officers Named in the  | 510,170,148      | 680,310,200 | 56,222,578 | 272,734,847     |



Company's Proxy Statement

Proposal to Establish a Policy Limiting the  
Benefits Provided Under the Company's

|  |             |             |            |             |
|--|-------------|-------------|------------|-------------|
| Supplemental Executive Retirement Plan | 385,373,759 | 825,977,162 | 35,387,398 | 272,699,454 |
|--|-------------|-------------|------------|-------------|

For a copy of the meeting minutes, please write to the Office of the Corporate Secretary, U.S. Bancorp, 800 Nicollet Mall, Minneapolis, Minnesota 55402.

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**Item 6. Exhibits**

- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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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: May 10, 2007

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

|  | <b>Three Months<br/>Ended<br/>March 31, 2007</b> |
|--|--|
| (Dollars in Millions)  |  |
| <b>Earnings</b>  |  |
| 1. Net income  | \$1,130  |
| 2. Applicable income taxes, including interest expense related to unrecognized tax positions | 493  |
| 3. Income before income taxes (1 + 2)  | \$1,623  |
| 4. Fixed charges:  |  |
| a. Interest expense excluding interest on deposits*  | \$863  |
| b. Portion of rents representative of interest and amortization of debt expense              | 19   |
| c. Fixed charges excluding interest on deposits (4a + 4b)                                    | 882  |
| d. Interest on deposits  | 675  |
| e. Fixed charges including interest on deposits (4c + 4d)                                    | \$1,557  |
| 5. Amortization of interest capitalized  | \$   |
| 6. Earnings excluding interest on deposits (3 + 4c + 5)                                      | 2,505  |
| 7. Earnings including interest on deposits (3 + 4e + 5)                                      | 3,180  |
| 8. Fixed charges excluding interest on deposits (4c)   | 882  |
| 9. Fixed charges including interest on deposits (4e)   | 1,557  |
| <b>Ratio of Earnings to Fixed Charges</b>  |  |
| 10. Excluding interest on deposits (line 6/line 8)   | 2.84   |
| 11. Including interest on deposits (line 7/line 9)   | 2.04   |

\* 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: May 10, 2007

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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: May 10, 2007

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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 March 31, 2007 (the Form 10-Q ) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard K. Davis

/s/ Andrew Cecere

Richard K. Davis  
*Chief Executive Officer*

Andrew Cecere  
*Chief Financial Officer*

Dated: May 10, 2007

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U.S. Bancorp

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First Class  
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Permit No. 2440  
Minneapolis, MN

corporate information

**Executive Offices**

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

**Common Stock Transfer Agent and Registrar**

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

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

For Registered or Certified Mail:

Mellon Investor Services  
480 Washington Boulevard  
Jersey City, NJ 07310

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

**Independent Auditor**

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

**Common Stock Listing and Trading**

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

**Dividends and Reinvestment Plan**

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

**Investor Relations Contacts**

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

**Financial Information**

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

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



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

U.S. Bancorp Investor Relations

800 Nicollet Mall

Minneapolis, MN 55402

investorrelations@usbank.com

Phone: 866-775-9668

**Media Requests**

Steven W. Dale

Senior Vice President, Media Relations

steve.dale@usbank.com

Phone: 612-303-0784

**Privacy**

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

**Code of Ethics**

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

**Diversity**

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

**Equal Employment Opportunity/Affirmative Action**

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

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

U.S. Bancorp

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