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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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	**41-0255900**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

800 Nicollet Mall
Minneapolis, Minnesota 55402
(Address of principal executive offices, including zip code)

651-466-3000
(Registrant s telephone number, including area code)

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

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

YES þ NO o

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

YES o NO þ

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

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

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

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

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

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Table 1 Selected Financial Data

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

	June 30, 2008	December 31, 2007	
l Balances			
	$ 165,890	$ 153,827	7.8%
for credit losses	2,648	2,260	17.2
securities	41,122	43,116	(4.6)
	246,538	237,615	3.8
	135,131	131,445	2.8
debt	39,943	43,440	(8.1)
rs equity	21,828	21,046	3.7
capital ratios			
al	8.5%	8.3%	
ased capital	12.5	12.2	
	7.9	7.9	
mmon equity	5.2	5.1	

* *Not meaningful.*

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

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

Management s Discussion and Analysis

OVERVIEW

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

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

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

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

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

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

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

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

STATEMENT OF INCOME ANALYSIS

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

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

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

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

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

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Average total savings deposits increased $8.4 billion (15.0 percent) in the second quarter and $6.6 billion (11.8 percent) in the first six months of 2008, compared with the same periods of 2007, due to an increase in interest checking balances driven by higher balances from broker-dealer, government and institutional trust customers, and an increase in money market savings balances driven by higher broker-dealer balances. The increases in interest checking and money market savings balances were partially offset by a modest decline in average savings accounts, primarily within Consumer Banking.
Average time certificates of deposit less than $100,000 were lower in the second quarter and first six months of 2008 by $2.1 billion (14.1 percent) and $1.6 billion (11.0 percent), respectively, compared with the same periods of 2007. The decline in time certificates of deposit less than $100,000 was due to the Company s funding and pricing decisions and competition for these deposits by other financial institutions that have more limited access to wholesale funding sources, given the current market environment. Average time deposits greater than $100,000 increased by $10.7 billion (52.3 percent) and $8.8 billion (41.7 percent) in the second quarter and first six months of 2008, respectively, compared with the same periods of 2007, as a result of both the Company s wholesale funding decisions and its ability to attract larger customer deposits, given the current market conditions.

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

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

Table 2 Noninterest Income

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

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

* *Not meaningful.*

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Standards No. 157 (SFAS 157), Fair Value Measurements , effective January 1, 2008. Upon adoption of SFAS 157, trading revenue decreased $62 million, as primary market and nonperformance risk is now required to be considered when determining the fair value of derivative positions. In addition, under SFAS 157 mortgage production gains included in mortgage banking revenue increased, because the deferral of costs related to the origination of mortgage loans held for sale (MLHFS) is not permitted.
The strong growth in credit and debit card revenue was primarily driven by an increase in customer accounts and higher customer transaction volumes over a year ago. Corporate payment products revenue growth reflected growth in sales volumes, card usage and business expansion. ATM processing services increased primarily due to growth in transaction volumes. Merchant processing services revenue growth reflected higher core transaction volume and business expansion. Trust and investment management fees increased year-over-year due to core account growth, partially offset by unfavorable equity market conditions. Deposit service charges remained relatively flat and increased modestly in the second quarter and first six months of 2008, respectively, compared with the same periods of the prior year. Higher transaction-related fees and the impact of continued growth in net new checking accounts were muted as deposit account-related revenue continued to migrate to yield-related loan fees, as customers utilized new consumer products. Treasury management fees increased due primarily to the favorable impact of declining rates on customer compensating balances. Commercial products revenue increased year-over-year due to higher commercial lending-related fees, foreign exchange and commercial leasing revenue. Mortgage banking revenue increased due to an increase in mortgage servicing income and production revenue, including the impact of SFAS 157, partially offset by the unfavorable net change in the value of mortgage servicing rights (MSRs) and related economic hedges. Securities gains (losses) were lower year-over-year due primarily to the impact of the impairment charges on structured investment securities recognized in the first and second quarters of 2008. Other income in the second quarter of 2008 declined year-over-year due primarily to the $42 million adverse impact of higher retail lease residual losses compared with the second quarter of 2007. Other income for the first six months of 2008 was higher than the same period of the prior year due to the Visa Gain recognized in the first quarter of 2008, partially offset by lower retail lease revenue and the $62 million unfavorable impact to trading income upon adoption of SFAS 157.

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

Table 3 Noninterest Expense

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

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

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

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

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

BALANCE SHEET ANALYSIS

Loans The Company s total loan portfolio was $165.9 billion at June 30, 2008, compared with $153.8 billion at December 31, 2007, an increase of $12.1 billion (7.8 percent). The increase was driven by growth in all major loan categories. The $4.1 billion (8.0 percent) increase in commercial loans was primarily driven by new and existing business customers utilizing bank credit facilities, rather than the capital markets, to fund business growth and liquidity requirements, as well as growth in corporate payment card balances.

Commercial real estate loans increased $2.0 billion (7.0 percent) at June 30, 2008, compared with December 31, 2007, reflecting changing market conditions that have limited borrower access to the capital markets and the impact of an acquisition.

Residential mortgages held in the loan portfolio increased $.5 billion (2.3 percent) at June 30, 2008, compared with December 31, 2007, reflecting an increase in mortgage banking activity and higher consumer finance originations.

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

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

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

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

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

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

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

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

CORPORATE RISK PROFILE

Overview

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

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

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

Credit Risk Management

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

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

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

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

Total	$ 2,617	$ 10,711	$ 13,328	100.0%
Total Company				
Less than or equal to 80%	$ 3,231	$ 12,194	$ 15,425	66.2%
Over 80% through 90%	859	2,191	3,050	13.1
Over 90% through 100%	955	3,706	4,661	20.0
Over 100%		165	165	.7
Total	$ 5,045	$ 18,256	$ 23,301	100.0%

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

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

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

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

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

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

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

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

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

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

90 days or more past due **excluding** nonperforming loans	June 30, 2008	December 31, 2007
Commercial		
Commercial	.10%	.08%
Lease financing		
Total commercial	.09	.07
Commercial real estate		
Commercial mortgages	.02	.02
Construction and development	.24	.02
Total commercial real estate	.09	.02
Residential mortgages	1.09	.86
Retail		
Credit card	1.85	1.94
Retail leasing	.13	.10
Other retail	.33	.37
Total retail	.63	.68
Total loans	.41%	.38%

90 days or more past due **including** nonperforming loans	June 30, 2008	December 31, 2007
Commercial	.71%	.43%
Commercial real estate	1.57	1.02
Residential mortgages (a)	1.55	1.10
Retail (b)	.74	.73
Total loans	1.00%	.74%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Table 5 Nonperforming Assets (a)

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

Changes in Nonperforming Assets

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

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

(a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
(b) Excludes $143 million and $102 million at June 30, 2008, and December 31, 2007, respectively, of foreclosed GNMA loans which continue to accrue interest.
(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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Residual Value Risk Management

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

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

Operational Risk Management

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

Table 7 Summary of Allowance for Credit Losses

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

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

Interest Rate Risk Management

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

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

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

Use of Derivatives to Manage Interest Rate and Other Risks In the ordinary course of business, the Company enters into derivative transactions to manage its interest rate, prepayment, credit, price and foreign currency risks (asset and liability management positions) and to accommodate the business requirements of its customers (customer-related positions). Refer to Management s Discussion and Analysis Use of Derivatives to Manage Interest Rate and Other Risks in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on the use of derivatives to manage interest rate and other risks.
By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company s $43.4 billion of total notional amount of asset and liability management positions at June 30, 2008, $20.1 billion was designated as either fair value or cash flow hedges or net investment hedges of foreign operations. The cash flow hedge derivative positions are interest rate swaps that hedge the forecasted cash flows from underlying variable-rate debt. The fair value hedges are primarily interest rate swaps that

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

Sensitivity of Net Interest Income

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

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

Table 8 Derivative Positions

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

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

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

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

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

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

sell mortgage loans and $3.4 billion of unfunded mortgage loan commitments at June 30, 2008, that were derivatives in accordance with the provisions of the Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedge Activities . The unfunded mortgage loan commitments are reported at fair value as options in Table 8.
Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , and elected to measure certain MLHFS originated on or after January 1, 2008 at fair value. The fair value election for MLHFS will reduce certain timing differences and better match changes in the value of these mortgage loans with changes in the value of the derivatives used as economic hedges for these mortgage loans. The Company also utilizes U.S. Treasury futures, options on U.S. Treasury futures contracts, interest rate swaps and forward commitments to buy residential mortgage loans to economically hedge the change in fair value of its residential MSRs.

Market Risk Management
In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. These trading activities principally support the risk management processes of the Company s customers including their management of foreign currency and interest rate risks. The Company also manages market risk of non-trading business activities, including its MSRs and loans held-for-sale. Value at Risk (VaR) is a key measure of market risk for the Company. Theoretically, VaR represents the maximum amount that the Company has placed at risk of loss, with a ninety-ninth percentile degree of confidence, to adverse market movements in the course of its risk taking activities.
The Company s market valuation risk for trading and non-trading positions, as estimated by the VaR analysis, was $2 million and $15 million, respectively, at June 30, 2008, compared with $1 million and $15 million at December 31, 2007, respectively. The Company s VaR limit was $45 million at June 30, 2008. Refer to Management s Discussion and Analysis Market Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on market risk management.

Liquidity Risk Management
ALPC establishes policies, as well as analyzes and manages liquidity, to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, as well as from an asset and liability perspective. Management monitors liquidity through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. Refer to Management s Discussion and Analysis Liquidity Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion on liquidity risk management.
At June 30, 2008, parent company long-term debt outstanding was $11.0 billion, compared with $10.7 billion at December 31, 2007. The $.3 billion increase was primarily due to the issuance of $3.4 billion of medium-term notes, partially offset by the repayment of $2.9 billion of convertible senior debentures during the first six months of 2008. As of June 30, 2008, there was no parent company debt scheduled to mature in the remainder of 2008.
Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately $1.2 billion at June 30, 2008.

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

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

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Table 9 Capital Ratios

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

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

Capital Management

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

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

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

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

LINE OF BUSINESS FINANCIAL REVIEW

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

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

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

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

Table 10 Line of Business Financial Performance

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

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

* *Not meaningful*

h Management & urities Services		Payment Services			Treasury and Corporate Support			Consolidated Company		
2007	Percent Change	2008	2007	Percent Change	2008	2007	Percent Change	2008	2007	Pe Ch
$ 117	(6.0)%	$ 243	$ 169	43.8%	$ 127	$ (58)	*%	$ 1,908	$ 1,650	
376	2.4	762	689	10.6	18	8	*	1,955	1,882	
					(52)	2	*	(63)	3	
493	.4	1,005	858	17.1	93	(48)	*	3,800	3,535	
228	5.7	351	308	14.0	101	101		1,748	1,575	
23	(17.4)	49	51	(3.9)				87	95	
251	3.6	400	359	11.4	101	101		1,835	1,670	
242	(2.9)	605	499	21.2	(8)	(149)	94.6	1,965	1,865	
1		168	101	66.3	200	4	*	596	191	
241	(2.9)	437	398	9.8	(208)	(153)	(35.9)	1,369	1,674	(
88	(3.4)	159	145	9.7	(155)	(147)	(5.4)	419	518	(
$ 153	(2.6)	$ 278	$ 253	9.9	$ (53)	$ (6)	*	$ 950	$ 1,156	(

$ 1,919	(6.9)%	$ 4,577	$ 4,120	11.1%	$ 1,098	$ 144	*%	$ 53,979	$ 47,197
636	(6.6)				41	52	(21.2)	30,473	28,503
424	6.8				3	4	(25.0)	23,307	21,831
2,051	.7	12,551	10,167	23.4	35	40	(12.5)	55,311	48,122
5,030	(2.6)	17,128	14,287	19.9	1,177	240	*	163,070	145,653
1,553	.6	2,371	2,287	3.7				7,738	7,589
425	(20.7)	1,027	1,069	(3.9)				3,125	3,269
7,597	(4.3)	22,371	19,256	16.2	56,681	52,138	8.7	242,221	222,022
4,222	3.3	490	341	43.7	353	52	*	27,851	27,977
2,901	79.7	37	12	*	3	4	(25.0)	32,479	25,858
5,202	.3	19	21	(9.5)	68	49	38.8	31,803	30,046
3,606	14.1	1	3	(66.7)	7,046	1,902	*	43,676	35,094
15,931	18.7	547	377	45.1	7,470	2,007	*	135,809	118,975
2,454	(3.3)	4,906	4,566	7.4	1,312	1,478	(11.2)	22,320	20,895

Wealth Management & Payment Treasury and Consolidated

Securities Services