US BANCORP \DE\
Form 10-Q
November 10, 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 September 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 October 31, 2008
Common Stock, $.01 Par Value	1,754,577,993 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 continued deterioration in general business and economic conditions and in the financial 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 the other information in this report, including the section entitled Risk Factors, and 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 September 30,			Nine Months Ended September 30,	
hares in Millions, Except Per Share Data)	2008	2007	Percent Change	2008	2007
come Statement					
ome (taxable-equivalent basis) (a)	$ 1,967	$ 1,685	16.7%	$ 5,705	$ 5,001
come	1,823	1,870	(2.5)	6,073	5,474
s (losses), net	(411)	7	*	(725)	11
ue	3,379	3,562	(5.1)	11,053	10,486
pense	1,823	1,776	2.6	5,454	5,018
redit losses	748	199	*	1,829	567
taxes	808	1,587	(49.1)	3,770	4,901
alent adjustment	34	18	88.9	94	53
ome taxes	198	473	(58.1)	1,060	1,466
	$ 576	$ 1,096	(47.4)	$ 2,616	$ 3,382
plicable to common equity	$ 557	$ 1,081	(48.5)	$ 2,563	$ 3,337
Share					
hare	$ .32	$ .63	(49.2)%	$ 1.47	$ 1.92
gs per share	.32	.62	(48.4)	1.46	1.89
ared per share	.425	.400	6.3	1.275	1.200
r share	11.50	11.41	.8		
er share	36.02	32.53	10.7		
on shares outstanding	1,743	1,725	1.0	1,738	1,737
d common shares outstanding	1,757	1,745	.7	1,754	1,762
os					
age assets	.94%	1.95%		1.45%	2.04%
age common equity	10.8	21.7		16.6	22.4
rgin (taxable-equivalent basis) (a)	3.65	3.44		3.60	3.46
o (b)	48.1	50.0		46.3	47.9
nces					
	$ 166,560	$ 147,517	12.9%	$ 161,639	$ 145,965
sale	3,495	4,547	(23.1)	4,008	4,244
urities	42,548	41,128	3.5	43,144	40,904
	214,973	194,886	10.3	211,372	192,788
	243,623	223,505	9.0	240,850	221,694
aring deposits	28,322	26,947	5.1	27,766	27,531
	133,539	119,145	12.1	133,402	119,610
rowings	40,277	29,155	38.1	38,070	28,465
t	40,000	46,452	(13.9)	39,237	44,696
equity	21,983	20,741	6.0	21,927	20,947

	September 30, 2008		December 31, 2007	
alances				
	$	169,863	$	153,827	10.4%
credit losses		2,898		2,260	28.2
urities		39,349		43,116	(8.7)
		247,055		237,615	4.0
		139,504		131,445	6.1
t		40,110		43,440	(7.7)
equity		21,675		21,046	3.0
ital ratios					
		8.5%		8.3%	
d capital		12.3		12.2	
		8.0		7.9	
non equity		5.3		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 $576 million for the third quarter of 2008 or $.32 per diluted common share, compared with $1,096 million, or $.62 per diluted common share for the third quarter of 2007. Return on average assets and return on average common equity were .94 percent and 10.8 percent, respectively, for the third quarter of 2008, compared with returns of 1.95 percent and 21.7 percent, respectively, for the third quarter of 2007. The Company s fundamental business performance continues to be strong despite the challenging financial markets, which impacted the third quarter of 2008 results. Included in the third quarter of 2008 results were $411 million of securities losses, which included valuation impairment charges on structured investment securities, perpetual preferred stock (including the stock of government sponsored enterprises (GSEs)) and certain non-agency mortgage-backed securities. In addition, the Company recorded other market valuation losses related to the bankruptcy of an investment banking firm and continued to build the allowance for credit losses by recording $250 million of provision for credit losses expense in excess of net charge-offs. These items reduced earnings per diluted common share by approximately $.28. Results for the third quarter of 2007 were impacted by a $115 million charge for the Company s proportionate share of a litigation settlement between Visa U.S.A. Inc. and American Express (Visa Charge).

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2008, was $183 million (5.1 percent) lower than the third quarter of 2007, reflecting a 16.7 percent increase in net interest income, offset by a 24.8 percent decrease 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 declined from a year ago as strong growth in the majority of revenue categories was offset by securities impairments, other market valuation losses and higher retail lease residual losses.

Total noninterest expense in the third quarter of 2008 was $47 million (2.6 percent) higher than in the third 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 acquisitions and investments in relationship managers, branch initiatives and Payment Services businesses. The increase also included higher credit collection costs and incremental costs associated with investments in tax-advantaged projects. The increase from a year ago was partially reduced by the Visa Charge recognized in the third quarter of 2007.

The provision for credit losses for the third quarter of 2008 increased $549 million over the third quarter of 2007. This reflected an increase to the allowance for credit losses of $250 million in the third 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 changes in economic conditions and the corresponding impact on the commercial and consumer loan portfolios. Net charge-offs in the third quarter of 2008 were $498 million, compared with $199 million in the third 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 $2,616 million for the first nine months of 2008, or $1.46 per diluted common share, compared with $3,382 million, or $1.89 per diluted common share for the first nine months of 2007. Return on average assets and return on average common equity were 1.45 percent and 16.6 percent, respectively, for the first nine months of 2008, compared with returns of 2.04 percent and 22.4 percent, respectively, for the first nine months of 2007. The Company s results for the first nine months of 2008 declined from the same period of 2007, as strong growth in net interest income and the majority of noninterest income categories was more than offset by securities impairment charges, growth in operating expenses and higher credit costs. Included in the first nine months of 2008 was 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 $736 million, which primarily reflected valuation impairment charges on various investment securities, and an incremental provision for credit losses, which has exceeded net charge-offs by $642 million. The first nine months of 2008 also included a $62 million reduction in pretax

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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. Included in the Company s results for the first nine months of 2007 was the $115 million Visa Charge.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2008, was $567 million (5.4 percent) higher than the first nine months of 2007, reflecting a 14.1 percent increase in net interest income, partially offset by a 2.5 percent decrease 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. The decrease in noninterest income included fundamentally strong organic business growth and the Visa Gain, more than offset by valuation impairment charges on investment securities, other valuation losses, higher retail lease residual losses and the adoption of a new accounting standard during the first nine months of 2008.

Total noninterest expense in the first nine months of 2008 was $436 million (8.7 percent) higher than in the first nine months of 2007, primarily due to investments in business initiatives, higher credit collection costs and incremental expenses associated with investments in tax-advantaged projects, partially offset by the Visa Charge recognized in the first nine months of 2007.

The provision for credit losses for the first nine months of 2008 increased $1,262 million over the same period of 2007. This reflected an increase to the allowance for credit losses of $638 million in the first nine 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 changing economic conditions and the corresponding impact on the commercial and consumer loan portfolios. Net charge-offs in the first nine months of 2008 were $1,187 million, compared with $567 million in the first nine 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 $1,967 million in the third quarter of 2008, compared with $1,685 million in the third quarter of 2007. Net interest income, on a taxable-equivalent basis, was $5,705 million in the first nine months of 2008, compared with $5,001 million in the first nine months of 2007. The increases were due to strong growth in average earning assets, as well as an improved net interest margin from a year ago. Average earning assets increased $20.1 billion (10.3 percent) and $18.6 billion (9.6 percent) in the third quarter and first nine 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 third quarter and first nine months of 2008 was 3.65 percent and 3.60 percent, respectively, compared with 3.44 percent and 3.46 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, given current market conditions, short-term funding rates were lower due to volatility and changing liquidity in the overnight federal funds markets. In addition, the Company s net interest margin benefited from an increase in yield-related loan fees. 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 third quarter and first nine months of 2008 were $19.0 billion (12.9 percent) and $15.7 billion (10.7 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 as business customers utilize bank credit facilities, rather than the capital markets, to fund business growth and liquidity requirements. 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 third quarter and first nine months of 2008 included increases of $3.4 billion and $2.1 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 during the first nine months of 2008. The growth in commercial real estate loans reflected strong new business growth driven by capital market conditions and the impact of an acquisition late in the second quarter of 2008. The increase in residential mortgages reflected an increase in mortgage banking activity and higher consumer finance originations. Average investment securities in the third quarter and first nine months of 2008 were $1.4 billion

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(3.5 percent) and $2.2 billion (5.5 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 maturities of mortgage-backed and government agency securities, as well as realized and unrealized losses on certain investment securities recorded in the first nine months of 2008.

Average noninterest-bearing deposits for the third quarter and first nine months of 2008 increased $1.4 billion (5.1 percent) and $.2 billion (.9 percent), respectively, compared with the same periods of 2007. The increases reflected higher balances within Wealth Management & Securities Services and Corporate Banking and the impact of an acquisition near the end of the second quarter of 2008.

Average total savings deposits increased $7.6 billion (13.6 percent) in the third quarter and $7.0 billion (12.4 percent) in the first nine months of 2008, compared with the same periods of 2007, due primarily to an increase in interest checking balances driven by higher broker-dealer and institutional trust balances, and an increase in money market savings balances driven by higher broker-dealer and Consumer Banking balances and an acquisition near the end of the second quarter of 2008.

Average time certificates of deposit less than $100,000 were lower in the third quarter and first nine months of 2008 by $1.9 billion (13.2 percent) and $1.7 billion (11.7 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 $7.3 billion (34.3 percent) and $8.3 billion (39.2 percent) in the third quarter and first nine months of 2008, respectively, compared with the same periods of 2007, as a result of both the Company s wholesale funding decisions and the business lines ability to attract larger customer deposits, given current market conditions.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2008 increased $549 million and $1,262 million, respectively, compared with the same periods of 2007. This reflected increases to the allowance for credit losses of $250 million in the third quarter and $638 million during the first nine months of 2008. The increases in the provision and allowance for credit losses from a year ago reflected continuing stress in the residential re al estate markets, including homebuilding and related supplier industries, driven by declining home prices in most geographic regions. It also reflected changing economic conditions and the corresponding impact on the commercial and consumer loan portfolios. Net charge-offs were $498 million in the third quarter and $1,187 million in the first nine months of 2008, compared with $199 million in the third quarter and $567 million in the first nine 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 fourth 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 third quarter and first nine months of 2008 was $1,412 million and $5,348 million, respectively, compared with $1,877 million and $5,485 million in the same periods of 2007. The $465 million (24.8 percent) decrease during the third quarter and $137 million (2.5 percent) decrease during the first nine months of 2008, compared with the same periods in 2007, were driven by strong fee-based revenue growth in a majority of revenue categories, offset by impairment charges related to structured investment securities, perpetual preferred stock (including the stock of GSEs), and certain non-agency mortgage-backed securities. In addition, retail lease residual losses increased from a year ago. Noninterest income for the first nine months of 2008 was also impacted by the recognition of the $492 million Visa Gain in the first quarter of 2008 and the adoption of Statement of Financial Accounting 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 customer derivatives. In addition, under SFAS 157 mortgage production gains increased, because the deferral of costs related to the origination of mortgage loans held for

sale (MLHFS) is not permitted under the new accounting standard.
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 and business expansion. ATM processing services increased primarily due to growth in transaction volumes. Merchant

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Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended September 30, 2008	2007	Percent Change	Nine Months Ended September 30, 2008	2007	Percent Change
Credit and debit card revenue	$ 269	$ 237	13.5%	$ 783	$ 673	16.3%
Corporate payment products revenue	179	166	7.8	517	472	9.5
ATM processing services	94	84	11.9	271	243	11.5
Merchant processing services	300	289	3.8	880	827	6.4
Trust and investment management fees	329	331	(.6)	1,014	995	1.9
Deposit service charges	286	276	3.6	821	800	2.6
Treasury management fees	128	118	8.5	389	355	9.6
Commercial products revenue	132	107	23.4	361	312	15.7
Mortgage banking revenue	61	76	(19.7)	247	211	17.1
Investment products fees and commissions	37	36	2.8	110	108	1.9
Securities gains (losses), net	(411)	7	*	(725)	11	*
Other	8	150	(94.7)	680	478	42.3
Total noninterest income	$ 1,412	$ 1,877	(24.8)%	$ 5,348	$ 5,485	(2.5)%

* *Not meaningful*

processing services revenue growth reflected higher transaction volume and business expansion. Deposit service charges increased year-over-year primarily due to account growth and higher transaction-related fees. Higher transaction-related fees and the impact of continued growth in net new checking accounts were muted somewhat 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, as well as core business growth. Commercial products revenue increased year-over-year due to higher customer syndication fees, letters of credit, capital markets and other commercial loan fees. Mortgage banking revenue for the third quarter of 2008 decreased from the same period of the prior year, due to an unfavorable net change in the valuation of mortgage servicing rights (MSRs) and related economic hedging activities, partially offset by increases in mortgage servicing income and production revenue. Mortgage banking revenue for the first nine months of 2008 increased from the same period of the prior year, due to an increase in mortgage servicing income and production revenue, partially offset by the unfavorable net change in the valuation of MSRs and related economic hedging activities. Securities gains (losses) were lower year-over-year due primarily to the impact of the impairment charges on various investment securities recognized in the third quarter and during the first nine months of 2008. Other income for the third quarter of 2008 declined from the third quarter of 2007, due to the adverse impact of higher retail lease residual losses, lower equity investment revenue and market valuation losses related to the bankruptcy of an investment banking firm. Other income for the first nine months of 2008 was higher than the same period of the prior year due to the $492 million Visa Gain recognized in the first quarter of 2008, partially offset by higher retail lease residual losses, lower equity investment revenue, market valuation losses and the $62 million unfavorable impact to trading income upon adoption of SFAS 157.

Noninterest Expense Noninterest expense was $1,823 million in the third quarter and $5,454 million in the first nine months of 2008, reflecting increases of $47 million (2.6 percent) and $436 million (8.7 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. Professional services expense increased over the prior year due to increased litigation-related costs. Marketing and business development expense increased year-over-year due to costs incurred in the third quarter of 2008 for a national advertising campaign. In addition, marketing and business development expense further increased for the first nine months of 2008, due to $25 million recognized in the first quarter of 2008 for a charitable contribution to the Company s foundation. Technology and communications expense increased primarily due to higher processing volumes and business expansion. Other expense decreased in the third quarter

Table 3 Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30, 2008	2007	Percent Change	Nine Months Ended September 30, 2008	2007	Percent Change
Compensation	$ 763	$ 656	16.3%	$ 2,269	$ 1,950	16.4%
Employee benefits	125	119	5.0	391	375	4.3
Net occupancy and equipment	199	189	5.3	579	550	5.3
Professional services	61	56	8.9	167	162	3.1
Marketing and business development	75	71	5.6	220	191	15.2
Technology and communications	153	140	9.3	442	413	7.0
Postage, printing and supplies	73	70	4.3	217	210	3.3
Other intangibles	88	94	(6.4)	262	283	(7.4)
Other	286	381	(24.9)	907	884	2.6
Total noninterest expense	$ 1,823	$ 1,776	2.6%	$ 5,454	$ 5,018	8.7%
Efficiency ratio (a)	48.1%	50.0%		46.3%	47.9%	

(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.*

of 2008, compared with the same period in the prior year, due primarily to the $115 million Visa Charge recognized in the third quarter of 2007. Other expense was higher in the first nine months of 2008, compared with the same period of the prior year, as increases in credit-related costs for other real estate owned and loan collection activities, investments in tax-advantaged projects, and litigation and fraud costs, were partially offset by the $115 million Visa Charge recognized in the prior year.

Income Tax Expense The provision for income taxes was $198 million (an effective rate of 25.6 percent) for the third quarter and $1,060 million (an effective rate of 28.8 percent) for the first nine months of 2008, compared with $473 million (an effective rate of 30.1 percent) and $1,466 million (an effective rate of 30.2 percent) for the same periods of 2007. The decreases in the effective rates for the third quarter and first nine months of 2008, compared with the same periods of the prior year, reflected the marginal impact of lower pre-tax income, higher tax-exempt income from investment securities and insurance products, and 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 $169.9 billion at September 30, 2008, compared with $153.8 billion at December 31, 2007, an increase of $16.1 billion (10.4 percent). The increase was driven by growth in all major loan categories. The $5.4 billion (10.5 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 $3.0 billion (10.2 percent) at September 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 late in the second quarter of 2008.

Residential mortgages held in the loan portfolio increased $.6 billion (2.5 percent) at September 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, home equity and second mortgages and other retail loans, increased $7.1 billion (14.0 percent) at September 30, 2008, compared with December 31, 2007. The increase reflected higher student loans due to the purchase of a portfolio during the first nine 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 September 30, 2008, loans held for sale, consisting primarily of residential mortgages and student loans to be sold in the secondary market, were $3.1 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.

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Investment Securities Investment securities, both available-for-sale and held-to-maturity, totaled $39.3 billion at September 30, 2008, compared with $43.1 billion at December 31, 2007, reflecting purchases of $3.5 billion of securities, more than offset by sales, maturities, prepayments, securities impairments realized by the Company and unrealized losses on the available-for-sale portfolio due to changes in interest rates and liquidity premiums given current market conditions. As of September 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 September 30, 2008, the available-for-sale securities portfolio included a $2.5 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. As of September 30, 2008, approximately 8 percent of the available-for-sale securities portfolio represented perpetual preferred securities and trust preferred securities, primarily issued by the financial services sector, or structured investment securities. The unrealized losses for these securities were approximately $827 million at the end of the third quarter of 2008.

During the third quarter and first nine months of 2008, the Company s assessment of the investment securities portfolio has resulted in the realization of other-than-temporary impairments for several classes of investment securities.

In the third quarter and first nine months of 2008, the Company recorded $196 million and $207 million, respectively, of other-than-temporarily impaired charges on certain investment securities, including certain non-agency mortgage-backed securities and perpetual preferred stock, representing the stock of GSEs and certain failed institutions.

With respect to structured investment securities held by the Company, there is no active market for these securities so their valuation is determined through discounted cash flows using estimates of expected cash flows, discount rates and management s assessment of various market factors, which are judgmental in nature. The lack of an active market for these structured investment securities is reflected in the rate used to discount the expected cash flows. As a result of the valuation of these securities and impairment assessment, the Company has recorded $215 million and $534 million of impairment charges during the third quarter and first nine months of 2008, respectively. These impairment charges were a result of wider market spreads for these types of securities due to market illiquidity, as well as changes in expected cash flows resulting from 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 $439 million of principal payments will not be received for certain structured investment and non-agency mortgage-backed securities. During the first nine 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.

Refer to Note 3 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $139.5 billion at September 30, 2008, compared with $131.4 billion at December 31, 2007, an increase of $8.1 billion (6.1 percent). The increase in total deposits was primarily the result of increases in interest checking accounts, non-interest-bearing deposits, money market savings accounts and time deposits greater than $100,000, partially offset by a decrease in time certificates of deposit less than $100,000. The $2.5 billion (8.5 percent) increase in interest checking account balances was due primarily to higher broker-dealer balances. Noninterest-bearing deposits increased $2.1 billion (6.4 percent), primarily reflecting higher trust demand deposit balances. The $2.1 billion (8.8 percent) increase in money market savings account balances reflected higher broker-dealer and branch-based balances and the impact of an acquisition. Time deposits greater than $100,000 increased $1.7 billion (6.5 percent) at September 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. Time certificates of deposit less than $100,000 decreased $1.3 billion (9.2 percent) at September 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.

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 $37.4 billion at September 30, 2008, compared with $32.4 billion at December 31, 2007. Short-term funding is managed within approved liquidity policies. The increase of $5.0 billion (15.6 percent) in short-term borrowings reflected wholesale funding associated with the Company s asset growth and asset/liability management activities. Long-term debt was $40.1 billion at September 30, 2008, compared with $43.4 billion at December 31, 2007, primarily reflecting repayments of $3.3 billion of convertible senior debentures and maturities of $6.2 billion of medium-term notes and $.3 billion of subordinated debt, partially offset by the issuance of $7.0 billion of medium-term notes, in the first nine months of 2008. The $3.3 billion (7.7 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 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 Company s 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.

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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 September 30, 2008:

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Consumer Finance				
Less than or equal to 80%	$ 886	$ 2,639	$ 3,525	35.6%
Over 80% through 90%	754	1,588	2,342	23.6
Over 90% through 100%	790	3,092	3,882	39.2
Over 100%		158	158	1.6
Total	$ 2,430	$ 7,477	$ 9,907	100.0%
Other Retail				
Less than or equal to 80%	$ 2,362	$ 9,746	$ 12,108	90.1%
Over 80% through 90%	88	568	656	4.9
Over 90% through 100%	152	518	670	5.0
Over 100%				
Total	$ 2,602	$ 10,832	$ 13,434	100.0%
Total Company				
Less than or equal to 80%	$ 3,248	$ 12,385	$ 15,633	67.0%
Over 80% through 90%	842	2,156	2,998	12.8
Over 90% through 100%	942	3,610	4,552	19.5
Over 100%		158	158	.7
Total	$ 5,032	$ 18,309	$ 23,341	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%	$ 332	$ 170	$ 502	23.4%
Over 80% through 90%	287	173	460	21.5
Over 90% through 100%	423	527	950	44.3
Over 100%	75	157	232	10.8
Total	$ 1,117	$ 1,027	$ 2,144	100.0%
Other Retail				
Less than or equal to 80%	$ 10,446	$ 1,976	$ 12,422	77.3%

Over 80% through 90%	1,581	552	2,133	13.3
Over 90% through 100%	887	546	1,433	8.9
Over 100%	52	23	75	.5
Total	$ 12,966	$ 3,097	$ 16,063	100.0%
Total Company				
Less than or equal to 80%	$ 10,778	$ 2,146	$ 12,924	71.0%
Over 80% through 90%	1,868	725	2,593	14.2
Over 90% through 100%	1,310	1,073	2,383	13.1
Over 100%	127	180	307	1.7
Total	$ 14,083	$ 4,124	$ 18,207	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.

Within the consumer finance division approximately $3.0 billion of residential mortgages were to customers that may be defined as sub-prime borrowers at September 30, 2008, 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	$ 1,113	$ 1,117	11.3%
Over 80% through 90%	6	745	751	7.6
Over 90% through 100%	20	1,049	1,069	10.8
Over 100%		105	105	1.0
Total	$ 30	$ 3,012	$ 3,042	30.7%
Other Borrowers				
Less than or equal to 80%	$ 882	$ 1,526	$ 2,408	24.3%
Over 80% through 90%	748	843	1,591	16.1
Over 90% through 100%	770	2,043	2,813	28.4
Over 100%		53	53	.5
Total	$ 2,400	$ 4,465	$ 6,865	69.3%
Total Consumer Finance	$ 2,430	$ 7,477	$ 9,907	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 September 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 Total
Sub-Prime Borrowers				
Less than or equal to 80%	$ 25	$ 116	$ 141	6.6%
Over 80% through 90%	25	116	141	6.6
Over 90% through 100%	9	335	344	16.0
Over 100%	51	106	157	7.3
Total	$ 110	$ 673	$ 783	36.5%
Other Borrowers				
Less than or equal to 80%	$ 307	$ 54	$ 361	16.8%
Over 80% through 90%	262	57	319	14.9
Over 90% through 100%	414	192	606	28.3
Over 100%	24	51	75	3.5
Total	$ 1,007	$ 354	$ 1,361	63.5%
Total Consumer Finance	$ 1,117	$ 1,027	$ 2,144	100.0%

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 1.5 percent of total assets at September 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.

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

90 days or more past due **excluding** nonperforming loans	September 30, 2008	December 31, 2007
Commercial		
Commercial	.13%	.08%
Lease financing		
Total commercial	.11	.07
Commercial real estate		
Commercial mortgages	.02	.02
Construction and development	.13	.02
Total commercial real estate	.05	.02
Residential mortgages	1.34	.86
Retail		
Credit card	1.92	1.94
Retail leasing	.12	.10
Other retail	.37	.37
Total retail	.68	.68
Total loans	.46%	.38%

90 days or more past due **including** nonperforming loans	September 30, 2008	December 31, 2007
Commercial	.76%	.43%
Commercial real estate	2.25	1.02
Residential mortgages (a)	2.00	1.10
Retail (b)	.81	.73
Total loans	1.23%	.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 5.65 percent at September 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 .92 percent at September 30, 2008.

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

$787 million at September 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 .46 percent at September 30, 2008, compared with .38 percent at December 31, 2007.

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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)	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Residential Mortgages				
30-89 days	$418	$233	1.79%	1.02%
90 days or more	312	196	1.34	.86
Nonperforming	155	54	.66	.24
Total	$885	$483	3.79%	2.12%
Retail				
Credit card				
30-89 days	$315	$268	2.52%	2.44%
90 days or more	240	212	1.92	1.94
Nonperforming	51	14	.41	.13
Total	$606	$494	4.85%	4.51%
Retail leasing				
30-89 days	$42	$39	.83%	.65%
90 days or more	6	6	.12	.10
Nonperforming				
Total	$48	$45	.95%	.75%
Home equity and second mortgages				
30-89 days	$127	$107	.70%	.65%
90 days or more	85	64	.47	.39
Nonperforming	13	11	.07	.07
Total	$225	$182	1.24%	1.11%
Other retail				
30-89 days	$208	$177	.94%	1.02%
90 days or more	64	62	.29	.36
Nonperforming	10	4	.04	.02
Total	$282	$243	1.27%	1.40%

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	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007

Residential mortgages				
30-89 days	3.03%	1.58%	.88%	.61%
90 days or more	2.15	1.33	.74	.51
Nonperforming	1.14	.31	.31	.18
Total	6.32%	3.22%	1.93%	1.30%
Retail				
Credit card				
30-89 days	%	%	2.52%	2.44%
90 days or more			1.92	1.94
Nonperforming			.41	.13
Total	%	%	4.85%	4.51%
Retail leasing				
30-89 days	%	%	.83%	.65%
90 days or more			.12	.10
Nonperforming				
Total	%	%	.95%	.75%
Home equity and second mortgages				
30-89 days	2.66%	2.53%	.44%	.41%
90 days or more	1.86	1.78	.28	.21
Nonperforming	.14	.11	.06	.06
Total	4.66%	4.42%	.78%	.68%
Other retail				
30-89 days	6.09%	6.38%	.83%	.88%
90 days or more	1.68	1.66	.26	.33
Nonperforming			.04	.02
Total	7.77%	8.04%	1.13%	1.23%

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

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Within the consumer finance division at September 30, 2008, approximately $381 million and $102 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 deteriorating 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, certain borrowers in the consumer finance division facing an interest rate reset 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)	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Commercial	$ 35	$ 21	.06%	.04%
Commercial real estate	81		.25	
Residential mortgages	589	157	2.52	.69
Credit card	412	324	3.30	2.96
Other retail	63	49	.14	.12
Total	$ 1,180	$ 551	.69%	.36%

Restructured loans that continue to accrue interest were $629 million higher at September 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 in the near term as residential home valuations continue to decline and certain borrowers take advantage of the Company s mortgage loan restructuring programs.

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. At September 30, 2008, total nonperforming assets were $1,492 million, compared with $690 million at December 31, 2007. The ratio of total nonperforming assets to total loans and other real estate was .88 percent at September 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, as well as the residential mortgage portfolio, an increase in foreclosed residential properties and the impact of the economic slowdown on other commercial customers.

Included in nonperforming loans were restructured loans that are not accruing interest of $100 million at September 30, 2008, compared with $17 million at December 31, 2007. At September 30, 2008, the Company had $4 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 $164 million at September 30, 2008, compared with $111 million at December 31, 2007, and was primarily related to properties that the Company has taken ownership of which previously secured residential mortgages and home equity and second mortgage loan

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Table 5 Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2008	December 31, 2007
Commercial		
Commercial	$ 280	$ 128
Lease financing	85	53
Total commercial	365	181
Commercial real estate		
Commercial mortgages	164	84
Construction and development	545	209
Total commercial real estate	709	293
Residential mortgages	155	54
Retail		
Credit card	51	14
Retail leasing		
Other retail	23	15
Total retail	74	29
Total nonperforming loans	1,303	557
Other real estate (b)	164	111
Other assets	25	22
Total nonperforming assets	$ 1,492	$ 690
Accruing loans 90 days or more past due	$ 787	$ 584
Nonperforming loans to total loans	.77%	.36%
Nonperforming assets to total loans plus other real estate (b)	.88%	.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	1,139	221	1,360
Advances on loans	18		18
Total additions	1,157	221	1,378
Reductions in nonperforming assets			

Paydowns, payoffs	(187)	(26)	(213)
Net sales	(23)		(23)
Return to performing status	(24)	(6)	(30)
Charge-offs (c)	(275)	(35)	(310)
Total reductions	(509)	(67)	(576)
Net additions to nonperforming assets	648	154	802
Balance September 30, 2008	$ 1,133	$ 359	$ 1,492

(a) *Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.*
(b) *Excludes $170 million and $102 million at September 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.*

balances. The increase in other real estate assets reflected continuing stress in the residential construction and related supplier industries and higher residential mortgage loan foreclosures as customers experienced financial difficulties, given inflationary factors, changing interest rates and other current economic conditions.

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)	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Residential				
Minnesota	$ 18	$ 12	.34%	.23%
Michigan	13	22	2.48	3.47
California	10	5	.23	.15
Ohio	8	10	.31	.40
Florida	7	6	.94	.70
All other states	65	55	.23	.21
Total residential	121	110	.29	.28
Commercial	43	1	.13	
Total OREO	$ 164	$ 111	.10%	.07%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Commercial				
Commercial	.47%	.25%	.42%	.25%
Lease financing	1.36	.76	1.18	.52
Total commercial	.58	.31	.51	.29
Commercial real estate				
Commercial mortgages	.16	.02	.12	.06
Construction and development	2.36	.04	1.09	.04
Total commercial real estate	.81	.03	.41	.06
Residential mortgages	1.21	.30	.86	.27
Retail				
Credit card	4.85	3.09	4.56	3.36
Retail leasing	.69	.19	.58	.20
Home equity and second mortgages	1.07	.49	.98	.44
Other retail	1.41	1.00	1.28	.93
Total retail	1.98	1.15	1.81	1.13
Total loans	1.19%	.54%	.98%	.52%

Within other real estate, approximately $47 million at September 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 and related industries.

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $498 million and $1,187 million during the third quarter and first nine months of 2008, respectively, compared with net charge-offs of $199 million and $567 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 third quarter and first nine months of 2008 was 1.19 percent and .98 percent, respectively, compared with .54 percent and .52 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 third quarter of 2008 increased to $144 million (.66 percent of average loans outstanding on an annualized basis), compared with $39 million (.20 percent of average loans outstanding on an annualized basis) for the third quarter of 2007. Commercial and commercial real estate loan net charge-offs for the first nine months of 2008 increased to $298 million (.47 percent of average loans outstanding on an annualized basis), compared with $113 million (.20 percent of average loans outstanding on an annualized basis) for the first nine months of 2007. The year-over-year increases in commercial and commercial real estate losses reflected the continuing stress within the portfolios, especially residential homebuilding and related industry sectors. Residential mortgage loan net charge-offs for the third quarter of 2008 were $71 million (1.21 percent of average loans outstanding on an annualized basis), compared with $17 million (.30 percent of average loans outstanding on an annualized basis) for the third quarter of 2007. Residential mortgage loan net charge-offs for the first nine months of 2008 were $150 million (.86 percent of average loans outstanding on an annualized basis), compared with $44 million (.27 percent of average loans outstanding on an annualized basis) for the first nine 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 third quarter of 2008 were $283 million (1.98 percent of average loans outstanding on an annualized basis), compared with $143 million (1.15 percent of average loans outstanding on an annualized basis) for the third quarter of 2007. Retail loan net charge-offs for the first nine months of 2008 were $739 million (1.81 percent of average loans outstanding on an annualized basis), compared with $410 million (1.13 percent of average loans outstanding on an annualized basis) for the first nine months of 2007. The year-over-year increase in retail loan credit losses 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.

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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 September 30,				Nine Months Ended September 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	$9,941	$9,360	2.40%	.64%	$9,943	$8,943	1.65%	.58%
Home equity and second mortgages	2,139	1,837	5.77	3.02	2,015	1,848	5.70	2.53
Other retail	471	421	5.91	3.77	450	410	5.34	2.93
Other Retail								
Residential mortgages	$13,368	$12,898	.33%	.06%	$13,255	$12,945	.27%	.05%
Home equity and second mortgages	15,719	14,211	.43	.17	15,151	13,933	.35	.16
Other retail	21,184	16,619	1.31	.93	19,692	16,286	1.19	.88
Total Company								
Residential mortgages	$23,309	$22,258	1.21%	.30%	$23,198	$21,888	.86%	.27%
Home equity and second mortgages	17,858	16,048	1.07	.49	17,166	15,781	.98	.44
Other retail	21,655	17,040	1.41	1.00	20,142	16,696	1.28	.93

(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 September 30,				Nine Months Ended September 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	$3,070	$3,203	4.28%	1.24%	$3,147	$3,115	3.01%	1.16%
Other borrowers	6,871	6,157	1.56	.32	6,796	5,828	1.02	.28
Total	$9,941	$9,360	2.40%	.64%	$9,943	$8,943	1.65%	.58%
Home equity and second mortgages								
Sub-prime borrowers	$778	$914	10.23%	3.91%	$813	$912	9.69%	3.23%
Other borrowers	1,361	923	3.22	2.15	1,202	936	3.00	1.86

Total	$2,139	$1,837	5.77%	3.02%	$2,015	$1,848	5.70%	2.53%

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 September 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 September 30, 2008, the allowance for credit losses was $2,898 million (1.71 percent of loans), compared with an allowance of $2,260 million (1.47 percent of loans) at December 31, 2007. The $638 million (28.2 percent) increase in the allowance for credit losses reflected deterioration in the credit quality within the loan portfolios related to the continued stress in the residential housing markets, homebuilding and related industry sectors. It also reflected growth of the commercial and consumer loan portfolios. The ratio of the allowance for credit losses to nonperforming loans was 222 percent at September 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 146 percent at September 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 September 30, 2008, no significant change in the amount of residuals or concentration of the portfolios had occurred since December 31, 2007.

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Table 7 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of period	$ 2,648	$ 2,260	$ 2,260	$ 2,256
Charge-offs				
Commercial				
Commercial	63	38	167	117
Lease financing	29	16	75	45
Total commercial	92	54	242	162
Commercial real estate				
Commercial mortgages	9	3	20	13
Construction and development	56	1	76	3
Total commercial real estate	65	4	96	16
Residential mortgages	72	17	152	45
Retail				
Credit card	164	93	447	280
Retail leasing	11	5	28	16
Home equity and second mortgages	49	22	130	58
Other retail	91	61	236	168
Total retail	315	181	841	522
Total charge-offs	544	256	1,331	745
Recoveries				
Commercial				
Commercial	6	12	20	38
Lease financing	7	5	19	23
Total commercial	13	17	39	61
Commercial real estate				
Commercial mortgages		2	1	4
Construction and development				
Total commercial real estate		2	1	4
Residential mortgages	1		2	1
Retail				
Credit card	15	16	51	48
Retail leasing	2	2	4	6
Home equity and second mortgages	1	2	4	6
Other retail	14	18	43	52
Total retail	32	38	102	112

Total recoveries	46	57	144	178
Net Charge-offs				
Commercial				
Commercial	57	26	147	79
Lease financing	22	11	56	22
Total commercial	79	37	203	101
Commercial real estate				
Commercial mortgages	9	1	19	9
Construction and development	56	1	76	3
Total commercial real estate	65	2	95	12
Residential mortgages	71	17	150	44
Retail				
Credit card	149	77	396	232
Retail leasing	9	3	24	10
Home equity and second mortgages	48	20	126	52
Other retail	77	43	193	116
Total retail	283	143	739	410
Total net charge-offs	498	199	1,187	567
Provision for credit losses	748	199	1,829	567
Acquisitions and other changes			(4)	4
Balance at end of period	$ 2,898	$ 2,260	$ 2,898	$ 2,260
Components				
Allowance for loan losses	$ 2,767	$ 2,041		
Liability for unfunded credit commitments	131	219		
Total allowance for credit losses	$ 2,898	$ 2,260		
Allowance for credit losses as a percentage of				
Period-end loans	1.71%	1.52%		
Nonperforming loans	222	441		
Nonperforming assets	194	353		
Annualized net charge-offs	146	286		

However, the Company s portfolio has experienced deterioration in residual values of sport utility vehicles and luxury models as higher fuel prices increased during the year through mid-third quarter of 2008. These higher fuel prices have resulted in lower used vehicle prices and higher end-of-term average losses during the past nine months. As of September 30, 2008, the Company has recognized residual value impairments of approximately 4 percent of the residual portfolio. During the third quarter of 2008, used vehicle values improved somewhat as fuel prices began to decline. As a result of recent changes in fuel prices, the Company expects residual valuations to stabilize somewhat over the next few quarters. 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 and portfolio deterioration.

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.

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 September 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 September 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 15.0 percent of the market value of equity assuming interest rates at September 30, 2008. The up 200 basis point scenario resulted in a 7.7 percent decrease in the market value of equity at September 30, 2008, compared with a 7.6 percent decrease at December 31, 2007. The down 200 basis point scenario resulted in a 1.3 percent decrease in the market value of equity at September 30, 2008, compared with a 3.5 percent decrease at December 31, 2007. At September 30, 2008, and December 31, 2007, the Company was within its 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,

Sensitivity of Net Interest Income

	September 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	.50%	(.48)%	*	(.68)%	.54%	(1.01)%	1.28%	(2.55)%

* *Given the current level of interest rates, a downward 200 basis point scenario can not be computed.*

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Table 8 Derivative Positions

	September 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	$ 4,500	$ (28)	35.17	$ 3,750	$ 17	40.87
Pay fixed/receive floating swaps	13,554	(331)	3.25	15,979	(307)	3.00
Futures and forwards						
Buy	10,655	(40)	.05	12,459	(51)	.12
Sell	7,225	2	.12	11,427	(33)	.16
Options						
Written	13,385	3	.07	10,689	10	.12
Foreign exchange contracts						
Cross-currency swaps	1,830	107	8.06	1,913	196	8.80
Forwards	1,034	(9)	.04	1,111	(15)	.03
Equity contracts	58	12	1.57	73	(3)	2.33
Credit default swaps	51	2	2.54	56	1	3.60
Customer-related Positions						
Interest rate contracts						
Receive fixed/pay floating swaps	$ 18,822	$ 303	4.93	$ 14,260	$ 386	5.10
Pay fixed/receive floating swaps	18,815	(284)	5.01	14,253	(309)	5.08
Options						
Purchased	2,162	(9)	1.90	1,939	1	2.25
Written	2,158	9	1.91	1,932	1	2.25
Risk participation agreements (a)						
Purchased	587	1	5.08	370	1	6.23
Written	1,017	(1)	3.28	628	(1)	4.98
Foreign exchange rate contracts						
Forwards and swaps						
Buy	3,961	172	.37	3,486	109	.44
Sell	3,905	(163)	.37	3,426	(95)	.44
Options						
Purchased	456	15	.96	308	6	.68
Written	456	(15)	.96	293	(6)	.71

(a) At September 30, 2008, the credit equivalent amount was $6 million and $80 million, compared with $4 million and $69 million at December 31, 2007, for purchased and written risk participation agreements, respectively.

NOTE:

On September 25, 2008, the Company entered into a support agreement with a money market fund managed by FAF Advisors, Inc., an affiliate of the Company. Although this financial guarantee is a derivative and accounted for at fair value, it is excluded from the table above. Refer to Note 10, Guarantees and Contingent Liabilities in the Notes to Consolidated Financial Statements.

liabilities and derivative positions of the Company. At September 30, 2008, the duration of assets, liabilities and equity was 1.7 years, 1.7 years and 1.8 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. 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 $52.3 billion of total notional amount of asset and liability management positions at September 30, 2008, $19.2 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 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.

At September 30, 2008, the Company had $204 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 $15 million and $56 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 third quarter and first nine months of 2008. Gains or losses on customer-related positions were not material for the third quarter and first nine months of 2008. The impact of adopting SFAS 157 in the first quarter of 2008 reduced noninterest income by $62 million for the first nine months of 2008 as it required the Company to consider the primary market and nonperformance risk in determining the fair value of derivative positions. On an ongoing basis, the Company considers the risk of nonperformance in its derivative liability and asset positions. In its assessment of nonperformance risk, the Company considers its ability to net derivative positions under master netting agreements, as well as collateral received or provided under collateral support agreements.

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 third quarter and first nine 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 $5.9 billion of forward commitments to sell mortgage loans and $4.4 billion of unfunded mortgage loan commitments at September 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 $13 million, respectively, at September 30, 2008, compared with $1 million and $15 million at December 31, 2007, respectively. The Company s VaR limit was $45 million at September 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

In conjunction with the Company s liquidity 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.

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Table 9 Capital Ratios

(Dollars in Millions)	September 30, 2008	December 31, 2007
Tier 1 capital	$ 18,877	$ 17,539
As a percent of risk-weighted assets	8.5%	8.3%
As a percent of adjusted quarterly average assets (leverage ratio)	8.0%	7.9%
Total risk-based capital	$ 27,403	$ 25,925
As a percent of risk-weighted assets	12.3%	12.2%
Tangible common equity	$ 12,662	$ 11,820
As a percent of tangible assets	5.3%	5.1%

During the past several quarters, the financial markets have been challenging for many financial institutions. As a result of these market conditions, liquidity premiums have widened and many banks have experienced certain liquidity constraints, substantially increased pricing to retain deposit balances or utilized the Federal Reserve System discount window to secure adequate funding. Because of the Company s relative credit quality and strong balance sheet, the Company has not experienced any significant liquidity constraints through the end of the third quarter of 2008. During the past several quarters, the Company s liquidity position has been strong as depositors and investors in the wholesale funding markets seek strong financial institutions. 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 September 30, 2008, parent company long-term debt outstanding was $10.6 billion, compared with $10.7 billion at December 31, 2007. The $.1 billion decrease reflected $3.8 billion of medium-term note issuances, offset by $3.3 billion of convertible senior debenture repayments and $.5 billion of medium-term note maturities during the first nine months of 2008. As of September 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 $1.5 billion at September 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 September 30, 2008, and $1.2 billion at December 31, 2007. In March 2008, the conduit ceased issuing commercial paper and began to draw upon a Company-provided liquidity facility to replace outstanding commercial paper as it matured. The draws upon the liquidity facility 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 September 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 ($9 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 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 nine months of 2008, the Company returned 89 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 September 30, 2008, and December 31, 2007. All regulatory ratios continue to be in excess of regulatory well-capitalized requirements. Total shareholders equity was $21.7 billion at September 30, 2008, compared with $21.0 billion at December 31, 2007. The increase was the result of corporate earnings, proceeds received from the exercise of stock options 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. Given the current market

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conditions, the Company does not anticipate significant repurchases for the remainder of 2008 as the Company utilizes capital to support high quality customer loan growth.

On November 3, 2008, the Company announced its plan, as authorized by its Board of Directors, to issue $6.6 billion of cumulative preferred stock and related warrants to the United States Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. Under the program, the cumulative preferred stock s dividend rate will be 5 percent per annum for five years, increasing to 9 percent per annum, thereafter, if the cumulative preferred shares are not redeemed by the Company. In addition to the cumulative preferred stock, the United States Treasury will receive warrants entitling it to purchase, during the next ten years, a number of shares of common stock of the Company equal to 15 percent of the amount of preferred stock issued, at a price per common share determined based on the average market price of the Company s common stock, for a 20 day period prior to issuance of the preferred stock. Participation in this program limits the Company s ability to increase its quarterly dividend and repurchase its common stock for up to three years or for as long as the preferred stock issued under the program remains outstanding, if shorter. It also subjects the Company to certain restrictions with respect to the compensation of certain executives. On a pro forma basis, the Company s Tier 1 capital ratio at September 30, 2008, after the issuance of the $6.6 billion of preferred stock to the United States Treasury, would have been approximately 11.4 percent. Refer to Note 11 in the Notes to Consolidated Financial Statements for further information.

The following table provides a detailed analysis of all shares repurchased under this authorization during the third 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
July	5,631	$ 28.28	61,639,027
August	1,133	31.68	61,637,894
September	60,415	35.59	61,577,479
Total	67,179	$ 34.91	61,577,479

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 $237 million of the Company s net income in the third quarter and $746 million in the first nine months of 2008, or decreases of $28 million (10.6 percent) and $63 million (7.8 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.

Total net revenue increased $59 million (8.9 percent) in the third quarter and $93 million (4.6 percent) in the first nine months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, increased $50 million (10.9 percent) in the third quarter and $116 million (8.5 percent) in the first nine months of 2008, compared with the same periods of 2007, driven by strong growth in earning assets and deposits, partially offset by declining margins in the loan portfolio and a decrease in the margin benefit of deposits. Noninterest income increased $9 million (4.4 percent) in the third quarter and decreased $23 million (3.5 percent) in the first nine months of 2008, compared with the same periods of 2007. The increase in the third quarter of 2008, compared to the same period of 2007, was primarily due to growth in treasury management, letter of credit, commercial lending-related and foreign exchange fees, partially offset by securities valuation losses and lower earnings from equity investments. The decline for the first nine months of 2008, compared to the same period in 2007, was primarily due to market-related valuation losses and lower earnings from equity investments, including an investment in a commercial real estate business, partially offset by higher treasury management and commercial lending-related fees, foreign exchange and commercial leasing revenue.

Total noninterest expense increased $20 million (8.4 percent) in the third quarter and $55 million (7.7 percent) in the first nine months of 2008, compared with the same periods of 2007. The increases were primarily due to higher compensation and employee benefits expenses attributable to the expansion of the business line s national corporate banking presence, investments to enhance customer relationship management, and an acquisition. The provision for credit losses increased $83 million in the third quarter and $141 million in the first nine months of 2008, compared with the same periods of 2007. The unfavorable change was due to continued credit deterioration in the homebuilding and commercial home supplier industries. Nonperforming assets were $940 million at September 30, 2008, $652 million at June 30, 2008, and $292 million at September 30, 2007. Nonperforming assets as a percentage of period-end loans were 1.51 percent at September 30, 2008, 1.09 percent at June 30, 2008, and .56 percent at September 30, 2007. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Consumer Banking Consumer Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATM processing. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer Banking contributed $272 million of the Company s net income in the third quarter and $983 million in the first nine months of 2008, or decreases of $199 million (42.3 percent) and $422 million (30.0 percent), respectively, compared with the same periods of 2007. Within Consumer Banking, the retail banking division contributed $241 million of the total net income in the third quarter and $873 million in the first nine months of 2008, or decreases of 44.9 percent and 33.7 percent, respectively, compared with the same periods in the prior year. Mortgage banking contributed $31 million and $110 million of the business line s net income in the third quarter and first nine months of 2008, respectively, or a decrease of 8.8 percent and an increase of 25.0 percent, respectively, compared with the same periods in the prior year.

Total net revenue decreased $104 million (6.6 percent) in the third quarter and $126 million (2.7 percent) in the first nine months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, decreased $13 million (1.3 percent) in the third quarter and $52 million (1.8 percent) in the first nine months of 2008, compared with same periods of 2007. Net interest income declined year-over-year as increases in average loan balances and yield-related loan fees were more than offset by lower deposit balances and a decline in the margin benefit of deposits, given the declining interest rate environment. The increase in average loan balances reflected growth in most loan categories, with the largest increases in residential mortgages and retail loans. The favorable change in retail loans was principally driven by an increase in installment products, home equity lines and federally guaranteed student loan balances due to both the transfer of balances from loans held for sale and a portfolio purchase. The year-over-year decrease in average deposits primarily reflected a reduction in time deposit products. Average time deposit balances declined $2.7 billion (13.5 percent) in the third quarter and $2.2 billion (11.2 percent) in the first nine months of 2008, compared with the same periods of 2007. These declines reflected the Company s funding and pricing decisions and competition for these deposits by other financial institutions that have more limited access to the wholesale funding sources given the current market environment. Fee-based noninterest income decreased $91 million (15.8 percent) in the third quarter and $74 million (4.4 percent) in the first nine months of 2008, compared with the same periods of 2007. The declines in fee-based revenue were driven by lower retail lease revenue, related to higher retail lease residual losses, partially offset by growth in revenue from ATM processing services and higher deposit service charges.

Total noninterest expense increased $82 million (11.2 percent) in the third quarter and $256 million (12.0 percent) in the first nine months of 2008, compared with the same periods of 2007. The increases included the net addition of 38 in-store and 6 traditional branches at September 30, 2008, compared with September 30, 2007. In addition, the increases were primarily attributable to higher compensation and employee benefit expense, which reflected business investments in customer service and various promotional

Table 10 Line of Business Financial Performance

Three Months Ended September 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)	$ 507	$ 457	10.9%	$ 976	$ 989	(1.3)%
Noninterest income	226	206	9.7	484	575	(15.8)
Securities gains (losses), net	(11)		*			
Total net revenue	722	663	8.9	1,460	1,564	(6.6)
Noninterest expense	253	235	7.7	802	717	11.9
Other intangibles	6	4	50.0	14	17	(17.6)
Total noninterest expense	259	239	8.4	816	734	11.2
Income before provision and income taxes	463	424	9.2	644	830	(22.4)
Provision for credit losses	90	7	*	217	90	*
Income before income taxes	373	417	(10.6)	427	740	(42.3)
Income taxes and taxable-equivalent adjustment	136	152	(10.5)	155	269	(42.4)
Net income	$ 237	$ 265	(10.6)	$ 272	$ 471	(42.3)
Average Balance Sheet Data						
Commercial	$ 39,931	$ 34,342	16.3%	$ 6,851	$ 6,577	4.2%
Commercial real estate	19,879	16,653	19.4	11,262	11,124	1.2
Residential mortgages	93	79	17.7	22,763	21,757	4.6
Retail	77	68	13.2	41,489	36,315	14.2
Total loans	59,980	51,142	17.3	82,365	75,773	8.7
Goodwill	1,494	1,329	12.4	2,420	2,420	
Other intangible assets	94	36	*	1,854	1,744	6.3
Assets	65,340	56,044	16.6	92,769	87,406	6.1
Noninterest-bearing deposits	10,838	10,150	6.8	12,104	12,006	.8
Interest checking	8,871	5,394	64.5	18,125	17,766	2.0
Savings products	6,681	5,410	23.5	20,180	19,369	4.2
Time deposits	14,033	10,753	30.5	17,442	20,173	(13.5)
Total deposits	40,423	31,707	27.5	67,851	69,314	(2.1)
Shareholders equity	6,794	5,712	18.9	7,155	6,741	6.1

Wholesale Consumer

Nine Months Ended September 30 (Dollars in Millions)	Banking 2008	2007	Percent Change	Banking 2008	2007	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 1,477	$ 1,361	8.5%	$ 2,867	$ 2,919	(1.8)%
Noninterest income	660	660		1,592	1,666	(4.4)
Securities gains (losses), net	(22)	1	*			
Total net revenue	2,115	2,022	4.6	4,459	4,585	(2.7)
Noninterest expense	756	703	7.5	2,352	2,089	12.6
Other intangibles	14	12	16.7	44	51	(13.7)
Total noninterest expense	770	715	7.7	2,396	2,140	12.0
Income before provision and income taxes	1,345	1,307	2.9	2,063	2,445	(15.6)
Provision for credit losses	172	31	*	517	237	*
Income before income taxes	1,173	1,276	(8.1)	1,546	2,208	(30.0)
Income taxes and taxable-equivalent adjustment	427	467	(8.6)	563	803	(29.9)
Net income	$ 746	$ 809	(7.8)	$ 983	$ 1,405	(30.0)
Average Balance Sheet Data						
Commercial	$ 39,427	$ 34,492	14.3%	$ 6,733	$ 6,544	2.9%
Commercial real estate	18,718	16,705	12.1	11,239	11,141	.9
Residential mortgages	89	69	29.0	22,662	21,391	5.9
Retail	76	66	15.2	39,627	35,904	10.4
Total loans	58,310	51,332	13.6	80,261	74,980	7.0
Goodwill	1,403	1,329	5.6	2,420	2,415	.2
Other intangible assets	59	40	47.5	1,693	1,712	(1.1)
Assets	63,698	56,545	12.7	91,174	86,183	5.8
Noninterest-bearing deposits	10,624	10,716	(.9)	11,856	12,126	(2.2)
Interest checking	8,622	4,933	74.8	18,086	17,917	.9
Savings products	6,340	5,423	16.9	19,832	19,619	1.1
Time deposits	14,565	10,679	36.4	17,830	20,071	(11.2)
Total deposits	40,151	31,751	26.5	67,604	69,733	(3.1)
Shareholders equity	6,515	5,746	13.4	7,041	6,717	4.8

* *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
$ 120	(5.8)%	$ 247	$ 192	28.6%	$ 124	$ (73)	*%	$ 1,967	$ 1,685	
365	(8.5)	765	706	8.4	14	18	(22.2)	1,823	1,870	
					(400)	7	*	(411)	7	
485	(7.8)	1,012	898	12.7	(262)	(48)	*	3,379	3,562	
223	9.0	354	317	11.7	83	190	(56.3)	1,735	1,682	
23	(17.4)	49	50	(2.0)				88	94	
246	6.5	403	367	9.8	83	190	(56.3)	1,823	1,776	
239	(22.6)	609	531	14.7	(345)	(238)	(45.0)	1,556	1,786	(
1	*	186	100	86.0	253	1	*	748	199	
238	(23.1)	423	431	(1.9)	(598)	(239)	*	808	1,587	(
87	(23.0)	154	157	(1.9)	(280)	(174)	(60.9)	232	491	(
$ 151	(23.2)	$ 269	$ 274	(1.8)	$ (318)	$ (65)	*	$ 576	$ 1,096	(

$ 2,027	(14.0)%	$ 4,866	$ 4,301	13.1%	$ 1,181	$ 143	*%	$ 54,573	$ 47,390
635	(9.0)				29	50	(42.0)	31,748	28,462
419	7.4				3	3		23,309	22,258
2,061	1.8	13,231	10,924	21.1	34	39	(12.8)	56,930	49,407
5,142	(5.3)	18,097	15,225	18.9	1,247	235	*	166,560	147,517
1,553	.6	2,364	2,295	3.0				7,840	7,597
402	(20.9)	993	1,037	(4.2)		(1)	*	3,259	3,218
7,655	(5.5)	23,204	20,672	12.2	55,075	51,728	6.5	243,623	223,505
4,301	8.0	495	348	42.2	240	142	69.0	28,322	26,947
2,876	83.0	41	13	*	3	3		32,304	26,052
5,454	(12.8)	19	21	(9.5)	61	47	29.8	31,698	30,301
3,402	9.9	2	5	(60.0)	5,999	1,512	*	41,215	35,845
16,033	14.8	557	387	43.9	6,303	1,704	*	133,539	119,145
2,438	(3.5)	4,858	4,637	4.8	823	1,213	(32.2)	21,983	20,741

h Management & Payment Treasury and Consolidated

urities Services		Services			Corporate Support			Company		Pe
	Percent			Percent			Percent			
2007	Change	2008	2007	Change	2008	2007	Change	2008	2007	Ch
$ 355	(3.9)%	$ 743	$ 533	39.4%	$ 277	$ (167)	*%	$ 5,705	$ 5,001	
1,097	(.6)	2,225	2,018	10.3	506	33	*	6,073	5,474	
					(703)	10	*	(725)	11	
1,452	(1.4)	2,968	2,551	16.3	80	(124)	*	11,053	10,486	
677	6.5	1,034	920	12.4	329	346	(4.9)	5,192	4,735	
70	(17.1)	146	150	(2.7)				262	283	
747	4.3	1,180	1,070	10.3	329	346	(4.9)	5,454	5,018	
705	(7.5)	1,788	1,481	20.7	(249)	(470)	47.0	5,599	5,468	
2	*	488	293	66.6	647	4	*	1,829	567	
703	(8.0)	1,300	1,188	9.4	(896)	(474)	(89.0)	3,770	4,901	(
256	(7.8)	472	431	9.5	(544)	(438)	(24.2)	1,154	1,519	(
$ 447	(8.1)	$ 828	$ 757	9.4	$ (352)	$ (36)	*	$ 2,616	$ 3,382	(
$ 1,948	(6.4)%	$ 4,563	$ 4,075	12.0%	$ 878	$ 141	*%	$ 53,425	$ 47,200	
639	(6.7)				37	51	(27.5)	30,590	28,536	
424	4.7				3	4	(25.0)	23,198	21,888	
2,059	.7	12,615	10,272	22.8	35	40	(12.5)	54,426	48,341	
5,070	(2.6)	17,178	14,347	19.7	953	236	*	161,639	145,965	
1,552	.7	2,362	2,280	3.6		9	*	7,748	7,585	
426	(20.9)	1,013	1,044	(3.0)	1	14	(92.9)	3,103	3,236	
7,618	(3.8)	22,099	19,397	13.9	56,551	51,951	8.9	240,850	221,694	
4,243	6.6	485	367	32.2	280	79	*	27,766	27,531	
2,802	76.7	36	11	*	3	3		31,697	25,666	
5,366	(3.9)	19	21	(9.5)	64	54	18.5	31,410	30,483	
3,591	7.9	1	4	(75.0)	6,257	1,585	*	42,529	35,930	
16,002	15.6	541	403	34.2	6,604	1,721	*	133,402	119,610	
2,456	(3.4)	4,832	4,557	6.0	1,166	1,471	(20.7)	21,927	20,947	

activities, including further deployment of the PowerBank initiative, the adoption of SFAS 157 and higher credit related costs associated with other real estate owned and foreclosures.
The provision for credit losses increased $127 million in the third quarter and $280 million in the first nine months of 2008, compared with the same periods of 2007. The increases were attributable to higher net charge-offs, reflecting portfolio growth and credit deterioration in residential mortgages, home equity and other installment and consumer loan portfolios from a year ago. As a percentage of average loans outstanding on an annualized basis, net charge-offs were 1.05 percent in the third quarter of 2008, compared with .47 percent in the third quarter of 2007. Commercial and commercial real estate loan net charge-offs increased $9 million (50.0 percent) in the third quarter of 2008, compared with the third quarter of 2007. Retail loan and residential mortgage net charge-offs increased $118 million in the third quarter of 2008, compared with the third quarter of 2007. Nonperforming assets were $479 million at September 30, 2008, $417 million at June 30, 2008, and $316 million at September 30, 2007. Nonperforming assets as a percentage of period-end loans were .60 percent at September 30, 2008, .58 percent at June 30, 2008, and .43 percent at September 30, 2007. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Wealth Management & Securities Services Wealth Management & Securities Services provides trust, private banking, financial advisory, investment management, retail brokerage services, insurance, custody and mutual fund servicing through five businesses: Wealth Management, Corporate Trust, FAF Advisors, Institutional Trust & Custody and Fund Services. Wealth Management & Securities Services contributed $116 million of the Company s net income in the third quarter and $411 million in the first nine months of 2008, or decreases of $35 million (23.2 percent) and $36 million (8.1 percent), respectively, compared with the same periods of 2007.
Total net revenue decreased $38 million (7.8 percent) in the third quarter and $21 million (1.4 percent) in the first nine months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, decreased $7 million (5.8 percent) in the third quarter and $14 million (3.9 percent) in the first nine months of 2008, compared with the same periods of 2007, primarily due to a reduction in the margin benefit of deposits, partially offset by deposit growth. Noninterest income decreased $31 million (8.5 percent) in the third quarter and $7 million (.6 percent) in the first nine months of 2008, compared with the same periods of 2007, primarily driven by unfavorable equity market conditions compared with a year ago, partially offset by core account growth.
Total noninterest expense increased $16 million (6.5 percent) in the third quarter and $32 million (4.3 percent) in the first nine months of 2008, compared with the same periods of 2007. The increases in noninterest expense were primarily due to higher compensation and employee benefits expenses and legal related costs, partially offset by lower other intangibles expense.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit and merchant processing. Payment Services offerings are highly inter-related with banking products and services of the other lines of business and rely on access to the bank subsidiary s settlement network, lower cost funding available to the Company, cross-selling opportunities and operating efficiencies. Payment Services contributed $269 million of the Company s net income in the third quarter and $828 million in the first nine months of 2008, or a decrease of $5 million (1.8 percent) and an increase of $71 million (9.4 percent), respectively, compared with the same periods of 2007. The decrease in the third quarter compared to the same period of 2007 was due to growth in total net revenue, driven by loan growth and higher transaction volumes, offset by an increase in total noninterest expense and a higher provision for credit losses.
Total net revenue increased $114 million (12.7 percent) in the third quarter and $417 million (16.3 percent) in the first nine months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, increased $55 million (28.6 percent) in the third quarter and $210 million (39.4 percent) in the first nine months of 2008, compared with the same periods of 2007. The increases were primarily due to strong growth in credit card balances and the timing of asset repricing in a declining rate environment. Noninterest income increased $59 million (8.4 percent) in the third quarter and $207 million (10.3 percent) in the first nine months of 2008, compared with the same periods of 2007. The increases in fee-based revenue were driven by account growth, higher transaction volumes

and business expansion initiatives. On October 29, 2008, Delta Airlines and Northwest Airlines announced the completion of their merger. In connection with this merger, the Company will retain its merchant processing arrangement with the combined airline. The final determination of the status of the Company s

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WorldPerks® co-branded credit card program is still being evaluated by Delta Airlines. At this time, the Company continues to evaluate its strategy with respect to the program and anticipates that the financial impact to its financial statements of any changes to the program will not be material to the operations of the Company.

Total noninterest expense increased $36 million (9.8 percent) in the third quarter and $110 million (10.3 percent) in the first nine months of 2008, compared with the same periods of 2007, due primarily to new business initiatives, including costs associated with transaction processing and recent acquisitions.

The provision for credit losses increased $86 million (86.0 percent) in the third quarter and $195 million (66.6 percent) in the first nine months of 2008, compared with the same periods of 2007, due to higher net charge-offs, which reflected average retail credit card portfolio growth, higher delinquency rates and changing economic conditions from a year ago. As a percentage of average loans outstanding on an annualized basis, net charge-offs were 4.09 percent in the third quarter of 2008, compared with 2.61 percent in the third quarter of 2007.

Treasury and Corporate Support Treasury and Corporate Support includes the Company s investment portfolios, funding, capital management, asset securitization, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded a net loss of $318 million in the third quarter and $352 million in the first nine months of 2008, compared with net losses of $65 million and $36 million in the same periods of the prior year, respectively.

Total net revenue decreased $214 million in the third quarter and increased $204 million in the first nine months of 2008, compared with the same periods of 2007. Net interest income, on a taxable-equivalent basis, increased $197 million in the third quarter and $444 million in the first nine months of 2008, compared with the same periods of 2007, reflecting the impact of the declining rate environment, wholesale funding decisions and the Company s asset and liability position. Noninterest income decreased $411 million in the third quarter and $240 million in the first nine months of 2008, compared with the same periods of 2007. The decrease in the third quarter of 2008, compared with the same period of 2007, was primarily due to the impairment charges for structured investment securities, perpetual preferred stock (including the stock of GSEs), and certain non-agency mortgage backed securities. The decrease for the first nine months of 2008, compared with the same period of the prior year, was primarily due to the impairment charges on investment securities and the transition impact of adopting SFAS 157 during the first quarter of 2008, partially offset by the impact of the Visa Gain in the first quarter of 2008.

Total noninterest expense decreased $107 million (56.3 percent) in the third quarter of 2008, compared with the same period in the prior year, primarily due to the Visa Charge recognized in the third quarter of 2007. Total noninterest expense decreased $17 million (4.9 percent) in the first nine months of 2008, compared with the same period of 2007, primarily due to the Visa Charge recognized in the third quarter of 2007, offset by higher compensation and employee benefits expense, higher litigation costs, incremental costs associated with investments in tax-advantaged projects and a charitable contribution made to the U.S. Bancorp Foundation.

The provision for credit losses for this business unit represents the residual aggregate of the net credit losses allocated to the reportable business units and the Company s recorded provision determined in accordance with accounting principles generally accepted in the United States. The provision for credit losses increased $252 million in the third quarter and $643 million in the first nine months of 2008, compared with the same periods of the prior year, driven by incremental provision expense recorded in the first nine months of 2008, reflecting deterioration in the credit quality within the loan portfolios related to stress in the residential real estate markets, including homebuilding and related supplier industries, and the impact of economic conditions on the loan portfolios. Refer to the Corporate Risk Profile section for further information on the provision for credit losses, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support. The consolidated effective tax rate of the Company was 25.6 percent in the third quarter and 28.8 percent in the first nine months of 2008, compared with 30.1 in the third quarter and 30.2 percent in the first nine months of 2007.

CRITICAL ACCOUNTING POLICIES

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

CONTROLS AND PROCEDURES

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

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

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U.S. Bancorp
Consolidated Balance Sheet

(Dollars in Millions, Except Per Share Data)	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and due from banks	$ 7,118	$ 8,884
Investment securities		
Held-to-maturity (fair value $64 and $78, respectively)	64	74
Available-for-sale	39,285	43,042
Loans held for sale (included $2,686 of mortgage loans carried at fair value at 9/30/08)	3,116	4,819
Loans		
Commercial	56,454	51,074
Commercial real estate	32,177	29,207
Residential mortgages	23,341	22,782
Retail	57,891	50,764
Total loans	169,863	153,827
Less allowance for loan losses	(2,767)	(2,058)
Net loans	167,096	151,769
Premises and equipment	1,775	1,779
Goodwill	7,816	7,647
Other intangible assets	3,242	3,043
Other assets	17,543	16,558
Total assets	$ 247,055	$ 237,615
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	$ 35,476	$ 33,334
Interest-bearing	76,697	72,458
Time deposits greater than $100,000	27,331	25,653
Total deposits	139,504	131,445
Short-term borrowings	37,423	32,370
Long-term debt	40,110	43,440
Other liabilities	8,343	9,314
Total liabilities	225,380	216,569
Shareholders equity		
Preferred stock, par value $1.00 a share (liquidation preference of $25,000 per share) authorized: 50,000,000 shares; issued and outstanding: 9/30/08 60,000 shares and 12/31/07 40,000 shares	1,500	1,000
Common stock, par value $0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/08 and 12/31/07 1,972,643,007 shares	20	20

Capital surplus		5,646		5,749
Retained earnings		23,032		22,693
Less cost of common stock in treasury: 9/30/08 218,801,772 shares; 12/31/07 - 244,786,039 shares		(6,695)		(7,480)
Other comprehensive income		(1,828)		(936)
Total shareholders equity		21,675		21,046
Total liabilities and shareholders equity	$	247,055	$	237,615

See Notes to Consolidated Financial Statements.

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U.S. Bancorp
Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest Income				
Loans	$ 2,487	$ 2,703	$ 7,476	$ 7,897
Loans held for sale	52	76	174	205
Investment securities	478	522	1,507	1,554
Other interest income	40	33	120	101
Total interest income	3,057	3,334	9,277	9,757
Interest Expense				
Deposits	425	694	1,489	2,032
Short-term borrowings	276	374	861	1,081
Long-term debt	423	599	1,316	1,696
Total interest expense	1,124	1,667	3,666	4,809
Net interest income	1,933	1,667	5,611	4,948
Provision for credit losses	748	199	1,829	567
Net interest income after provision for credit losses	1,185	1,468	3,782	4,381
Noninterest Income				
Credit and debit card revenue	269	237	783	673
Corporate payment products revenue	179	166	517	472
ATM processing services	94	84	271	243
Merchant processing services	300	289	880	827
Trust and investment management fees	329	331	1,014	995
Deposit service charges	286	276	821	800
Treasury management fees	128	118	389	355
Commercial products revenue	132	107	361	312
Mortgage banking revenue	61	76	247	211
Investment products fees and commissions	37	36	110	108
Securities gains (losses), net	(411)	7	(725)	11
Other	8	150	680	478
Total noninterest income	1,412	1,877	5,348	5,485
Noninterest Expense				
Compensation	763	656	2,269	1,950
Employee benefits	125	119	391	375
Net occupancy and equipment	199	189	579	550
Professional services	61	56	167	162
Marketing and business development	75	71	220	191
Technology and communications	153	140	442	413
Postage, printing and supplies	73	70	217	210

Other intangibles	88	94	262	283
Other	286	381	907	884
Total noninterest expense	1,823	1,776	5,454	5,018
Income before income taxes	774	1,569	3,676	4,848
Applicable income taxes	198	473	1,060	1,466
Net income	$ 576	$ 1,096	$ 2,616	$ 3,382
Net income applicable to common equity	$ 557	$ 1,081	$ 2,563	$ 3,337
Earnings per common share	$ .32	$ .63	$ 1.47	$ 1.92
Diluted earnings per common share	$ .32	$ .62	$ 1.46	$ 1.89
Dividends declared per common share	$ .425	$ .400	$ 1.275	$ 1.200
Average common shares outstanding	1,743	1,725	1,738	1,737
Average diluted common shares outstanding	1,757	1,745	1,754	1,762

See Notes to Consolidated Financial Statements.

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U.S. Bancorp
Consolidated Statement of Shareholders Equity

(Dollars and Shares in Millions) (Unaudited)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other Comprehensive Income	Total Shareholders Equity
Balance December 31, 2006	1,765	$ 1,000	$ 20	$ 5,762	$ 21,242	$ (6,091)	$ (736)	$ 21,197
Net income					3,382			3,382
Unrealized loss on securities available-for-sale							(482)	(482)
Unrealized loss on derivatives							(73)	(73)
Foreign currency translation							11	11
Reclassification for realized losses							72	72
Change in retirement obligation							1	1
Income taxes							179	179
Total comprehensive income								3,090
Cash dividends declared								
Preferred					(45)			(45)
Common					(2,079)			(2,079)
Issuance of common and treasury stock	18			(34)		544		510
Purchase of treasury stock	(58)					(2,003)		(2,003)
Stock option and restricted stock grants				20				20
Shares reserved to meet deferred compensation obligations						(4)		(4)
Balance September 30, 2007	1,725	$ 1,000	$ 20	$ 5,748	$ 22,500	$ (7,554)	$ (1,028)	$ 20,686
Balance December 31, 2007	1,728	$ 1,000	$ 20	$ 5,749	$ 22,693	$ (7,480)	$ (936)	$ 21,046
Net income					2,616			2,616
Unrealized loss on securities available-for-sale							(2,156)	(2,156)
Unrealized gain on derivatives							1	1
Foreign currency translation							(37)	(37)
Realized loss on derivatives							(15)	(15)
Reclassification for realized losses							763	763
Change in retirement obligation							6	6
Income taxes							546	546
Total comprehensive income								1,724
Cash dividends declared								
Preferred					(53)			(53)
Common					(2,224)			(2,224)

Issuance of preferred stock		500		(9)				491
Issuance of common and treasury stock	28			(80)		880		800
Purchase of treasury stock	(2)					(90)		(90)
Stock option and restricted stock grants				(14)				(14)
Shares reserved to meet deferred compensation obligations						(5)		(5)
Balance September 30, 2008	1,754	$ 1,500	$ 20	$ 5,646	$ 23,032	$ (6,695)	$ (1,828)	$ 21,675

See Notes to Consolidated Financial Statements.

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U.S. Bancorp
Consolidated Statement of Cash Flows

	Nine Months Ended September 30,	
(Dollars in Millions) (Unaudited)	2008	2007
Operating Activities		
Net cash provided by operating activities	$3,973	$2,018
Investing Activities		
Proceeds from sales of available-for-sale investment securities	2,084	1,269
Proceeds from maturities of investment securities	3,800	3,419
Purchases of investment securities	(3,413)	(5,389)
Net increase in loans outstanding	(11,871)	(3,661)
Proceeds from sales of loans	115	382
Purchases of loans	(2,862)	(1,907)
Acquisitions, net of cash acquired	637	(73)
Other, net	(308)	(1,182)
Net cash used in investing activities	(11,818)	(7,142)
Financing Activities		
Net increase (decrease) in deposits	5,280	(2,442)
Net increase in short-term borrowings	5,053	1,869
Proceeds from issuance of long-term debt	8,533	21,077
Principal payments or redemption of long-term debt	(11,700)	(13,590)
Proceeds from issuance of preferred stock	491	
Proceeds from issuance of common stock	658	374
Repurchase of common stock		(1,983)
Cash dividends paid on preferred stock	(49)	(45)
Cash dividends paid on common stock	(2,204)	(2,095)
Net cash provided by financing activities	6,062	3,165
Change in cash and cash equivalents	(1,783)	(1,959)
Cash and cash equivalents at beginning of period	9,185	8,805
Cash and cash equivalents at end of period	$7,402	$6,846

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. For further information, refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Certain amounts in prior periods have been reclassified to conform to the current presentation.
Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs and benefits, expenses and other financial elements to each line of business. Table 10 Line of Business Financial Performance provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

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

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

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

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

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

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

Note 3 Investment Securities

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

	September 30, 2008				December 31, 2007			
(Dollars in Millions)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (c)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (c)
Held-to-maturity								
Mortgage-backed securities (a)	$ 5	$ 5	3.1	6.13%	$ 6	$ 6	3.1	6.29%
Obligations of state and political subdivisions (b)	49	49	10.2	5.74	56	60	10.2	6.03
Other debt securities	10	10	1.8	4.08	12	12	1.8	5.26

Total held-to-maturity securities	$ 64	$ 64	8.3	5.50%	$ 74	$ 78	8.3	5.92%
Available-for-sale								
U.S. Treasury and agencies	$ 96	$ 96	5.3	4.28%	$ 407	$ 405	7.5	5.95%
Mortgage-backed securities (a)	31,370	30,345	6.4	4.65	31,300	30,603	5.6	5.12
Asset-backed securities (a)(d)	861	871	3.9	5.66	2,922	2,928	5.2	5.72
Obligations of state and political subdivisions (b)	7,126	6,414	22.1	6.82	7,131	7,055	10.7	6.78
Other debt securities	1,931	1,285	28.2	5.46	1,840	1,603	29.8	6.19
Other investments	396	274	43.0	5.88	506	448	33.5	7.16
Total available-for-sale securities	$ 41,780	$ 39,285	10.3	5.09%	$ 44,106	$ 43,042	7.7	5.51%

(a) *Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.*

(b) *Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the market price is above par, yield to maturity if market price is below par.*

(c) *Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances.*

(d) *Primarily includes investments in structured investment vehicles with underlying collateral that includes a mix of various mortgage and other asset-backed securities. Certain amounts included in asset-backed securities at December 31, 2007, are reflected in other categories at September 30, 2008, based on the collateral received upon the exchange of the structured investment vehicle securities.*

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Included in available-for-sale investment securities are structured investment vehicle securities (SIVs) which were purchased in the fourth quarter of 2007 from certain money market funds managed by FAF Advisors, Inc., an affiliate of the Company. During the first nine months of 2008, the Company exchanged its interest in certain SIVs and received its share of the underlying investment securities as in-kind distributions according to the applicable restructuring agreements. The SIVs and the investment securities received are collectively referred to as SIV-related investments. Some of these securities evidenced credit deterioration at time of acquisition by the Company. Statement of Position No. 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer , requires the difference between the total expected cash flows for these securities and the initial recorded investment to be recognized in earnings over the life of the securities, using a level yield. If subsequent decreases in the fair value of these securities are accompanied by an adverse change in the expected cash flows, an other-than-temporary impairment will be recorded through earnings. Subsequent increases in the expected cash flows will be recognized as income prospectively over the remaining life of the security by increasing the level yield. During the third quarter and first nine months of 2008, the Company recorded $105 million and $410 million, respectively, of impairment charges on these investments, primarily as a result of widening market spreads and changes in expected cash flows during these time periods.

Upon acquiring the underlying investment securities, the Company evaluated each individual security to determine whether there was evidence of credit deterioration at the acquisition date to determine which securities were subject to SOP 03-3 accounting. The reconciliation below of the securities subject to SOP 03-3 accounting reflects the removal of $1,071 million of SIVs that were exchanged during the first nine months of 2008, and the addition of $7 million and $141 million of underlying investment securities received in the exchange during the third quarter and first nine months of 2008, respectively, that have evidence of credit deterioration as of their acquisition date.

The gross undiscounted cash flows that were due under the contractual terms of the securities subject to SOP 03-3, were $1.3 billion at September 30, 2008, compared with $2.5 billion at December 31, 2007, which included payments receivable of $28 million and $33 million at September 30, 2008, and December 31, 2007, respectively.

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

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
(Dollars in Millions)	Accretable Yield	Carrying Amount of Debt Securities	Accretable Yield	Carrying Amount of Debt Securities
Balance at beginning of period	$ 191	$ 1,055	$ 105	$ 2,427
Transfers in (a)		7	49	141
Payments received		(60)		(205)
Impairment writedowns	(57)	(105)	126	(410)
Accretion	(14)	14	(29)	29
Transfers out (b)			(131)	(1,071)
Balance at end of period	$ 120	$ 911	$ 120	$ 911

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

(b) *Includes SIV securities exchanged for underlying investment securities as of September 30, 2008.*

The Company conducts a regular assessment of its investment portfolios to determine whether any securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and the Company s ability to hold the securities through the anticipated recovery period. In addition to the impairment taken on the securities subject to SOP 03-3 accounting, the Company recorded other-than-temporary impairment charges of $306 million in the third quarter and $331 million in the first nine months of 2008, on certain other SIV-related and other investment securities.

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

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

	Less Than 12 Months		12 Months or Greater		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity						
Obligations of state and political subdivisions	$ 15	$ (2)	$ 6	$	$ 21	$ (2)
Total	$ 15	$ (2)	$ 6	$	$ 21	$ (2)
Available-for-sale						
U.S. Treasury and agencies	$ 63	$ (1)	$	$	$ 63	$ (1)
Mortgage-backed securities	13,278	(436)	12,404	(623)	25,682	(1,059)
Asset-backed securities	30	(4)			30	(4)
Obligations of state and political subdivisions	3,852	(362)	2,491	(351)	6,343	(713)
Other securities and investments	341	(123)	964	(646)	1,305	(769)
Total	$ 17,564	$ (926)	$ 15,859	$ (1,620)	$ 33,423	$ (2,546)

The unrealized losses within each investment category have occurred as a result of changes in interest rates and credit spreads. The substantial portion of securities that have unrealized losses are either government securities, issued by government-backed agencies or privately issued securities with high investment grade credit ratings and limited credit exposure. Unrealized losses within other securities and investments are also the result of a widening of market spreads since the initial purchase date. In general, the issuers of the investment securities are contractually prohibited from paying them off at less than par at maturity or any earlier call date. As of the reporting date, the Company expected to receive all contractual principal and interest related to securities in an unrealized loss position. As of the reporting date, the Company expected that approximately $439 million of principal payments will not be received for certain SIV-related investments and non-agency mortgage-backed securities for which it has recorded impairment charges. The Company has the intent and ability to hold all of its investment securities that are in an unrealized loss position at September 30, 2008, until their anticipated recovery in value or maturity. As a result, none of these securities were considered to be other-than-temporarily impaired at September 30, 2008.

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Note 4 Loans

The composition of the loan portfolio was as follows:

(Dollars in Millions)	September 30, 2008 Amount	September 30, 2008 Percent of Total	December 31, 2007 Amount	December 31, 2007 Percent of Total
Commercial				
Commercial	$ 49,938	29.4 %	$ 44,832	29.1 %
Lease financing	6,516	3.8	6,242	4.1
Total commercial	56,454	33.2	51,074	33.2
Commercial real estate				
Commercial mortgages	22,671	13.4	20,146	13.1
Construction and development	9,506	5.6	9,061	5.9
Total commercial real estate	32,177	19.0	29,207	19.0
Residential mortgages				
Residential mortgages	17,899	10.5	17,099	11.1
Home equity loans, first liens	5,442	3.2	5,683	3.7
Total residential mortgages	23,341	13.7	22,782	14.8
Retail				
Credit card	12,501	7.4	10,956	7.1
Retail leasing	5,065	3.0	5,969	3.9
Home equity and second mortgages	18,207	10.7	16,441	10.7
Other retail				
Revolving credit	3,041	1.8	2,731	1.8
Installment	5,587	3.3	5,246	3.4
Automobile	9,235	5.4	8,970	5.8
Student	4,255	2.5	451	.3
Total other retail	22,118	13.0	17,398	11.3
Total retail	57,891	34.1	50,764	33.0
Total loans	$ 169,863	100.0 %	$ 153,827	100.0 %

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

Note 5 Mortgage Servicing Rights

The Company s portfolio of residential mortgages serviced for others was $112.9 billion and $97.0 billion at September 30, 2008 and December 31, 2007, respectively. The Company records mortgage servicing rights (MSRs) initially at fair value and at each subsequent reporting date, and records changes in fair value in noninterest income in the period in which they occur. In conjunction with its MSRs, the Company may utilize derivatives, including futures, forwards and interest rate swaps to offset the effect of interest rate changes on the fair value of MSRs. The net impact of assumption changes on the fair value of MSRs, excluding decay, and the related derivatives included in mortgage banking revenue was a net loss of $25 million and a net gain of $4 million for the three months ended September 30, 2008 and 2007, respectively, and a net loss of $52 million and $1 million for the nine months ended September 30, 2008 and 2007, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue were $102 million and $87 million for the three months ended September 30, 2008 and 2007, respectively, and $295 million and $260 million for the nine months ended September 30, 2008 and 2007, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Millions)	2008	2007	2008	2007
Balance at beginning of period	$ 1,731	$ 1,649	$ 1,462	$ 1,427
Rights purchased	6	4	23	10
Rights capitalized	127	130	406	316
Rights sold		(130)		(130)
Changes in fair value of MSRs				
Due to change in valuation assumptions (a)	(56)	(86)	43	38
Other changes in fair value (b)	(58)	(45)	(184)	(139)
Balance at end of period	$ 1,750	$ 1,522	$ 1,750	$ 1,522

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

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

The Company determines fair value by estimating the present value of the asset s future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys, and independent third party appraisals. Risks inherent in the valuation of MSRs include higher than expected prepayment rates or return requirements, 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 September 30, 2008, was as follows:

	Down Scenario		Up Scenario	
(Dollars in Millions)	50 bps	25 bps	25 bps	50 bps
Net fair value	$ (9)	$	$ (20)	$ (61)

Note 6 Earnings Per Common Share

The components of earnings per common share were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and Shares in Millions, Except Per Share Data)	2008	2007	2008	2007
Net income	$ 576	$ 1,096	$ 2,616	$ 3,382
Preferred dividends	(19)	(15)	(53)	(45)
Net income applicable to common equity	$ 557	$ 1,081	$ 2,563	$ 3,337
Average common shares outstanding	1,743	1,725	1,738	1,737
Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes	14	20	16	25

Average diluted common shares outstanding	1,757	1,745	1,754	1,762
Earnings per common share	$ .32	$ .63	$ 1.47	$ 1.92
Diluted earnings per common share	$ .32	$ .62	$ 1.46	$ 1.89

Options to purchase 35 million and 14 million common shares for the three months ended September 30, 2008 and 2007, respectively, and 27 million and 10 million common shares for the nine months ended September 30, 2008 and 2007, respectively, were outstanding but not included in the computation of diluted earnings per common share because they were antidilutive.

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Note 7 Employee Benefits

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Plans		Postretirement Medical Plan		Pension Plans		Postretirement Medical Plan	
(Dollars in Millions)	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 19	$ 18	$ 1	$ 1	$ 57	$ 53	$ 4	$ 4
Interest cost	35	31	3					