

US BANCORP \DE\  
Form 10-Q  
November 06, 2009

**Table of Contents**

---

Table of Contents

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

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

**For the quarterly period ended September 30, 2009**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

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

**Commission file number 1-6880**

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-0255900**

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

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

(Address of principal executive offices, including zip code)

**651-466-3000**

(Registrant's telephone number, including area code)

**(not applicable)**

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

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

YES  NO

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

Class	Outstanding as of October 31, 2009
Common Stock, \$.01 Par Value	1,912,423,877 shares

---

**Table of Contents and Form 10-Q Cross Reference Index****Part I Financial Information**

<u>1) Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)</u>	
<u>a) Overview</u>	3
<u>b) Statement of Income Analysis</u>	4
<u>c) Balance Sheet Analysis</u>	6
<u>d) Non-Regulatory Capital Ratios</u>	26
<u>e) Critical Accounting Policies</u>	27
<u>f) Controls and Procedures (Item 4)</u>	27
<u>2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)</u>	
<u>a) Overview</u>	9
<u>b) Credit Risk Management</u>	9
<u>c) Residual Value Risk Management</u>	18
<u>d) Operational Risk Management</u>	18
<u>e) Interest Rate Risk Management</u>	18
<u>f) Market Risk Management</u>	19
<u>g) Liquidity Risk Management</u>	20
<u>h) Capital Management</u>	20
<u>3) Line of Business Financial Review</u>	21
<u>4) Financial Statements (Item 1)</u>	28
<b>Part II Other Information</b>	
<u>1) Risk Factors (Item 1A)</u>	56
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)</u>	56
<u>3) Exhibits (Item 6)</u>	56
<u>4) Signature</u>	57
<u>5) Exhibits</u>	58
<u>EX-12</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

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

This Quarterly Report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date made. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect U.S. Bancorp's revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to

certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp's business and financial performance could be impacted as the financial industry restructures in the current environment, by increased regulation of financial institutions or other effects of recently enacted legislation, and by changes in the competitive landscape. U.S. Bancorp's results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its 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 U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, on file with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Corporate Risk Profile" contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,	
	2009	2008		2009	2008
Shares in Millions, Except Per Share Data)					
<b>Income Statement</b>					
Income (taxable-equivalent basis) (a)	\$ 2,157	\$ 1,967	9.7%	\$ 6,356	\$ 5,705
Income	2,169	1,823	19.0	6,229	6,073
Provision for credit losses (losses), net	(76)	(411)	81.5	(293)	(725)
Provision for doubtful accounts	4,250	3,379	25.8	12,292	11,053
Provision for credit losses	2,053	1,813	13.2	6,053	5,410
Provision for credit losses	1,456	748	94.7	4,169	1,829
Provision for credit losses	741	818	(9.4)	2,070	3,814
Provision for credit losses	50	34	47.1	148	94
Provision for credit losses	86	198	(56.6)	287	1,060
Income before provision for credit losses	605	586	3.2	1,635	2,660
Income before provision for credit losses	(2)	(10)	80.0	(32)	(44)
Income before provision for credit losses	\$ 603	\$ 576	4.7	\$ 1,603	\$ 2,616
Income before provision for credit losses					
Income before provision for credit losses	\$ 583	\$ 557	4.7	\$ 1,223	\$ 2,560
<b>Per Share</b>					
Income per share	\$ .31	\$ .32	(3.1)%	\$ .67	\$ 1.47
Income per share	.30	.32	(6.3)	.66	1.46
Income per share	.050	.425	(88.2)	.150	1.275
Income per share	12.38	11.50	7.7		
Income per share	21.86	36.02	(39.3)		
Income per share	1,908	1,743	9.5	1,832	1,738
Income per share	1,917	1,756	9.2	1,840	1,753
<b>Other</b>					
Income per share	.90%	.94%		.81%	1.45%
Income per share	10.0	10.8		7.7	16.6
Income per share	3.67	3.65		3.62	3.60
Income per share	47.5	47.8		48.1	45.9
<b>Other</b>					
Income per share	\$181,968	\$166,560	9.3%	\$ 183,837	\$ 161,639
Income per share	7,359	3,495	*	6,222	4,008
Income per share	42,558	42,548		42,357	43,144
Income per share	234,111	214,973	8.9	234,559	211,372
Income per share	264,411	243,623	8.5	265,579	240,850
Income per share	36,982	28,322	30.6	36,800	27,766

Edgar Filing: US BANCORP \DE\ - Form 10-Q

	166,362	133,539	24.6	163,391	133,402
rowings	28,025	40,277	(30.4)	29,278	38,070
ot	36,797	40,000	(8.0)	37,780	39,237
ncorp shareholders equity	24,679	21,983	12.3	26,559	21,927

	September 30, 2009	December 31, 2008	
<b>balances</b>			
	\$183,056	\$185,229	(1.2)%
credit losses	4,986	3,639	37.0
curities	42,336	39,521	7.1
	265,058	265,912	(.3)
	169,755	159,350	6.5
ot	33,249	38,359	(13.3)
ncorp shareholders equity	25,171	26,300	(4.3)
	9.5%	10.6%	
ed capital	13.0	14.3	
	8.6	9.8	
n equity to risk-weighted assets (c)	6.8	5.1	
non equity to tangible assets (c)	5.4	3.3	
non equity to risk-weighted assets (c)	6.0	3.7	

\* *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.*

(c) *See Non-Regulatory Capital Ratios on page 26.*

U.S. Bancorp



**Table of Contents**

Management's Discussion and Analysis

**OVERVIEW**

**Earnings Summary** U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of \$603 million for the third quarter of 2009 or \$.30 per diluted common share, compared with \$576 million, or \$.32 per diluted common share for the third quarter of 2008. Return on average assets and return on average common equity were .90 percent and 10.0 percent, respectively, for the third quarter of 2009, compared with .94 percent and 10.8 percent, respectively, for the third quarter of 2008. During the third quarter of 2009, the Company strengthened its allowance for credit losses by recording \$415 million of provision for credit losses in excess of net charge-offs in light of continued credit deterioration arising from the current economic environment. Other significant items in the third quarter of 2009 included \$76 million of net securities losses and a \$39 million gain related to the Company's investment in Visa Inc. Significant items included in the third quarter of 2008 results were \$250 million of provision for credit losses in excess of net charge-offs and net securities losses of \$411 million. Total net revenue, on a taxable-equivalent basis, for the third quarter of 2009 was \$871 million (25.8 percent) higher than the third quarter of 2008, reflecting a 9.7 percent increase in net interest income and a 48.2 percent increase in noninterest income. The increase in net interest income from a year ago was principally the result of growth in average earning assets and an increase in core deposit funding. Noninterest income increased from a year ago, principally due to strong growth in mortgage banking revenue, a decrease in net securities losses, and lower retail lease residual losses.

Total noninterest expense in the third quarter of 2009 was \$240 million (13.2 percent) higher than the third quarter of 2008, primarily due to the impact of acquisitions, higher Federal Deposit Insurance Corporation (FDIC) deposit insurance expense, and marketing expense principally associated with the introduction of a new credit card product. The provision for credit losses for the third quarter of 2009 increased \$708 million over the third quarter of 2008, reflecting weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected stress in the residential real estate markets. Net charge-offs in the third quarter of 2009 were \$1.0 billion, compared with net charge-offs of \$498 million in the third quarter of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income attributable to U.S. Bancorp of \$1.6 billion for the first nine months of 2009 or \$.66 per diluted common share, compared with \$2.6 billion, or \$1.46 per diluted common share for the first nine months of 2008. Return on average assets and return on average common equity were .81 percent and 7.7 percent, respectively, for the first nine months of 2009, compared with 1.45 percent and 16.6 percent, respectively, for the first nine months of 2008. The Company's results for the first nine months of 2009 reflected several significant items, including provision for credit losses in excess of net charge-offs of \$1.4 billion, \$293 million of net securities losses, a \$123 million FDIC special assessment, a \$92 million gain from a corporate real estate transaction and the \$39 million gain related to the Company's investment in Visa Inc. Significant items included in the first nine months of 2008 results were a \$492 million gain related to the Company's ownership position in Visa Inc. (2008 Visa Gain), \$642 million provision for credit losses in excess of net charge-offs and net securities losses of \$725 million. Total net revenue, on a taxable-equivalent basis, for the first nine months of 2009 was \$1.2 billion (11.2 percent) higher than the first nine months of 2008, reflecting an 11.4 percent increase in net interest income and an 11.0 percent increase in noninterest income. The increase in net interest income from a year ago was principally the result of growth in average earning assets and an increase in core deposit funding. Noninterest income increased due to strong growth in mortgage banking revenue, a significant decrease in net securities losses, higher commercial products revenue and treasury management fees, and gains from a corporate real estate transaction and the Company's investment in Visa Inc. These revenue increases were partially offset by lower trust and investment management fees, lower deposit service charges and the 2008 Visa Gain.

Total noninterest expense in the first nine months of 2009 was \$643 million (11.9 percent) higher than in the first nine months of 2008, primarily due to the impact of acquisitions, higher FDIC deposit insurance expense, and

U.S. Bancorp

---

**Table of Contents**

marketing expense, principally related to credit card initiatives.

The provision for credit losses for the first nine months of 2009 increased \$2.3 billion over the first nine months of 2008. The increase in the provision for credit losses reflected weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected stress in the residential real estate markets. Net charge-offs in the first nine months of 2009 were \$2.8 billion, compared with net charge-offs of \$1.2 billion in the first nine months 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.

**STATEMENT OF INCOME ANALYSIS**

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$2.2 billion in the third quarter of 2009, compared with \$2.0 billion in the third quarter of 2008. Net interest income, on a taxable-equivalent basis, was \$6.4 billion in the first nine months of 2009, compared with \$5.7 billion in the first nine months of 2008. The increases were due to growth in average earning assets and an increase in core deposit funding. Average earning assets were \$19.1 billion (8.9 percent) higher in the third quarter of 2009 and \$23.2 billion (11.0 percent) higher in the first nine months of 2009, compared with the same periods of 2008, primarily driven by increases in average loans, including originated and acquired loans. The net interest margin in the third quarter and first nine months of 2009 was 3.67 percent and 3.62 percent, respectively, compared with 3.65 percent and 3.60 percent, respectively, for the same periods of 2008. Given the current interest rate environment, the Company expects the net interest margin to remain relatively stable, with a bias toward modest improvement in the fourth quarter of 2009. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income. Total average loans for the third quarter and first nine months of 2009 were \$15.4 billion (9.3 percent) and \$22.2 billion (13.7 percent) higher, respectively, than the same periods of 2008, driven by new loan originations, acquisitions and portfolio purchases. Retail loan growth, year-over-year, was driven by increases in credit card, home equity and federally-guaranteed student loans. Average credit card balances for the third quarter and first nine months of 2009 were \$3.2 billion (25.9 percent) and \$2.8 billion (24.4 percent) higher, respectively, than the same periods of 2008, reflecting both growth in existing portfolios and portfolio purchases of approximately \$.3 billion and \$1.3 billion during the second and third quarters of 2009, respectively. Commercial real estate loan growth reflected new business and higher utilization of existing credits driven by market conditions. Residential mortgage growth reflected increased origination activity as a result of market interest rate declines. Commercial loans decreased for the third quarter of 2009, compared with the same period of 2008, principally due to lower utilization of existing commitments and a reduction in demand for new loans. Assets covered by loss sharing agreements with the FDIC (covered assets) relate to the 2008 acquisitions of the banking operations of Downey Savings and Loan Association, F.A. and PFF Bank and Trust (Downey and PFF) and the average balances were \$10.3 billion and \$10.8 billion in the third quarter and first nine months of 2009, respectively.

Average investment securities in the third quarter of 2009 were essentially unchanged from the third quarter of 2008, as securities purchases offset repayments. Average investment securities for the first nine months of 2009 decreased \$787 million (1.8 percent) from the same period of 2008 as a result of prepayments and sales. The composition of the Company's investment portfolio remained essentially unchanged from a year ago.

Total average deposits for the third quarter and first nine months of 2009 increased \$32.8 billion (24.6 percent) and \$30.0 billion (22.5 percent), respectively, over the same periods of 2008. Excluding deposits from 2008 and 2009 acquisitions, third quarter 2009 average total deposits increased \$21.5 billion (16.1 percent) over the third quarter of 2008. Average noninterest-bearing deposits for the third quarter and first nine months of 2009 increased \$8.7 billion (30.6 percent) and \$9.1 billion (32.5 percent), respectively, compared with same periods of 2008, primarily due to growth in the Consumer and Wholesale Banking business lines. Average total savings deposits increased \$21.4 billion (33.5 percent) in the third quarter and \$14.5 billion (23.0 percent) in the first nine months of 2009, compared with the same periods in 2008, the result of higher consumer, government, broker-dealer and institutional trust customer balances and the impact of acquisitions. Contributing to the increase in savings accounts was strong participation in a

new savings product introduced across the franchise by Consumer Banking late in the third quarter of 2008. Average time certificates of deposit less than \$100,000 were higher in the third quarter and first nine months of 2009 by \$4.3 billion (34.1 percent) and \$4.7 billion

U.S. Bancorp

4

---

**Table of Contents****Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	Percent Change	2009	2008	Percent Change
Credit and debit card revenue	\$ 267	\$ 269	(.7)%	\$ 782	\$ 783	(.1)%
Corporate payment products revenue	181	179	1.1	503	517	(2.7)
Merchant processing services	300	300		836	880	(5.0)
ATM processing services	103	94	9.6	309	271	14.0
Trust and investment management fees	293	329	(10.9)	891	1,014	(12.1)
Deposit service charges	256	286	(10.5)	732	821	(10.8)
Treasury management fees	141	128	10.2	420	389	8.0
Commercial products revenue	157	132	18.9	430	361	19.1
Mortgage banking revenue	276	61	*	817	247	*
Investment products fees and commissions	27	37	(27.0)	82	110	(25.5)
Securities gains (losses), net	(76)	(411)	81.5	(293)	(725)	59.6
Other	168	8	*	427	680	(37.2)
<b>Total noninterest income</b>	<b>\$ 2,093</b>	<b>\$ 1,412</b>	<b>48.2%</b>	<b>\$ 5,936</b>	<b>\$ 5,348</b>	<b>11.0%</b>

\* *Not meaningful*

(36.4 percent), respectively, over the same periods in 2008, primarily due to acquisitions. Average time deposits greater than \$100,000 decreased \$1.6 billion (5.5 percent) in the third quarter of 2009, compared with the third quarter of 2008, reflecting a decrease in overall wholesale funding requirements. Average time deposits greater than \$100,000 increased \$1.7 billion (5.9 percent) in the first nine months of 2009, compared with the same period in the prior year, due primarily to acquisitions.

**Provision for Credit Losses** The provision for credit losses for the third quarter and first nine months of 2009 increased \$708 million and \$2.3 billion, respectively, over the same periods of 2008, reflecting the adverse impact of current economic conditions compared with a year ago. The provision for credit losses exceeded net charge-offs by \$415 million and \$1.4 billion in the third quarter and first nine months of 2009, respectively, compared with \$250 million and \$642 million in the same periods of 2008. The increases in the provision and allowance for credit losses reflected weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected stress in residential real estate markets. Net charge-offs were \$1.0 billion in the third quarter and \$2.8 billion in the first nine months of 2009, compared with net charge-offs of \$498 million in the third quarter and \$1.2 billion in the first nine months 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 was \$2.1 billion in the third quarter and \$5.9 billion in the first nine months of 2009, increasing \$681 million (48.2 percent) and \$588 million (11.0 percent), respectively, from the same periods of 2008. The increases in noninterest income from a year ago were principally due to a significant increase in

mortgage banking revenue, as the lower rate environment drove strong mortgage loan production and related gains. Other increases in noninterest income included higher ATM processing services related to growth in transaction volumes and business expansion, higher treasury management fees resulting from increased new business activity and pricing, and higher commercial products revenue due to higher letters of credit, capital markets and other commercial loan fees. Net securities losses for the third quarter and first nine months of 2009 were also lower than the same periods a year ago. Other income increased in the third quarter of 2009, compared with the third quarter of 2008, due principally to a significant reduction in retail lease residual losses, a gain related to the Company's investment in Visa Inc., and the impact of lower market-related valuation losses relative to the prior year, partially offset by higher valuation losses on equity investments. Other income decreased in the first nine months of 2009, compared with the same period of the prior year, due to the 2008 Visa Gain, partially offset by a reduction in residual lease valuation losses in the current year and the gain related to the Company's investment in Visa Inc. recorded in the third quarter of 2009. Deposit service charges decreased primarily due to a decrease in the number of overdraft incidences, which more than offset account growth. Trust and investment management fees declined, as did investment product

**Table of Contents****Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	Percent Change	2009	2008	Percent Change
Compensation	\$ 769	\$ 763	.8%	\$ 2,319	\$ 2,269	2.2%
Employee benefits	134	125	7.2	429	391	9.7
Net occupancy and equipment	203	199	2.0	622	579	7.4
Professional services	63	61	3.3	174	167	4.2
Marketing and business development	137	75	82.7	273	220	24.1
Technology and communications	175	153	14.4	487	442	10.2
Postage, printing and supplies	72	73	(1.4)	218	217	.5
Other intangibles	94	88	6.8	280	262	6.9
Other	406	276	47.1	1,251	863	45.0
<b>Total noninterest expense</b>	<b>\$ 2,053</b>	<b>\$ 1,813</b>	<b>13.2%</b>	<b>\$ 6,053</b>	<b>\$ 5,410</b>	<b>11.9%</b>
Efficiency ratio (a)	47.5%	47.8%		48.1%	45.9%	

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

fees and commissions, reflecting adverse equity market conditions.

**Noninterest Expense** Noninterest expense was \$2.1 billion in the third quarter and \$6.1 billion in the first nine months of 2009, increasing \$240 million (13.2 percent) and \$643 million (11.9 percent), respectively, from the same periods of 2008. The increases in noninterest expense from a year ago were principally due to the impact of acquisitions, higher FDIC deposit insurance expense and marketing expense. Compensation expense increased primarily due to acquisitions, partially offset by reductions from cost containment efforts. Employee benefits expense increased primarily due to increased pension costs associated with previous declines in the value of pension assets. Net occupancy and equipment expense, and technology and communications expense increased primarily due to acquisitions, as well as branch-based and other business expansion initiatives. Marketing and business development expense increased principally due to costs related to the introduction of new credit card products. Other intangibles expense increased due to acquisitions. Other expense increased due to an increase in FDIC deposit insurance expense. In addition, FDIC expense for the first nine months of 2009 further increased over the same period of the prior year due to a second quarter 2009 special assessment. Other expense included increased costs related to investments in affordable housing and other tax-advantaged projects, growth in mortgage servicing and costs associated with foreclosed real estate.

**Income Tax Expense** The provision for income taxes was \$86 million (an effective rate of 12.4 percent) for the third quarter and \$287 million (an effective rate of 14.9 percent) for the first nine months of 2009, compared with \$198 million (an effective rate of 25.3 percent) and \$1.1 billion (an effective rate of 28.5 percent) for the same periods of 2008. The declines in the effective tax rates in the third quarter and first nine months of 2009, compared with the same periods of the prior year, reflected the impact of the relative level of tax-exempt income, and investments in

affordable housing and other tax-advantaged projects, combined with lower pre-tax earnings year-over-year. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

## **BALANCE SHEET ANALYSIS**

**Loans** The Company's total loan portfolio was \$183.1 billion at September 30, 2009, compared with \$185.2 billion at December 31, 2008, a decrease of \$2.1 billion (1.2 percent). The decrease was driven primarily by lower commercial loans and covered assets, partially offset by growth in retail loans, residential mortgages and commercial real estate loans. The \$5.9 billion (10.4 percent) decrease in commercial loans was primarily driven by lower capital spending and economic conditions impacting loan demand by business customers, along with improved access to the bond markets by those customers to refinance their bank debt.

Commercial real estate loans increased \$683 million (2.1 percent) at September 30, 2009, compared with December 31, 2008, reflecting new business growth and higher utilization of existing credits, as current market conditions have limited borrower access to real estate capital markets.

Residential mortgages held in the loan portfolio increased \$1.4 billion (5.8 percent) at September 30, 2009, compared with December 31, 2008, reflecting an increase in activity as a result of market interest rate declines. Most loans retained in the portfolio are to

U.S. Bancorp



**Table of Contents**

customers with prime or near-prime credit characteristics at the date of origination.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, increased \$3.3 billion (5.4 percent) at September 30, 2009, compared with December 31, 2008. The increase was primarily driven by growth in credit card balances and home equity and second mortgages, partially offset by decreases in installment loans and retail leasing balances.

**Loans Held for Sale** Loans held for sale, consisting primarily of residential mortgages and student loans to be sold in the secondary market, were \$6.0 billion at September 30, 2009, compared with \$3.2 billion at December 31, 2008. The increase in loans held for sale was principally due to an increase in mortgage loan origination activity as a result of a decline in market interest rates.

**Investment Securities** Investment securities, totaled \$42.3 billion at September 30, 2009, compared with \$39.5 billion at December 31, 2008. The \$2.8 billion increase principally reflected a decrease in unrealized losses. At September 30, 2009, adjustable-rate financial instruments comprised 47 percent of the investment securities portfolio, compared with 40 percent at December 31, 2008.

The Company conducts a regular assessment of its investment securities to determine whether any securities are other-than-temporarily impaired. During the first nine months of 2009, the Financial Accounting Standards Board issued new accounting guidance, which the Company adopted effective January 1, 2009, for the measurement and recognition of other-than-temporary impairment for debt securities. This guidance requires the portion of other-than-temporary impairment related to factors other than anticipated credit losses be recognized in other comprehensive income (loss), rather than earnings.

Net unrealized losses included in accumulated other comprehensive income (loss) were \$.6 billion at September 30, 2009, compared with \$2.8 billion at December 31, 2008. The decrease in unrealized losses was primarily due to increases in the fair value of agency mortgage-backed securities and obligations of state and political subdivisions, and to amounts recognized as other-than-temporary impairment in earnings.

During the third quarter and first nine months of 2009, the Company recognized impairment charges in earnings related to perpetual preferred securities, primarily issued by financial institutions, of \$21 million and \$228 million, respectively. The net unrealized loss for the Company's remaining investments in perpetual preferred securities was \$53 million at September 30, 2009.

There is limited market activity for the remaining structured investment security and the non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management's assessment of various market factors, which are judgmental in nature. The Company recorded \$51 million and \$183 million of impairment charges in earnings on non-agency mortgage-backed and structured investment related securities during the third quarter and first nine months of 2009, respectively. These impairment charges were due to 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. Refer to Notes 3 and 12 in the Notes to Consolidated Financial Statements for further information on investment securities.

**Deposits** Total deposits were \$169.8 billion at September 30, 2009, compared with \$159.3 billion at December 31, 2008, an increase of \$10.5 billion (6.5 percent) that reflected customer flight to quality. The increase in total deposits was primarily the result of increases in money market savings, savings accounts and interest checking balances, partially offset by decreases in noninterest-bearing deposit accounts and time deposits. Money market savings balances increased \$10.5 billion (40.0 percent) due to higher corporate trust, institutional trust and custody, and broker-dealer balances. Savings account balances increased \$5.6 billion (62.2 percent) due primarily to strong participation in a new savings product introduced late in the third quarter of 2008 by Consumer Banking and higher broker-dealer balances. Interest checking balances increased \$5.3 billion (16.4 percent) due to higher government, branch-based, and broker-dealer balances. Noninterest-bearing deposits decreased \$3.2 billion (8.7 percent) due primarily to declines in broker-dealer and corporate trust balances. Time certificates of deposit less than \$100,000

decreased \$2.3 billion (12.6 percent), and time deposits greater than \$100,000 decreased \$5.4 billion (15.1 percent), reflecting the Company's funding and pricing decisions. Time deposits greater than \$100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing.

U.S. Bancorp

---

**Table of Contents****Table 4** Investment Securities

September 30, 2009 (Dollars in Millions)	Amortized Cost	Available-for-Sale			Held-to-Maturity			
		Fair Value	Weighted-Average Maturity	Weighted-Average Yield(d)	Fair Value	Weighted-Average Maturity	Weighted-Average Yield(d)	
<b>U.S. Treasury and Agencies</b>								
Maturing in one year or less	\$ 1,254	\$ 1,264	.6	3.25%	\$	\$		%
Maturing after one year through five years	439	442	2.4	2.71				
Maturing after five years through ten years	33	34	8.0	4.85				
Maturing after ten years	1,600	1,586	14.3	2.04				
Total	\$ 3,326	\$ 3,326	7.5	2.61%	\$	\$		%
<b>Mortgage-Backed Securities (a)</b>								
Maturing in one year or less	\$ 1,655	\$ 1,650	.7	1.89%	\$	\$		%
Maturing after one year through five years	24,004	24,250	2.9	3.56	4	4	4.9	5.14
Maturing after five years through ten years	4,171	3,919	6.4	2.70				
Maturing after ten years	365	245	12.0	2.23				
Total	\$ 30,195	\$ 30,064	3.4	3.34%	\$ 4	\$ 4	4.9	5.14%
<b>Asset-Backed Securities (a)</b>								
Maturing in one year or less	\$ 1	\$ 1	.8	1.48%	\$	\$		%
Maturing after one year through five years	586	456	3.4	2.19				
Maturing after five years through ten years	124	128	7.0	6.37				
Maturing after ten years	14	8	22.4	1.28				
Total	\$ 725	\$ 593	4.4	2.89%	\$	\$		%
<b>Obligations of State and Political Subdivisions (b)</b>								
Maturing in one year or less	\$ 32	\$ 32	.1	2.79%	\$ 1	\$ 1	.3	7.43%
Maturing after one year through five years	504	511	3.7	5.56	6	6	2.9	6.79
Maturing after five years through ten years	5,527	5,577	6.8	6.79	11	12	6.7	7.40
Maturing after ten years	608	565	23.0	6.91	16	16	17.2	5.53
Total	\$ 6,671	\$ 6,685	8.0	6.69%	\$ 34	\$ 35	10.8	6.41%
<b>Other Debt Securities</b>								
Maturing in one year or less	\$	\$ 1	.2	8.01%	\$ 4	\$ 4	.5	1.52%
Maturing after one year through five years	73	55	2.5	5.90	6	6	3.6	1.82
Maturing after five years through ten years	57	49	7.8	6.25				

Maturing after ten years	1,465	1,104	33.6	4.72				
Total	\$ 1,595	\$ 1,209	31.3	4.83%	\$ 10	\$ 10	2.4	1.70%
<b>Other Investments</b>	\$ 397	\$ 411	15.0	3.31%	\$	\$		%
Total investment securities (c)	\$ 42,909	\$ 42,288	5.6	3.85%	\$ 48	\$ 49	8.4	5.29%

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.
- (c) The weighted-average maturity of the available-for-sale investment securities was 7.7 years at December 31, 2008, with a corresponding weighted-average yield of 4.56 percent. The weighted-average maturity of the held-to-maturity investment securities was 8.5 years at December 31, 2008, with a corresponding weighted-average yield of 5.78 percent.
- (d) 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. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

(Dollars in Millions)	September 30, 2009		December 31, 2008	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 3,326	7.7%	\$ 664	1.6%
Mortgage-backed securities	30,199	70.3	31,271	73.9
Asset-backed securities	725	1.7	616	1.4
Obligations of state and political subdivisions	6,705	15.6	7,258	17.1
Other debt securities and investments	2,002	4.7	2,527	6.0
Total investment securities	\$ 42,957	100.0%	\$ 42,336	100.0%

U.S. Bancorp

## **Table of Contents**

**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 \$28.2 billion at September 30, 2009, compared with \$34.0 billion at December 31, 2008. The decrease principally reflected reduced borrowing needs as a result of increases in deposits due to customer flight to quality. Long-term debt was \$33.3 billion at September 30, 2009, compared with \$38.4 billion at December 31, 2008, primarily reflecting \$4.4 billion of medium-term note maturities and a \$4.7 billion net decrease in Federal Home Loan Bank advances, partially offset by \$4.0 billion of issuances of medium-term notes in the first nine months of 2009. The \$5.1 billion (13.3 percent) decrease in long-term debt reflected asset/liability management decisions to fund the balance sheet with other 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. 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 re-pricing of assets and liabilities differently. 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, such as changes in unemployment rates, gross domestic product and consumer bankruptcy filings. 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, 2008, 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 managed by adherence to loan-to-value and borrower credit criteria during the underwriting process.



**Table of Contents**

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, 2009 (excluding covered assets):

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
<b>Consumer Finance</b>				
Less than or equal to 80%	\$ 1,144	\$ 3,315	\$ 4,459	44.2%
Over 80% through 90%	643	1,647	2,290	22.7
Over 90% through 100%	640	2,565	3,205	31.7
Over 100%		142	142	1.4
<b>Total</b>	\$ 2,427	\$ 7,669	\$ 10,096	100.0%
<b>Other Retail</b>				
Less than or equal to 80%	\$ 2,140	\$ 11,443	\$ 13,583	91.5%
Over 80% through 90%	69	554	623	4.2
Over 90% through 100%	94	551	645	4.3
Over 100%				
<b>Total</b>	\$ 2,303	\$ 12,548	\$ 14,851	100.0%
<b>Total Company</b>				
Less than or equal to 80%	\$ 3,284	\$ 14,758	\$ 18,042	72.3%
Over 80% through 90%	712	2,201	2,913	11.7
Over 90% through 100%	734	3,116	3,850	15.4
Over 100%		142	142	.6
<b>Total</b>	\$ 4,730	\$ 20,217	\$ 24,947	100.0%

*Note: Loan-to-values determined as of the date of origination and adjusted for cumulative principal payments, and consider mortgage insurance, as applicable.*

Home equity and second mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
<b>Consumer Finance (a)</b>				
Less than or equal to 80%	\$ 816	\$ 202	\$ 1,018	41.0%
Over 80% through 90%	383	180	563	22.7
Over 90% through 100%	381	354	735	29.6
Over 100%	63	103	166	6.7
<b>Total</b>	\$ 1,643	\$ 839	\$ 2,482	100.0%
<b>Other Retail</b>				
Less than or equal to 80%	\$ 11,631	\$ 1,590	\$ 13,221	78.0%
Over 80% through 90%	1,857	530	2,387	14.1
Over 90% through 100%	782	479	1,261	7.5
Over 100%	51	25	76	.4
<b>Total</b>	\$ 14,321	\$ 2,624	\$ 16,945	100.0%
<b>Total Company</b>				

Less than or equal to 80%	\$ 12,447	\$ 1,792	\$ 14,239	73.3%
Over 80% through 90%	2,240	710	2,950	15.2
Over 90% through 100%	1,163	833	1,996	10.3
Over 100%	114	128	242	1.2
<b>Total</b>	<b>\$ 15,964</b>	<b>\$ 3,463</b>	<b>\$ 19,427</b>	<b>100.0%</b>

(a) Consumer finance category included credit originated and managed by the consumer finance division, 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 on original appraisal value of collateral and the current amortized loan balance, or maximum of current commitment or current balance on lines.

Within the consumer finance division, at September 30, 2009, approximately \$2.6 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent credit rating agencies at loan origination, compared with \$2.9 billion at December 31, 2008.

The following table provides further information on residential mortgages for the consumer finance division:

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Division
<b>Sub-Prime Borrowers</b>				
Less than or equal to 80%	\$ 5	\$ 1,042	\$ 1,047	10.4%
Over 80% through 90%	6	614	620	6.1
Over 90% through 100%	14	841	855	8.5
Over 100%		67	67	.6
<b>Total</b>	<b>\$ 25</b>	<b>\$ 2,564</b>	<b>\$ 2,589</b>	<b>25.6%</b>
<b>Other Borrowers</b>				
Less than or equal to 80%	\$ 1,139	\$ 2,273	\$ 3,412	33.8%
Over 80% through 90%	637	1,033	1,670	16.5
Over 90% through 100%	626	1,724	2,350	23.3
Over 100%		75	75	.8
<b>Total</b>	<b>\$ 2,402</b>	<b>\$ 5,105</b>	<b>\$ 7,507</b>	<b>74.4%</b>
<b>Total Consumer Finance</b>	<b>\$ 2,427</b>	<b>\$ 7,669</b>	<b>\$ 10,096</b>	<b>100.0%</b>

In addition to residential mortgages, at September 30, 2009, the consumer finance division had \$.6 billion of home equity and second mortgage loans to customers that may be defined as sub-prime borrowers, compared with \$.7 billion at December 31, 2008.

The following table provides further information on home equity and second mortgages for the consumer finance division:

(Dollars in Millions)	Lines	Loans	Total	Percent of Division
<b>Sub-Prime Borrowers</b>				



Less than or equal to 80%	\$ 31	\$ 126	\$ 157	6.3%
Over 80% through 90%	40	114	154	6.2
Over 90% through 100%	2	219	221	8.9
Over 100%	40	76	116	4.7
<b>Total</b>	\$ 113	\$ 535	\$ 648	26.1%
<b>Other Borrowers</b>				
Less than or equal to 80%	\$ 785	\$ 76	\$ 861	34.7%
Over 80% through 90%	343	66	409	16.5
Over 90% through 100%	379	135	514	20.7
Over 100%	23	27	50	2.0
<b>Total</b>	\$ 1,530	\$ 304	\$ 1,834	73.9%
<b>Total Consumer Finance</b>	\$ 1,643	\$ 839	\$ 2,482	100.0%

The total amount of residential mortgage, home equity and second mortgage loans, other than covered assets, to customers that may be defined as sub-prime borrowers represented only 1.2 percent of total assets at September 30, 2009, compared with 1.4 percent at December 31, 2008. Covered assets include \$2.4 billion in loans with negative-amortization payment options at September 30, 2009, compared with \$3.3 billion at December 31, 2008. The Company's risk on covered assets is limited by loss sharing agreements with the FDIC. Other than covered assets, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

U.S. Bancorp

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

	September 30, 2009	December 31, 2008
90 days or more past due <b>excluding</b> nonperforming loans		
<b>Commercial</b>		
Commercial	.19%	.15%
Lease financing		
Total commercial	.17	.13
<b>Commercial Real Estate</b>		
Commercial mortgages	.01	
Construction and development	.39	.36
Total commercial real estate	.12	.11
<b>Residential Mortgages</b>	2.32	1.55
<b>Retail</b>		
Credit card	2.41	2.20
Retail leasing	.11	.16
Other retail	.56	.45
Total retail	1.00	.82
Total loans, excluding covered assets	.78	.56
<b>Covered Assets</b>	7.92	5.13
Total loans	1.16%	.84%
	September 30, 2009	December 31, 2008
90 days or more past due <b>including</b> nonperforming loans		
Commercial	2.19%	.82%
Commercial real estate	5.22	3.34
Residential mortgages (a)	3.86	2.44
Retail (b)	1.28	.97
Total loans, excluding covered assets	2.69	1.57
Covered assets	14.74	10.74
Total loans	3.34%	2.14%

(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 11.19 percent at*

*September 30, 2009, and 6.95 percent at December 31, 2008.*

- (b) *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 1.44 percent at September 30, 2009, and 1.10 percent at December 31, 2008.*

**Loan Delinquencies** Trends in delinquency ratios are 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 \$2.1 billion (\$1.3 billion excluding covered assets) at September 30, 2009, compared with \$1.6 billion (\$967 million excluding covered assets) at December 31, 2008. The increase in 90 day delinquent loans related to covered assets was \$194 million. The \$377 million increase, excluding covered assets, reflected stress in residential mortgages, commercial loans, construction loans, credit cards and home equity loans. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans increased to 1.16 percent (.78 percent excluding covered assets) at September 30, 2009, from .84 percent (.56 percent excluding covered assets) at December 31, 2008. The Company expects delinquencies to continue to increase as difficult economic conditions affect more borrowers within both the consumer and commercial loan portfolios.

**Table of Contents**

The following table provides summary delinquency information for residential mortgages and retail loans, excluding covered assets:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
<b>Residential mortgages</b>				
30-89 days	\$ 595	\$ 536	2.39%	2.28%
90 days or more	580	366	2.32	1.55
Nonperforming	383	210	1.54	.89
<b>Total</b>	<b>\$ 1,558</b>	<b>\$ 1,112</b>	<b>6.25%</b>	<b>4.72%</b>
<b>Retail</b>				
<b>Credit card</b>				
30-89 days	\$ 423	\$ 369	2.58%	2.73%
90 days or more	395	297	2.41	2.20
Nonperforming	126	67	.77	.49
<b>Total</b>	<b>\$ 944</b>	<b>\$ 733</b>	<b>5.76%</b>	<b>5.42%</b>
<b>Retail leasing</b>				
30-89 days	\$ 37	\$ 49	.78%	.95%
90 days or more	5	8	.11	.16
Nonperforming				
<b>Total</b>	<b>\$ 42</b>	<b>\$ 57</b>	<b>.89%</b>	<b>1.11%</b>
<b>Home equity and second mortgages</b>				
30-89 days	\$ 194	\$ 170	1.00%	.89%
90 days or more	153	106	.78	.55
Nonperforming	25	14	.13	.07
<b>Total</b>	<b>\$ 372</b>	<b>\$ 290</b>	<b>1.91%</b>	<b>1.51%</b>
<b>Other retail</b>				
30-89 days	\$ 262	\$ 255	1.13%	1.13%
90 days or more	86	81	.37	.36
Nonperforming	23	11	.10	.05
<b>Total</b>	<b>\$ 371</b>	<b>\$ 347</b>	<b>1.60%</b>	<b>1.54%</b>

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

Consumer Finance (a)		Other Retail	
September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008

<b>Residential mortgages</b>				
30-89 days	4.11%	3.96%	1.21%	1.06%
90 days or more	3.47	2.61	1.54	.79
Nonperforming	2.42	1.60	.94	.38
<b>Total</b>	<b>10.00%</b>	<b>8.17%</b>	<b>3.69%</b>	<b>2.23%</b>
<b>Retail</b>				
<b>Credit card</b>				
30-89 days	%	%	2.58%	2.73%
90 days or more			2.41	2.20
Nonperforming			.77	.49
<b>Total</b>	<b>%</b>	<b>%</b>	<b>5.76%</b>	<b>5.42%</b>
<b>Retail leasing</b>				
30-89 days	%	%	.78%	.95%
90 days or more			.11	.16
Nonperforming				
<b>Total</b>	<b>%</b>	<b>%</b>	<b>.89%</b>	<b>1.11%</b>
<b>Home equity and second mortgages</b>				
30-89 days	2.78%	3.24%	.74%	.59%
90 days or more	2.18	2.36	.59	.32
Nonperforming	.16	.14	.12	.07
<b>Total</b>	<b>5.12%</b>	<b>5.74%</b>	<b>1.45%</b>	<b>.98%</b>
<b>Other retail</b>				
30-89 days	5.54%	6.91%	1.02%	1.00%
90 days or more	1.18	1.98	.35	.32
Nonperforming	.17		.10	.05
<b>Total</b>	<b>6.89%</b>	<b>8.89%</b>	<b>1.47%</b>	<b>1.37%</b>

(a) *Consumer finance category included credit originated and managed by the consumer finance division, 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.*

U.S. Bancorp

**Table of Contents**

Within the consumer finance division at September 30, 2009, approximately \$516 million and \$107 million of these delinquent and nonperforming residential mortgages and other retail loans, respectively, were with customers that may be defined as sub-prime borrowers, compared with \$467 million and \$121 million, respectively, at December 31, 2008.

The following table provides summary delinquency information for covered assets:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
30-89 days	\$ 299	\$ 740	3.03%	6.46%
90 days or more	781	587	7.92	5.13
Nonperforming	672	643	6.82	5.62
<b>Total</b>	<b>\$ 1,752</b>	<b>\$ 1,970</b>	<b>17.77%</b>	<b>17.21%</b>

**Restructured Loans Accruing Interest** In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due. In most cases, the modification is either a reduction in interest rate, extension of the maturity date or a reduction in the principal balance. Restructured loans 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.

The majority of the Company's loan restructurings occur on a case-by-case basis in connection with ongoing loan collection processes, however, the Company has also implemented certain restructuring programs. In late 2007 the consumer finance division began implementing a mortgage loan restructuring program for certain qualifying borrowers. In general, certain borrowers 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. In addition, the Company began participating in the U.S. Department of the Treasury Home Affordable Modification Program ( HAMP ) during the third quarter of 2009. HAMP gives qualifying homeowners an opportunity to refinance into more affordable monthly payments, with the U.S. Department of the Treasury compensating the Company for a portion of the reduction in monthly amounts due from borrowers participating in this program.

The Company has also modified certain Downey and PFF loans. Losses associated with modifications on these loans, including the economic impact of interest rate reductions, are generally eligible for reimbursement under the loss sharing agreements.

Acquired loans restructured after acquisition are not considered restructured loans for purposes of the Company's accounting and disclosure if the loans evidenced credit deterioration as of the acquisition date.

The following table provides a summary of restructured loans, excluding covered assets, that are performing in accordance with modified terms, and therefore continue to accrue interest:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
Commercial	\$ 78	\$ 35	.15%	.06%
Commercial real estate	138	138	.41	.42

Residential mortgages (a)	1,338	813	5.36	3.45
Credit card	598	450	3.65	3.33
Other retail	102	73	.22	.16
Total loans	\$ 2,254	\$ 1,509	1.23%	.81%

(a) Excludes advances made pursuant to servicing agreements to GNMA mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Restructured loans, excluding covered assets, were \$745 million higher at September 30, 2009, than at December 31, 2008, primarily reflecting modifications for residential mortgage and consumer credit card customers in light of current economic conditions. The Company expects this trend to continue as the Company works to modify loans for borrowers who are having financial difficulties.

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. At September 30, 2009, total nonperforming assets were \$4.4 billion, compared with \$2.6 billion at December 31, 2008. Nonperforming assets at September 30, 2009 included \$672 million of covered assets, compared with \$643 million at December 31, 2008. These assets are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses. The ratio of total nonperforming assets to total loans and other real estate was 2.39 percent (2.14 percent excluding covered assets) at September 30, 2009, compared with 1.42 percent (1.14 percent excluding covered assets) at December 31, 2008. 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.

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

(Dollars in Millions)	September 30, 2009	December 31, 2008
<b>Commercial</b>		
Commercial	\$ 908	\$ 290
Lease financing	119	102
Total commercial	1,027	392
<b>Commercial Real Estate</b>		
Commercial mortgages	502	294
Construction and development	1,230	780
Total commercial real estate	1,732	1,074
<b>Residential Mortgages</b>	383	210
<b>Retail</b>		
Credit card	126	67
Retail leasing		
Other retail	48	25
Total retail	174	92
Total nonperforming loans, excluding covered assets	3,316	1,768
<b>Covered Assets</b>	672	643
Total nonperforming loans	3,988	2,411
<b>Other Real Estate (b)</b>	366	190
<b>Other Assets</b>	38	23
Total nonperforming assets	\$ 4,392	\$ 2,624
Accruing loans 90 days or more past due, excluding covered assets	\$ 1,344	\$ 967
Accruing loans 90 days or more past due	\$ 2,125	\$ 1,554
Nonperforming loans to total loans, excluding covered assets	1.91%	1.02%
Nonperforming loans to total loans	2.18%	1.30%
Nonperforming assets to total loans plus other real estate, excluding covered assets (b)	2.14%	1.14%
Nonperforming assets to total loans plus other real estate (b)	2.39%	1.42%

**Changes in Nonperforming Assets**

(Dollars in Millions)	Commercial and Commercial Real Estate	Retail and Residential Mortgages (d)	Total
<b>Balance December 31, 2008</b>	\$ 1,896	\$ 728	\$ 2,624



Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties	2,978	1,052	4,030
Advances on loans	78		78
Total additions	3,056	1,052	4,108
Reductions in nonperforming assets			
Paydowns, payoffs	(339)	(532)	(871)
Net sales	(118)		(118)
Return to performing status	(124)	(8)	(132)
Charge-offs (c)	(1,046)	(173)	(1,219)
Total reductions	(1,627)	(713)	(2,340)
Net additions to nonperforming assets	1,429	339	1,768
<b>Balance September 30, 2009</b>	<b>\$ 3,325</b>	<b>\$ 1,067</b>	<b>\$ 4,392</b>

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$319 million and \$209 million at September 30, 2009, and December 31, 2008, respectively of foreclosed GNMA loans which continue to accrue interest.
- (c) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.
- (d) Residential mortgage information excludes changes related to residential mortgages serviced by others.

Included in nonperforming loans were restructured loans that are not accruing interest of \$212 million at September 30, 2009, compared with \$151 million at December 31, 2008.

Other real estate, excluding covered assets, was \$366 million at September 30, 2009, compared with \$190 million at December 31, 2008, and was primarily related to foreclosed properties that previously secured residential mortgages, home equity and second mortgage loan balances. The increase in other real estate assets reflected continuing stress in residential construction and related supplier industries.

U.S. Bancorp

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Commercial</b>				
Commercial	1.78%	.47%	1.39%	.42%
Lease financing	2.66	1.36	3.08	1.18
Total commercial	1.89	.58	1.60	.51
<b>Commercial Real Estate</b>				
Commercial mortgages	.49	.16	.40	.12
Construction and development	6.62	2.36	5.06	1.09
Total commercial real estate	2.22	.81	1.75	.41
<b>Residential Mortgages</b>	2.10	1.21	1.86	.86
<b>Retail</b>				
Credit card (a)	6.99	4.85	6.91	4.56
Retail leasing	.66	.69	.83	.58
Home equity and second mortgages	1.82	1.07	1.68	.98
Other retail	1.94	1.41	1.83	1.28
Total retail	3.05	1.98	2.89	1.81
Total loans, excluding covered assets	2.41	1.19	2.12	.98
<b>Covered Assets</b>			.10	
Total loans	2.27%	1.19%	2.01%	.98%

(a) Net charge-offs as a percent of average loans outstanding, excluding portfolio purchases where the acquired loans were recorded at fair value at the purchase date, were 7.30 percent and 7.03 percent for the three months and nine months ended September 30, 2009, respectively.

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
<b>Residential</b>				
Minnesota	\$ 26	\$ 18	.48%	.34%

California	18	13	.33	.29
Michigan	10	12	2.07	2.39
Illinois	9	5	.35	.21
Ohio	8	9	.32	.37
All other states	118	88	.42	.32
Total residential	189	145	.43	.34
<b>Commercial</b>	177	45	.52	.14
Total OREO	\$ 366	\$ 190	.20%	.10%

The Company expects nonperforming assets, including OREO, to continue to increase, however at a decreasing rate as compared with prior periods, as difficult economic conditions affect more borrowers in both the commercial and consumer loan portfolios.

**Analysis of Loan Net Charge-Offs** Total net charge-offs were \$1.0 billion and \$2.8 billion for the third quarter and first nine months of 2009, respectively, compared with net charge-offs of \$498 million and \$1.2 billion for the same periods of 2008. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the third quarter and first nine months of 2009 was 2.27 percent and 2.01 percent, respectively, compared with 1.19 percent and .98 percent, for the same periods of 2008. The year-over-year increases in total net charge-offs were driven by factors affecting the residential housing markets, including homebuilding and related industries, commercial real estate properties and credit costs associated with credit card and other consumer and commercial loans as the economy weakened and unemployment increased. Given current economic conditions, the continuing weakness in home prices and high unemployment levels, the Company expects net charge-offs will continue to increase for the remainder of 2009, however at a decreasing rate as compared with prior periods.

Commercial and commercial real estate loan net charge-offs for the third quarter of 2009 increased to \$433 million (2.02 percent of average loans outstanding on an annualized basis), compared with \$144 million (.66 percent of average loans outstanding on an annualized basis) for the third quarter of 2008. Commercial and commercial real estate loan net charge-offs for the first nine months of 2009 increased to \$1.1 billion (1.66 percent of average loans outstanding on an annualized basis), compared with \$298 million (.47 percent of average loans outstanding on an annualized basis) for the first nine months of 2008. The year-over-year increases in net charge-offs reflected continuing stress in commercial real estate, residential housing, especially residential homebuilding and related industry sectors, along with the impact of the current economic conditions on the commercial loan portfolios.

Residential mortgage loan net charge-offs for the third quarter of 2009 were \$129 million (2.10 percent of average loans outstanding on an annualized basis), compared with \$71 million (1.21 percent of average loans outstanding on an annualized basis) for the third quarter of 2008. Residential mortgage loan net charge-offs for the first nine months of 2009 were \$336 million (1.86 percent of average loans outstanding on an annualized basis), compared with \$150 million (.86 percent of average loans outstanding on an

**Table of Contents**

annualized basis) for the first nine months of 2008. Total retail loan net charge-offs for the third quarter of 2009 were \$479 million (3.05 percent of average loans outstanding on an annualized basis), compared with \$283 million (1.98 percent of average loans outstanding on an annualized basis) for the third quarter of 2008. Total retail loan net charge-offs for the first nine months of 2009 were \$1.3 billion (2.89 percent of average loans outstanding on an annualized basis), compared with \$739 million (1.81 percent of average loans outstanding on an annualized basis) for the first nine months of 2008. The increased residential mortgage and retail loan net charge-offs reflected the adverse impact of current economic conditions on consumers, as rising unemployment levels increased losses in prime-based residential portfolios and credit cards.

The following table provides an analysis of net charge-offs as a percent of average loans outstanding on an annualized basis managed by the consumer finance division, compared with other retail 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)	2009	2008	2009	2008	2009	2008	2009	2008
<b>Consumer Finance (a)</b>								
Residential mortgages	\$ 9,996	\$ 9,941	3.69%	2.40%	\$ 9,882	\$ 9,943	3.52%	1.65%
Home equity and second mortgages	2,476	2,139	5.93	5.77	2,450	2,015	6.38	5.70
Other retail	591	471	4.70	5.91	561	450	5.96	5.34
<b>Other Retail</b>								
Residential mortgages	\$ 14,409	\$ 13,368	.99%	.33%	\$ 14,214	\$ 13,255	.71%	.27%
Home equity and second mortgages	16,892	15,719	1.22	.43	16,848	15,151	.99	.35
Other retail	22,056	21,184	1.87	1.31	22,234	19,692	1.73	1.19
<b>Total Company</b>								
Residential mortgages	\$ 24,405	\$ 23,309	2.10%	1.21%	\$ 24,096	\$ 23,198	1.86%	.86%
Home equity and second mortgages	19,368	17,858	1.82	1.07	19,298	17,166	1.68	.98
Other retail	22,647	21,655	1.94	1.41	22,795	20,142	1.83	1.28

(a) Consumer finance category included credit originated and managed by the consumer finance division, 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.

The following table provides further information on net charge-offs as a percent of average loans outstanding on an annualized basis for the consumer finance 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)	2009	2008	2009	2008	2009	2008	2009	2008
<b>Residential mortgages</b>								
Sub-prime borrowers	\$ 2,620	\$ 3,070	6.06%	4.28%	\$ 2,726	\$ 3,147	5.79%	3.01%
Other borrowers	7,376	6,871	2.85	1.56	7,156	6,796	2.65	1.02

Total	\$ 9,996	\$ 9,941	3.69%	2.40%	\$ 9,882	\$ 9,943	3.52%	1.65%
<b>Home equity and second mortgages</b>								
Sub-prime borrowers	\$ 657	\$ 778	10.87%	10.23%	\$ 685	\$ 813	11.52%	9.69%
Other borrowers	1,819	1,361	4.14	3.22	1,765	1,202	4.39	3.00
Total	\$ 2,476	\$ 2,139	5.93%	5.77%	\$ 2,450	\$ 2,015	6.38%	5.70%

**Analysis and Determination of the Allowance for Credit Losses** The allowance for loan losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio, and considers credit loss protection from loss sharing agreements with the FDIC. Management evaluates the allowance each quarter to ensure it is sufficient to cover incurred losses. Several factors were taken into consideration in evaluating the allowance for credit losses at September 30, 2009, including the risk profile of the portfolios, 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. 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, 2009, the allowance for credit losses was \$5.0 billion (2.72 percent of total loans and 2.88 percent of loans excluding covered assets), compared with an allowance of \$3.6 billion (1.96 percent of total loans and 2.09 percent of loans excluding covered assets) at December 31, 2008. The increase reflected weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected continued stress in the residential real estate markets.

U.S. Bancorp

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Balance at beginning of period	\$ 4,571	\$ 2,648	\$ 3,639	\$ 2,260
<b>Charge-offs</b>				
Commercial				
Commercial	210	63	510	167
Lease financing	54	29	183	75
Total commercial	264	92	693	242
Commercial real estate				
Commercial mortgages	31	9	73	20
Construction and development	159	56	370	76
Total commercial real estate	190	65	443	96
Residential mortgages	130	72	339	152
Retail				
Credit card	287	164	791	447
Retail leasing	11	11	39	28
Home equity and second mortgages	92	49	249	130
Other retail	130	91	374	236
Total retail	520	315	1,453	841
Covered assets	1		9	
Total charge-offs	1,105	544	2,937	1,331
<b>Recoveries</b>				
Commercial				
Commercial	10	6	21	20
Lease financing	10	7	29	19
Total commercial	20	13	50	39
Commercial real estate				
Commercial mortgages	1		2	1
Construction and development			1	
Total commercial real estate	1		3	1
Residential mortgages	1	1	3	2
Retail				
Credit card	16	15	45	51
Retail leasing	3	2	8	4
Home equity and second mortgages	3	1	7	4

Other retail	19	14	62	43
Total retail	41	32	122	102
Covered assets	1		1	
Total recoveries	64	46	179	144
<b>Net Charge-offs</b>				
Commercial				
Commercial	200	57	489	147
Lease financing	44	22	154	56
Total commercial	244	79	643	203
Commercial real estate				
Commercial mortgages	30	9	71	19
Construction and development	159	56	369	76
Total commercial real estate	189	65	440	95
Residential mortgages	129	71	336	150
Retail				
Credit card	271	149	746	396
Retail leasing	8	9	31	24
Home equity and second mortgages	89	48	242	126
Other retail	111	77	312	193
Total retail	479	283	1,331	739
Covered assets			8	
Total net charge-offs	1,041	498	2,758	1,187
Provision for credit losses	1,456	748	4,169	1,829
Acquisitions and other changes			(64)	(4)
Balance at end of period	\$ 4,986	\$ 2,898	\$ 4,986	\$ 2,898
<b>Components</b>				
Allowance for loan losses	\$ 4,825	\$ 2,767		
Liability for unfunded credit commitments	161	131		
Total allowance for credit losses	\$ 4,986	\$ 2,898		
<b>Allowance for credit losses as a percentage of</b>				
Period-end loans, excluding covered assets	2.88%	1.71%		
Nonperforming loans, excluding covered assets	150	222		
Nonperforming assets, excluding covered assets	134	194		
Annualized net charge-offs, excluding covered assets	121	146		
Period-end loans	2.72%	1.71%		
Nonperforming loans	125	222		
Nonperforming assets	114	194		
Annualized net charge-offs	121	146		

U.S. Bancorp

---

17



**Table of Contents**

The ratio of the allowance for credit losses to nonperforming loans was 125 percent (150 percent excluding covered assets) at September 30, 2009, compared with 151 percent (206 percent excluding covered assets) at December 31, 2008, reflecting an increase in nonperforming assets. The ratio of the allowance for credit losses to annualized loan net charge-offs was 121 percent (both including and excluding covered assets) at September 30, 2009, compared with 200 percent of full year 2008 net charge-offs (201 percent excluding covered assets) at December 31, 2008, reflecting an increase in annualized net charge-offs.

**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, 2009, no significant change in the amount of residuals or concentration of the portfolios has occurred since December 31, 2008. 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, 2008, for further discussion on residual value risk management.

**Operational Risk Management**

The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Corporate Risk Committee ( Risk Committee ) provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. Refer to Management's Discussion and Analysis - Operational Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, 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 the 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*** Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The table below summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALPC policy limits the estimated change in net interest income in a gradual 200 basis point ( bps ) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At September 30, 2009, and December 31, 2008, 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, 2008, 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. The ALPC policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. The up 200 bps scenario resulted in a 5.9 percent decrease in the market value of equity at September 30, 2009, compared with a 7.6 percent decrease at

December 31, 2008. The down 200 bps scenario resulted in a 4.3 percent decrease in the market value of equity at

Sensitivity of Net Interest Income

	September 30, 2009				December 31, 2008			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual*	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	*	.42%	*	.92%	*	.37%	*	1.05%

\* Given the current level of interest rates, a downward rate scenario can not be computed.

U.S. Bancorp

**Table of Contents**

September 30, 2009, compared with a 2.8 percent decrease at December 31, 2008.

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. At September 30, 2009, the duration of assets, liabilities and equity was 1.7 years, 1.8 years and 1.3 years, respectively, compared with 1.6 years, 1.7 years and 1.2 years, respectively, at December 31, 2008. 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, 2008, for further discussion on market value of equity modeling.

***Use of Derivatives to Manage Interest Rate and Other Risks*** To reduce the sensitivity of earnings to interest rate, prepayment, credit, price and foreign currency fluctuations ( asset and liability management positions ), the Company enters into derivative transactions. The Company uses derivatives for asset and liability management purposes primarily in the following ways:

To convert fixed-rate debt, issued to finance the Company, from fixed-rate payments to floating-rate payments;

To convert the cash flows associated with floating-rate debt, issued to finance the Company, from floating-rate payments to fixed-rate payments; and

To mitigate changes in value of the Company's mortgage origination pipeline, mortgage loans held for sale and mortgage servicing rights ( MSR ).

To manage these risks, the Company may enter into exchange-traded and over-the-counter derivative contracts including interest rate swaps, swaptions, futures, forwards and options. In addition, the Company enters into interest rate and foreign exchange derivative contracts to accommodate the business requirements of its customers ( customer-related positions ). The Company minimizes the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers. The Company does not utilize derivatives for speculative purposes.

The Company does not designate all of the derivatives that it enters into for risk management purposes as accounting hedges because of the inefficiency of applying the accounting requirements. In particular, the Company enters into U.S. Treasury futures, options on U.S. Treasury futures contracts and forward commitments to buy residential mortgage loans to mitigate fluctuations in the value of its MSRs, but does not designate those derivatives as accounting hedges.

Additionally, the Company uses forward commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At September 30, 2009, the Company had \$9.4 billion of forward commitments to sell mortgage loans hedging \$5.7 billion of mortgage loans held for sale and \$6.0 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedge activities, and the Company has elected the fair value option for the mortgage loans held for sale.

Derivatives are subject to credit risk associated with counterparties to the contracts. Credit risk associated with derivatives is measured by the Company based on the probability of counterparty default. The Company manages the credit risk of its derivative positions by diversifying its positions among various counterparties, entering into master netting agreements with its counterparties, requiring collateral agreements with credit-rating thresholds and, in certain cases, though insignificant, transferring the counterparty credit risk related to interest rate swaps to third-parties through the use of risk participation agreements.

For additional information on derivatives and hedging activities, refer to Note 11 in the Notes to Consolidated Financial Statements.

**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, interest rate risks and funding activities. The Company also manages market risk of non-trading business activities, including its MSRs and loans held-for-sale. The Company

uses a Value at Risk ( VaR ) approach to measure general market risk. Theoretically, VaR represents the amount the Company has at risk of loss to adverse market movements over a specified time horizon. The Company measures VaR at the ninety-ninth percentile using distributions derived from past market data. On average, the Company expects the one day VaR to be exceeded two to three times per year. The Company monitors the effectiveness of its risk program by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. As part of its market risk management approach, the Company sets and monitors VaR limits for each trading portfolio. The Company s trading VaR did not exceed \$3 million during the first

**Table of Contents****Table 9** Capital Ratios

(Dollars in Millions)	September 30, 2009	December 31, 2008
Tier 1 capital	\$ 21,990	\$ 24,426
As a percent of risk-weighted assets	9.5%	10.6%
As a percent of adjusted quarterly average assets (leverage ratio)	8.6%	9.8%
Total risk-based capital	\$ 30,126	\$ 32,897
As a percent of risk-weighted assets	13.0%	14.3%

nine months of 2009 and \$1 million during the first nine months of 2008.

**Liquidity Risk Management**

The ALPC establishes policies and guidelines, 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.

During 2008 and 2009, the financial markets have been challenging for many financial institutions. As a result of these market conditions, liquidity premiums widened and many banks experienced liquidity constraints, substantially increased pricing to retain deposits or utilized the Federal Reserve System discount window to secure adequate funding. The Company's profitable operations, sound credit quality and strong balance sheet have enabled it to develop a large and reliable base of core deposit funding within its market areas and in domestic and global capital markets. As depositors and investors in the wholesale funding markets have migrated to stable financial institutions, the Company has maintained a strong liquidity position. 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, 2008, for further discussion on liquidity risk management.

At September 30, 2009, parent company long-term debt outstanding was \$13.6 billion, compared with \$10.8 billion at December 31, 2008. The \$2.8 billion increase was primarily due to the issuances during the first nine months of 2009 of \$2.7 billion of medium-term notes guaranteed under the FDIC Temporary Liquidity Guarantee Program and \$1.3 billion of notes not guaranteed under this program. These issuances were partially offset by \$1.0 billion of medium-term note maturities. At September 30, 2009, there was no parent company debt scheduled to mature during the remainder of 2009, and \$4.8 billion scheduled to mature in 2010. During the second quarter of 2009, the Company raised \$2.7 billion through the sale of its common stock.

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 \$2.9 billion at September 30, 2009.

**Capital Management**

The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. On May 7, 2009, the Federal Reserve completed an assessment of the capital adequacy of the nineteen largest domestic bank holding companies. Based on the results of their capital adequacy assessment, the Federal Reserve projected the Company's capital would be sufficient under the Federal

Reserve's projected scenarios. Following a \$2.7 billion sale of common stock and issuance of \$1.0 billion of non-guaranteed medium-term notes, the Company received approval to redeem the \$6.6 billion of preferred stock previously issued to the U.S. Department of the Treasury and completed the redemption on June 17, 2009. On July 15, 2009, the Company repurchased the related common stock warrant from the U.S. Department of the Treasury for \$139 million.

Table 9 provides a summary of regulatory capital ratios as of September 30, 2009, and December 31, 2008. All regulatory ratios exceeded regulatory well-capitalized requirements. Total U.S. Bancorp shareholders' equity was \$25.2 billion at September 30, 2009, compared with \$26.3 billion at December 31, 2008. The decrease was principally the result of the preferred stock redemption and repurchase of the common stock warrant, partially offset by corporate earnings, the proceeds from the public offering of the Company's common stock and changes in unrealized gains and losses on available-for-sale investment securities and derivatives included in other comprehensive income.

U.S. Bancorp

**Table of Contents**

The Company believes certain capital ratios in addition to regulatory capital ratios are useful in evaluating its capital adequacy. The Company's Tier 1 common and tangible common equity, as a percent of risk-weighted assets, was 6.8 percent and 6.0 percent, respectively, at September 30, 2009, compared with 5.1 percent and 3.7 percent, respectively, at December 31, 2008. The Company's tangible common equity divided by tangible assets was 5.4 percent at September 30, 2009, compared with 3.3 percent at December 31, 2008. Refer to Non-Regulatory Capital Ratios for further information regarding the calculation of these measures.

On December 9, 2008, the Company announced its Board of Directors had approved an authorization to repurchase 20 million shares of common stock through December 31, 2010. All shares repurchased during the third quarter of 2009 were repurchased under this authorization. The following table provides a detailed analysis of all shares repurchased during the third quarter of 2009:

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	13,150	\$ 18.46	19,704,671
August	783	22.27	19,703,888
September	704	22.25	19,703,184
Total	14,637	\$ 18.85	19,703,184

**LINE OF BUSINESS FINANCIAL REVIEW**

The Company's major lines of business are 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 prepared and is evaluated regularly by management 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, 2008, 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 2009, business line results were restated and presented on a comparable basis for organization and methodology changes to more closely align capital allocation with Basel II requirements and to allocate the provision for credit losses based on net charge-offs and changes in the risks of specific loan portfolios. Previously, the provision in excess of net charge-offs remained in Treasury and Corporate Support, and the other lines of business results included only the portion of the provision for credit losses equal to net charge-offs.

**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, financial institution and public sector clients. Wholesale Banking contributed \$29 million of the Company's net income in the third quarter and \$142 million in the first nine months of 2009, or decreases of \$253 million (89.7 percent) and \$665 million (82.4 percent), respectively, compared

with the same periods of 2008. The decreases were primarily driven by higher provision for credit losses and noninterest expense, partially offset by higher net revenue.

Total net revenue increased \$51 million (7.0 percent) in the third quarter and \$190 million (9.0 percent) in the first nine months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$37 million (7.3 percent) in the third quarter and \$143 million (9.7 percent) in the first nine months of 2009, compared with the same periods of 2008, driven by strong growth in deposits and improved spreads on loans, partially offset by the impact of declining rates on the margin benefit of deposits. Noninterest income increased \$14 million (6.3 percent) in the third quarter and \$47 million (7.3 percent) in the first nine months of 2009, compared with the same periods of 2008. The increases were primarily due to higher treasury management, letters of credit, commercial loan, and capital markets fees, partially offset by declining valuations on equity investments.

Total noninterest expense increased \$19 million (7.5 percent) in the third quarter and \$49 million (6.3 percent) in the first nine months of 2009, compared with the same periods of 2008, primarily due to higher FDIC deposit insurance expense. The provision for credit losses increased \$426 million in the third quarter and \$1.2 billion in the first nine months of 2009, compared



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

Three Months Ended September 30 (Dollars in Millions)	Wholesale Banking		Percent Change	Consumer Banking		Percent Change
	2009	2008		2009	2008	
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 542	\$ 505	7.3%	\$ 1,021	\$ 973	4.9%
Noninterest income	237	234	1.3	774	505	53.3
Securities gains (losses), net		(11)	*			
Total net revenue	779	728	7.0	1,795	1,478	21.4
Noninterest expense	267	248	7.7	886	793	11.7
Other intangibles	6	6		22	14	57.1
Total noninterest expense	273	254	7.5	908	807	12.5
Income before provision and income taxes	506	474	6.8	887	671	32.2
Provision for credit losses	460	34	*	480	433	10.9
Income before income taxes	46	440	(89.5)	407	238	71.0
Income taxes and taxable-equivalent adjustment	17	160	(89.4)	148	87	70.1
Net income	29	280	(89.6)	259	151	71.5
Net (income) loss attributable to noncontrolling interests		2	*			
Net income attributable to U.S. Bancorp	\$ 29	\$ 282	(89.7)	\$ 259	\$ 151	71.5
<b>Average Balance Sheet</b>						
Commercial	\$ 38,268	\$ 39,907	(4.1)%	\$ 6,183	\$ 6,943	(10.9)%
Commercial real estate	21,565	19,861	8.6	11,384	11,346	.3
Residential mortgages	83	93	(10.8)	23,938	22,826	4.9
Retail	43	77	(44.2)	44,140	42,131	4.8
Total loans, excluding covered assets	59,959	59,938		85,645	83,246	2.9
Covered assets				9,299		*
Total loans	59,959	59,938		94,944	83,246	14.1
Goodwill	1,475	1,494	(1.3)	3,101	2,420	28.1
Other intangible assets	87	94	(7.4)	1,762	1,853	(4.9)
Assets	63,892	65,119	(1.9)	109,879	93,552	17.5

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Noninterest-bearing deposits	17,462	10,867	60.7	13,913	12,293	13.2
Interest checking	13,447	8,861	51.8	20,992	18,677	12.4
Savings products	10,548	6,694	57.6	27,190	20,535	32.4
Time deposits	12,465	14,196	(12.2)	25,098	17,559	42.9
Total deposits	53,922	40,618	32.8	87,193	69,064	26.2
Total U.S. Bancorp shareholders equity	5,527	6,468	(14.5)	6,839	5,692	20.2

Nine Months Ended September 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2009	2008	Percent Change	2009	2008	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 1,611	\$ 1,468	9.7%	\$ 3,018	\$ 2,862	5.5%
Noninterest income	695	667	4.2	2,224	1,672	33.0
Securities gains (losses), net	(3)	(22)	86.4			
Total net revenue	2,303	2,113	9.0	5,242	4,534	15.6
Noninterest expense	809	764	5.9	2,654	2,327	14.1
Other intangibles	18	14	28.6	69	43	60.5
Total noninterest expense	827	778	6.3	2,723	2,370	14.9
Income before provision and income taxes	1,476	1,335	10.6	2,519	2,164	16.4
Provision for credit losses	1,254	62	*	1,441	1,026	40.4
Income before income taxes	222	1,273	(82.6)	1,078	1,138	(5.3)
Income taxes and taxable-equivalent adjustment	81	466	(82.6)	393	413	(4.8)
Net income	141	807	(82.5)	685	725	(5.5)
Net (income) loss attributable to noncontrolling interests	1		*			
Net income attributable to U.S. Bancorp	\$ 142	\$ 807	(82.4)	\$ 685	\$ 725	(5.5)
<b>Average Balance Sheet</b>						
Commercial	\$ 40,778	\$ 39,402	3.5%	\$ 6,294	\$ 6,827	(7.8)%
Commercial real estate	21,435	18,701	14.6	11,477	11,320	1.4
Residential mortgages	84	88	(4.5)	23,621	22,722	4.0
Retail	58	76	(23.7)	44,396	40,229	10.4
Total loans, excluding covered assets	62,355	58,267	7.0	85,788	81,098	5.8
Covered assets				9,796		*

Total loans	62,355	58,267	7.0	95,584	81,098	17.9
Goodwill	1,474	1,402	5.1	3,145	2,419	30.0
Other intangible assets	93	58	60.3	1,607	1,692	(5.0)
Assets	67,046	63,456	5.7	109,475	91,894	19.1
Noninterest-bearing deposits	17,027	10,641	60.0	14,016	12,058	16.2
Interest checking	11,462	8,611	33.1	20,595	18,663	10.4
Savings products	8,442	6,348	33.0	25,699	20,195	27.3
Time deposits	13,514	14,710	(8.1)	26,169	17,953	45.8
Total deposits	50,445	40,310	25.1	86,479	68,869	25.6
Total U.S. Bancorp shareholders equity	5,567	6,181	(9.9)	6,866	5,700	20.5

\* *Not meaningful*

U.S. Bancorp

**Table of Contents**

Management & Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		Per Share
2008	Percent Change	2009	2008	Percent Change	2009	2008	Percent Change	2009	2008	Per Share	
\$ 100	(15.0)%	\$ 299	\$ 244	22.5%	\$ 210	\$ 145	44.8%	\$ 2,157	\$ 1,967		
311	(3.9)	782	765	2.2	77	8	*	2,169	1,823		
					(76)	(400)	81.0	(76)	(411)		
411	(6.6)	1,081	1,009	7.1	211	(247)	*	4,250	3,379		
233	(10.7)	409	346	18.2	189	105	80.0	1,959	1,725		
19	(15.8)	50	49	2.0				94	88		
252	(11.1)	459	395	16.2	189	105	80.0	2,053	1,813		
159	.6	622	614	1.3	22	(352)	*	2,197	1,566		
(2)	*	506	283	78.8	1		*	1,456	748		
161	(6.2)	116	331	(65.0)	21	(352)	*	741	818		
59	(6.8)	42	120	(65.0)	(126)	(194)	35.1	136	232		
102	(5.9)	74	211	(64.9)	147	(158)	*	605	586		
		(7)	(7)		5	(5)	*	(2)	(10)		
\$ 102	(5.9)	\$ 67	\$ 204	(67.2)	\$ 152	\$ (163)	*	\$ 603	\$ 576		
\$ 1,677	(37.2)%	\$ 4,845	\$ 4,866	(.4)%	\$ 873	\$ 1,180	(26.0)%	\$ 51,222	\$ 54,573		
513	9.4				319	28	*	33,829	31,748		
387	(1.6)				3	3		24,405	23,309		
1,490	5.2	16,472	13,231	24.5	1	1		62,224	56,930		
4,067	(12.4)	21,317	18,097	17.8	1,196	1,212	(1.3)	171,680	166,560		
					989		*	10,288			
4,067	(12.4)	21,317	18,097	17.8	2,185	1,212	80.3	181,968	166,560		
1,562		2,316	2,364	(2.0)				8,454	7,840		
318	(21.7)	939	994	(5.5)	7		*	3,044	3,259		
6,407	(7.6)	25,314	23,152	9.3	59,405	55,393	7.2	264,411	243,623		
4,438	8.6	538	494	8.9	251	230	9.1	36,982	28,322		
4,722	(21.8)	86	41	*	2	3	(33.3)	38,218	32,304		
4,389	*	19	19		173	61	*	47,211	31,698		
3,602	48.6	1	2	(50.0)	1,035	5,856	(82.3)	43,951	41,215		
17,151	34.9	644	556	15.8	1,461	6,150	(76.2)	166,362	133,539		
2,248	(6.3)	4,719	4,563	3.4	5,487	3,012	82.2	24,679	21,983		

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Financial Management & Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		Per Share
2008	Percent Change	2009	2008	Percent Change	2009	2008	Percent Change	2009	2008	Per Share	
\$ 302	(11.9)%	\$ 852	\$ 737	15.6%	\$ 609	\$ 336	81.3%	\$ 6,356	\$ 5,705		
1,007	(10.3)	2,195	2,228	(1.5)	212	499	(57.5)	6,229	6,073		
					(290)	(703)	58.7	(293)	(725)		
1,309	(10.7)	3,047	2,965	2.8	531	132	*	12,292	11,053		
697	(5.9)	1,092	1,009	8.2	562	351	60.1	5,773	5,148		
58	(13.8)	143	147	(2.7)				280	262		
755	(6.5)	1,235	1,156	6.8	562	351	60.1	6,053	5,410		
554	(16.4)	1,812	1,809	.2	(31)	(219)	85.8	6,239	5,643		
1	*	1,449	740	95.8	3		*	4,169	1,829		
553	(20.3)	363	1,069	(66.0)	(34)	(219)	84.5	2,070	3,814		
201	(20.4)	132	387	(65.9)	(331)	(313)	(5.8)	435	1,154		
352	(20.2)	231	682	(66.1)	297	94	*	1,635	2,660		
		(19)	(19)		(14)	(25)	44.0	(32)	(44)		
\$ 352	(20.2)	\$ 212	\$ 663	(68.0)	\$ 283	\$ 69	*	\$ 1,603	\$ 2,616		
\$ 1,756	(31.2)%	\$ 4,546	\$ 4,563	(.4)%	\$ 961	\$ 877	9.6%	\$ 53,787	\$ 53,425		
533	6.4				174	36	*	33,653	30,590		
385	.8				3	3		24,096	23,198		
1,505	2.5	15,526	12,615	23.1	3	1	*	61,526	54,426		
4,179	(11.3)	20,072	17,178	16.8	1,141	917	24.4	173,062	161,639		
					979		*	10,775			
4,179	(11.3)	20,072	17,178	16.8	2,120	917	*	183,837	161,639		
1,563	(.1)	2,303	2,364	(2.6)				8,484	7,748		
337	(21.4)	903	1,015	(11.0)	5	1	*	2,873	3,103		
6,541	(7.2)	24,256	22,033	10.1	58,730	56,926	3.2	265,579	240,850		
4,316	13.6	534	484	10.3	320	267	19.9	36,800	27,766		
4,384	(14.1)	82	36	*	2	3	(33.3)	35,906	31,697		
4,784	54.7	18	19	(5.3)	142	64	*	41,701	31,410		
3,728	63.9	1	1		3,189	6,137	(48.0)	48,984	42,529		
17,212	28.9	635	540	17.6	3,653	6,471	(43.5)	163,391	133,402		
2,288	(7.0)	4,576	4,541	.8	7,422	3,217	*	26,559	21,927		

U.S. Bancorp

---

**Table of Contents**

with the same periods of 2008. The unfavorable changes were primarily due to an increase in net charge-offs and deterioration in the credit quality of commercial and commercial real estate loans. Nonperforming assets were \$2.5 billion at September 30, 2009, \$2.2 billion at June 30, 2009, and \$940 million at September 30, 2008. Nonperforming assets as a percentage of period-end loans were 4.22 percent at September 30, 2009, 3.60 percent at June 30, 2009, and 1.51 percent at September 30, 2008. 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 \$259 million of the Company's net income in the third quarter and \$685 million in the first nine months of 2009, or an increase of \$108 million (71.5 percent) and a decrease of \$40 million (5.5 percent), respectively, compared with the same periods of 2008. Within Consumer Banking, the retail banking division contributed \$111 million of the total net income in the third quarter and \$254 million in the first nine months of 2009, or decreases of \$18 million (14.0 percent) and \$370 million (59.3 percent), respectively, from the same periods in the prior year. Mortgage banking contributed \$148 million of the business line's net income in the third quarter and \$431 million in the first nine months of 2009, or increases of \$126 million and \$330 million, respectively, over the same periods in the prior year, reflecting strong mortgage loan production and improved loan sale profitability.

Total net revenue increased \$317 million (21.4 percent) in the third quarter and \$708 million (15.6 percent) in the first nine months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$48 million (4.9 percent) in the third quarter and \$156 million (5.5 percent) in the first nine months of 2009, compared with the same periods of 2008. The year-over-year increases in net interest income were due to increases in average loan and deposit balances, offset by declines in the margin benefit from deposits in a declining interest rate environment. The increases in average loan balances reflected core growth in most loan categories, with the largest increases in retail loans and residential mortgages. In addition, average loan balances increased due to the Downey and PFF acquisitions in the fourth quarter of 2008, reflected primarily in covered assets. The favorable changes in retail loans were principally driven by increases in home equity and federally guaranteed student loan balances. The year-over-year increases in average deposits reflected core increases, primarily within savings and time deposits. In addition, average deposit balances increased due to the Downey and PFF acquisitions in the fourth quarter of 2008. Fee-based noninterest income increased \$269 million (53.3 percent) in the third quarter and \$552 million (33.0 percent) in the first nine months of 2009, compared with the same periods of 2008. The year-over-year increases in fee-based revenue were driven by higher mortgage banking revenue due to strong mortgage loan production and improved loan sale profitability, an improvement in retail lease residual losses, and higher ATM processing services fees, partially offset by lower deposit service charges.

Total noninterest expense increased \$101 million (12.5 percent) in the third quarter and \$353 million (14.9 percent) in the first nine months of 2009, compared with the same periods of 2008. The increases included the net addition, including the impact of fourth quarter 2008 acquisitions, of 169 in-store branches and 126 traditional branches at September 30, 2009, compared with September 30, 2008. In addition, the increases in noninterest expense were also attributable to higher FDIC deposit insurance expense, mortgage and ATM volume-related expenses, and higher credit related costs associated with other real estate owned and foreclosures.

The provision for credit losses increased \$47 million (10.9 percent) in the third quarter and \$415 million (40.4 percent) in the first nine months of 2009, compared with the same periods of 2008. The increases were due to growth in net charge-offs and stress 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 increased to 1.61 percent in the third quarter of 2009, compared with 1.05 percent in the third quarter of 2008. Commercial and commercial real estate loan net charge-offs increased \$41 million and retail loan and residential mortgage net charge-offs increased \$125 million in the third quarter of 2009, compared with the third quarter of 2008. Nonperforming assets were \$1.2 billion at September 30, 2009, \$1.2 billion at June 30, 2009, and \$482 million at

September 30, 2008. Nonperforming assets as a percentage of period-end loans were 1.28 percent at September 30, 2009, 1.41 percent at June 30, 2009, and .58 percent at September 30, 2008. Refer to the Corporate Risk Profile section for further

U.S. Bancorp



**Table of Contents**

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 \$96 million of the Company's net income in the third quarter and \$281 million in the first nine months of 2009, or decreases of \$6 million (5.9 percent) and \$71 million (20.2 percent), respectively, compared with the same periods of 2008. The decreases were primarily attributable to unfavorable equity market conditions relative to a year ago.

Total net revenue decreased \$27 million (6.6 percent) in the third quarter and \$140 million (10.7 percent) in the first nine months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, decreased \$15 million (15.0 percent) in the third quarter and \$36 million (11.9 percent) in the first nine months of 2009, compared with the same periods of 2008. The decreases in net interest income were primarily due to the reduction in the margin benefit from deposits partially offset by higher deposit volumes. Noninterest income decreased \$12 million (3.9 percent) in the third quarter and \$104 million (10.3 percent) in the first nine months of 2009, compared with the same periods of 2008, primarily driven by unfavorable equity market conditions.

Total noninterest expense decreased \$28 million (11.1 percent) in the third quarter and \$49 million (6.5 percent) in the first nine months of 2009, compared with the same periods of 2008. The decreases in noninterest expense were primarily due to lower compensation and employee benefits expense, litigation-related costs and other intangibles expense, partially offset by higher FDIC deposit insurance 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 \$67 million of the Company's net income in the third quarter and \$212 million in the first nine months of 2009, or decreases of \$137 million (67.2 percent) and \$451 million (68.0 percent), respectively, compared with the same periods of 2008. The decreases were primarily due to a higher provision for credit losses.

Total net revenue increased \$72 million (7.1 percent) in the third quarter and \$82 million (2.8 percent) in the first nine months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$55 million (22.5 percent) in the third quarter and \$115 million (15.6 percent) in the first nine months of 2009, compared with the same periods of 2008, primarily due to growth in credit card loan balances partially offset by the cost of rebates on the government card program. Noninterest income increased \$17 million (2.2 percent) in the third quarter and decreased \$33 million (1.5 percent) in the first nine months of 2009, compared with the same periods of 2008. The increase in the third quarter of 2009 over the same period in 2008 was due to higher corporate payment products revenue and income from other payments related initiatives. The decline in the first nine months of 2009 compared to the same period in 2008 was driven by lower transaction volumes.

Total noninterest expense increased \$64 million (16.2 percent) in the third quarter and \$79 million (6.8 percent) in the first nine months of 2009, compared with the same periods of 2008, due to marketing and business development expense related to new credit card products.

The provision for credit losses increased \$223 million (78.8 percent) in the third quarter and \$709 million (95.8 percent) in the first nine months of 2009, compared with the same periods of 2008, due to higher net charge-offs, retail credit card portfolio growth, higher delinquency rates and changing economic conditions from a year ago. As a percentage of average loans outstanding, net charge-offs were 6.29 percent in the third quarter of 2009, compared with 4.11 percent in the third quarter of 2008.

**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 net income of \$152 million in the third quarter and \$283 million in the first nine months of 2009, compared with a loss of \$163 million in the third quarter and net income of \$69 million in the first nine months of 2008.

U.S. Bancorp

---

**Table of Contents**

Total net revenue increased \$458 million in the third quarter and \$399 million in the first nine months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$65 million (44.8 percent) in the third quarter and \$273 million (81.3 percent) in the first nine months of 2009, compared with the same periods of 2008, reflecting the impact of the declining rate environment, wholesale funding decisions and the Company's asset/liability position. Noninterest income increased \$393 million in the third quarter and \$126 million in the first nine months of 2009, compared with the same periods of 2008. The increase in noninterest income in the third quarter of 2009, compared with the third quarter of 2008, was primarily due to lower net securities losses. The increase in noninterest income for the first nine months of 2009, compared with the same period of a year ago, was primarily due to lower impairment charges on structured investment related securities, a gain on a corporate real estate transaction, and higher gains on the sale of investment securities in 2009, partially offset by the net impact of the 2008 Visa Gain and impairments on preferred securities and non-agency mortgage-backed securities in 2009.

Total noninterest expense increased \$84 million (80.0 percent) in the third quarter and \$211 million (60.1 percent) in the first nine months of 2009, compared with the same periods of 2008. The increases in noninterest expense were driven by increased litigation, costs related to affordable housing and other tax advantaged projects, and higher acquisition integration costs. In addition, the increase for the first nine months of 2009 was due to an FDIC special assessment recorded in the second quarter of 2009.

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 12.4 percent in the third quarter and 14.9 percent in the first nine months of 2009, compared with 25.3 percent in the third quarter and 28.5 percent in the first nine months of 2008. The year-over-year decreases in the effective tax rate reflected the marginal impact of lower pre-tax income and the relative level of tax-exempt income and tax-advantaged investments.

**NON-REGULATORY CAPITAL RATIOS**

In addition to capital ratios defined by banking regulators, the Company considers other ratios when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets,
- Tier 1 common equity to risk-weighted assets, and
- Tangible common equity to risk-weighted assets.

These non-regulatory capital ratios are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market conditions. Additionally, presentation of these ratios allows readers to compare the Company's capitalization to other financial services companies. These ratios differ from capital ratios defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies among different financial services companies. These ratios are not determined in accordance with generally accepted accounting principals ( GAAP ) and are not defined in federal banking regulations. These non-regulatory capital ratios disclosed by the Company may be considered non-GAAP financial measures.

Despite the importance of these non-regulatory capital ratios to the Company, there are no standardized definitions for them, and, as a result, the Company's calculation methods may differ from those used by other financial services companies. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider the consolidated financial statements and other financial information contained in this report in their entirety, and not to rely on any single financial measure.

The following table shows the Company's calculation of the non-regulatory capital ratios:

(Dollars in Millions)	September 30, 2009	December 31, 2008
Total equity	\$ 25,880	\$ 27,033

Preferred stock	(1,500)	(7,931)
Noncontrolling interests	(709)	(733)
Goodwill (net of deferred tax liability)	(8,161)	(8,153)
Intangible assets, other than mortgage servicing rights	(1,604)	(1,640)
Tangible common equity (a)	13,906	8,576
Tier 1 capital, determined in accordance with prescribed regulatory requirements	21,990	24,426
Trust preferred securities	(4,024)	(4,024)
Preferred stock	(1,500)	(7,931)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital	(692)	(693)
Tier 1 common equity (b)	15,774	11,778
Total assets	265,058	265,912
Goodwill (net of deferred tax liability)	(8,161)	(8,153)
Intangible assets, other than mortgage servicing rights	(1,604)	(1,640)
Tangible assets (c)	255,293	256,119
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (d)	231,993	230,628
<b>Ratios</b>		
Tangible common equity to tangible assets (a)/(c)	5.4%	3.3%
Tier 1 common equity to risk-weighted assets (b)/(d)	6.8	5.1
Tangible common equity to risk-weighted assets (a)/(d)	6.0	3.7

U.S. Bancorp

**Table of Contents**

**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 Company's 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 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, fair value estimates, 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, 2008.

**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 control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

(Dollars in Millions)	September 30, 2009 (Unaudited)	December 31, 2008
<b>Assets</b>		
Cash and due from banks	\$ 5,016	\$ 6,859
Investment securities		
Held-to-maturity (fair value \$49 and \$54, respectively)	48	53
Available-for-sale	42,288	39,468
Loans held for sale (included \$5,674 and \$2,728 of mortgage loans carried at fair value, respectively)	6,030	3,210
Loans		
Commercial	50,712	56,618
Commercial real estate	33,896	33,213
Residential mortgages	24,947	23,580
Retail	63,642	60,368
Total loans, excluding covered assets	173,197	173,779
Covered assets	9,859	11,450
Total loans	183,056	185,229
Less allowance for loan losses	(4,825)	(3,514)
Net loans	178,231	181,715
Premises and equipment	2,251	1,790
Goodwill	8,597	8,571
Other intangible assets	3,158	2,834
Other assets	19,439	21,412
Total assets	\$ 265,058	\$ 265,912
<b>Liabilities and Shareholders' Equity</b>		
Deposits		
Noninterest-bearing	\$ 34,250	\$ 37,494
Interest-bearing	104,950	85,886
Time deposits greater than \$100,000	30,555	35,970
Total deposits	169,755	159,350
Short-term borrowings	28,166	33,983
Long-term debt	33,249	38,359
Other liabilities	8,008	7,187
Total liabilities	239,178	238,879
Shareholders' equity		
Preferred stock	1,500	7,931
	21	20

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/09 2,125,725,742 shares and 12/31/08 1,972,643,007 shares		
Capital surplus	8,308	5,830
Retained earnings	23,629	22,541
Less cost of common stock in treasury: 9/30/09 213,637,356 shares; 12/31/08 217,610,679 shares	(6,534)	(6,659)
Accumulated other comprehensive income (loss)	(1,753)	(3,363)
Total U.S. Bancorp shareholders equity	25,171	26,300
Noncontrolling interests	709	733
Total equity	25,880	27,033
Total liabilities and equity	\$ 265,058	\$ 265,912

*See Notes to Consolidated Financial Statements.*

U.S. Bancorp

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

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Interest Income</b>				
Loans	\$ 2,373	\$ 2,487	\$ 7,068	\$ 7,476
Loans held for sale	87	52	221	174
Investment securities	374	478	1,210	1,507
Other interest income	23	40	65	120
Total interest income	2,857	3,057	8,564	9,277
<b>Interest Expense</b>				
Deposits	299	425	937	1,489
Short-term borrowings	138	276	412	861
Long-term debt	313	423	1,007	1,316
Total interest expense	750	1,124	2,356	3,666
Net interest income	2,107	1,933	6,208	5,611
Provision for credit losses	1,456	748	4,169	1,829
Net interest income after provision for credit losses	651	1,185	2,039	3,782
<b>Noninterest Income</b>				
Credit and debit card revenue	267	269	782	783
Corporate payment products revenue	181	179	503	517
Merchant processing services	300	300	836	880
ATM processing services	103	94	309	271
Trust and investment management fees	293	329	891	1,014
Deposit service charges	256	286	732	821
Treasury management fees	141	128	420	389
Commercial products revenue	157	132	430	361
Mortgage banking revenue	276	61	817	247
Investment products fees and commissions	27	37	82	110
Securities gains (losses), net				
Realized gains (losses), net	1		126	16
Total other-than-temporary impairment	(148)	(411)	(860)	(741)
Portion of other-than-temporary impairment recognized in other comprehensive income	71		441	
Total securities gains (losses), net	(76)	(411)	(293)	(725)
Other	168	8	427	680
Total noninterest income	2,093	1,412	5,936	5,348
<b>Noninterest Expense</b>				
Compensation	769	763	2,319	2,269



Edgar Filing: US BANCORP \DE\ - Form 10-Q

Employee benefits	134	125	429	391
Net occupancy and equipment	203	199	622	579
Professional services	63	61	174	167
Marketing and business development	137	75	273	220
Technology and communications	175	153	487	442
Postage, printing and supplies	72	73	218	217
Other intangibles	94	88	280	262
Other	406	276	1,251	863
Total noninterest expense	2,053	1,813	6,053	5,410
Income before income taxes	691	784	1,922	3,720
Applicable income taxes	86	198	287	1,060
Net income	605	586	1,635	2,660
Net income attributable to noncontrolling interests	(2)	(10)	(32)	(44)
Net income attributable to U.S. Bancorp	\$ 603	\$ 576	\$ 1,603	\$ 2,616
Net income applicable to U.S. Bancorp common shareholders	\$ 583	\$ 557	\$ 1,223	\$ 2,560
Earnings per common share	\$ .31	\$ .32	\$ .67	\$ 1.47
Diluted earnings per common share	\$ .30	\$ .32	\$ .66	\$ 1.46
Dividends declared per common share	\$ .050	\$ .425	\$ .150	\$ 1.275
Average common shares outstanding	1,908	1,743	1,832	1,738
Average diluted common shares outstanding	1,917	1,756	1,840	1,753

*See Notes to Consolidated Financial Statements.*

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

and Shares in Millions)	U.S. Bancorp Shareholders						Total		Noncontrolling	Interests
	Common Shares	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Comprehensive Income (Loss)	Shareholders' Equity		
<b>December 31, 2007</b>	1,728	\$ 1,000	\$ 20	\$ 5,749	\$ 22,693	\$ (7,480)	\$ (936)	\$ 21,046	\$ 780	\$
Change in unrealized gains and losses on securities available-for-sale					2,616			2,616	44	
Unrealized gain on derivatives							(2,156)	(2,156)		
Gain on currency translation							1	1		
Loss on derivatives							(37)	(37)		
Provision for realized losses							(15)	(15)		
Change in retirement obligation							763	763		
Income taxes							6	6		
Change in comprehensive income							546	546		
Dividend stock dividends					(53)			1,724	44	
Dividend stock dividends					(2,224)			(53)		
Dividend of preferred stock		500		(9)				(2,224)		
Dividend of common and treasury stock	28			(80)		880		491		
Change of treasury stock	(2)					(90)		800		
Change in noncontrolling interests									(76)	
Provision and restricted stock				(14)						(14)
Reserve to meet deferred compensation obligations						(5)				(5)
<b>September 30, 2008</b>	1,754	\$ 1,500	\$ 20	\$ 5,646	\$ 23,032	\$ (6,695)	\$ (1,828)	\$ 21,675	\$ 748	\$
<b>December 31, 2008</b>	1,755	\$ 7,931	\$ 20	\$ 5,830	\$ 22,541	\$ (6,659)	\$ (3,363)	\$ 26,300	\$ 733	\$
Change in accounting principle					141		(141)			
Change in unrealized gains and losses on securities available-for-sale					1,603			1,603	32	
Gain on non-temporary impairment recognized in earnings on securities available-for-sale							2,569	2,569		
Loss on securities available-for-sale							(441)	(441)		

Realized gain on derivatives							375	375		
Change in currency translation							25	25		
Provision for realized losses							297	297		
Income taxes							(1,074)	(1,074)		
Comprehensive income								3,354	32	
Issuance of preferred stock		(6,599)						(6,599)		
Issuance of common stock				(139)				(139)		
Share repurchase of common stock										
Share-based compensation		168				(377)		(209)		
Share-based compensation of common and treasury stock						(279)		(279)		
Share-based compensation of treasury stock	157		1	2,561		129		2,691		
Share-based compensation of common and treasury stock						(4)		(4)		
Share-based compensation of common and treasury stock									(12)	
Share-based compensation of common and treasury stock									(44)	
Share-based compensation of common and treasury stock				56				56		
<b>September 30, 2009</b>	1,912	\$ 1,500	\$ 21	\$ 8,308	\$ 23,629	\$ (6,534)	\$ (1,753)	\$ 25,171	\$ 709	\$

See Notes to Consolidated Financial Statements.

U.S. Bancorp

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

(Dollars in Millions) (Unaudited)	Nine Months Ended September 30,	
	2009	2008
<b>Operating Activities</b>		
Net cash provided by operating activities	\$4,220	\$4,046
<b>Investing Activities</b>		
Proceeds from sales of available-for-sale investment securities	4,622	2,084
Proceeds from maturities of investment securities	5,743	3,800
Purchases of investment securities	(10,220)	(3,413)
Net (increase) decrease in loans outstanding	113	(11,871)
Proceeds from sales of loans	2,226	115
Purchases of loans	(3,598)	(2,862)
Acquisitions, net of cash acquired	220	637
Other, net	839	(291)
Net cash used in investing activities	(55)	(11,801)
<b>Financing Activities</b>		
Net increase in deposits	10,179	5,280
Net increase (decrease) in short-term borrowings	(5,817)	4,980
Proceeds from issuance of long-term debt	5,032	8,533
Principal payments or redemption of long-term debt	(10,167)	(11,700)
Proceeds from issuance of preferred stock		491
Proceeds from issuance of common stock	2,688	658
Redemption of preferred stock	(6,599)	
Repurchase of common stock warrant	(139)	
Cash dividends paid on preferred stock	(256)	(49)
Cash dividends paid on common stock	(929)	(2,204)
Net cash provided by (used in) financing activities	(6,008)	5,989
Change in cash and due from banks	(1,843)	(1,766)
Cash and due from banks at beginning of period	6,859	8,884
Cash and due from banks at end of period	\$5,016	\$7,118

*See Notes to Consolidated Financial Statements.*

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

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. 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, expenses and other financial elements to each line of business. Table 10 Line of Business Financial Performance included in Management's Discussion and Analysis provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

**Note 2** Accounting Changes

**Fair Value Measurements** On April 9, 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance, which the Company adopted effective January 1, 2009, for determining fair value for an asset or liability if there has been a significant decrease in the volume and level of activity in relation to normal market activity. In that circumstance, transactions or quoted prices may not be determinative of fair value. Significant adjustments may be necessary to quoted prices or alternative valuation techniques may be required in order to determine the fair value of the asset or liability under current market conditions. The adoption of this guidance resulted in the use of valuation techniques other than quoted prices for the valuation of the Company's non-agency mortgage-backed securities, but the effect was not significant. For additional information on the fair value of certain financial assets and liabilities, refer to Note 12.

**Other-Than-Temporary Impairments** On April 9, 2009, the FASB issued new accounting guidance, which the Company adopted effective January 1, 2009, for the measurement and recognition of other-than-temporary impairment for debt securities. If an entity does not intend to sell, and it is more likely than not that the entity will not be required to sell, a debt security before recovery of its cost basis, other-than-temporary impairment should be separated into (a) the amount representing credit loss and (b) the amount related to all other factors. The amount of other-than-temporary impairment related to credit loss is recognized in earnings and other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss). To determine the amount related to credit loss, the Company applied a methodology similar to that used for accounting by creditors for impairment of loans. The Company's adoption of this guidance resulted in the recognition of a cumulative-effect adjustment to January 1, 2009 retained earnings, with a corresponding adjustment to accumulated other comprehensive income (loss), of \$141 million. For additional information on investment securities, refer to Note 3.

**Business Combinations** Effective January 1, 2009, the Company adopted accounting guidance issued by the FASB which 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 additional disclosures related to the nature and financial effects of the business combination. Under this guidance, nearly all acquired assets and liabilities assumed are required to be recorded at fair value at the acquisition date, including loans. The recognition at the acquisition date of an allowance for loan losses on acquired loans was eliminated, as credit-related factors are now

U.S. Bancorp

**Table of Contents**

incorporated directly into the fair value of the loans. Other significant changes include recognizing transaction costs and most restructuring costs as expenses when incurred. These accounting requirements are applied on a prospective basis for all transactions completed after the effective date. As a result of applying this guidance, the Company recognized a \$92 million gain in the first quarter of 2009 associated with the increase in value of a partnership interest in a commercial office building upon the purchase by the Company of the other partner's interest.

**Noncontrolling Interests** Effective January 1, 2009, the Company adopted accounting guidance issued by the FASB which changes the accounting and reporting for third-party ownership interests in the Company's consolidated subsidiaries. Under the new guidance, these interests are characterized as noncontrolling interests and classified as a component of equity, separate from U.S. Bancorp's own equity. In addition, the amount of net income attributable to the entity and to the noncontrolling interests is required to be shown separately on the consolidated statement of income. Upon adoption of this guidance, the Company reclassified \$733 million in noncontrolling interests from other liabilities to equity and reclassified noncontrolling interests' share of net income from other noninterest expense to income attributable to noncontrolling interests.

**Accounting for Transfers of Financial Assets** In June 2009, the FASB issued accounting guidance, effective for the Company January 1, 2010, related to the transfer of financial assets. This guidance removes the exception for qualifying special-purpose entities from consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor had not surrendered control over the transferred financial assets. In addition, the guidance provides clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also requires additional disclosure about transfers of financial assets and a transferor's continuing involvement with transferred assets. The Company expects the adoption of this guidance will not be significant to its financial statements.

**Variable Interest Entities** In June 2009, the FASB issued accounting guidance, effective for the Company January 1, 2010, related to variable interest entities. This guidance replaces a quantitative-based risks and rewards calculation for determining which entity, if any, has both (a) a controlling financial interest in a variable interest entity with an approach focused on identifying which entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This guidance requires reconsideration of whether an entity is a variable interest entity when any changes in facts or circumstances occur such that the holders of the equity investment at risk, as a group, lose the power to direct the activities of the entity that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether a variable interest holder is the primary beneficiary of a variable interest entity. The Company is currently assessing the impact of this guidance on its financial statements.

**Table of Contents****Note 3 Investment Securities**

The amortized cost, other-than-temporary impairment recorded in other comprehensive income, gross unrealized holding gains and losses, and fair value of held-to-maturity and available-for-sale securities were as follows:

(Dollars in Millions)	September 30, 2009				Fair Value	December 31, 2008			
	Amortized Cost	Unrealized Gains	Other-than-Temporary	Unrealized Losses		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Held-to-maturity (a)</b>									
Agency residential mortgage-backed securities	\$ 4	\$	\$	\$	\$ 4	\$ 5	\$	\$	\$ 5
Obligations of state and political subdivisions	34	2		(1)	35	38	2	(1)	39
Other debt securities	10				10	10			10
<b>Total held-to-maturity</b>	<b>\$ 48</b>	<b>\$ 2</b>	<b>\$</b>	<b>\$ (1)</b>	<b>\$ 49</b>	<b>\$ 53</b>	<b>\$ 2</b>	<b>\$ (1)</b>	<b>\$ 54</b>
<b>Available-for-sale (b)</b>									
U.S. Treasury and agencies	\$ 3,326	\$ 15	\$	\$ (15)	\$ 3,326	\$ 664	\$ 18	\$	\$ 682
<b>Mortgage-backed securities</b>									
<b>Residential</b>									
Agency	26,464	617		(72)	27,009	26,512	426	(410)	26,528
<b>Non-agency</b>									
Prime (c)	2,289	6	(108)	(158)	2,029	3,160		(729)	2,431
Non-prime	1,428	10	(298)	(127)	1,013	1,574	3	(423)	1,154
Commercial	14		(1)		13	17			17
<b>Asset-backed securities</b>									
<b>Collateralized debt obligations/Collateralized loan obligations</b>									
Other	520	10	(134)	(10)	386	533	7	(14)	526
Obligations of state and political subdivisions	6,671	88		(74)	6,685	7,220	4	(808)	6,416
Obligations of foreign governments	6				6	7			7
Corporate debt securities	1,229			(325)	904	1,238		(482)	756
Perpetual preferred securities	498	44		(97)	445	777	1	(387)	391
Other investments	259	7		(1)	265	480		(11)	469
<b>Total available-for-sale</b>	<b>\$ 42,909</b>	<b>\$ 807</b>	<b>\$ (549)</b>	<b>\$ (879)</b>	<b>\$ 42,288</b>	<b>\$ 42,283</b>	<b>\$ 460</b>	<b>\$ (3,275)</b>	<b>\$ 39,468</b>



- (a) *Held-to-maturity securities are carried at historical cost adjusted for amortization of premiums and accretion of discounts.*
- (b) *Available-for-sale securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive income (loss) in shareholders' equity.*
- (c) *Prime securities are those designated as such by the issuer or those with underlying asset characteristics and/or credit enhancements consistent with securities designated as prime.*

The weighted-average maturity of the available-for-sale investment securities was 5.6 years at September 30, 2009, compared with 7.7 years at December 31, 2008. The corresponding weighted-average yields were 3.85 percent and 4.56 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 8.4 years at September 30, 2009, and 8.5 years at December 31, 2008. The corresponding weighted-average yields were 5.29 percent and 5.78 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale securities outstanding at September 30, 2009, refer to Table 4 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

Securities carried at \$30.3 billion at September 30, 2009, and \$33.4 billion at December 31, 2008, were pledged to secure public, private and trust deposits, repurchase agreements and for other purposes required by law. Included in these amounts were securities sold under agreements to repurchase where the buyer/lender has the right to sell or pledge the securities and which were collateralized by securities with a carrying amount of \$8.5 billion at September 30, 2009, and \$9.5 billion at December 31, 2008, respectively.

U.S. Bancorp

**Table of Contents**

The following table provides information about the amount of interest income from taxable and non-taxable investment securities:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Taxable	\$ 300	\$ 398	\$ 984	\$ 1,268
Non-taxable	74	80	226	239
Total interest income from investment securities	\$ 374	\$ 478	\$ 1,210	\$ 1,507

The following table provides information about the amount of gross gains and losses realized through the sales of available-for-sale investment securities:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Realized gains	\$ 1	\$	\$ 128	\$ 16
Realized losses			(2)	
Net realized gains (losses)	\$ 1	\$	\$ 126	\$ 16
Income tax (benefit) on realized gains (losses)	\$	\$	\$ 48	\$ 6

Included in available-for-sale investment securities are structured investment securities ( SIVs ) purchased in the fourth quarter of 2007 from certain money market funds managed by FAF Advisors, Inc., an affiliate of the Company.

Subsequent to the initial purchase, the Company exchanged its interest in certain SIVs for a pro rata portion of the underlying investment securities 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 the time of acquisition by the Company.

Changes in the amortized cost and accretable balance of the securities that evidenced credit deterioration at the time of acquisition were as follows:

(Dollars in Millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Accretable Balance		Amortized Cost of Debt Securities		Accretable Balance		Amortized Cost of Debt Securities	
	2009	2008	2009	2008	2009	2008	2009	2008
Balance at beginning of period	\$ 174	\$ 191	\$ 569	\$ 1,055	\$ 349	\$ 105	\$ 508	\$ 2,427
Impact of other-than-temporary impairment accounting					(124)		124	

change

Adjusted balance at beginning of period	174	191	569	1,055	225	105	632	2,427
Purchases (a)				7		49		141
Payments received			(30)	(60)			(50)	(205)
Impairment writedowns		(57)	(10)	(105)		126	(55)	(410)
Accretion	(1)	(14)	1	14	(3)	(29)	3	29
Transfers in/(out) (b)	3				(46)	(131)		(1,071)
Balance at end of period	\$ 176	\$ 120	\$ 530	\$ 911	\$ 176	\$ 120	\$ 530	\$ 911

(a) Represents the fair value of the securities at acquisition.

(b) Represents investment securities that did not evidence credit deterioration at acquisition date, received in exchange for SIVs or investment securities with changes in projected future cash flows.

The Company conducts a regular assessment of its investment securities with unrealized losses to determine whether 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 whether the Company intends to sell or it is more likely than not the Company will be required to sell the securities. To determine whether perpetual preferred securities are other-than-temporarily impaired, the Company considers the issuer's credit ratings, historical financial performance and strength, the ability to sustain earnings, and other factors such as market presence and management experience.

35

U.S. Bancorp

**Table of Contents**

The following table summarizes other-than-temporary impairment by investment category:

(Dollars in Millions)	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	Credit Losses Recorded in Earnings	Losses Other than Credit	Total Losses Recognized	Credit Losses Recorded in Earnings	Losses Other than Credit	Total Losses Recognized
<b>Available-for-sale</b>						
Mortgage-backed securities						
Non-agency residential						
Prime (a)	\$ (1)	\$ (23)	\$ (24)	\$ (9)	\$ (152)	\$ (161)
Non-prime	(41)	(45)	(86)	(118)	(244)	(362)
Commercial				(1)	(1)	(2)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations						
Other	(6)	(7)	(13)	(11)	(7)	(18)
Other	(9)	4	(5)	(50)	(37)	(87)
Corporate debt securities	(4)		(4)	(7)		(7)
Perpetual preferred securities	(16)		(16)	(223)		(223)
Total available-for-sale	\$ (77)	\$ (71)	\$ (148)	\$ (419)	\$ (441)	\$ (860)

(a) Prime securities are those designated as such by the issuer or those with underlying asset characteristics and/or credit enhancements consistent with securities designated as prime.

The Company determined the other-than-temporary impairment recorded in earnings for securities other than perpetual preferred securities by estimating the future cash flows of each individual security, using market information where available, and discounting the cash flows at the original effective rate of the security. Other-than-temporary impairment recorded in other comprehensive income was measured as the difference between that discounted amount and the fair value of each security. The following table includes the ranges for principal assumptions used for the third quarter of 2009 for those debt securities determined to be other-than-temporarily impaired:

	Prime			Non-Prime		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Estimated lifetime prepayment rates	6%	15%	13%	5%	15%	7%
Lifetime probability of default rates		10	1	1	20	9
Lifetime loss severity rates	38	69	49	10	79	56

Changes in the amount of unrealized losses on non-agency mortgage-backed securities, including SIV-related investments, and other debt securities attributed to credit loss are summarized as follows:

Three Months Ended	Nine Months Ended
-----------------------	----------------------

(Dollars in Millions)	September 30, 2009	September 30, 2009
Balance at beginning of period	\$ 400	\$ 299
Credit losses on securities not previously considered other-than-temporarily impaired	17	92
Decreases in expected cash flows on securities for which other-than-temporary impairment was previously recognized	44	104
Increases in expected cash flows	(2)	(29)
Realized losses	(3)	(10)
Credit losses on security sales	(1)	(1)
Balance at end of period	\$ 455	\$ 455

U.S. Bancorp

**Table of Contents**

At September 30, 2009, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time the individual securities have been in continuous unrealized loss positions, at September 30, 2009:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity						
Obligations of state and political subdivisions	\$	\$	\$ 10	\$ (1)	\$ 10	\$ (1)
Total held-to-maturity	\$	\$	\$ 10	\$ (1)	\$ 10	\$ (1)
Available-for-sale						
U.S. Treasury and agencies	\$ 1,747	\$ (15)	\$ 1	\$	\$ 1,748	\$ (15)
Mortgage-backed securities						
Residential						
Agency	4,839	(30)	4,005	(42)	8,844	(72)
Non-agency						
Prime	31	(6)	1,933	(260)	1,964	(266)
Non-prime	348	(128)	604	(297)	952	(425)
Commercial	9	(1)			9	(1)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations	25	(2)	3	(6)	28	(8)
Other	317	(135)	16	(9)	333	(144)
Obligations of state and political subdivisions	6		2,486	(74)	2,492	(74)
Corporate debt securities	21	(12)	883	(313)	904	(325)
Perpetual preferred securities	4	(1)	335	(96)	339	(97)
Other investments			3	(1)	3	(1)
Total available-for-sale	\$ 7,347	\$ (330)	\$ 10,269	\$ (1,098)	\$ 17,616	\$ (1,428)

The Company does not consider these unrealized losses to be credit-related. These unrealized losses relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of securities that have unrealized losses are either corporate debt or non-agency mortgage-backed securities issued with high investment grade credit ratings and limited credit exposure. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these securities. At September 30, 2009, the Company had no plans to sell securities with unrealized losses and believes it is more likely than not it would not be required to sell such securities before recovery of their amortized cost.

U.S. Bancorp

---

**Table of Contents****Note 4** Loans

The composition of the loan portfolio was as follows:

(Dollars in Millions)	September 30, 2009		December 31, 2008	
	Amount	Percent of Total	Amount	Percent of Total
<b>Commercial</b>				
Commercial	\$ 44,166	24.1 %	\$ 49,759	26.9 %
Lease financing	6,546	3.6	6,859	3.7
Total commercial	50,712	27.7	56,618	30.6
<b>Commercial real estate</b>				
Commercial mortgages	24,649	13.5	23,434	12.6
Construction and development	9,247	5.0	9,779	5.3
Total commercial real estate	33,896	18.5	33,213	17.9
<b>Residential mortgages</b>				
Residential mortgages	19,634	10.7	18,232	9.8
Home equity loans, first liens	5,313	2.9	5,348	2.9
Total residential mortgages	24,947	13.6	23,580	12.7
<b>Retail</b>				
Credit card	16,402	9.0	13,520	7.3
Retail leasing	4,696	2.6	5,126	2.8
Home equity and second mortgages	19,427	10.6	19,177	10.3
Other retail				
Revolving credit	3,428	1.9	3,205	1.7
Installment	5,532	3.0	5,525	3.0
Automobile	9,426	5.1	9,212	5.0
Student	4,731	2.6	4,603	2.5
Total other retail	23,117	12.6	22,545	12.2
Total retail	63,642	34.8	60,368	32.6
Total loans, excluding covered assets	173,197	94.6	173,779	93.8
<b>Covered Assets</b>	9,859	5.4	11,450	6.2
Total loans	\$ 183,056	100.0 %	\$ 185,229	100.0 %

Loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.4 billion at September 30, 2009, and \$1.5 billion at December 31, 2008.

Covered assets represent assets acquired from the FDIC subject to loss sharing agreements and included expected reimbursements from the FDIC of approximately \$1.9 billion at September 30, 2009, and \$2.4 billion at December 31,



2008. The carrying amount of the covered assets consisted of loans subject to specialized accounting rules related to purchased impaired loans ( purchased impaired loans ), loans not subject to those rules, and other assets as shown in the following table:

(Dollars in Millions)	September 30, 2009				December 31, 2008			
	Purchased impaired loans	Other loans	Other Assets	Total	Purchased impaired loans	Other loans	Other Assets	Total
Residential mortgage loans	\$ 4,925	\$ 1,745	\$	\$ 6,670	\$ 5,763	\$ 2,022	\$	\$ 7,785
Commercial real estate loans	435	436		871	427	455		882
Commercial loans		86		86		127		127
Foreclosed real estate			310	310			274	274
Losses reimbursable by the FDIC			1,922	1,922			2,382	2,382
<b>Total</b>	<b>\$ 5,360</b>	<b>\$ 2,267</b>	<b>\$ 2,232</b>	<b>\$ 9,859</b>	<b>\$ 6,190</b>	<b>\$ 2,604</b>	<b>\$ 2,656</b>	<b>\$ 11,450</b>

At September 30, 2009, \$260 million of the purchased impaired loans in covered assets were classified as nonperforming assets, compared with \$298 million at December 31, 2008, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. Interest income is recognized on other purchased impaired loans in covered assets through

U.S. Bancorp

**Table of Contents**

accretion of the difference between the carrying amount of those loans and their expected cash flows. The allowance for credit losses related to purchased impaired loans represents only credit deterioration subsequent to acquisition date because they were recorded at fair value, including expected credit losses, at acquisition. There has not been any significant credit deterioration since that date. The Company also classified approximately \$.1 billion of loans not subject to loss sharing agreements as purchased impaired loans.

Changes in the accretible balance for purchased impaired loans were as follows for the three and nine months ended September 30, 2009:

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
(Dollars in Millions)		
Balance at beginning of period	\$ 2,074	\$ 2,719
Accretion	(82)	(265)
Disposals	(3)	(50)
Reclassifications (to) from nonaccretable difference, net	94	(139)
Other, including purchase accounting adjustments	(17)	(199)
Balance at end of period	\$ 2,066	\$ 2,066

**Note 5** Accounting for Transfers and Servicing of Financial Assets and Variable Interest Entities

When the Company sells financial assets, it may retain servicing rights and/or other beneficial interests in the transferred financial assets. The gain or loss on sale depends, in part, on the previous carrying amount of the transferred financial assets and the consideration other than beneficial interests in the transferred assets received in exchange. Upon transfer, any servicing assets are initially recognized at fair value. The remaining carrying amount of the transferred financial asset is allocated between the assets sold and any interest(s) that continues to be held by the Company based on the relative fair values as of the date of transfer.

The Company is involved in various entities that are considered to be variable interest entities ( VIEs ) as defined by applicable authoritative accounting guidance. Generally, a VIE is a corporation, partnership, trust or any other legal structure that does not have equity investors with substantive voting rights or has equity investors that do not have sufficient equity at risk for the entity to independently finance its activities. The Company's investments in VIEs primarily represent private investment funds or partnerships that make equity investments, provide debt financing or support community-based investments in affordable housing, development entities that provide capital for communities located in low-income districts and historic rehabilitation projects that may enable the Company to ensure regulatory compliance with the Community Reinvestment Act. In addition, the Company sponsors entities to which it transfers a pool of tax credit investments. These entities are consolidated by the Company as it continues to absorb the majority of the entities' expected losses.

The Company sponsors an off-balance sheet conduit to which it transferred high-grade investment securities, initially funded by the conduit's issuance of commercial paper. These investment securities include primarily (i) non-agency asset-backed securities, which are guaranteed by third-party insurers, and (ii) collateralized mortgage obligations. The conduit held assets of \$.7 billion at September 30, 2009, compared with \$.8 billion at December 31, 2008. During 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 Company determined its liquidity facility variable interest

does not absorb the majority of the variability of the conduit's cash flows or fair value because of third-party insurance protection. As a result, the Company is not the primary beneficiary of the conduit and, therefore, does not consolidate the conduit. At September 30, 2009, the amount advanced to the conduit under the liquidity facility was \$.7 billion, compared with \$.9 billion at December 31, 2008, and was recorded on the Company's balance sheet in commercial loans. Proceeds from the conduit's investment securities will be used to repay draws on the liquidity facility. The Company believes there is sufficient collateral to repay all liquidity facility advances.

The Company consolidates VIEs in which it is the primary beneficiary. At September 30, 2009, approximately \$470 million of total assets related to various VIEs were consolidated by the Company in its financial statements, compared with \$479 million at December 31, 2008. Creditors of these VIEs have no recourse to the general credit of the Company. The Company is not required to consolidate other VIEs as it is not the primary beneficiary. In such

**Table of Contents**

cases, the Company does not absorb the majority of the entities' expected losses nor does it receive a majority of the entities' expected residual returns. The Company's investments in unconsolidated VIEs, other than the off-balance sheet conduit, ranged from less than \$1 million to \$49 million, with an aggregate amount of approximately \$2.2 billion at September 30, 2009, and from less than \$1 million to \$55 million, with an aggregate amount of \$2.1 billion at December 31, 2008. While the Company believes potential losses from these investments is remote, the Company's maximum exposure to these unconsolidated VIEs, including any tax implications, was approximately \$4.5 billion at September 30, 2009, compared with \$3.9 billion at December 31, 2008, if all of the separate investments within the individual private funds were to become worthless and the community-based business and housing projects, and related tax credits completely failed and did not meet certain government compliance requirements.

**Note 6 Mortgage Servicing Rights**

The Company serviced \$145.0 billion of residential mortgage loans for others at September 30, 2009, and \$120.3 billion at December 31, 2008. The net impact included in mortgage banking revenue of assumption changes on the fair value of mortgage servicing rights (MSRs) and fair value changes of derivatives used to offset MSR value changes was a \$67 million net gain and \$25 million net loss for the three months ended September 30, 2009 and 2008, respectively, and a \$114 million net gain and \$52 million net loss for the nine months ended September 30, 2009 and 2008, respectively. Loan servicing fees, not including valuation changes included in mortgage banking revenue, were \$131 million and \$102 million for the three months ended September 30, 2009 and 2008, respectively, and \$374 million and \$295 million for the nine months ended September 30, 2009 and 2008, respectively.

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Balance at beginning of period	\$ 1,482	\$ 1,731	\$ 1,194	\$ 1,462
Rights purchased	16	6	91	23
Rights capitalized	254	127	686	406
Changes in fair value of MSRs				
Due to change in valuation assumptions (a)	(118)	(56)	(122)	43
Other changes in fair value (b)	(80)	(58)	(295)	(184)
Balance at end of period	\$ 1,554	\$ 1,750	\$ 1,554	\$ 1,750

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

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

The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments at September 30, 2009, was as follows:

(Dollars in Millions)	Down Scenario		Up Scenario	
	50 bps	25 bps	25 bps	50 bps
Net fair value	\$ (20)	\$ (17)	\$ (1)	\$ (4)

**Note 7** Preferred Stock

At September 30, 2009 and December 31, 2008, the Company had authority to issue 50 million shares of preferred stock. The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock was as follows:

	September 30, 2009		December 31, 2008	
	Shares Issued and Outstanding	Carrying Amount	Shares Issued and Outstanding	Carrying Amount
(Dollars in Millions)				
Series B	40,000	\$ 1,000	40,000	\$ 1,000
Series D	20,000	500	20,000	500
Series E			6,599,000	6,431
Total preferred stock (a)	60,000	\$ 1,500	6,659,000	\$ 7,931

(a) The par value of all shares issued and outstanding at September 30, 2009 and December 31, 2008, was \$1.00 a share.

On November 14, 2008, the Company issued 6.6 million shares of Series E Fixed Rate Cumulative Perpetual Preferred Stock (the Series E Preferred Stock) and a warrant to purchase 33 million shares of the Company's

U.S. Bancorp

**Table of Contents**

common stock, at a price of \$30.29 per common share, to the U.S. Department of the Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008 for proceeds of \$6.6 billion. The Company allocated \$172 million of the proceeds to the warrant, with the resulting discount on the Series E Preferred Stock being accreted over five years and reported as a reduction to income applicable to common equity over that period. On June 17, 2009, the Company redeemed the Series E Preferred Stock. The Company included in its computation of earnings per diluted common share for the first nine months of 2009 the impact of a deemed dividend of \$154 million, representing the unaccreted preferred stock discount remaining on the redemption date. On July 15, 2009, the Company repurchased the warrant from the U.S. Department of the Treasury for \$139 million.

On March 27, 2006, the Company issued depositary shares representing an ownership interest in 40,000 shares of Series B Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the Series B Preferred Stock), and on March 17, 2008, the Company issued depositary shares representing an ownership interest in 20,000 shares of Series D Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the Series D Preferred Stock). The Series B Preferred Stock and Series D Preferred Stock have no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to the greater of three-month LIBOR plus .60 percent, or 3.50 percent on the Series B Preferred Stock, and 7.875 percent per annum on the Series D Preferred Stock. Both series are redeemable at the Company's option, subject to the prior approval of the Federal Reserve Board. For further information on preferred stock, refer to Note 15 in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

**Note 8 Earnings Per Share**

The components of earnings per share were:

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income attributable to U.S. Bancorp	\$ 603	\$ 576	\$ 1,603	\$ 2,616
Preferred dividends	(19)	(19)	(209)	(53)
Accretion of preferred stock discount			(14)	
Deemed dividend on preferred stock redemption			(154)	
Earnings allocated to participating stock awards	(1)		(3)	(3)
Net income applicable to U.S. Bancorp common shareholders	\$ 583	\$ 557	\$ 1,223	\$ 2,560
Average common shares outstanding	1,908	1,743	1,832	1,738
Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes	9	13	8	15
Average diluted common shares outstanding	1,917	1,756	1,840	1,753
Earnings per common share	\$ .31	\$ .32	\$ .67	\$ 1.47
Diluted earnings per common share	\$ .30	\$ .32	\$ .66	\$ 1.46

Options outstanding at September 30, 2009 to purchase 70 million and 75 million common shares were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2009, respectively, because they were antidilutive. Options outstanding at September 30, 2008 to purchase 35 million and 27 million common shares were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2008, respectively, because they were antidilutive.

**Table of Contents****Note 9** Employee Benefits

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

(Dollars in Millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Plans		Postretirement Welfare Plan		Pension Plans		Postretirement Welfare Plan	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ 20	\$ 19	\$ 1	\$ 1	\$ 60	\$ 57	\$ 4	\$ 4
Interest cost	38	35	2	3	114	105	8	9
Expected return on plan assets	(54)	(56)	(1)	(1)	(161)	(168)	(4)	(4)
Prior service (credit) cost and transition (asset) obligation amortization	(2)	(1)			(5)	(4)		
Actuarial (gain) loss amortization	13	8	(1)	(1)	37	24	(5)	(3)
Net periodic benefit cost	\$ 15	\$ 5	\$ 1	\$ 2	\$ 45	\$ 14	\$ 3	\$ 6

**Note 10** Income Taxes

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Federal</b>				
Current	\$ 327	\$ 525	\$ 1,011	\$ 1,344
Deferred	(282)	(378)	(802)	(462)
Federal income tax	45	147	209	882
<b>State</b>				
Current	67	81	152	214
Deferred	(26)	(30)	(74)	(36)
State income tax	41	51	78	178
Total income tax provision	\$ 86	\$ 198	\$ 287	\$ 1,060

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



(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Tax at statutory rate (35 percent)	\$ 242	\$ 274	\$ 673	\$ 1,302
State income tax, at statutory rates, net of federal tax benefit	27	33	51	115
Tax effect of				
Tax credits	(134)	(72)	(285)	(212)
Tax-exempt income	(52)	(44)	(150)	(129)
Noncontrolling interests	(1)	(3)	(11)	(15)
Other items	4	10	9	(1)
Applicable income taxes	\$ 86	\$ 198	\$ 287	\$ 1,060

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of September 30, 2009, the federal taxing authority has completed its examination of the Company through the fiscal year ended December 31, 2006. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax asset was \$652 million at September 30, 2009, and \$1.1 billion at December 31, 2008.

U.S. Bancorp

**Table of Contents****Note 11** Derivative Instruments

The Company recognizes all derivatives in the consolidated balance sheet at fair value as other assets or liabilities. On the date the Company enters into a derivative contract, the derivative is designated as either a hedge of the fair value of a recognized asset or liability, including hedges of foreign currency exposure ( fair value hedge ); a hedge of a forecasted transaction or the variability of cash flows to be paid related to a recognized asset or liability ( cash flow hedge ); or a customer accommodation or an economic hedge for asset/liability risk management purposes ( free-standing derivative ).

Of the Company's \$46.2 billion of total notional amount of asset and liability management positions at September 30, 2009, \$17.0 billion was designated as a fair value or cash flow hedge. When a derivative is designated as either a fair value or cash flow hedge, the Company performs an assessment, at inception and quarterly thereafter to determine the effectiveness of the derivative in offsetting changes in the value of the hedged item(s).

**Fair Value Hedges** These derivatives are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and junior subordinated debentures. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. All fair value hedges were highly effective for the nine months ended September 30, 2009, and the change in fair value attributed to hedge ineffectiveness was not material.

The Company also uses forward commitments to sell specified amounts of certain foreign currencies and foreign denominated debt to hedge the volatility of its investment in foreign operations as driven by 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 2009 was not material.

**Cash Flow Hedges** These derivatives are interest rate swaps that are hedges of the forecasted cash flows from the underlying variable-rate debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until income from the cash flows of the hedged items is realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately. At September 30, 2009, the Company had \$415 million of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss). The estimated amount to be reclassified from other comprehensive income (loss) into earnings during the remainder of 2009 and the next 12 months is a loss of \$37 million and \$147 million, respectively. This includes gains and losses related to hedges that were terminated early for which the forecasted transactions are still probable. All cash flow hedges were highly effective for the nine months ended September 30, 2009, and the change in fair value attributed to hedge ineffectiveness was not material.

**Other Derivative Positions** The Company enters into free standing derivatives to mitigate interest rate risk and for other risk management purposes. These derivatives include forward commitments to sell residential mortgage loans which are used to economically hedge the interest rate risk related to residential mortgage loans held for sale. The Company also enters into U.S. Treasury futures, options on U.S. Treasury futures contracts and forward commitments to buy residential mortgage loans to economically hedge the change in the fair value of the Company's residential MSRs. In addition, the Company acts as a seller and buyer of interest rate derivatives and foreign exchange contracts to accommodate its customers. To mitigate the market and liquidity risk associated with these derivatives, the Company enters into similar offsetting positions.

For additional information on the Company's purpose for entering into derivative transactions and its overall risk management strategies, refer to Management Discussion and Analysis Use of Derivatives to Manage Interest Rate and Other Risks which is incorporated by reference into these Notes to Consolidated Financial Statements.

U.S. Bancorp

---

**Table of Contents**

The following table summarizes the derivative positions of the Company at September 30, 2009:

	Asset Derivatives			Liability Derivatives		
	Notional	Fair	Remaining	Notional	Fair	Remaining
(Dollars in Millions)	Value	Value	Maturity	Value	Value	Maturity
			In Years			In Years
<b>Asset and Liability Management Positions</b>						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 5,930	\$ 157	25.09	\$ 350	\$	3.42
Foreign exchange cross-currency swaps	1,884	288	7.08			
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps				8,863	698	3.55
Net investment hedges						
Foreign exchange forward contracts (a)				548	3	.08
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	11,816	115	.05	18		.12
Sell	191		.20	9,254	130	.10
Options						
Purchased	1,600		.6			
Written	2,750	34	.09	5		.13
Foreign exchange forward contracts	117		.08	288	2	.08
Equity contracts	45	2	1.05			
Credit contracts	885	3	3.78	1,683	2	2.87
<b>Customer-Related Positions</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	20,691	1,081	4.50	318	7	7.12
Pay fixed/receive floating swaps	619	10	7.47	20,388	1,053	4.50
Options						
Purchased	1,661	19	1.86	256	24	1.15
Written	348	23	.92	1,569	19	1.95
Foreign exchange rate contracts						
Forwards, spots and swaps (a)	5,510	250	.48	5,504	234	.48
Options						
Purchased	361	13	.75			
Written				361	13	.75
Total fair value of derivative positions		1,995			2,185	
Netting (b)		(473)			(1,283)	

Total	\$ 1,522	\$ 902
-------	----------	--------

- (a) *Reflects the net of long and short positions.*
- (b) *Represents netting of derivative asset and liability balances, and related cash collateral, with the same counterparty subject to master netting agreements. Authoritative accounting guidance permits the netting of derivative receivables and payables when a legally enforceable master netting agreement exists between the Company and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. At September 30, 2009, the amount of cash collateral posted by counterparties that was netted against derivative assets was \$148 million and the amount of cash collateral posted by the Company that was netted against derivative liabilities was \$957 million.*

*Note: The fair value of asset and liability derivatives are included in Other assets and Other liabilities on the Consolidated Balance Sheet, respectively.*

U.S. Bancorp

**Table of Contents**

The table below shows the effective portion of the gains (losses) recognized in other comprehensive income and the gains (losses) reclassified from other comprehensive income (loss) into earnings:

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings
(Dollars in Millions)				
<b>Asset and Liability Management Positions</b>				
Cash flow hedges				
Interest rate contracts				
Pay fixed/receive floating swaps (a)	\$ 415	\$	\$ 1,393	\$ (5)
Net investment hedges				
Foreign exchange forward contracts	(23)		(32)	

*Note: Ineffectiveness on cash flow and net investment hedges was not material for the three months and nine months ended September 30, 2009.*

*(a) Gains (Losses) reclassified from other comprehensive income (loss) into interest income (loss).*

The table below shows the gains (losses) recognized in earnings for fair value hedges, other economic hedges and customer-related positions:

	Location of Gains (Losses) Recognized in Earnings	Gains (Losses) Recognized in Earnings	
		Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
(Dollars in Millions)			
<b>Asset and Liability Management Positions</b>			
Fair value hedges (a)			
Interest rate contracts	Other noninterest income	\$ (31)	\$ (136)
Foreign exchange cross-currency swaps	Other noninterest income	97	148
Other economic hedges			
Interest rate contracts			
Futures and forwards	Mortgage banking revenue	(10)	263
Purchased and written options	Mortgage banking revenue	87	244

Foreign exchange forward contracts	Commercial products revenue	(30)	(50)
Equity contracts	Compensation expense	(8)	(22)
Credit contracts	Other noninterest income/expense	(5)	30
<b>Customer-Related Positions</b>			
Interest rate contracts			
Receive fixed/pay floating swaps	Other noninterest income	142	(429)
Pay fixed/receive floating swaps	Other noninterest income	(143)	458
Purchased and written options	Other noninterest income		(1)
Foreign exchange rate contracts			
Forwards, spots and swaps	Commercial products revenue	9	37
Purchased and written options	Commercial products revenue		1

(a) *Gains (Losses) on items hedged by interest rate contracts and foreign exchange forward contracts, included in noninterest income (expense), were \$30 million and \$(96) million for the three months ended September 30, 2009, respectively, and \$133 million and \$(146) million for the nine months September 30, 2009, respectively. Ineffective portion was immaterial for the three months and nine months ended September 30, 2009.*

Derivatives are subject to credit risk associated with counterparties to the derivative contracts. The Company measures that credit risk based on its assessment of the probability of counterparty default and includes that within the fair value of the derivative. The Company manages counterparty credit risk through diversification of its derivative positions among various counterparties, by entering into master netting agreements and by requiring collateral agreements which allow the Company to call for immediate, full collateral coverage when credit-rating thresholds are triggered by counterparties. The balances in the table above do not reflect the impact of these risk mitigation techniques.

The Company's collateral agreements are bilateral, and therefore contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral agreements, the counterparties to the derivatives could request immediate full collateral coverage for derivatives in net liability positions. The aggregate fair value of all derivatives under collateral agreements that were in a net liability

**Table of Contents**

position at September 30, 2009, was \$1.5 billion. At September 30, 2009, the Company had \$1.0 billion of cash and marketable securities posted as collateral against this net liability position.

**Note 12 Fair Values of Assets and Liabilities**

The Company uses fair value measurements for the initial recording of certain assets and liabilities, periodic remeasurement of certain assets and liabilities, and disclosures. Derivatives, investment securities, certain mortgage loans held for sale ( MLHFS ) and MSR's are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value measurement reflects all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance.

The Company groups its assets and liabilities measured at fair value into a three-level hierarchy for valuation techniques used to measure financial assets and financial liabilities at fair value. This hierarchy is based on whether the valuation inputs are observable or unobservable. These levels are:

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

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

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes residential MSR's, certain debt securities, including the Company's SIV-related investments and non-agency mortgage-backed securities, and certain derivative contracts.

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities at fair value and for estimating fair value for financial instruments not recorded at fair value as required under disclosure guidance related to the fair value of financial instruments. In addition, for financial assets and liabilities measured at fair value, the following section includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified. Where appropriate, the description includes information about the valuation models and key inputs to those models.

**Cash and Cash Equivalents** The carrying value of cash, amounts due from banks, federal funds sold and securities purchased under resale agreements was assumed to approximate fair value.



**Investment Securities** When available, quoted market prices are used to determine the fair value of investment securities and such items are classified within Level 1 of the fair value hierarchy.

For other securities, the Company determines fair value based on various sources and may apply matrix pricing with observable prices for similar securities where a price for the identical security is not observable. Prices are verified, where possible, to prices of observable market trades as obtained from independent sources. Securities measured at fair value by such methods are classified as Level 2.

The fair value of securities for which there are no market trades, or where trading is inactive as compared to normal market activity, are categorized as Level 3. Securities classified as Level 3 include non-agency mortgage-backed securities, SIVs, commercial mortgage-backed and asset-backed securities, collateralized debt obligations and

U.S. Bancorp

**Table of Contents**

collateralized loan obligations, and certain corporate debt securities. In the first nine months of 2009, due to the limited number of trades of non-agency mortgage-backed securities and lack of reliable evidence about transaction prices, the Company determined the fair value of these securities using a cash flow methodology and incorporating observable market information, where available. The use of a cash flow methodology resulted in the Company transferring some non-agency mortgage-backed securities to Level 3. This transfer did not impact earnings and was not significant to shareholders' equity of the Company or the carrying amount of the securities.

Cash flow methodologies and other market valuation techniques involving management judgment use assumptions regarding housing prices, interest rates and borrower performance. Inputs are refined and updated to reflect market developments. The primary valuation drivers of these securities are the prepayment rates, default rates and default severities associated with the underlying collateral, as well as the discount rate used to calculate the present value of the projected cash flows.

The following table shows the assumption ranges for the third quarter of 2009:

	Prime (a)			Non-prime		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Estimated prepayment rates	5%	19%	14%	3%	15%	8%
Probability of default rates		10	1		28	7
Loss severity rates		100	44	10	100	54
Discount margin	3	22	6	4	31	13

(a) *Prime securities are those designated as such by the issuer or those with underlying asset characteristics and/or credit enhancements consistent with securities designated as prime.*

**Certain mortgage loans held for sale** MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. Included in mortgage banking revenue for the third quarter of 2009 and 2008, was \$206 million and \$43 million of net gains, respectively, and \$171 million of net gains and \$15 million of net losses for the first nine months of 2009 and 2008, respectively, from the initial measurement and subsequent changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. The fair value of MLHFS was \$5.7 billion as of September 30, 2009, which exceeded the unpaid principal balance by \$173 million as of that date. MLHFS are Level 2. Related interest income for MLHFS is measured based on contractual interest rates and reported as interest income in the Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

**Loans** The loan portfolio includes adjustable and fixed-rate loans, the fair value of which was estimated using discounted cash flow analyses and other valuation techniques. To calculate discounted cash flows, the loans were aggregated into pools of similar types and expected repayment terms. The expected cash flows of loans considered historical prepayment experiences and estimated credit losses for nonperforming loans and were discounted using current rates offered to borrowers of similar credit characteristics. Generally, loan fair values reflect Level 3 information.

**Mortgage servicing rights** MSRs are valued using a cash flow methodology and third party prices, if available. Accordingly, MSRs are classified in Level 3. The Company determines fair value by estimating the present value of

the asset's future cash flows using 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 MSRs valuation include higher than expected prepayment rates and/or delayed receipt of cash flows.

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

The majority of derivatives held by the Company are executed over-the-counter and are valued using standard cash flow, Black-Scholes and Monte Carlo valuation techniques. The models incorporate inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. In addition, all derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk as well as external assessments of credit risk, where available. In its assessment of nonperformance risk, the Company considers its ability to net derivative positions under master netting agreements, as well as collateral

**Table of Contents**

received or provided under collateral support agreements. The majority of these derivatives are classified within Level 2 of the fair value hierarchy as the significant inputs to the models are observable. An exception to the Level 2 classification is certain derivative transactions for which the risk of nonperformance cannot be observed in the market. These derivatives are classified within Level 3 of the fair value hierarchy. In addition, commitments to sell, purchase and originate mortgage loans that meet the requirements of a derivative, are valued by pricing models that include market observable and unobservable inputs. Due to the significant unobservable inputs, these commitments are classified within Level 3 of the fair value hierarchy.

**Deposit Liabilities** The fair value of demand deposits, savings accounts and certain money market deposits is equal to the amount payable on demand. The fair value of fixed-rate certificates of deposit was estimated by discounting the contractual cash flow using current market rates.

**Short-term Borrowings** Federal funds purchased, securities sold under agreements to repurchase, commercial paper and other short-term funds borrowed have floating rates or short-term maturities. The fair value of short-term borrowings was determined by discounting contractual cash flows using current market rates.

**Long-term Debt** The fair value for most long-term debt was determined by discounting contractual cash flows using current market rates. Junior subordinated debt instruments were valued using market quotes.

**Loan Commitments, Letters of Credit and Guarantees** The fair value of commitments, letters of credit and guarantees represents the estimated costs to terminate or otherwise settle the obligations with a third-party. The fair value of residential mortgage commitments is estimated based on observable inputs. Other loan commitments, letters of credit and guarantees are not actively traded, and the Company estimates their fair value based on the related amount of unamortized deferred commitment fees adjusted for the probable losses for these arrangements.

U.S. Bancorp

**Table of Contents**

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

(Dollars in Millions)	Level 1	Level 2	Level 3	Netting	Total
<b>September 30, 2009</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$ 6	\$ 3,320	\$	\$	\$ 3,326
Mortgage-backed securities					
Residential					
Agency		27,009			27,009
Non-agency					
Prime			2,029		2,029
Non-prime			1,013		1,013
Commercial			13		13
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations		106	101		207
Other			386		386
Obligations of state and political subdivisions		6,685			6,685
Obligations of foreign governments		6			6
Corporate debt securities		894	10		904
Perpetual preferred securities		445			445
Other investments	265				265
Total available-for-sale	271	38,465	3,552		42,288
Mortgage loans held for sale		5,674			5,674
Mortgage servicing rights			1,554		1,554
Other assets (a)		949	1,170	(473)	1,646
Total	\$ 271	\$ 45,088	\$ 6,276	\$ (473)	\$ 51,162
Other liabilities (a)	\$	\$ 2,211	\$ 25	\$ (1,283)	\$ 953
<b>December 31, 2008</b>					
Available-for-sale securities	\$ 474	\$ 37,150	\$ 1,844	\$	\$ 39,468
Mortgage loans held for sale		2,728			2,728
Mortgage servicing rights			1,194		1,194
Other assets (a)		814	1,744	(151)	2,407
Total	\$ 474	\$ 40,692	\$ 4,782	\$ (151)	\$ 45,797
Other liabilities (a)	\$	\$ 3,127	\$ 46	\$ (1,251)	\$ 1,922

(a) Represents primarily derivatives and trading securities.



**Table of Contents**

The table below presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Beginning of Period  Balance	Net Gains  (Losses) Included Comprehensive Net Income	Net Gains  (Losses) Included in Principal			End of Period  Balance	Net Change in Unrealized Gains (Losses) Relating to Assets Still Held at End of Period
			Other Payments, Issuance and Settlements	Purchases, Sales, Principal	Transfers into Level 3		
Three Months Ended September 30,  (Dollars in Millions)							
<b>2009</b>							
Available-for-sale securities							
Mortgage-backed securities							
Residential non-agency							
Prime	\$ 2,431	\$ 1	\$ 110	\$ (513)	\$	\$ 2,029	\$ 105
Non-prime	1,058	(40)	46	(51)		1,013	46
Commercial	15			(2)		13	
Asset-backed securities							
Collateralized debt							
obligations/Collateralized loan							
obligations	84			17		101	
Other	435	(8)	7	(48)		386	8
Corporate debt securities	10					10	
Total	4,033	(47)(a)	163	(597)		3,552	159
Mortgage servicing rights	1,482	(198)(b)		270		1,554	(198)(b)
Net other assets and liabilities	968	193(c)		(16)		1,145	(329)(d)
<b>2008</b>							
Available-for-sale securities	\$ 1,991	\$ (227)(a)	\$ 26	\$ (188)	\$ 7	\$ 1,609	\$ 26
Mortgage servicing rights	1,731	(114)(b)		133		1,750	(114)(b)
Net other assets and liabilities	270	(31)(e)		56		295	7(f)

	Beginning of Period  Balance	Net Gains  (Losses) Included Comprehensive Net Income	Net Gains  (Losses) Included in Principal			End of Period  Balance	Net Change in Unrealized Gains (Losses) Relating to Assets Still Held at End of Period
			Other Payments, Issuance and Settlements	Purchases, Sales, Principal	Transfers into Level 3		

Nine Months Ended September 30, (Dollars in Millions)	Beginning of Period Balance	(Losses) Included Comprehensive Net Income	Other Income (Loss)	Payments, Issuances and Settlements	Transfers into Level 3	End of Period Balance	to Assets Still Held at End of Period
<b>2009</b>							
Available-for-sale securities							
Mortgage-backed securities							
Residential non-agency							
Prime	\$ 183	\$ (4)	\$ 477	\$ (875)	\$ 2,248	\$ 2,029	\$ 465
Non-prime	1,022	(115)	127	(154)	133	1,013	5
Commercial	17	(1)	(1)	(3)	1	13	(1)
Asset-backed securities							
Collateralized debt obligations/Collateralized loan obligations	86	(4)	4	11	4	101	4
Other	523	(48)	(30)	(62)	3	386	(127)
Corporate debt securities	13	(3)				10	
<b>Total</b>	<b>1,844</b>	<b>(175)(a)</b>	<b>577</b>	<b>(1,083)</b>	<b>2,389</b>	<b>3,552</b>	<b>346</b>
Mortgage servicing rights	1,194	(417)(b)		777		1,554	(416)(b)
Net other assets and liabilities	1,698	(446)(g)		(108)	1	1,145	(61)(h)
<b>2008</b>							
Available-for-sale securities	\$ 2,923	\$ (521)(a)	\$ (61)	\$ (764)	\$ 32	\$ 1,609	\$ (62)
Mortgage servicing rights	1,462	(141)(b)		429		1,750	(141)(b)
Net other assets and liabilities	338	(215)(i)		172		295	(5)(j)

(a) Included in securities gains (losses)

(b) Included in mortgage banking revenue.

(c) Approximately \$(40) million included in other noninterest income and \$233 million included in mortgage banking revenue.

(d) Approximately \$(149) million included in other noninterest income and \$(180) million included in mortgage banking revenue.

(e) Approximately \$(60) million included in other noninterest income and \$29 million included in mortgage banking revenue.

(f) Approximately \$41 million included in other noninterest income and \$(34) million included in mortgage banking revenue.

(g) Approximately \$(961) million included in other noninterest income and \$515 million included in mortgage banking revenue.

(h) Approximately \$458 million included in other noninterest income and \$(519) million included in mortgage banking revenue.

(i) Approximately \$(214) million included in other noninterest income and \$(1) million included in mortgage banking revenue.

(j) Approximately \$1 million included in other noninterest income and \$(6) million included in mortgage banking revenue.

U.S. Bancorp



**Table of Contents**

The Company may also be required periodically to measure certain other financial assets at fair value on a nonrecurring basis. These measurements of fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets. The following table summarizes the adjusted carrying values and the level of valuation assumptions for assets measured at fair value on a nonrecurring basis:

(Dollars in Millions)	September 30, 2009				December 31, 2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans held for sale	\$	\$ 243	\$	\$ 243	\$	\$ 12	\$	\$ 12
Loans (a)		87		87		117		117
Other real estate owned (b)		141		141		66		66
Other intangible assets							1	1

(a) Represents carrying value of loans for which adjustments are based on the appraised value of the collateral, excluding loans fully charged-off.

(b) Represents the fair value of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

The following table summarizes losses recognized related to nonrecurring fair value measurements of individual assets or portfolios:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Loans held for sale	\$ 1	\$ 1	\$ 2	\$ 7
Loans (a)	72	51	217	72
Other real estate owned (b)	60	18	124	48
Other intangible assets			1	

(a) Represents write-downs of loans which are based on the appraised value of the collateral, excluding loans fully charged-off.

(b) Represents related losses of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

**Fair Value Option**

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

	September 30, 2009			December 31, 2008		
	Fair Value	Aggregate	Excess of Carrying Amount Over	Fair Value	Aggregate	Excess of Carrying Amount Over

(Dollars in Millions)	Carrying Amount	Unpaid Principal	(Under) Unpaid Principal	Carrying Amount	Unpaid Principal	(Under) Unpaid Principal
Total loans	\$ 5,674	\$ 5,501	\$ 173	\$ 2,728	\$ 2,649	\$ 79
Loans 90 days or more past due	22	28	(6)	11	13	(2)

**Disclosures about Fair Value of Financial Instruments** The following table summarizes the estimated fair value for financial instruments as of September 30, 2009 and December 31, 2008, and includes financial instruments that are not accounted for at fair value. In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as the value of goodwill, long-term relationships with deposit, credit card, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other liabilities.

51

U.S. Bancorp

**Table of Contents**

The estimated fair values of the Company's financial instruments are shown in the table below.

(Dollars in Millions)	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and due from banks	\$ 5,016	\$ 5,016	\$ 6,859	\$ 6,859
Investment securities held-to-maturity	48	49	53	54
Mortgages held for sale (a)	7	7	14	14
Other loans held for sale	349	347	468	470
Loans	178,231	177,128	181,715	180,311
<b>Financial Liabilities</b>				
Deposits	169,755	170,226	159,350	161,196
Short-term borrowings	28,166	28,556	33,983	34,333
Long-term debt	33,249	33,393	38,359	38,135

(a) Balance excludes mortgages held for sale for which the fair value option under applicable accounting guidance was elected.

The fair value of unfunded commitments, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments and standby letters of credit was \$316 million and \$238 million at September 30, 2009, and December 31, 2008, respectively. The carrying value of other guarantees was \$255 million and \$302 million at September 30, 2009, and December 31, 2008, respectively.

**Note 13** Guarantees and Contingent Liabilities

**Visa Restructuring and Card Association Litigation** The Company's payment services business issues and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively "Visa"). In 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of its initial public offering ("IPO") completed in the first quarter of 2008 (the "Visa Reorganization"). As a part of the Visa Reorganization, the Company received its proportionate number of shares of Visa Inc. common stock. In addition, the Company and certain of its subsidiaries have been named as defendants along with Visa U.S.A. Inc. ("Visa U.S.A.") and MasterCard International (collectively, the "Card Associations"), as well as several other banks, in antitrust lawsuits challenging the practices of the Card Associations (the "Visa Litigation"). Visa U.S.A. member banks have a contingent obligation to indemnify Visa Inc. under the Visa U.S.A. bylaws (which were modified at the time of the restructuring in October 2007) for potential losses arising from the Visa Litigation. The contingent obligation of member banks under the Visa U.S.A. bylaws has no specific maximum amount. The Company has also entered into judgment and loss sharing agreements with Visa U.S.A. and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Visa Litigation.

In 2007 and 2008, Visa announced settlement agreements with American Express and Discover Financial Services, respectively. In addition to these settlements, Visa U.S.A. member banks remain obligated to indemnify Visa Inc. for potential losses arising from the remaining Visa litigation. Using proceeds from its initial IPO and through subsequent reductions to the conversion ratio applicable to the Class B shares held by member financial institutions, Visa Inc. has funded an escrow account for the benefit of member financial institutions to fund the expenses of the Visa Litigation, as well as the members' proportionate share of any judgments or settlements that may arise out of the Visa Litigation.

The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation liabilities and will decline as amounts are paid out of the escrow account. On July 16, 2009, Visa deposited additional funds into the escrow account and further reduced the conversion ratio applicable to the Class B shares. As a result, the Company recognized a \$39 million gain related to the effective repurchase of a portion of its Class B shares.

At September 30, 2009, the carrying amount of the Company's liability related to the remaining Visa Litigation, was \$113 million. The remaining Class B shares held by the Company will be eligible for conversion to Class A shares three years after the IPO or upon settlement of the Visa Litigation, whichever is later.

U.S. Bancorp

**Table of Contents**

The following table is a summary of other guarantees and contingent liabilities of the Company at September 30, 2009:

(Dollars in Millions)	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit	\$ 112	\$ 17,615
Third-party borrowing arrangements		136
Securities lending indemnifications		6,646
Asset sales (a)	44	551
Merchant processing	65	67,788
Other guarantees	4	5,900
Other contingent liabilities	29	2,059

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

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

The Company currently processes card transactions in the United States, Canada and Europe for airlines. In the event of liquidation of these merchants, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At September 30, 2009, the value of airline tickets purchased to be delivered at a future date was \$4.0 billion. The Company held collateral of \$489 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

The Company currently has a support agreement with a money market fund managed by FAF Advisors, Inc., an affiliate of the Company, and a separate support agreement with a customer. Under the terms of the agreements, the Company is obligated to pay amounts to the counterparties upon the occurrence of specified events related to certain assets held by the counterparties. The maximum potential payments under the agreements are \$59 million and the Company has recognized an insignificant liability at September 30, 2009 for these obligations.

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

For additional information on the nature of the Company's guarantees and contingent liabilities, refer to Note 22 in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

**Note 14** Subsequent Events

The Company has evaluated the impact of events that occurred subsequent to September 30, 2009 through November 6, 2009, the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company determined none of these events require adjustment to the consolidated financial statements.

On October 30, 2009, the Company acquired the nine banking subsidiaries of FBOP Corporation of Oak Park, Illinois, from the FDIC. The Company received approximately \$18.4 billion of assets and assumed \$18.3 billion of liabilities, including \$15.4 billion of deposits. Substantially all loans are subject to a loss sharing agreement with the FDIC.

**Table of Contents**

U.S. Bancorp

Consolidated Daily Average Balance Sheet and Related Yields and Rates

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

(Dollars in Millions) (Unaudited)	For the Three Months Ended September 30, 2009		2008		Yields and Rates	Yields and Rates	% Change Average Balances
	Average Balances	Interest	Average Balances	Interest			
<b>Assets</b>							
Investment securities	\$ 42,558	\$ 414	3.89%	\$ 42,548	\$ 521	4.90%	%
Loans held for sale	7,359	87	4.74	3,495	52	6.03	*
<b>Loans (b)</b>							
Commercial	51,222	513	3.98	54,573	661	4.83	(6.1)
Commercial real estate	33,829	367	4.30	31,748	440	5.50	6.6
Residential mortgages	24,405	343	5.62	23,309	354	6.08	4.7
Retail	62,224	1,047	6.67	56,930	1,041	7.27	9.3
Total loans, excluding covered assets	171,680	2,270	5.25	166,560	2,496	5.97	3.1
Covered assets	10,288	115	4.40				*
Total loans	181,968	2,385	5.21	166,560	2,496	5.97	9.3
Other earning assets	2,226	23	4.06	2,370	41	6.83	(6.1)
Total earning assets	234,111	2,909	4.94	214,973	3,110	5.77	8.9
Allowance for loan losses	(4,673)			(2,686)			(74.0)
Unrealized gain (loss) on available-for-sale securities	(1,318)			(2,368)			44.3
Other assets	36,291			33,704			7.7
Total assets	\$ 264,411			\$ 243,623			8.5
<b>Liabilities and Shareholders Equity</b>							
Noninterest-bearing deposits	\$ 36,982			\$ 28,322			30.6
<b>Interest-bearing deposits</b>							
Interest checking	38,218	21	.22	32,304	66	.81	18.3
Money market savings	33,387	37	.43	26,167	79	1.20	27.6
Savings accounts	13,824	19	.55	5,531	4	.24	*
Time certificates of deposit less than \$100,000	16,985	115	2.69	12,669	102	3.21	34.1
Time deposits greater than \$100,000	26,966	107	1.58	28,546	174	2.43	(5.5)

Total interest-bearing deposits	129,380	299	.92	105,217	425	1.61	23.0
Short-term borrowings	28,025	140	1.97	40,277	295	2.91	(30.4)
Long-term debt	36,797	313	3.38	40,000	423	4.22	(8.0)
Total interest-bearing liabilities	194,202	752	1.54	185,494	1,143	2.45	4.7
Other liabilities	7,838			7,069			10.9
Shareholders equity							
Preferred equity	1,500			1,500			
Common equity	23,179			20,483			13.2
Total U.S. Bancorp shareholders equity	24,679			21,983			12.3
Noncontrolling interests	710			755			(6.0)
Total equity	25,389			22,738			11.7
Total liabilities and equity	\$ 264,411			\$ 243,623			8.5%
Net interest income		\$ 2,157			\$ 1,967		
Gross interest margin			3.40%			3.32%	
Gross interest margin without taxable-equivalent increments			3.31			3.26	
<b>Percent of Earning Assets</b>							
Interest income			4.94%			5.77%	
Interest expense			1.27			2.12	
Net interest margin			3.67%			3.65%	
Net interest margin without taxable-equivalent increments			3.58%			3.59%	

\* *Not meaningful*

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

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

U.S. Bancorp



**Table of Contents**

U.S. Bancorp

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

For the Nine Months Ended September 30,  
2009 2008

(Dollars in Millions) (Unaudited)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
<b>Assets</b>							
Investment securities	\$ 42,357	\$ 1,334	4.20%	\$ 43,144	\$ 1,639	5.07%	(1.8)%
Loans held for sale	6,222	221	4.74	4,008	174	5.80	55.2
Loans (b)							
Commercial	53,787	1,570	3.90	53,425	2,027	5.07	.7
Commercial real estate	33,653	1,085	4.31	30,590	1,332	5.81	10.0
Residential mortgages	24,096	1,027	5.69	23,198	1,066	6.13	3.9
Retail	61,526	3,050	6.63	54,426	3,076	7.55	13.0
Total loans, excluding covered assets	173,062	6,732	5.20	161,639	7,501	6.20	7.1
Covered assets	10,775	370	4.58				*
Total loans	183,837	7,102	5.16	161,639	7,501	6.20	13.7
Other earning assets	2,143	65	4.02	2,581	121	6.23	(17.0)
Total earning assets	234,559	8,722	4.97	211,372	9,435	5.96	11.0
Allowance for loan losses	(4,233)			(2,352)			(80.0)
Unrealized gain (loss) on available-for-sale securities	(1,913)			(1,676)			(14.1)
Other assets	37,166			33,506			10.9
Total assets	\$ 265,579			\$ 240,850			10.3
<b>Liabilities and Shareholders Equity</b>							
Noninterest-bearing deposits	\$ 36,800			\$ 27,766			32.5
Interest-bearing deposits							
Interest checking	35,906	57	.21	31,697	221	.93	13.3
Money market savings	29,541	108	.49	26,062	272	1.39	13.3
Savings accounts	12,160	49	.54	5,348	9	.22	*
Time certificates of deposit less than \$100,000	17,691	366	2.76	12,969	350	3.61	36.4
Time deposits greater than \$100,000	31,293	357	1.53	29,560	637	2.88	5.9
Total interest-bearing deposits	126,591	937	.99	105,636	1,489	1.88	19.8

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Short-term borrowings	29,278	422	1.93	38,070	925	3.25	(23.1)
Long-term debt	37,780	1,007	3.56	39,237	1,316	4.48	(3.7)
Total interest-bearing liabilities	193,649	2,366	1.63	182,943	3,730	2.72	5.9
Other liabilities	7,855			7,454			5.4
Shareholders' equity							
Preferred equity	5,438			1,361			*
Common equity	21,121			20,566			2.7
Total U.S. Bancorp shareholders' equity	26,559			21,927			21.1
Noncontrolling interests	716			760			(5.8)
Total equity	27,275			22,687			20.2
Total liabilities and equity	\$ 265,579			\$ 240,850			10.3%
Net interest income		\$ 6,356			\$ 5,705		
Gross interest margin			3.34%			3.24%	
Gross interest margin without taxable-equivalent increments			3.26			3.18	
<b>Percent of Earning Assets</b>							
Interest income			4.97%			5.96%	
Interest expense			1.35			2.36	
Net interest margin			3.62%			3.60%	
Net interest margin without taxable-equivalent increments			3.54%			3.54%	

\* *Not meaningful*

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

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

**Table of Contents**

Part II Other Information

**Item 1A. Risk Factors**

There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, for discussion of these risks.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Refer to the Capital Management section within Management's Discussion and Analysis in Part I for information regarding shares repurchased by the Company during the third quarter of 2009.

**Item 6. Exhibits**

- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- 101 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2009, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Income, (iii) the Consolidated Statement of Shareholders' Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

U.S. Bancorp

**Table of Contents**

**SIGNATURE**

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

U.S. BANCORP

By: /s/ Terrance R. Dolan

Terrance R. Dolan  
Executive Vice President and Controller  
(Principal Accounting Officer and Duly Authorized Officer)  
DATE: November 6, 2009

57

U.S. Bancorp

---

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

(Dollars in Millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
<b>Earnings</b>		
1. Net income attributable to U.S. Bancorp	\$ 603	\$ 1,603
2. Applicable income taxes, including interest expense related to unrecognized tax positions	86	287
3. Income before income taxes (1 + 2)	\$ 689	\$ 1,890
4. Fixed charges:		
a. Interest expense excluding interest on deposits*	\$ 451	\$ 1,419
b. Portion of rents representative of interest and amortization of debt expense	22	70
c. Fixed charges excluding interest on deposits (4a + 4b)	473	1,489
d. Interest on deposits	299	937
e. Fixed charges including interest on deposits (4c + 4d)	\$ 772	\$ 2,426
5. Amortization of interest capitalized	\$	\$
6. Earnings excluding interest on deposits (3 + 4c + 5)	1,162	3,379
7. Earnings including interest on deposits (3 + 4e + 5)	1,461	4,316
8. Fixed charges excluding interest on deposits (4c)	473	1,489
9. Fixed charges including interest on deposits (4e)	772	2,426
<b>Ratio of Earnings to Fixed Charges</b>		
10. Excluding interest on deposits (line 6/line 8)	2.46	2.27
11. Including interest on deposits (line 7/line 9)	1.89	1.78

\* Excludes interest expense related to unrecognized tax positions.

U.S. Bancorp

**Table of Contents**

**EXHIBIT 31.1**

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

I, Richard K. Davis, certify that:

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

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard K. Davis  
Richard K. Davis  
*Chief Executive Officer*

Dated: November 6, 2009

**Table of Contents**

**EXHIBIT 31.2**

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

I, Andrew Cecere, certify that:

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



any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Andrew Cecere  
Andrew Cecere  
*Chief Financial Officer*

Dated: November 6, 2009

U.S. Bancorp

**60**

---

**Table of Contents**

**EXHIBIT 32**

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

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (the Form 10-Q ) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard K. Davis

/s/ Andrew Cecere

Richard K. Davis  
*Chief Executive Officer*

Andrew Cecere  
*Chief Financial Officer*

Dated: November 6, 2009

**Table of Contents**

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

**Executive Offices**

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

**Common Stock Transfer Agent and Registrar**

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

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

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

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

**Independent Auditor**

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

**Common Stock Listing and Trading**

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

**Dividends and Reinvestment Plan**

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

**Investor Relations Contacts**

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

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

### **Financial Information**

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

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

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

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

### **Media Requests**

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

### **Privacy**

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

### **Code of Ethics**

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

### **Diversity**

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

### **Equal Employment Opportunity/Affirmative Action**

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

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

U.S. Bancorp  
Member FDIC

This report has been produced on recycled paper.