

US BANCORP \DE\  
Form 10-Q  
August 10, 2009

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

**Form 10-Q**

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

**For the quarterly period ended June 30, 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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

YES ☐ NO ☒

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

| Class                         |
|-------------------------------|
| Common Stock, \$.01 Par Value |

| Outstanding as of July 31, 2009 |
|---------------------------------|
| 1,911,974,478 shares            |

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

This Quarterly Report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words may, could, would, should, believes, expects, anticipates, estimates, targets, potentially, probably, projects, outlook or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A continuation of the challenging general business and economic conditions and turbulence in the global financial markets could impact U.S. Bancorp's performance, both directly by

affecting its revenues and the value of its assets and liabilities, and indirectly by affecting its customers and counterparties. Dramatic declines in the housing market in the past year have resulted in significant write-downs of asset values by financial institutions. Concerns about the stability of the financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity, and increased market volatility. There can be no assurance that any governmental program or legislation will help to stabilize the U.S. financial system or alleviate the industry or economic factors that may adversely impact U.S. Bancorp's business. 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, by changes in the creditworthiness and performance of its counterparties, and by changes in the competitive landscape. U.S. Bancorp's results could also be adversely affected by 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," 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<br>June 30, |            |                   | Six Months Ended<br>June 30, |            |        |
|-------------------------------------------------------|--------------------------------|------------|-------------------|------------------------------|------------|--------|
| and Shares in Millions, Except Per Share Data)        | 2009                           | 2008       | Percent<br>Change | 2009                         | 2008       | P<br>C |
| <b>Income Statement</b>                               |                                |            |                   |                              |            |        |
| Net income (taxable-equivalent basis) (a)             | \$ 2,104                       | \$ 1,908   | 10.3%             | \$ 4,199                     | \$ 3,738   |        |
| Net income                                            | 2,074                          | 1,955      | 6.1               | 4,060                        | 4,250      |        |
| Provision for gains (losses), net                     | (19)                           | (63)       | 69.8              | (217)                        | (314)      |        |
| Operating revenue                                     | 4,159                          | 3,800      | 9.4               | 8,042                        | 7,674      |        |
| Operating expense                                     | 2,129                          | 1,818      | 17.1              | 4,000                        | 3,597      |        |
| Provision for credit losses                           | 1,395                          | 596        | *                 | 2,713                        | 1,081      |        |
| Income before taxes                                   | 635                            | 1,386      | (54.2)            | 1,329                        | 2,996      |        |
| Provision for taxable-equivalent adjustment           | 50                             | 33         | 51.5              | 98                           | 60         |        |
| Income before income taxes                            | 100                            | 386        | (74.1)            | 201                          | 862        |        |
| Income                                                | 485                            | 967        | (49.8)            | 1,030                        | 2,074      |        |
| Income attributable to noncontrolling interests       | (14)                           | (17)       | 17.6              | (30)                         | (34)       |        |
| Income attributable to U.S. Bancorp                   | \$ 471                         | \$ 950     | (50.4)            | \$ 1,000                     | \$ 2,040   |        |
| Income applicable to U.S. Bancorp common shareholders | \$ 221                         | \$ 926     | (76.1)            | \$ 640                       | \$ 2,003   |        |
| <b>Common Share</b>                                   |                                |            |                   |                              |            |        |
| Dividend per share                                    | \$ .12                         | \$ .53     | (77.4)%           | \$ .36                       | \$ 1.15    |        |
| Earnings per share                                    | .12                            | .53        | (77.4)            | .36                          | 1.14       |        |
| Dividends declared per share                          | .050                           | .425       | (88.2)            | .100                         | .850       |        |
| Book value per share                                  | 11.86                          | 11.67      | 1.6               |                              |            |        |
| Market value per share                                | 17.92                          | 27.89      | (35.7)            |                              |            |        |
| Common shares outstanding                             | 1,833                          | 1,740      | 5.3               | 1,794                        | 1,735      |        |
| Diluted common shares outstanding                     | 1,840                          | 1,755      | 4.8               | 1,801                        | 1,752      |        |
| <b>Ratios</b>                                         |                                |            |                   |                              |            |        |
| Return on average assets                              | .71%                           | 1.58%      |                   | .76%                         | 1.71%      |        |
| Return on average common equity                       | 4.2                            | 17.9       |                   | 6.4                          | 19.6       |        |
| Net interest margin (taxable-equivalent basis) (a)    | 3.60                           | 3.61       |                   | 3.59                         | 3.58       |        |
| Cost of funds ratio (b)                               | 51.0                           | 47.1       |                   | 48.4                         | 45.0       |        |
| <b>Balances</b>                                       |                                |            |                   |                              |            |        |
| Assets                                                | \$ 183,878                     | \$ 163,070 | 12.8%             | \$ 184,786                   | \$ 159,151 |        |
| Assets held for sale                                  | 6,092                          | 3,417      | 78.3              | 5,644                        | 4,267      |        |
| Investment securities                                 | 42,189                         | 42,999     | (1.9)             | 42,255                       | 43,446     |        |
| Other assets                                          | 234,265                        | 212,089    | 10.5              | 234,786                      | 209,552    |        |
| Liabilities                                           | 266,107                        | 242,221    | 9.9               | 266,171                      | 239,448    |        |
| Interest-bearing deposits                             | 37,388                         | 27,851     | 34.2              | 36,707                       | 27,485     |        |

|                               |         |         |        |         |         |
|-------------------------------|---------|---------|--------|---------|---------|
|                               | 163,220 | 135,809 | 20.2   | 161,800 | 133,333 |
| n borrowings                  | 27,638  | 38,018  | (27.3) | 29,915  | 36,954  |
| n debt                        | 38,768  | 37,879  | 2.3    | 38,279  | 38,851  |
| . Bancorp shareholders equity | 28,202  | 22,320  | 26.4   | 27,514  | 21,899  |

|                                           | June 30,<br>2009 | December 31,<br>2008 |        |
|-------------------------------------------|------------------|----------------------|--------|
| <b>nd Balances</b>                        |                  |                      |        |
|                                           | \$ 182,312       | \$ 185,229           | (1.6)% |
| e for credit losses                       | 4,571            | 3,639                | 25.6   |
| t securities                              | 40,805           | 39,521               | 3.2    |
|                                           | 265,560          | 265,912              | (.1)   |
|                                           | 163,883          | 159,350              | 2.8    |
| n debt                                    | 39,196           | 38,359               | 2.2    |
| . Bancorp shareholders equity             | 24,171           | 26,300               | (8.1)  |
| tios                                      |                  |                      |        |
| ital                                      | 9.4%             | 10.6%                |        |
| -based capital                            | 13.0             | 14.3                 |        |
|                                           | 8.4              | 9.8                  |        |
| mon equity to risk-weighted assets (c)    | 6.7              | 5.1                  |        |
| common equity to tangible assets (c)      | 5.1              | 3.3                  |        |
| common equity to risk-weighted assets (c) | 5.7              | 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-GAAP Financial Measures on page 26.

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## 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 \$471 million for the second quarter of 2009 or \$.12 per diluted common share, compared with \$950 million, or \$.53 per diluted common share for the second quarter of 2008. Return on average assets and return on average common equity were .71 percent and 4.2 percent, respectively, for the second quarter of 2009, compared with 1.58 percent and 17.9 percent, respectively, for the second quarter of 2008. Significant items in the second quarter of 2009 results included a \$123 million accrual for a Federal Deposit Insurance Corporation (FDIC) special assessment to be paid in the third quarter of 2009 and \$19 million of net securities losses. The Company also continued to increase its allowance for credit losses by recording \$466 million of provision for credit losses in excess of net charge-offs. In addition, on June 17, 2009, the Company redeemed the \$6.6 billion of preferred stock issued to the U.S. Department of the Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. Upon redemption, the Company recorded the remaining \$154 million unaccreted discount on the preferred stock in a manner similar to a dividend, reducing earnings per common share. Significant items included in the second quarter of 2008 results were \$200 million of provision for credit losses in excess of net charge-offs and net securities losses of \$63 million.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2009 was \$359 million (9.4 percent) higher than the second quarter of 2008, reflecting a 10.3 percent increase in net interest income and an 8.6 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. Noninterest income increased from a year ago, principally due to strong growth in mortgage banking revenue, higher commercial products revenue and lower net securities losses, partially offset by lower payments-related revenue, trust and investment management fees and deposit service charges, all of which were affected by the impact of the slowing economy on equity markets and customer spending. Additionally, the second quarter of 2009 was impacted by lower equity investment valuations.

Total noninterest expense in the second quarter of 2009 was \$311 million (17.1 percent) higher than the second quarter of 2008, primarily due to higher FDIC deposit insurance expense, including the \$123 million special assessment, higher marketing and litigation-related costs and acquisitions, partially offset by focused reductions in costs as a result of the implementation of the Company's cost containment plan in the first quarter of 2009.

The provision for credit losses for the second quarter of 2009 increased \$799 million over the second quarter of 2008, reflecting continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs in the second quarter of 2009 were \$929 million, compared with net charge-offs of \$396 million in the second 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 \$1.0 billion for the first six months of 2009 or \$.36 per diluted common share, compared with \$2.0 billion, or \$1.14 per diluted common share for the first six months of 2008. Return on average assets and return on average common equity were .76 percent and 6.4 percent, respectively, for the first six months of 2009, compared with 1.71 percent and 19.6 percent, respectively, for the first six months of 2008. The Company's results for the first six months of 2009 reflected several significant items, including provision for credit losses in excess of net charge-offs of \$996 million, \$217 million of net securities losses, the \$123 million FDIC special assessment and a \$92 million gain from a corporate real estate transaction. Significant items included in the first six months of 2008 results were a \$492 million gain related to the Company's ownership position in Visa, Inc. (Visa Gain), \$392 million provision for credit losses in excess of net charge-offs and net securities losses of \$314 million.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2009 was \$368 million (4.8 percent) higher than the first six months of 2008, reflecting a 12.3 percent increase in net interest income and a 2.4 percent decrease in

noninterest income. The increase in net interest income from a year ago was a

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result of growth in average earning assets. Noninterest income decreased due to the Visa Gain in the first six months of 2008, in addition to the impact of the deteriorating economy on equity markets and customer spending. These revenue declines were partially offset by higher mortgage banking and commercial products revenue, a gain from a corporate real estate transaction and a lower level of net securities losses in the first six months of 2009.

Total noninterest expense in the first six months of 2009 was \$403 million (11.2 percent) higher than in the first six months of 2008, primarily due to higher FDIC deposit insurance expense, higher marketing and litigation-related costs and acquisitions, which were partially offset by focused reductions in costs as a result of the implementation of the Company's cost containment plan in the first quarter of 2009.

The provision for credit losses for the first six months of 2009 increased \$1.6 billion over the first six months of 2008. The increase in the provision for credit losses reflected continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs in the first six months of 2009 were \$1.7 billion, compared with net charge-offs of \$689 million in the first six 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 \$2.1 billion in the second quarter of 2009, compared with \$1.9 billion in the second quarter of 2008. Net interest income, on a taxable-equivalent basis, was \$4.2 billion in the first six months of 2009, compared with \$3.7 billion in the first six months of 2008. The increases were due to growth in average earning assets, which were \$22.2 billion (10.5 percent) higher in the second quarter of 2009 and \$25.2 billion (12.0 percent) higher in the first six 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 second quarter and first six months of 2009 was 3.60 percent and 3.59 percent, respectively, compared with 3.61 percent and 3.58 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 for the remainder 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 second quarter and first six months of 2009 were \$20.8 billion (12.8 percent) and \$25.6 billion (16.1 percent) higher, respectively, than the same periods of 2008, driven by new loan originations and acquisitions. Retail loan growth, year-over-year, was driven by increases in credit card, home equity and federally-guaranteed student loans. Commercial real estate loan growth reflected new business driven by capital market conditions, slower loan payoffs and an acquisition in the second quarter of 2008. Residential mortgage growth reflected increased origination activity as a result of market interest rate declines. The increase in commercial loans was principally a result of growth in corporate and commercial banking balances as new and existing business customers used bank credit facilities to fund business growth and liquidity requirements. 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, respectively) and were \$10.7 billion and \$11.0 billion in the second quarter and first six months of 2009, respectively.

Average investment securities in the second quarter and first six months of 2009 were \$.8 billion (1.9 percent) and \$1.2 billion (2.7 percent) lower, respectively, than the same periods of 2008, principally a result of prepayments and sales. The composition of the Company's investment portfolio remained essentially unchanged from a year ago.

Average total deposits for the second quarter and first six months of 2009 increased \$27.4 billion (20.2 percent) and \$28.5 billion (21.4 percent), respectively, over the same periods of 2008. Excluding deposits from 2008 and 2009 acquisitions, second quarter 2009 average total deposits increased \$15.1 billion (11.2 percent) over the second quarter of 2008. Average noninterest-bearing deposits for the second quarter and first six months of 2009 increased \$9.5 billion (34.2 percent) and \$9.2 billion (33.6 percent), respectively, compared with same periods of 2008, primarily due to growth in Consumer and Wholesale Banking business lines and the impact of acquisitions. Average

total savings deposits increased \$12.6 billion (19.7 percent) in the second quarter and \$11.0 billion (17.5 percent) in the first six months of 2009, compared with the same periods in 2008, the result of higher Consumer Banking, government, broker-dealer and institutional trust customer balances and

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

|                                          | Three Months Ended<br>June 30, |          |                   | Six Months Ended<br>June 30, |          |                   |
|------------------------------------------|--------------------------------|----------|-------------------|------------------------------|----------|-------------------|
| (Dollars in Millions)                    | 2009                           | 2008     | Percent<br>Change | 2009                         | 2008     | Percent<br>Change |
| Credit and debit card revenue            | \$ 259                         | \$ 266   | (2.6)%            | \$ 515                       | \$ 514   | .2%               |
| Corporate payment products revenue       | 168                            | 174      | (3.4)             | 322                          | 338      | (4.7)             |
| Merchant processing services             | 278                            | 309      | (10.0)            | 536                          | 580      | (7.6)             |
| ATM processing services                  | 104                            | 93       | 11.8              | 206                          | 177      | 16.4              |
| Trust and investment management fees     | 304                            | 350      | (13.1)            | 598                          | 685      | (12.7)            |
| Deposit service charges                  | 250                            | 278      | (10.1)            | 476                          | 535      | (11.0)            |
| Treasury management fees                 | 142                            | 137      | 3.6               | 279                          | 261      | 6.9               |
| Commercial products revenue              | 144                            | 117      | 23.1              | 273                          | 229      | 19.2              |
| Mortgage banking revenue                 | 308                            | 81       | *                 | 541                          | 186      | *                 |
| Investment products fees and commissions | 27                             | 37       | (27.0)            | 55                           | 73       | (24.7)            |
| Securities gains (losses), net           | (19)                           | (63)     | 69.8              | (217)                        | (314)    | 30.9              |
| Other                                    | 90                             | 113      | (20.4)            | 259                          | 672      | (61.5)            |
| Total noninterest income                 | \$ 2,055                       | \$ 1,892 | 8.6%              | \$ 3,843                     | \$ 3,936 | (2.4)%            |

\* *Not meaningful*

acquisitions. Contributing to the increase in savings accounts was strong participation in a new savings product introduced nationwide by Consumer Banking late in the third quarter of 2008. Average time certificates of deposit less than \$100,000 were higher in the second quarter and first six months of 2009 by \$5.3 billion (42.2 percent) and \$4.9 billion (37.6 percent), respectively, primarily due to acquisitions. Average time deposits greater than \$100,000 decreased slightly (.3 percent) in the second quarter of 2009, compared with the second quarter of 2008, due to acquisitions offset by the impact of wholesale funding decisions. Average time deposits greater than \$100,000 increased \$3.4 billion (11.4 percent) in the first six months of 2009, compared with the same period of the prior year, due primarily to acquisitions.

**Provision for Credit Losses** The provision for credit losses for the second quarter and first six months of 2009 increased \$799 million and \$1.6 billion, respectively, over the same periods of 2008, reflecting the current adverse economic conditions. The provision for credit losses exceeded net charge-offs by \$466 million and \$996 million in the second quarter and first six months of 2009, respectively, compared with \$200 million and \$392 million in the same periods of 2008. The increases in the provision and allowance for credit losses reflected continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs were \$929 million in the second quarter and \$1.7 billion in the first six months of 2009, compared with net charge-offs of \$396 million in the second quarter and \$689 million in the first six 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 in the second quarter and first six months of 2009 was \$2.1 billion and \$3.8 billion, respectively, compared with \$1.9 billion and \$3.9 billion in the same periods of 2008. The \$163 million (8.6 percent) increase during the second quarter and \$93 million (2.4 percent) decrease during the first six months of 2009, compared with the same periods of 2008, were principally due to a significant rise in mortgage banking revenue as the lower rate environment drove record mortgage loan production and increased profitability on loan sales, offset by lower fee-based revenue in certain revenue categories due to weaker economic conditions adversely impacting consumer and business spending. In addition, noninterest income decreased in the first six months of 2009, compared with the first six months of 2008, due to the \$492 million Visa Gain included in the first quarter of 2008. 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 reduced earnings credit on customer compensating balances, and higher commercial products revenue due to higher standby letter of credit, capital markets and other commercial loan fees. Net securities losses for the second quarter and first six months of 2009 were also lower than the same periods a year ago. Corporate payment products revenue decreased in the second quarter and first six months of 2009, compared with the same periods of 2008, as transaction volumes declined due to

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

|                                    | Three Months Ended<br>June 30, |          |                   | Six Months Ended<br>June 30, |          |                   |
|------------------------------------|--------------------------------|----------|-------------------|------------------------------|----------|-------------------|
| (Dollars in Millions)              | 2009                           | 2008     | Percent<br>Change | 2009                         | 2008     | Percent<br>Change |
| Compensation                       | \$ 764                         | \$ 761   | .4%               | \$ 1,550                     | \$ 1,506 | 2.9%              |
| Employee benefits                  | 140                            | 129      | 8.5               | 295                          | 266      | 10.9              |
| Net occupancy and equipment        | 208                            | 190      | 9.5               | 419                          | 380      | 10.3              |
| Professional services              | 59                             | 59       |                   | 111                          | 106      | 4.7               |
| Marketing and business development | 80                             | 66       | 21.2              | 136                          | 145      | (6.2)             |
| Technology and communications      | 157                            | 149      | 5.4               | 312                          | 289      | 8.0               |
| Postage, printing and supplies     | 72                             | 73       | (1.4)             | 146                          | 144      | 1.4               |
| Other intangibles                  | 95                             | 87       | 9.2               | 186                          | 174      | 6.9               |
| Other                              | 554                            | 304      | 82.2              | 845                          | 587      | 44.0              |
| Total noninterest expense          | \$ 2,129                       | \$ 1,818 | 17.1%             | \$ 4,000                     | \$ 3,597 | 11.2%             |
| Efficiency ratio (a)               | 51.0%                          | 47.1%    |                   | 48.4%                        | 45.0%    |                   |

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

the slowing economy. Merchant processing services revenue decreased primarily due to lower average customer purchases per transaction. Deposit service charges decreased primarily due to lower overdraft fees, with a decrease in the number of overdraft incidences more than offsetting account growth. Trust and investment management fees declined, as did investment product fees and commissions, reflecting adverse equity market conditions. Other income also decreased due to lower equity investment valuations.

**Noninterest Expense** Noninterest expense was \$2.1 billion in the second quarter and \$4.0 billion in the first six months of 2009, increasing \$311 million (17.1 percent) and \$403 million (11.2 percent), respectively, from the same periods of 2008. The increases in noninterest expense from a year ago were principally due to the impact of higher FDIC deposit insurance expense and acquisitions. Compensation expense increased primarily due to acquisitions, 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, as well as acquisitions. 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 in the second quarter of 2009, compared with the second quarter of 2008, due to costs related to new credit card product initiatives. Marketing and business development expense for the first six months of 2009 decreased from the same period of 2008 due to a contribution to the U.S. Bancorp Foundation in the first quarter of 2008, offset by the impact of costs related to new credit card product initiatives in 2009. Other intangibles expense increased due to acquisitions. Other expense increased year-over-year due to an increase in FDIC deposit insurance expense, a result of the special assessment in the second quarter of 2009 and the use of assessment credits in 2008 and the first quarter of 2009, which have been fully utilized. In addition, other expense included increased costs for other real estate owned, mortgage

servicing, litigation and acquisition integration.

**Income Tax Expense** The provision for income taxes was \$100 million (an effective rate of 17.1 percent) for the second quarter and \$201 million (an effective rate of 16.3 percent) for the first six months of 2009, compared with \$386 million (an effective rate of 28.5 percent) and \$862 million (an effective rate of 29.4 percent) for the same periods of 2008. The declines in the effective tax rates in the second quarter and first six months of 2009, compared with the same periods of the prior year, reflected the impact of the decline in pre-tax earnings and the relative level of tax-advantaged investments. 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 \$182.3 billion at June 30, 2009, compared with \$185.2 billion at December 31, 2008, a decrease of \$2.9 billion (1.6 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 \$3.9 billion (6.9 percent) decrease in commercial loans was primarily driven by lower capital spending and lower utilization of bank credit facilities by business customers, along with improved access to the short-term and long-term bond markets to refinance their bank debt.

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Commercial real estate loans increased \$.5 billion (1.5 percent) at June 30, 2009, compared with December 31, 2008, reflecting new business growth, as current market conditions have limited borrower access to capital markets, and slower loan payoffs.

Residential mortgages held in the loan portfolio increased \$.4 billion (1.7 percent) at June 30, 2009, compared with December 31, 2008, reflecting an increase in mortgage banking origination activity as a result of market interest rate declines. Most loans retained in the portfolio are to 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 \$1.1 billion (1.8 percent) at June 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 student and 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 \$7.4 billion at June 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 rates.

**Investment Securities** Investment securities, including available-for-sale and held-to-maturity, totaled \$40.8 billion at June 30, 2009, compared with \$39.5 billion at December 31, 2008. The \$1.3 billion increase reflected securities purchases of \$6.7 billion and a decrease in unrealized losses, partially offset by sales, maturities, prepayments and securities impairments. At June 30, 2009, adjustable-rate financial instruments comprised 45 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 six 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 credit losses be recognized in other comprehensive income (loss), rather than earnings. The effect of the adoption of this guidance was not significant.

Net unrealized losses included in accumulated other comprehensive income (loss) were \$1.7 billion at June 30, 2009, compared with \$2.8 billion at December 31, 2008. The decrease in unrealized losses was primarily due to increases in fair value of agency mortgage-backed securities and obligations of state and political subdivisions, and to amounts recognized as other-than-temporary impairment.

As of June 30, 2009, approximately 1 percent of the available-for-sale securities portfolio consisted of perpetual preferred securities, primarily issued by financial institutions. The net unrealized losses for these securities were \$134 million at June 30, 2009, compared to \$387 million at December 31, 2008. The decrease was principally a result of impairment charges recognized on these securities during the second quarter and first six months of 2009 of \$12 million and \$210 million, respectively. Impairment charges recognized for the first six months of 2009 were primarily related to the perpetual preferred stock of a large domestic bank downgraded during the first quarter of 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 \$76 million and \$132 million of impairment charges on non-agency mortgage-backed and structured investment related securities during the second quarter and first six 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 \$163.9 billion at June 30, 2009, compared with \$159.3 billion at December 31, 2008, an increase of \$4.6 billion (2.8 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 greater than \$100,000. Money market savings balances increased \$5.6 billion (21.6 percent) due to higher corporate trust, trust and custody, and broker-dealer balances. Savings account balances increased \$3.7 billion (40.8 percent) due primarily to strong participation in a new savings

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| June 30, 2009 (Dollars in Millions)                        | Amortized Cost | Available-for-Sale<br>Fair Value | Weighted-Average<br>Maturity in Years | Weighted-Average<br>Yield (d) | Amortized Cost | Held-to-Maturity<br>Fair Value | Weighted-Average<br>Maturity in Years | Weighted-Average<br>Yield (d) |
|------------------------------------------------------------|----------------|----------------------------------|---------------------------------------|-------------------------------|----------------|--------------------------------|---------------------------------------|-------------------------------|
| <b>U.S. Treasury and Agencies</b>                          |                |                                  |                                       |                               |                |                                |                                       |                               |
| Maturing in one year or less                               | \$ 595         | \$ 602                           | .5                                    | 3.22%                         | \$             | \$                             |                                       | %                             |
| Maturing after one year through five years                 | 1,003          | 998                              | 4.1                                   | 2.88                          |                |                                |                                       |                               |
| Maturing after five years through ten years                | 28             | 28                               | 7.6                                   | 4.88                          |                |                                |                                       |                               |
| Maturing after ten years                                   | 906            | 895                              | 15.1                                  | 2.35                          |                |                                |                                       |                               |
| Total                                                      | \$ 2,532       | \$ 2,523                         | 7.3                                   | 2.79%                         | \$             | \$                             |                                       | %                             |
| <b>Mortgage-Backed Securities (a)</b>                      |                |                                  |                                       |                               |                |                                |                                       |                               |
| Maturing in one year or less                               | \$ 879         | \$ 873                           | .6                                    | 2.39%                         | \$             | \$                             |                                       | %                             |
| Maturing after one year through five years                 | 23,704         | 23,708                           | 3.1                                   | 3.66                          | 5              | 5                              | 4.9                                   | 5.07                          |
| Maturing after five years through ten years                | 5,097          | 4,764                            | 6.6                                   | 2.93                          |                |                                |                                       |                               |
| Maturing after ten years                                   | 504            | 346                              | 11.9                                  | 2.14                          |                |                                |                                       |                               |
| Total                                                      | \$ 30,184      | \$ 29,691                        | 3.7                                   | 3.48%                         | \$ 5           | \$ 5                           | 4.9                                   | 5.07%                         |
| <b>Asset-Backed Securities (a)</b>                         |                |                                  |                                       |                               |                |                                |                                       |                               |
| Maturing in one year or less                               | \$ 1           | \$ 1                             | .6                                    | 3.11%                         | \$             | \$                             |                                       | %                             |
| Maturing after one year through five years                 | 616            | 483                              | 3.6                                   | 2.26                          |                |                                |                                       |                               |
| Maturing after five years through ten years                | 31             | 28                               | 6.9                                   | 2.78                          |                |                                |                                       |                               |
| Maturing after ten years                                   | 22             | 9                                | 22.7                                  | 1.99                          |                |                                |                                       |                               |
| Total                                                      | \$ 670         | \$ 521                           | 4.4                                   | 2.28%                         | \$             | \$                             |                                       | %                             |
| <b>Obligations of State and Political Subdivisions (b)</b> |                |                                  |                                       |                               |                |                                |                                       |                               |
| Maturing in one year or less                               | \$ 11          | \$ 11                            | .2                                    | 6.79%                         | \$ 1           | \$ 1                           | .4                                    | 7.04%                         |
| Maturing after one year through five years                 | 210            | 209                              | 2.4                                   | 3.01                          | 6              | 6                              | 2.9                                   | 6.71                          |
|                                                            | 1,195          | 1,174                            | 6.7                                   | 6.74                          | 11             | 13                             | 6.9                                   | 7.36                          |

Maturing after five years through ten years

|                          |       |       |      |      |    |    |      |      |
|--------------------------|-------|-------|------|------|----|----|------|------|
| Maturing after ten years | 5,309 | 4,856 | 22.3 | 6.81 | 16 | 15 | 17.4 | 5.52 |
|--------------------------|-------|-------|------|------|----|----|------|------|

|       |          |          |      |       |       |       |      |       |
|-------|----------|----------|------|-------|-------|-------|------|-------|
| Total | \$ 6,725 | \$ 6,250 | 18.9 | 6.68% | \$ 34 | \$ 35 | 10.8 | 6.39% |
|-------|----------|----------|------|-------|-------|-------|------|-------|

#### Other Debt Securities

|                              |    |      |    |       |      |      |    |       |
|------------------------------|----|------|----|-------|------|------|----|-------|
| Maturing in one year or less | \$ | \$ 1 | .4 | 8.01% | \$ 3 | \$ 3 | .7 | 1.96% |
|------------------------------|----|------|----|-------|------|------|----|-------|

|                                            |    |    |     |      |   |   |     |      |
|--------------------------------------------|----|----|-----|------|---|---|-----|------|
| Maturing after one year through five years | 80 | 56 | 2.6 | 5.46 | 7 | 7 | 3.5 | 2.06 |
|--------------------------------------------|----|----|-----|------|---|---|-----|------|

|                                             |    |    |     |      |
|---------------------------------------------|----|----|-----|------|
| Maturing after five years through ten years | 61 | 45 | 8.0 | 6.33 |
|---------------------------------------------|----|----|-----|------|

|                          |       |     |      |      |
|--------------------------|-------|-----|------|------|
| Maturing after ten years | 1,481 | 986 | 33.8 | 4.86 |
|--------------------------|-------|-----|------|------|

|       |          |          |      |       |       |       |     |       |
|-------|----------|----------|------|-------|-------|-------|-----|-------|
| Total | \$ 1,622 | \$ 1,088 | 31.3 | 4.94% | \$ 10 | \$ 10 | 2.6 | 2.03% |
|-------|----------|----------|------|-------|-------|-------|-----|-------|

|                   |        |        |     |       |    |    |  |   |
|-------------------|--------|--------|-----|-------|----|----|--|---|
| Other Investments | \$ 698 | \$ 683 | 8.7 | 1.93% | \$ | \$ |  | % |
|-------------------|--------|--------|-----|-------|----|----|--|---|

|                                 |           |           |     |       |       |       |     |       |
|---------------------------------|-----------|-----------|-----|-------|-------|-------|-----|-------|
| Total investment securities (c) | \$ 42,431 | \$ 40,756 | 7.5 | 3.96% | \$ 49 | \$ 50 | 8.5 | 5.35% |
|---------------------------------|-----------|-----------|-----|-------|-------|-------|-----|-------|

- (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.

|                                                 | June 30, 2009  |                  | December 31, 2008 |                  |
|-------------------------------------------------|----------------|------------------|-------------------|------------------|
| (Dollars in Millions)                           | Amortized Cost | Percent of Total | Amortized Cost    | Percent of Total |
| U.S. Treasury and agencies                      | \$ 2,532       | 6.0 %            | \$ 664            | 1.6 %            |
| Mortgage-backed securities                      | 30,189         | 71.0             | 31,271            | 73.9             |
| Asset-backed securities                         | 670            | 1.6              | 616               | 1.4              |
| Obligations of state and political subdivisions | 6,759          | 15.9             | 7,258             | 17.1             |
| Other debt securities and investments           | 2,330          | 5.5              | 2,527             | 6.0              |
| Total investment securities                     | \$ 42,480      | 100.0 %          | \$ 42,336         | 100.0 %          |

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product offered by Consumer Banking and higher broker-dealer balances. Interest checking balances increased \$3.2 billion (9.9 percent) due to higher government and branch-based balances. Noninterest-bearing deposits decreased \$1.8 billion (4.8 percent) due primarily to decreases in broker-dealer and corporate trust balances. Time deposits greater than \$100,000 decreased \$5.5 billion (15.2 percent) at June 30, 2009, compared with December 31, 2008. Time deposits greater than \$100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing.

**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 \$29.7 billion at June 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 \$39.2 billion at June 30, 2009, compared with \$38.4 billion at December 31, 2008, primarily reflecting issuances of \$3.7 billion of medium-term notes, partially offset by \$2.2 billion of medium-term note maturities and a \$.6 billion net decrease in Federal Home Loan Bank advances in the first six months of 2009. The \$.8 billion (2.2 percent) increase in long-term debt reflected the Company's issuance of non-guaranteed debt to qualify for redemption of the preferred stock from the U.S. Department of the Treasury. 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. 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.

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The following tables provide summary information of the loan-to-values of residential mortgages and home equity and second mortgages by distribution channel and type at June 30, 2009 (excluding covered assets):

| <b>Residential mortgages</b><br>(Dollars in Millions) | Interest<br>Only | Amortizing | Total     | Percent<br>of Total |
|-------------------------------------------------------|------------------|------------|-----------|---------------------|
| <b>Consumer Finance</b>                               |                  |            |           |                     |
| Less than or equal to 80%                             | \$ 1,056         | \$ 2,976   | \$ 4,032  | 41.3%               |
| Over 80% through 90%                                  | 668              | 1,540      | 2,208     | 22.7                |
| Over 90% through 100%                                 | 681              | 2,695      | 3,376     | 34.6                |
| Over 100%                                             |                  | 141        | 141       | 1.4                 |
| <b>Total</b>                                          | \$ 2,405         | \$ 7,352   | \$ 9,757  | 100.0%              |
| <b>Other Retail</b>                                   |                  |            |           |                     |
| Less than or equal to 80%                             | \$ 2,160         | \$ 10,734  | \$ 12,894 | 90.7%               |
| Over 80% through 90%                                  | 86               | 569        | 655       | 4.6                 |
| Over 90% through 100%                                 | 121              | 543        | 664       | 4.7                 |
| Over 100%                                             |                  |            |           |                     |
| <b>Total</b>                                          | \$ 2,367         | \$ 11,846  | \$ 14,213 | 100.0%              |
| <b>Total Company</b>                                  |                  |            |           |                     |
| Less than or equal to 80%                             | \$ 3,216         | \$ 13,710  | \$ 16,926 | 70.6%               |
| Over 80% through 90%                                  | 754              | 2,109      | 2,863     | 11.9                |
| Over 90% through 100%                                 | 802              | 3,238      | 4,040     | 16.9                |
| Over 100%                                             |                  | 141        | 141       | .6                  |
| <b>Total</b>                                          | \$ 4,772         | \$ 19,198  | \$ 23,970 | 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.*

| <b>Home equity and second mortgages</b><br>(Dollars in Millions) | Lines  | Loans  | Total  | Percent<br>of Total |
|------------------------------------------------------------------|--------|--------|--------|---------------------|
| <b>Consumer Finance (a)</b>                                      |        |        |        |                     |
| Less than or equal to 80%                                        | \$ 762 | \$ 200 | \$ 962 | 39.1%               |
| Over 80% through 90%                                             | 364    | 184    | 548    | 22.2                |
| Over 90% through 100%                                            | 391    | 384    | 775    | 31.5                |
| Over 100%                                                        | 65     | 113    | 178    | 7.2                 |

|                           |    |        |    |       |    |        |        |
|---------------------------|----|--------|----|-------|----|--------|--------|
| <b>Total</b>              | \$ | 1,582  | \$ | 881   | \$ | 2,463  | 100.0% |
| <b>Other Retail</b>       |    |        |    |       |    |        |        |
| Less than or equal to 80% | \$ | 11,638 | \$ | 1,537 | \$ | 13,175 | 78.1%  |
| Over 80% through 90%      |    | 1,877  |    | 452   |    | 2,329  | 13.8   |
| Over 90% through 100%     |    | 900    |    | 388   |    | 1,288  | 7.7    |
| Over 100%                 |    | 51     |    | 22    |    | 73     | .4     |
| <b>Total</b>              | \$ | 14,466 | \$ | 2,399 | \$ | 16,865 | 100.0% |
| <b>Total Company</b>      |    |        |    |       |    |        |        |
| Less than or equal to 80% | \$ | 12,400 | \$ | 1,737 | \$ | 14,137 | 73.1%  |
| Over 80% through 90%      |    | 2,241  |    | 636   |    | 2,877  | 14.9   |
| Over 90% through 100%     |    | 1,291  |    | 772   |    | 2,063  | 10.7   |
| Over 100%                 |    | 116    |    | 135   |    | 251    | 1.3    |
| <b>Total</b>              | \$ | 16,048 | \$ | 3,280 | \$ | 19,328 | 100.0% |

(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 June 30, 2009, approximately \$2.7 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<br>Only | Amortizing | Total    | Percent of<br>Division |
|----------------------------|------------------|------------|----------|------------------------|
| <b>Sub-Prime Borrowers</b> |                  |            |          |                        |
| Less than or equal to 80%  | \$ 4             | \$ 1,056   | \$ 1,060 | 10.8%                  |
| Over 80% through 90%       | 6                | 644        | 650      | 6.7                    |
| Over 90% through 100%      | 17               | 887        | 904      | 9.3                    |
| Over 100%                  |                  | 73         | 73       | .7                     |
| <b>Total</b>               | \$ 27            | \$ 2,660   | \$ 2,687 | 27.5%                  |
| <b>Other Borrowers</b>     |                  |            |          |                        |
| Less than or equal to 80%  | \$ 1,052         | \$ 1,920   | \$ 2,972 | 30.5%                  |
| Over 80% through 90%       | 662              | 896        | 1,558    | 16.0                   |
| Over 90% through 100%      | 664              | 1,808      | 2,472    | 25.3                   |
| Over 100%                  |                  | 68         | 68       | .7                     |



|                               |          |          |          |        |
|-------------------------------|----------|----------|----------|--------|
| <b>Total</b>                  | \$ 2,378 | \$ 4,692 | \$ 7,070 | 72.5%  |
| <b>Total Consumer Finance</b> | \$ 2,405 | \$ 7,352 | \$ 9,757 | 100.0% |

In addition to residential mortgages, at June 30, 2009, the consumer finance division had \$.7 billion of home equity and second mortgage loans to customers that may be defined as sub-prime borrowers, unchanged from 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 Total |
|-------------------------------|----------|--------|----------|------------------|
| <b>Sub-Prime Borrowers</b>    |          |        |          |                  |
| Less than or equal to 80%     | \$ 29    | \$ 128 | \$ 157   | 6.4%             |
| Over 80% through 90%          | 37       | 119    | 156      | 6.3              |
| Over 90% through 100%         | 2        | 239    | 241      | 9.8              |
| Over 100%                     | 42       | 82     | 124      | 5.0              |
| <b>Total</b>                  | \$ 110   | \$ 568 | \$ 678   | 27.5%            |
| <b>Other Borrowers</b>        |          |        |          |                  |
| Less than or equal to 80%     | \$ 733   | \$ 72  | \$ 805   | 32.7%            |
| Over 80% through 90%          | 327      | 65     | 392      | 15.9             |
| Over 90% through 100%         | 389      | 145    | 534      | 21.7             |
| Over 100%                     | 23       | 31     | 54       | 2.2              |
| <b>Total</b>                  | \$ 1,472 | \$ 313 | \$ 1,785 | 72.5%            |
| <b>Total Consumer Finance</b> | \$ 1,582 | \$ 881 | \$ 2,463 | 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 1.3 percent of total assets at June 30, 2009, compared with 1.4 percent at December 31, 2008. Covered assets include \$2.7 billion in loans with negative-amortization payment options at June 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.



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

|                                                               | June 30,<br>2009 | December 31,<br>2008 |
|---------------------------------------------------------------|------------------|----------------------|
| 90 days or more past due <b>excluding</b> nonperforming loans |                  |                      |
| <b>Commercial</b>                                             |                  |                      |
| Commercial                                                    | .19%             | .15%                 |
| Lease financing                                               |                  |                      |
| Total commercial                                              | .16              | .13                  |
| <b>Commercial Real Estate</b>                                 |                  |                      |
| Commercial mortgages                                          |                  |                      |
| Construction and development                                  | .76              | .36                  |
| Total commercial real estate                                  | .22              | .11                  |
| <b>Residential Mortgages</b>                                  | 2.11             | 1.55                 |
| <b>Retail</b>                                                 |                  |                      |
| Credit card                                                   | 2.37             | 2.20                 |
| Retail leasing                                                | .10              | .16                  |
| Other retail                                                  | .53              | .45                  |
| Total retail                                                  | .94              | .82                  |
| Total loans, excluding covered assets                         | .72              | .56                  |
| <b>Covered Assets</b>                                         | 7.60             | 5.13                 |
| Total loans                                                   | 1.12%            | .84%                 |
| 90 days or more past due <b>including</b> nonperforming loans |                  |                      |
| Commercial                                                    | 1.89%            | .82%                 |
| Commercial real estate                                        | 5.05             | 3.34                 |

|                                       |       |       |
|---------------------------------------|-------|-------|
| Residential mortgages (a)             | 3.46  | 2.44  |
| Retail (b)                            | 1.19  | .97   |
| Total loans, excluding covered assets | 2.48  | 1.57  |
| Covered assets                        | 14.10 | 10.74 |
| Total loans                           | 3.15% | 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 10.05 percent at June 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 1.36 percent at June 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 \$2.0 billion (\$1.2 billion excluding covered assets) at June 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 \$210 million. The \$278 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 was 1.12 percent (.72 percent excluding covered assets) at June 30, 2009, compared with .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.

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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<br>Loan Balances |                      |
|-----------------------------------------|------------------|----------------------|-----------------------------------------|----------------------|
|                                         | June 30,<br>2009 | December 31,<br>2008 | June 30,<br>2009                        | December 31,<br>2008 |
| <b>Residential mortgages</b>            |                  |                      |                                         |                      |
| 30-89 days                              | \$ 552           | \$ 536               | 2.30%                                   | 2.28%                |
| 90 days or more                         | 505              | 366                  | 2.11                                    | 1.55                 |
| Nonperforming                           | 324              | 210                  | 1.35                                    | .89                  |
| <b>Total</b>                            | <b>\$ 1,381</b>  | <b>\$ 1,112</b>      | <b>5.76%</b>                            | <b>4.72%</b>         |
| <b>Retail</b>                           |                  |                      |                                         |                      |
| <b>Credit card</b>                      |                  |                      |                                         |                      |
| 30-89 days                              | \$ 354           | \$ 369               | 2.38%                                   | 2.73%                |
| 90 days or more                         | 352              | 297                  | 2.37                                    | 2.20                 |
| Nonperforming                           | 107              | 67                   | .72                                     | .49                  |
| <b>Total</b>                            | <b>\$ 813</b>    | <b>\$ 733</b>        | <b>5.47%</b>                            | <b>5.42%</b>         |
| <b>Retail leasing</b>                   |                  |                      |                                         |                      |
| 30-89 days                              | \$ 42            | \$ 49                | .85%                                    | .95%                 |
| 90 days or more                         | 5                | 8                    | .10                                     | .16                  |
| Nonperforming                           |                  |                      |                                         |                      |
| <b>Total</b>                            | <b>\$ 47</b>     | <b>\$ 57</b>         | <b>.95%</b>                             | <b>1.11%</b>         |
| <b>Home equity and second mortgages</b> |                  |                      |                                         |                      |
| 30-89 days                              | \$ 179           | \$ 170               | .92%                                    | .89%                 |
| 90 days or more                         | 137              | 106                  | .71                                     | .55                  |
| Nonperforming                           | 27               | 14                   | .14                                     | .07                  |
| <b>Total</b>                            | <b>\$ 343</b>    | <b>\$ 290</b>        | <b>1.77%</b>                            | <b>1.51%</b>         |
| <b>Other retail</b>                     |                  |                      |                                         |                      |
| 30-89 days                              | \$ 243           | \$ 255               | 1.09%                                   | 1.13%                |
| 90 days or more                         | 85               | 81                   | .38                                     | .36                  |
| Nonperforming                           | 21               | 11                   | .10                                     | .05                  |
| <b>Total</b>                            | <b>\$ 349</b>    | <b>\$ 347</b>        | <b>1.57%</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     |                      |
|------------------------------|----------------------|----------------------|------------------|----------------------|
|                              | June 30,<br>2009     | December 31,<br>2008 | June 30,<br>2009 | December 31,<br>2008 |
| <b>Residential mortgages</b> |                      |                      |                  |                      |

|                                         |              |              |              |              |
|-----------------------------------------|--------------|--------------|--------------|--------------|
| 30-89 days                              | 3.75%        | 3.96%        | 1.31%        | 1.06%        |
| 90 days or more                         | 2.98         | 2.61         | 1.50         | .79          |
| Nonperforming                           | 2.29         | 1.60         | .71          | .38          |
| <b>Total</b>                            | <b>9.02%</b> | <b>8.17%</b> | <b>3.52%</b> | <b>2.23%</b> |
| <b>Retail</b>                           |              |              |              |              |
| <b>Credit card</b>                      |              |              |              |              |
| 30-89 days                              | %            | %            | 2.38%        | 2.73%        |
| 90 days or more                         |              |              | 2.37         | 2.20         |
| Nonperforming                           |              |              | .72          | .49          |
| <b>Total</b>                            | <b>%</b>     | <b>%</b>     | <b>5.47%</b> | <b>5.42%</b> |
| <b>Retail leasing</b>                   |              |              |              |              |
| 30-89 days                              | %            | %            | .85%         | .95%         |
| 90 days or more                         |              |              | .10          | .16          |
| Nonperforming                           |              |              |              |              |
| <b>Total</b>                            | <b>%</b>     | <b>%</b>     | <b>.95%</b>  | <b>1.11%</b> |
| <b>Home equity and second mortgages</b> |              |              |              |              |
| 30-89 days                              | 2.52%        | 3.24%        | .69%         | .59%         |
| 90 days or more                         | 2.07         | 2.36         | .51          | .32          |
| Nonperforming                           | .24          | .14          | .13          | .07          |
| <b>Total</b>                            | <b>4.83%</b> | <b>5.74%</b> | <b>1.33%</b> | <b>.98%</b>  |
| <b>Other retail</b>                     |              |              |              |              |
| 30-89 days                              | 5.38%        | 6.91%        | .98%         | 1.00%        |
| 90 days or more                         | 1.04         | 1.98         | .36          | .32          |
| Nonperforming                           |              |              | .10          | .05          |
| <b>Total</b>                            | <b>6.42%</b> | <b>8.89%</b> | <b>1.44%</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.

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Within the consumer finance division at June 30, 2009, approximately \$456 million and \$99 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 |                   |
|-----------------------|---------------|-------------------|--------------------------------------|-------------------|
|                       | June 30, 2009 | December 31, 2008 | June 30, 2009                        | December 31, 2008 |
| <b>Covered assets</b> |               |                   |                                      |                   |
| 30-89 days            | \$ 365        | \$ 740            | 3.48%                                | 6.46%             |
| 90 days or more       | 797           | 587               | 7.60                                 | 5.13              |
| Nonperforming         | 682           | 643               | 6.50                                 | 5.62              |
| <b>Total</b>          | \$ 1,844      | \$ 1,970          | 17.58%                               | 17.21%            |

**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, except those where the principal balance has been reduced, accrue interest as long as the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles.

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 |                   |
|------------------------|---------------|-------------------|--------------------------------------|-------------------|
|                        | June 30, 2009 | December 31, 2008 | June 30, 2009                        | December 31, 2008 |
| Commercial             | \$ 56         | \$ 35             | .11%                                 | .06%              |
| Commercial real estate | 132           | 138               | .39                                  | .42               |
| Residential mortgages  | 1,289         | 813               | 5.38                                 | 3.45              |
| Credit card            | 541           | 450               | 3.64                                 | 3.33              |
| Other retail           | 89            | 73                | .19                                  | .16               |
| <b>Total loans</b>     | \$ 2,107      | \$ 1,509          | 1.16%                                | .81%              |

Restructured loans, excluding covered assets, were \$598 million higher at June 30, 2009, compared with December 31, 2008, reflecting the impact of restructurings for certain residential mortgage and 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.

The Company has also modified certain covered loans in accordance with the terms of agreements with the FDIC in connection with the acquisitions of Downey and PFF. 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.

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. At June 30, 2009, total nonperforming assets were \$4.0 billion, compared with \$2.6 billion at December 31, 2008. Nonperforming assets at June 30, 2009 included \$682 million of covered assets, compared with \$643 million at December 31, 2008. The ratio of total nonperforming assets to total loans and other real estate was 2.20 percent (1.94 percent excluding covered assets) at June 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, the residential mortgage and credit card portfolios, an increase in foreclosed residential properties and the impact of the economic slowdown on other commercial customers. Included in nonperforming loans were restructured loans that are not accruing interest of \$189 million at June 30, 2009, compared with \$151 million at December 31, 2008.

Other real estate, excluding covered assets, was \$293 million at June 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 and higher residential mortgage loan foreclosures.

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

| (Dollars in Millions)                                                                    | June 30,<br>2009 | December<br>31,<br>2008 |
|------------------------------------------------------------------------------------------|------------------|-------------------------|
| <b>Commercial</b>                                                                        |                  |                         |
| Commercial                                                                               | \$ 785           | \$ 290                  |
| Lease financing                                                                          | 123              | 102                     |
| Total commercial                                                                         | 908              | 392                     |
| <b>Commercial Real Estate</b>                                                            |                  |                         |
| Commercial mortgages                                                                     | 471              | 294                     |
| Construction and development                                                             | 1,156            | 780                     |
| Total commercial real estate                                                             | 1,627            | 1,074                   |
| <b>Residential Mortgages</b>                                                             | 324              | 210                     |
| <b>Retail</b>                                                                            |                  |                         |
| Credit card                                                                              | 107              | 67                      |
| Retail leasing                                                                           |                  |                         |
| Other retail                                                                             | 48               | 25                      |
| Total retail                                                                             | 155              | 92                      |
| Total nonperforming loans, excluding covered assets                                      | 3,014            | 1,768                   |
| <b>Covered Assets</b>                                                                    | 682              | 643                     |
| Total nonperforming loans                                                                | 3,696            | 2,411                   |
| <b>Other Real Estate (b)</b>                                                             | 293              | 190                     |
| <b>Other Assets</b>                                                                      | 27               | 23                      |
| Total nonperforming assets                                                               | \$ 4,016         | \$ 2,624                |
| Accruing loans 90 days or more past due, excluding covered assets                        | \$ 1,245         | \$ 967                  |
| Accruing loans 90 days or more past due                                                  | \$ 2,042         | \$ 1,554                |
| Nonperforming loans to total loans, excluding covered assets                             | 1.75%            | 1.02%                   |
| Nonperforming loans to total loans                                                       | 2.03%            | 1.30%                   |
| Nonperforming assets to total loans plus other real estate, excluding covered assets (b) | 1.94%            | 1.14%                   |
| Nonperforming assets to total loans plus other real estate (b)                           | 2.20%            | 1.42%                   |

**Changes in Nonperforming Assets**

Retail and

| (Dollars in Millions)                          | Commercial<br>and<br>Commercial<br>Real Estate | Residential<br>Mortgages (d) | Total    |
|------------------------------------------------|------------------------------------------------|------------------------------|----------|
| <b>Balance December 31, 2008</b>               | \$ 1,896                                       | \$ 728                       | \$ 2,624 |
| Additions to nonperforming assets              |                                                |                              |          |
| New nonaccrual loans and foreclosed properties | 2,001                                          | 720                          | 2,721    |
| Advances on loans                              | 44                                             |                              | 44       |
| Total additions                                | 2,045                                          | 720                          | 2,765    |
| Reductions in nonperforming assets             |                                                |                              |          |
| Paydowns, payoffs                              | (206)                                          | (325)                        | (531)    |
| Net sales                                      | (11)                                           |                              | (11)     |
| Return to performing status                    | (64)                                           | (7)                          | (71)     |
| Charge-offs (c)                                | (640)                                          | (120)                        | (760)    |
| Total reductions                               | (921)                                          | (452)                        | (1,373)  |
| Net additions to nonperforming assets          | 1,124                                          | 268                          | 1,392    |
| <b>Balance June 30, 2009</b>                   | \$ 3,020                                       | \$ 996                       | \$ 4,016 |

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$282 million and \$209 million at June 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.

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<br>Loan Balances |                      |
|-----------------------|------------------|----------------------|-----------------------------------------|----------------------|
|                       | June 30,<br>2009 | December 31,<br>2008 | June 30,<br>2009                        | December 31,<br>2008 |
| <b>Residential</b>    |                  |                      |                                         |                      |
| Minnesota             | \$ 24            | \$ 18                | .44%                                    | .34%                 |
| California            | 19               | 13                   | .36                                     | .29                  |
| Michigan              | 12               | 12                   | 2.42                                    | 2.39                 |
| Arizona               | 10               | 5                    | .97                                     | .53                  |
| Ohio                  | 9                | 9                    | .36                                     | .37                  |
| All other states      | 109              | 88                   | .38                                     | .30                  |
| Total residential     | 183              | 145                  | .42                                     | .34                  |
| <b>Commercial</b>     | 110              | 45                   | .33                                     | .14                  |

|            |        |        |      |              |
|------------|--------|--------|------|--------------|
| Total OREO | \$ 293 | \$ 190 | .16% | .10%         |
|            |        |        |      | U.S. Bancorp |
| .14        |        |        |      |              |

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

|                                       | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|---------------------------------------|--------------------------------|------|------------------------------|------|
|                                       | 2009                           | 2008 | 2009                         | 2008 |
| <b>Commercial</b>                     |                                |      |                              |      |
| Commercial                            | 1.50%                          | .43% | 1.21%                        | .39% |
| Lease financing                       | 3.29                           | 1.14 | 3.29                         | 1.09 |
| Total commercial                      | 1.72                           | .51  | 1.46                         | .47  |
| <b>Commercial Real Estate</b>         |                                |      |                              |      |
| Commercial mortgages                  | .47                            | .11  | .35                          | .10  |
| Construction and development          | 3.79                           | .52  | 4.30                         | .44  |
| Total commercial real estate          | 1.44                           | .24  | 1.51                         | .20  |
| <b>Residential Mortgages</b>          | 1.94                           | .91  | 1.74                         | .69  |
| <b>Retail</b>                         |                                |      |                              |      |
| Credit card                           | 7.36                           | 4.84 | 6.86                         | 4.39 |
| Retail leasing                        | .80                            | .58  | .91                          | .53  |
| Home equity and second mortgages      | 1.72                           | 1.13 | 1.60                         | .93  |
| Other retail                          | 1.80                           | 1.16 | 1.77                         | 1.20 |
| Total retail                          | 2.99                           | 1.86 | 2.81                         | 1.73 |
| Total loans, excluding covered assets | 2.15                           | .98  | 1.98                         | .87  |
| <b>Covered Assets</b>                 | .07                            |      | .15                          |      |
| Total loans                           | 2.03%                          | .98% | 1.87%                        | .87% |

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 within both the consumer and commercial loan portfolios.

**Analysis of Loan Net Charge-Offs** Total net charge-offs were \$929 million and \$1.7 billion for the second quarter and first six months of 2009, respectively, compared with net charge-offs of \$396 million and \$689 million for the same periods of 2008. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the second quarter and first six months of 2009 was 2.03 percent and 1.87 percent, respectively, compared with .98 percent and .87 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, and credit costs associated with credit card and other consumer and commercial loans as the economy weakened. Given current economic conditions and the continuing weakness in home prices, rising unemployment levels and the economy in general, 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 second quarter of 2009 increased to \$353 million (1.61 percent of average loans outstanding on an annualized basis), compared with \$87 million (.41 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Commercial and commercial real estate loan net charge-offs for the first six months of 2009 increased to \$650 million (1.48 percent of average loans outstanding on an annualized basis), compared with \$154 million (.37 percent of average loans outstanding on an annualized basis) for the first six months of 2008. The year-over-year increases in net charge-offs reflected continuing stress in housing, especially residential homebuilding and related industry sectors, along with the impact of the deteriorating economic conditions on the commercial loan portfolios.

Residential mortgage loan net charge-offs for the second quarter of 2009 were \$116 million (1.94 percent of average loans outstanding on an annualized basis), compared with \$53 million (.91 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Residential mortgage loan net charge-offs for the first six months of 2009 were \$207 million (1.74 percent of average loans outstanding on an annualized basis), compared with \$79 million (.69 percent of average loans outstanding on an annualized basis) for the first six months of 2008. Total retail loan net charge-offs for the second quarter of 2009 were \$458 million (2.99 percent of average loans outstanding on an annualized basis), compared with \$256 million (1.86 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Total retail loan net charge-offs for the first six months of 2009 were \$852 million (2.81 percent of average loans outstanding on an annualized basis), compared with \$456 million (1.73 percent of average loans outstanding on an annualized basis) for the first six months of 2008. The increased residential mortgage and retail loan net charge-offs reflected the adverse impact of current economic conditions and rising unemployment levels.

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

| (Dollars in Millions)            | Three Months Ended June 30, |           |            |       | Six Months Ended June 30, |           |            |       |
|----------------------------------|-----------------------------|-----------|------------|-------|---------------------------|-----------|------------|-------|
|                                  | Average Loans               |           | Percent of |       | Average Loans             |           | Percent of |       |
|                                  | 2009                        | 2008      | 2009       | 2008  | 2009                      | 2008      | 2009       | 2008  |
| <b>Consumer Finance (a)</b>      |                             |           |            |       |                           |           |            |       |
| Residential mortgages            | \$ 9,751                    | \$ 9,990  | 3.87%      | 1.69% | \$ 9,824                  | \$ 9,944  | 3.43%      | 1.27% |
| Home equity and second mortgages | 2,457                       | 2,031     | 7.02       | 6.93  | 2,437                     | 1,952     | 6.62       | 5.67  |
| Other retail                     | 565                         | 450       | 5.68       | 4.47  | 546                       | 440       | 6.65       | 5.03  |
| <b>Other Retail</b>              |                             |           |            |       |                           |           |            |       |
| Residential mortgages            | \$ 14,213                   | \$ 13,317 | .62%       | .33%  | \$ 14,116                 | \$ 13,198 | .57%       | .24%  |
| Home equity and second mortgages | 16,857                      | 15,075    | .95        | .35   | 16,826                    | 14,865    | .87        | .31   |
| Other retail                     | 22,188                      | 20,673    | 1.70       | 1.09  | 22,323                    | 18,937    | 1.65       | 1.12  |
| <b>Total Company</b>             |                             |           |            |       |                           |           |            |       |
| Residential mortgages            | \$ 23,964                   | \$ 23,307 | 1.94%      | .91%  | \$ 23,940                 | \$ 23,142 | 1.74%      | .69%  |
| Home equity and second mortgages | 19,314                      | 17,106    | 1.72       | 1.13  | 19,263                    | 16,817    | 1.60       | .93   |
| Other retail                     | 22,753                      | 21,123    | 1.80       | 1.16  | 22,869                    | 19,377    | 1.77       | 1.20  |

(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 for the consumer finance division:

| (Dollars in Millions)                   | Three Months Ended June 30, |          |            |        | Six Months Ended June 30, |          |            |       |
|-----------------------------------------|-----------------------------|----------|------------|--------|---------------------------|----------|------------|-------|
|                                         | Average Loans               |          | Percent of |        | Average Loans             |          | Percent of |       |
|                                         | 2009                        | 2008     | 2009       | 2008   | 2009                      | 2008     | 2009       | 2008  |
| <b>Residential mortgages</b>            |                             |          |            |        |                           |          |            |       |
| Sub-prime borrowers                     | \$ 2,721                    | \$ 3,152 | 6.34%      | 3.19%  | \$ 2,779                  | \$ 3,186 | 5.66%      | 2.40% |
| Other borrowers                         | 7,030                       | 6,838    | 2.91       | 1.00   | 7,045                     | 6,758    | 2.55       | .74   |
| <b>Total</b>                            | \$ 9,751                    | \$ 9,990 | 3.87%      | 1.69%  | \$ 9,824                  | \$ 9,944 | 3.43%      | 1.27% |
| <b>Home equity and second mortgages</b> |                             |          |            |        |                           |          |            |       |
| Sub-prime borrowers                     | \$ 687                      | \$ 808   | 12.84%     | 12.44% | \$ 700                    | \$ 831   | 11.81%     | 9.44% |
| Other borrowers                         | 1,770                       | 1,223    | 4.76       | 3.29   | 1,737                     | 1,121    | 4.53       | 2.87  |
| <b>Total</b>                            | \$ 2,457                    | \$ 2,031 | 7.02%      | 6.93%  | \$ 2,437                  | \$ 1,952 | 6.62%      | 5.67% |

***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 June 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 June 30, 2009, the allowance for credit losses was \$4.6 billion (2.51 percent of total loans and 2.66 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 ratio of the allowance for credit losses to nonperforming loans was 124 percent (152 percent excluding covered assets) at June 30, 2009, compared with 151 percent (206 percent excluding covered assets) at December 31, 2008. The ratio of the allowance for credit losses to annualized loan net charge-offs was 123 percent (both including and excluding covered assets) at June 30, 2009, compared with 200 percent of full year 2008 net charge-offs (201 percent excluding covered assets) at December 31, 2008.

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

| (Dollars in Millions)            | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|----------------------------------|--------------------------------|----------|------------------------------|----------|
|                                  | 2009                           | 2008     | 2009                         | 2008     |
| Balance at beginning of period   | \$ 4,105                       | \$ 2,435 | \$ 3,639                     | \$ 2,260 |
| <b>Charge-offs</b>               |                                |          |                              |          |
| Commercial                       |                                |          |                              |          |
| Commercial                       | 183                            | 58       | 300                          | 104      |
| Lease financing                  | 66                             | 24       | 129                          | 46       |
| Total commercial                 | 249                            | 82       | 429                          | 150      |
| Commercial real estate           |                                |          |                              |          |
| Commercial mortgages             | 28                             | 7        | 42                           | 11       |
| Construction and development     | 94                             | 12       | 211                          | 20       |
| Total commercial real estate     | 122                            | 19       | 253                          | 31       |
| Residential mortgages            | 116                            | 54       | 209                          | 80       |
| Retail                           |                                |          |                              |          |
| Credit card                      | 279                            | 152      | 504                          | 283      |
| Retail leasing                   | 13                             | 9        | 28                           | 17       |
| Home equity and second mortgages | 85                             | 49       | 157                          | 81       |
| Other retail                     | 126                            | 74       | 244                          | 145      |
| Total retail                     | 503                            | 284      | 933                          | 526      |
| Covered assets                   | 2                              |          | 8                            |          |
| Total charge-offs                | 992                            | 439      | 1,832                        | 787      |
| <b>Recoveries</b>                |                                |          |                              |          |
| Commercial                       |                                |          |                              |          |
| Commercial                       | 6                              | 7        | 11                           | 14       |
| Lease financing                  | 11                             | 6        | 19                           | 12       |
| Total commercial                 | 17                             | 13       | 30                           | 26       |
| Commercial real estate           |                                |          |                              |          |
| Commercial mortgages             |                                | 1        | 1                            | 1        |
| Construction and development     | 1                              |          | 1                            |          |
| Total commercial real estate     | 1                              | 1        | 2                            | 1        |
| Residential mortgages            |                                | 1        | 2                            | 1        |
| Retail                           |                                |          |                              |          |
| Credit card                      | 16                             | 13       | 29                           | 36       |
| Retail leasing                   | 3                              | 1        | 5                            | 2        |
| Home equity and second mortgages | 2                              | 1        | 4                            | 3        |
| Other retail                     | 24                             | 13       | 43                           | 29       |



|                                                       |          |          |          |          |
|-------------------------------------------------------|----------|----------|----------|----------|
| Total retail                                          | 45       | 28       | 81       | 70       |
| Covered assets                                        |          |          |          |          |
| Total recoveries                                      | 63       | 43       | 115      | 98       |
| <b>Net Charge-offs</b>                                |          |          |          |          |
| Commercial                                            |          |          |          |          |
| Commercial                                            | 177      | 51       | 289      | 90       |
| Lease financing                                       | 55       | 18       | 110      | 34       |
| Total commercial                                      | 232      | 69       | 399      | 124      |
| Commercial real estate                                |          |          |          |          |
| Commercial mortgages                                  | 28       | 6        | 41       | 10       |
| Construction and development                          | 93       | 12       | 210      | 20       |
| Total commercial real estate                          | 121      | 18       | 251      | 30       |
| Residential mortgages                                 | 116      | 53       | 207      | 79       |
| Retail                                                |          |          |          |          |
| Credit card                                           | 263      | 139      | 475      | 247      |
| Retail leasing                                        | 10       | 8        | 23       | 15       |
| Home equity and second mortgages                      | 83       | 48       | 153      | 78       |
| Other retail                                          | 102      | 61       | 201      | 116      |
| Total retail                                          | 458      | 256      | 852      | 456      |
| Covered assets                                        | 2        |          | 8        |          |
| Total net charge-offs                                 | 929      | 396      | 1,717    | 689      |
| Provision for credit losses                           | 1,395    | 596      | 2,713    | 1,081    |
| Acquisitions and other changes                        |          | 13       | (64)     | (4)      |
| Balance at end of period                              | \$ 4,571 | \$ 2,648 | \$ 4,571 | \$ 2,648 |
| <b>Components</b>                                     |          |          |          |          |
| Allowance for loan losses                             | \$ 4,377 | \$ 2,518 |          |          |
| Liability for unfunded credit commitments             | 194      | 130      |          |          |
| Total allowance for credit losses                     | \$ 4,571 | \$ 2,648 |          |          |
| <b>Allowance for credit losses as a percentage of</b> |          |          |          |          |
| Period-end loans, excluding covered assets            | 2.66%    | 1.60%    |          |          |
| Nonperforming loans, excluding covered assets         | 152      | 273      |          |          |
| Nonperforming assets, excluding covered assets        | 137      | 233      |          |          |
| Annualized net charge-offs, excluding covered assets  | 123      | 166      |          |          |
| Period-end loans                                      | 2.51%    | 1.60%    |          |          |
| Nonperforming loans                                   | 124      | 273      |          |          |
| Nonperforming assets                                  | 114      | 233      |          |          |
| Annualized net charge-offs                            | 123      | 166      |          |          |

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**Residual Value Risk Management** The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of June 30, 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 to a 4.0 percent decline of forecasted net interest income over the next 12 months. At June 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 basis point parallel rate shock to a 15.0 percent decline. The up 200 basis point scenario resulted in a 7.1 percent decrease in the market value of equity at June 30, 2009, compared with a 7.6 percent decrease at December 31, 2008. The down 200 basis point scenario resulted in a 1.5 percent decrease in the market value of equity at June 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 June 30, 2009, the duration of assets, liabilities and equity was 1.7 years, 1.6 years and 1.9 years, respectively, compared with 1.6 years, 1.7 years and 1.2 years, respectively, at December 31, 2008. Refer to

Sensitivity of Net Interest Income

|                     | June 30, 2009           |                    |                        |                   | December 31, 2008       |                    |                        |                   |
|---------------------|-------------------------|--------------------|------------------------|-------------------|-------------------------|--------------------|------------------------|-------------------|
|                     | Down<br>50<br>Immediate | Up 50<br>Immediate | Down<br>200<br>Gradual | Up 200<br>Gradual | Down<br>50<br>Immediate | Up 50<br>Immediate | Down<br>200<br>Gradual | Up 200<br>Gradual |
| Net interest income | *                       | .36%               | *                      | .89%              | *                       | .37%               | *                      | 1.05%             |

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

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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, funded mortgage loans 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 June 30, 2009, the Company had \$14.3 billion of forward commitments to sell mortgage loans hedging \$6.9 billion of mortgage loans held for sale and \$10.7 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 and interest rate risks. 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 \$2 million during the first six months of 2009 and \$1 million during the first six 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

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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 the past several quarters, 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. This has allowed the Company to experience strong liquidity, as depositors and investors in the wholesale funding markets seek strong financial institutions. Refer to Management's Discussion and Analysis—Liquidity Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on liquidity risk management.

At June 30, 2009, parent company long-term debt outstanding was \$13.3 billion, compared with \$10.8 billion at December 31, 2008. The \$2.5 billion increase was primarily due to the issuances during the first six months of 2009 of \$2.7 billion of medium-term notes guaranteed under the FDIC Temporary Liquidity Guarantee Program and \$1.0 billion of notes not guaranteed under this program. These issuances were partially offset by \$1.0 billion of medium-term note maturities. As of June 30, 2009, there was no parent company debt scheduled to mature in the remainder of 2009. 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 \$2.4 billion at June 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.

Subsequently, the Company repurchased the related common stock warrant from the U.S. Department of the Treasury on July 15, 2009, for \$139 million.

Table 9 provides a summary of regulatory capital ratios as of June 30, 2009, and December 31, 2008. All regulatory ratios exceeded regulatory well-capitalized requirements. Total U.S. Bancorp shareholders' equity was \$24.2 billion at June 30, 2009, compared with \$26.3 billion at December 31, 2008. The decrease was the result of the preferred stock redemption and payment of dividends, partially offset by the proceeds from the public offering of the Company's common stock, changes in unrealized gains and losses on available-for-sale investment securities and derivatives included in other comprehensive income and corporate earnings.

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 6.7 percent and 5.7 percent, respectively, at June 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 5.1 percent at June 30, 2009, compared with 3.3 percent at December 31, 2008. Refer to Non-GAAP Financial

**Table 9 Capital Ratios**

| (Dollars in Millions)                                              | June 30,<br>2009 | December 31,<br>2008 |
|--------------------------------------------------------------------|------------------|----------------------|
| Tier 1 capital                                                     | \$ 21,710        | \$ 24,426            |
| As a percent of risk-weighted assets                               | 9.4%             | 10.6%                |
| As a percent of adjusted quarterly average assets (leverage ratio) | 8.4%             | 9.8%                 |
| Total risk-based capital                                           | \$ 30,039        | \$ 32,897            |
| As a percent of risk-weighted assets                               | 13.0%            | 14.3%                |

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Measures 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 second quarter of 2009 were repurchased under this authorization. The following table provides a detailed analysis of all shares repurchased during the second quarter of 2009:

| Time Period | Total<br>Number<br>of Shares<br>Purchased as<br>Part of the<br>Program | Average<br>Price Paid<br>per Share | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the<br>Program |
|-------------|------------------------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------|
| April       | 7,903                                                                  | \$ 17.80                           | 19,727,341                                                                       |
| May         | 7,441                                                                  | 18.05                              | 19,719,900                                                                       |
| June        | 2,079                                                                  | 17.92                              | 19,717,821                                                                       |
| Total       | 17,423                                                                 | \$ 17.92                           | 19,717,821                                                                       |

**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 \$107 million of the Company's net income in the second quarter and \$126 million in the first six months of 2009, or decreases of \$173 million (61.8 percent) and \$410 million (76.5 percent), respectively, compared with the same periods of 2008. The decreases were primarily driven by increases in the provision for credit losses and higher noninterest expense, partially offset by higher net revenue.

Total net revenue increased \$61 million (8.6 percent) in the second quarter and \$135 million (9.7 percent) in the first six months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis,

increased \$53 million (11.1 percent) in the second quarter and \$105 million (10.9 percent) in the first six months of 2009, compared with the same periods of 2008, driven by growth in earning assets and deposits, partially offset by a decrease in the margin benefit from deposits. Noninterest income increased \$8 million (3.4 percent) in the second quarter and \$30 million (7.1 percent) in the first six months of 2009, compared with the same periods of 2008. The increases were primarily due to higher treasury management, standby letter of credit, commercial loan, capital markets and foreign exchange fees, partially offset by lower equity investment valuations and income from commercial leasing activities.

Total noninterest expense increased \$15 million (5.6 percent) in the second quarter and \$23 million (4.4 percent) in the first six months of 2009, compared with the same periods of 2008, primarily due to higher FDIC deposit insurance expense, compensation and employee benefits expense related to expanding the business line's national corporate banking presence, investments to enhance customer relationship management and an acquisition in the second quarter of 2008. The provision for credit losses increased \$319 million in the second quarter and \$759 million in the first six months of 2009, compared with the same periods of 2008. The unfavorable changes were primarily due to an increase in net charge-offs and continued credit deterioration in the credit quality of commercial and commercial real estate loans. Nonperforming assets were \$2.2 billion at June 30, 2009, \$1.8 billion at March 31, 2009, and \$650 million at June 30, 2008. Nonperforming assets as a percentage of period-end loans were 3.60 percent at June 30, 2009, 2.78 percent at March 31, 2009, and 1.09 percent at June 30, 2008. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

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

| Three Months Ended June 30<br>(Dollars in Millions)           | Wholesale<br>Banking |           |                   | Consumer<br>Banking |          |                   |
|---------------------------------------------------------------|----------------------|-----------|-------------------|---------------------|----------|-------------------|
|                                                               | 2009                 | 2008      | Percent<br>Change | 2009                | 2008     | Percent<br>Change |
| <b>Condensed Income Statement</b>                             |                      |           |                   |                     |          |                   |
| Net interest income<br>(taxable-equivalent basis)             | \$ 530               | \$ 477    | 11.1%             | \$ 994              | \$ 942   | 5.5%              |
| Noninterest income                                            | 242                  | 244       | (.8)              | 791                 | 579      | 36.6              |
| Securities gains (losses), net                                |                      | (10)      | *                 |                     |          |                   |
| Total net revenue                                             | 772                  | 711       | 8.6               | 1,785               | 1,521    | 17.4              |
| Noninterest expense                                           | 276                  | 263       | 4.9               | 923                 | 788      | 17.1              |
| Other intangibles                                             | 6                    | 4         | 50.0              | 24                  | 15       | 60.0              |
| Total noninterest expense                                     | 282                  | 267       | 5.6               | 947                 | 803      | 17.9              |
| Income before provision and income<br>taxes                   | 490                  | 444       | 10.4              | 838                 | 718      | 16.7              |
| Provision for credit losses                                   | 322                  | 3         | *                 | 567                 | 374      | 51.6              |
| Income before income taxes                                    | 168                  | 441       | (61.9)            | 271                 | 344      | (21.2)            |
| Income taxes and taxable-equivalent<br>adjustment             | 61                   | 160       | (61.9)            | 99                  | 125      | (20.8)            |
| Net income                                                    | 107                  | 281       | (61.9)            | 172                 | 219      | (21.5)            |
| Net (income) loss attributable to<br>noncontrolling interests |                      | (1)       | *                 |                     |          |                   |
| Net income attributable to<br>U.S. Bancorp                    | \$ 107               | \$ 280    | (61.8)            | \$ 172              | \$ 219   | (21.5)            |
| <b>Average Balance Sheet</b>                                  |                      |           |                   |                     |          |                   |
| Commercial                                                    | \$ 41,111            | \$ 39,624 | 3.8%              | \$ 6,268            | \$ 6,955 | (9.9)%            |
| Commercial real estate                                        | 21,492               | 18,544    | 15.9              | 11,617              | 11,349   | 2.4               |
| Residential mortgages                                         | 79                   | 80        | (1.3)             | 23,487              | 22,822   | 2.9               |
| Retail                                                        | 58                   | 78        | (25.6)            | 44,289              | 41,102   | 7.8               |
| Total loans, excluding covered assets                         | 62,740               | 58,326    | 7.6               | 85,661              | 82,228   | 4.2               |
| Covered assets                                                |                      |           |                   | 10,701              |          | *                 |
| Total loans                                                   | 62,740               | 58,326    | 7.6               | 96,362              | 82,228   | 17.2              |
| Goodwill                                                      | 1,475                | 1,385     | 6.5               | 3,104               | 2,420    | 28.3              |
| Other intangible assets                                       | 93                   | 49        | 89.8              | 1,570               | 1,712    | (8.3)             |
| Assets                                                        | 67,280               | 63,862    | 5.4               | 110,048             | 92,378   | 19.1              |
| Noninterest-bearing deposits                                  | 17,363               | 10,731    | 61.8              | 14,238              | 12,105   | 17.6              |

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|                                        |        |        |        |        |        |      |
|----------------------------------------|--------|--------|--------|--------|--------|------|
| Interest checking                      | 12,381 | 8,947  | 38.4   | 20,819 | 18,794 | 10.8 |
| Savings products                       | 7,069  | 6,505  | 8.7    | 25,670 | 20,327 | 26.3 |
| Time deposits                          | 12,537 | 15,290 | (18.0) | 26,565 | 17,376 | 52.9 |
| Total deposits                         | 49,350 | 41,473 | 19.0   | 87,292 | 68,602 | 27.2 |
| Total U.S. Bancorp shareholders equity | 5,614  | 6,192  | (9.3)  | 6,713  | 5,725  | 17.3 |

| Six Months Ended June 30<br>(Dollars in Millions)             | Wholesale<br>Banking |        |                   | Consumer<br>Banking |          |                   |
|---------------------------------------------------------------|----------------------|--------|-------------------|---------------------|----------|-------------------|
|                                                               | 2009                 | 2008   | Percent<br>Change | 2009                | 2008     | Percent<br>Change |
| <b>Condensed Income Statement</b>                             |                      |        |                   |                     |          |                   |
| Net interest income<br>(taxable-equivalent basis)             | \$ 1,069             | \$ 964 | 10.9%             | \$ 1,994            | \$ 1,886 | 5.7%              |
| Noninterest income                                            | 457                  | 435    | 5.1               | 1,453               | 1,166    | 24.6              |
| Securities gains (losses), net                                | (3)                  | (11)   | 72.7              |                     |          |                   |
| Total net revenue                                             | 1,523                | 1,388  | 9.7               | 3,447               | 3,052    | 12.9              |
| Noninterest expense                                           | 534                  | 516    | 3.5               | 1,805               | 1,546    | 16.8              |
| Other intangibles                                             | 12                   | 7      | 71.4              | 47                  | 29       | 62.1              |
| Total noninterest expense                                     | 546                  | 523    | 4.4               | 1,852               | 1,575    | 17.6              |
| Income before provision and income<br>taxes                   | 977                  | 865    | 12.9              | 1,595               | 1,477    | 8.0               |
| Provision for credit losses                                   | 781                  | 22     | *                 | 994                 | 600      | 65.7              |
| Income before income taxes                                    | 196                  | 843    | (76.7)            | 601                 | 877      | (31.5)            |
| Income taxes and taxable-equivalent<br>adjustment             | 71                   | 307    | (76.9)            | 219                 | 319      | (31.3)            |
| Net income                                                    | 125                  | 536    | (76.7)            | 382                 | 558      | (31.5)            |
| Net (income) loss attributable to<br>noncontrolling interests | 1                    |        | *                 |                     |          |                   |
| Net income attributable to<br>U.S. Bancorp                    | \$ 126               | \$ 536 | (76.5)            | \$ 382              | \$ 558   | (31.5)            |

**Average Balance Sheet**

|                                       |           |           |        |          |          |        |
|---------------------------------------|-----------|-----------|--------|----------|----------|--------|
| Commercial                            | \$ 42,052 | \$ 39,149 | 7.4%   | \$ 6,342 | \$ 6,761 | (6.2)% |
| Commercial real estate                | 21,346    | 18,116    | 17.8   | 11,595   | 11,296   | 2.6    |
| Residential mortgages                 | 85        | 86        | (1.2)  | 23,453   | 22,661   | 3.5    |
| Retail                                | 65        | 75        | (13.3) | 44,424   | 39,186   | 13.4   |
| Total loans, excluding covered assets | 63,548    | 57,426    | 10.7   | 85,814   | 79,904   | 7.4    |
| Covered assets                        |           |           |        | 11,022   |          | *      |
| Total loans                           | 63,548    | 57,426    | 10.7   | 96,836   | 79,904   | 21.2   |

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|                                        |        |        |       |         |        |       |
|----------------------------------------|--------|--------|-------|---------|--------|-------|
| Goodwill                               | 1,475  | 1,356  | 8.8   | 3,167   | 2,419  | 30.9  |
| Other intangible assets                | 97     | 40     | *     | 1,528   | 1,611  | (5.2) |
| Assets                                 | 68,388 | 62,604 | 9.2   | 110,222 | 90,915 | 21.2  |
| Noninterest-bearing deposits           | 16,794 | 10,531 | 59.5  | 14,044  | 11,900 | 18.0  |
| Interest checking                      | 10,463 | 8,494  | 23.2  | 20,337  | 18,585 | 9.4   |
| Savings products                       | 7,371  | 6,166  | 19.5  | 24,910  | 19,985 | 24.6  |
| Time deposits                          | 13,932 | 14,858 | (6.2) | 26,702  | 18,151 | 47.1  |
| Total deposits                         | 48,560 | 40,049 | 21.3  | 85,993  | 68,621 | 25.3  |
| Total U.S. Bancorp shareholders equity | 5,597  | 6,050  | (7.5) | 6,804   | 5,689  | 19.6  |

\* *Not meaningful*

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| Management & Securities Services |                |  | Payment Services |          |                | Treasury and Corporate Support |          |                | Consolidated Company |           | Per |
|----------------------------------|----------------|--|------------------|----------|----------------|--------------------------------|----------|----------------|----------------------|-----------|-----|
| 2008                             | Percent Change |  | 2009             | 2008     | Percent Change | 2009                           | 2008     | Percent Change | 2009                 | 2008      | CH  |
| \$ 99                            | (16.2)%        |  | \$ 281           | \$ 241   | 16.6%          | \$ 216                         | \$ 149   | 45.0%          | \$ 2,104             | \$ 1,908  |     |
| 352                              | (14.8)         |  | 723              | 762      | (5.1)          | 18                             | 18       |                | 2,074                | 1,955     |     |
|                                  |                |  |                  |          |                | (19)                           | (53)     | 64.2           | (19)                 | (63)      |     |
| 451                              | (15.1)         |  | 1,004            | 1,003    | .1             | 215                            | 114      | 88.6           | 4,159                | 3,800     |     |
| 235                              | (8.1)          |  | 348              | 341      | 2.1            | 271                            | 104      | *              | 2,034                | 1,731     |     |
| 19                               | (10.5)         |  | 48               | 49       | (2.0)          |                                |          |                | 95                   | 87        |     |
| 254                              | (8.3)          |  | 396              | 390      | 1.5            | 271                            | 104      | *              | 2,129                | 1,818     |     |
| 197                              | (23.9)         |  | 608              | 613      | (.8)           | (56)                           | 10       | *              | 2,030                | 1,982     |     |
| 2                                | *              |  | 501              | 217      | *              |                                |          |                | 1,395                | 596       |     |
| 195                              | (25.6)         |  | 107              | 396      | (73.0)         | (56)                           | 10       | *              | 635                  | 1,386     |     |
| 71                               | (25.4)         |  | 39               | 144      | (72.9)         | (102)                          | (81)     | (25.9)         | 150                  | 419       |     |
| 124                              | (25.8)         |  | 68               | 252      | (73.0)         | 46                             | 91       | (49.5)         | 485                  | 967       |     |
|                                  |                |  | (6)              | (6)      |                | (8)                            | (10)     | 20.0           | (14)                 | (17)      |     |
| \$ 124                           | (25.8)         |  | \$ 62            | \$ 246   | (74.8)         | \$ 38                          | \$ 81    | (53.1)         | \$ 471               | \$ 950    |     |
| \$ 1,725                         | (30.1)%        |  | \$ 4,500         | \$ 4,577 | (1.7)%         | \$ 974                         | \$ 1,098 | (11.3)%        | \$ 54,059            | \$ 53,979 |     |
| 539                              | 8.9            |  |                  |          |                | 31                             | 41       | (24.4)         | 33,727               | 30,473    |     |
| 402                              | (1.7)          |  |                  |          |                | 3                              | 3        |                | 23,964               | 23,307    |     |
| 1,545                            | 5.8            |  | 15,414           | 12,551   | 22.8           | 31                             | 35       | (11.4)         | 61,427               | 55,311    |     |
| 4,211                            | (9.2)          |  | 19,914           | 17,128   | 16.3           | 1,039                          | 1,177    | (11.7)         | 173,177              | 163,070   |     |
|                                  |                |  |                  |          |                |                                |          |                | 10,701               |           |     |
| 4,211                            | (9.2)          |  | 19,914           | 17,128   | 16.3           | 1,039                          | 1,177    | (11.7)         | 183,878              | 163,070   |     |
| 1,562                            |                |  | 2,302            | 2,371    | (2.9)          |                                |          |                | 8,443                | 7,738     |     |
| 337                              | (21.4)         |  | 873              | 1,027    | (15.0)         | 8                              |          | *              | 2,809                | 3,125     |     |
| 6,554                            | (5.9)          |  | 24,094           | 22,294   | 8.1            | 58,518                         | 57,133   | 2.4            | 266,107              | 242,221   |     |
| 4,181                            | 18.2           |  | 492              | 490      | .4             | 351                            | 344      | 2.0            | 37,388               | 27,851    |     |
| 4,698                            | (12.6)         |  | 83               | 37       | *              | 2                              | 3        | (33.3)         | 37,393               | 32,479    |     |
| 4,884                            | 35.7           |  | 18               | 19       | (5.3)          | 142                            | 68       | *              | 39,528               | 31,803    |     |
| 3,963                            | 66.3           |  | 1                | 1        |                | 3,218                          | 7,046    | (54.3)         | 48,911               | 43,676    |     |
| 17,726                           | 25.6           |  | 594              | 547      | 8.6            | 3,713                          | 7,461    | (50.2)         | 163,220              | 135,809   |     |
| 2,292                            | (7.4)          |  | 4,617            | 4,595    | .5             | 9,135                          | 3,516    | *              | 28,202               | 22,320    |     |

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| Management & Securities Services |        |                | Payment Services |        |      | Treasury and Corporate Support |        |      | Consolidated Company |                | Percent Change |        |    |         |    |         |
|----------------------------------|--------|----------------|------------------|--------|------|--------------------------------|--------|------|----------------------|----------------|----------------|--------|----|---------|----|---------|
|                                  | 2008   | Percent Change |                  | 2009   | 2008 | Percent Change                 |        | 2009 | 2008                 | Percent Change |                |        |    |         |    |         |
| \$                               | 205    | (10.7)%        | \$               | 555    | \$   | 493                            | 12.6%  | \$   | 398                  | \$             | 190            | *%     | \$ | 4,199   | \$ | 3,738   |
|                                  | 695    | (13.1)         |                  | 1,411  |      | 1,461                          | (3.4)  |      | 135                  |                | 493            | (72.6) |    | 4,060   |    | 4,250   |
|                                  |        |                |                  |        |      |                                |        |      | (214)                |                | (303)          | 29.4   |    | (217)   |    | (314)   |
|                                  | 900    | (12.6)         |                  | 1,966  |      | 1,954                          | .6     |      | 319                  |                | 380            | (16.1) |    | 8,042   |    | 7,674   |
|                                  | 464    | (3.9)          |                  | 678    |      | 664                            | 2.1    |      | 351                  |                | 233            | 50.6   |    | 3,814   |    | 3,423   |
|                                  | 40     | (15.0)         |                  | 93     |      | 98                             | (5.1)  |      |                      |                |                |        |    | 186     |    | 174     |
|                                  | 504    | (4.8)          |                  | 771    |      | 762                            | 1.2    |      | 351                  |                | 233            | 50.6   |    | 4,000   |    | 3,597   |
|                                  | 396    | (22.5)         |                  | 1,195  |      | 1,192                          | .3     |      | (32)                 |                | 147            | *      |    | 4,042   |    | 4,077   |
|                                  | 3      | *              |                  | 925    |      | 457                            | *      |      |                      |                | (1)            | *      |    | 2,713   |    | 1,081   |
|                                  | 393    | (25.2)         |                  | 270    |      | 735                            | (63.3) |      | (32)                 |                | 148            | *      |    | 1,329   |    | 2,996   |
|                                  | 143    | (25.2)         |                  | 98     |      | 266                            | (63.2) |      | (196)                |                | (113)          | (73.5) |    | 299     |    | 922     |
|                                  | 250    | (25.2)         |                  | 172    |      | 469                            | (63.3) |      | 164                  |                | 261            | (37.2) |    | 1,030   |    | 2,074   |
|                                  |        |                |                  | (12)   |      | (13)                           | 7.7    |      | (19)                 |                | (21)           | 9.5    |    | (30)    |    | (34)    |
| \$                               | 250    | (25.2)         | \$               | 160    | \$   | 456                            | (64.9) | \$   | 145                  | \$             | 240            | (39.6) | \$ | 1,000   | \$ | 2,040   |
| \$                               | 1,800  | (28.1)%        | \$               | 4,394  | \$   | 4,409                          | (.3)%  | \$   | 1,008                | \$             | 725            | 39.0%  | \$ | 55,091  | \$ | 52,844  |
|                                  | 551    | 6.9            |                  |        |      |                                |        |      | 33                   |                | 42             | (21.4) |    | 33,563  |    | 30,005  |
|                                  | 392    | 1.8            |                  |        |      |                                |        |      | 3                    |                | 3              |        |    | 23,940  |    | 23,142  |
|                                  | 1,560  | 2.8            |                  | 15,045 |      | 12,303                         | 22.3   |      | 32                   |                | 36             | (11.1) |    | 61,170  |    | 53,160  |
|                                  | 4,303  | (9.7)          |                  | 19,439 |      | 16,712                         | 16.3   |      | 1,076                |                | 806            | 33.5   |    | 173,764 |    | 159,151 |
|                                  |        |                |                  |        |      |                                |        |      |                      |                |                |        |    | 11,022  |    |         |
|                                  | 4,303  | (9.7)          |                  | 19,439 |      | 16,712                         | 16.3   |      | 1,076                |                | 806            | 33.5   |    | 184,786 |    | 159,151 |
|                                  | 1,563  | (.1)           |                  | 2,296  |      | 2,363                          | (2.8)  |      |                      |                |                |        |    | 8,500   |    | 7,701   |
|                                  | 346    | (21.1)         |                  | 884    |      | 1,026                          | (13.8) |      | 4                    |                | 1              | *      |    | 2,786   |    | 3,024   |
|                                  | 6,677  | (6.3)          |                  | 23,718 |      | 21,465                         | 10.5   |      | 57,585               |                | 57,787         | (.3)   |    | 266,171 |    | 239,448 |
|                                  | 4,279  | 16.1           |                  | 533    |      | 479                            | 11.3   |      | 369                  |                | 296            | 24.7   |    | 36,707  |    | 27,485  |
|                                  | 4,275  | (10.0)         |                  | 80     |      | 33                             | *      |      | 2                    |                | 3              | (33.3) |    | 34,730  |    | 31,390  |
|                                  | 5,029  | 28.8           |                  | 18     |      | 19                             | (5.3)  |      | 125                  |                | 65             | 92.3   |    | 38,900  |    | 31,264  |
|                                  | 3,796  | 71.5           |                  |        |      | 1                              | *      |      | 4,398                |                | 6,388          | (31.2) |    | 51,543  |    | 43,194  |
|                                  | 17,379 | 25.5           |                  | 631    |      | 532                            | 18.6   |      | 4,894                |                | 6,752          | (27.5) |    | 161,880 |    | 133,333 |
|                                  | 2,307  | (7.4)          |                  | 4,599  |      | 4,536                          | 1.4    |      | 8,378                |                | 3,317          | *      |    | 27,514  |    | 21,899  |

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**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 \$172 million of the Company's net income in the second quarter and \$382 million in the first six months of 2009, or decreases of \$47 million (21.5 percent) and \$176 million (31.5 percent), respectively, compared with the same periods of 2008. Within Consumer Banking, the retail banking division contributed \$10 million of the total net income in the second quarter and \$96 million in the first six months of 2009, or decreases of \$172 million (94.5 percent) and \$376 million (79.7 percent), respectively, from the same periods in the prior year. Mortgage banking contributed \$162 million of the business line's net income in the second quarter and \$286 million in the first six months of 2009, or increases of \$125 million and \$200 million, respectively, over the same periods in the prior year, reflecting record mortgage loan production and improved loan sale profitability.

Total net revenue increased \$264 million (17.4 percent) in the second quarter and \$395 million (12.9 percent) in the first six months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$52 million (5.5 percent) in the second quarter and \$108 million (5.7 percent) in the first six 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, given the 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 was principally driven by increases in installment products, 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 \$212 million (36.6 percent) in the second quarter and \$287 million (24.6 percent) in the first six 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, retail products, and ATM revenue partially offset by lower deposit service charges.

Total noninterest expense increased \$144 million (17.9 percent) in the second quarter and \$277 million (17.6 percent) in the first six 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 174 in-store branches, 133 traditional branches and 1 on-site branch at June 30, 2009, compared with June 30, 2008. In addition, the increases were primarily 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 \$193 million (51.6 percent) in the second quarter and \$394 million (65.7 percent) in the first six months of 2009, compared with the same periods of 2008. The increases reflected portfolio growth and credit deterioration in residential mortgages, home equity and other installment and consumer loan portfolios from a year ago. As a percentage of average loans outstanding on an annualized basis, net charge-offs increased to 1.45 percent in the second quarter of 2009, compared with .88 percent in the second quarter of 2008. Commercial and commercial real estate loan net charge-offs increased \$35 million and retail loan and residential mortgage net charge-offs increased \$132 million in the second quarter of 2009, compared with the second quarter of 2008. In addition, there were \$2 million of net charge-offs in the second quarter of 2009 related to covered assets. Nonperforming assets were \$1.7 billion at June 30, 2009, \$1.5 billion at March 31, 2009, and \$418 million at June 30, 2008. Nonperforming assets as a percentage of period-end loans were 1.80 percent at June 30, 2009, 1.99 percent at March 31, 2009, and .52 percent at June 30, 2008. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

**Wealth Management & Securities Services** Wealth Management & Securities Services provides trust, private banking, financial advisory, investment management, retail brokerage services, insurance, custody and mutual fund servicing through five businesses: Wealth Management, Corporate Trust, FAF Advisors, Institutional Trust &

Custody and Fund Services. Wealth Management & Securities Services contributed \$92 million of the Company's net income in the second quarter and \$187 million in the first six months of 2009, or decreases of \$32 million (25.8 percent) and \$63 million (25.2 percent), respectively, compared with the same periods of 2008. The decreases were primarily

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attributable to unfavorable equity market conditions relative to a year ago.

Total net revenue decreased \$68 million (15.1 percent) in the second quarter and \$113 million (12.6 percent) in the first six months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, decreased \$16 million (16.2 percent) in the second quarter and \$22 million (10.7 percent) in the first six 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 \$52 million (14.8 percent) in the second quarter and \$91 million (13.1 percent) in the first six months of 2009, compared with the same periods of 2008, primarily driven by unfavorable equity market conditions.

Total noninterest expense decreased \$21 million (8.3 percent) in the second quarter and \$24 million (4.8 percent) in the first six 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 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 \$62 million of the Company's net income in the second quarter and \$160 million in the first six months of 2009, or decreases of \$184 million (74.8 percent) and \$296 million (64.9 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 \$1 million (.1 percent) in the second quarter and \$12 million (.6 percent) in the first six months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$40 million (16.6 percent) in the second quarter and \$62 million (12.6 percent) in the first six months of 2009, compared with the same periods of 2008, primarily due to growth in credit card loan balances. Noninterest income decreased \$39 million (5.1 percent) in the second quarter and \$50 million (3.4 percent) in the first six months of 2009, compared with the same periods of 2008, as decreases in fee-based revenue were driven by lower transaction volumes and a decline in average customer purchases per transaction.

Total noninterest expense increased \$6 million (1.5 percent) in the second quarter and \$9 million (1.2 percent) in the first six months of 2009, compared with the same periods of 2008, as higher marketing expense was partially offset by lower employee compensation expenses.

The provision for credit losses increased \$284 million in the second quarter and \$468 million in the first six months of 2009, compared with the same periods of 2008, due to average retail credit card portfolio growth, higher net charge-offs, higher delinquency rates and changing economic conditions from a year ago. As a percentage of average loans outstanding, net charge-offs were 6.57 percent in the second quarter of 2009, compared with 3.92 percent in the second 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 \$38 million in the second quarter and \$145 million in the first six months of 2009, compared with \$81 million in the second quarter and \$240 million in the first six months of 2008.

Total net revenue increased \$101 million (88.6 percent) in the second quarter and decreased \$61 million (16.1 percent) in the first six months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis, increased \$67 million (45.0 percent) in the second quarter and \$208 million in the first six 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 \$34 million (97.1 percent) in the second quarter and decreased \$269 million in the first six months of 2009, compared with the same periods of 2008.

The increase in noninterest income in the second quarter of 2009, compared with the second quarter of 2008, reflected lower net securities losses. The decrease in noninterest income for the first six months of 2009 was primarily due to the net impact of the 2008 Visa Gain and impairments on preferred securities and non-agency mortgage-backed securities in 2009, offset by lower impairment charges for structured investment related securities, a gain on a corporate real estate

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transaction, and higher gains on the sale of investment securities in 2009.

Total noninterest expense increased \$167 million in the second quarter and \$118 million (50.6 percent) in the first six months of 2009, compared with the same periods of 2008. The increases in noninterest expense were driven by the FDIC special assessment, increased litigation, and higher acquisition integration costs.

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 17.1 percent in the second quarter and 16.3 percent in the first six months of 2009, compared with 28.5 percent in the second quarter and 29.4 percent in the first six 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-advantaged investments.

**NON-GAAP FINANCIAL MEASURES**

In addition to capital ratios defined by banking regulators, the Company considers various other measures 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 measures are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of the Company's capitalization to other organizations. These ratios differ from capital measures defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies across organizations.

Despite the importance of these measures 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 organizations. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

The following table shows the Company's calculation of these measures.

| (Dollars in Millions)                                                                | June 30,<br>2009 | December 31,<br>2008 |
|--------------------------------------------------------------------------------------|------------------|----------------------|
| Total equity                                                                         | \$ 24,886        | \$ 27,033            |
| Preferred stock                                                                      | (1,500)          | (7,931)              |
| Noncontrolling interests                                                             | (715)            | (733)                |
| Goodwill (net of deferred tax liability)                                             | (8,035)          | (8,153)              |
| Intangible assets, other than mortgage servicing rights                              | (1,479)          | (1,640)              |
| <br>Tangible common equity (a)                                                       | <br>13,157       | <br>8,576            |
| <br>Tier 1 capital, determined in accordance with prescribed regulatory requirements | <br>21,710       | <br>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)                                                                   | 15,494  | 11,778  |
| Total assets                                                                               | 265,560 | 265,912 |
| Goodwill (net of deferred tax liability)                                                   | (8,035) | (8,153) |
| Intangible assets, other than mortgage servicing rights                                    | (1,479) | (1,640) |
| Tangible assets (c)                                                                        | 256,046 | 256,119 |
| Risk-weighted assets, determined in accordance with prescribed regulatory requirements (d) | 231,821 | 230,628 |
| <b>Ratios</b>                                                                              |         |         |
| Tangible common equity to tangible assets (a)/(c)                                          | 5.1%    | 3.3%    |
| Tier 1 common equity to risk-weighted assets (b)/(d)                                       | 6.7     | 5.1     |
| Tangible common equity to risk-weighted assets (a)/(d)                                     | 5.7     | 3.7     |

## 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

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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.

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

| (Dollars in Millions)                                                                                    | June 30,<br>2009 | December 31,<br>2008 |
|----------------------------------------------------------------------------------------------------------|------------------|----------------------|
|                                                                                                          | (Unaudited)      |                      |
| <b>Assets</b>                                                                                            |                  |                      |
| Cash and due from banks                                                                                  | \$ 6,381         | \$ 6,859             |
| Investment securities                                                                                    |                  |                      |
| Held-to-maturity (fair value \$50 and \$54, respectively)                                                | 49               | 53                   |
| Available-for-sale                                                                                       | 40,756           | 39,468               |
| Loans held for sale (included \$6,939 and \$2,728 of mortgage loans carried at fair value, respectively) | 7,370            | 3,210                |
| Loans                                                                                                    |                  |                      |
| Commercial                                                                                               | 52,730           | 56,618               |
| Commercial real estate                                                                                   | 33,696           | 33,213               |
| Residential mortgages                                                                                    | 23,970           | 23,580               |
| Retail                                                                                                   | 61,427           | 60,368               |
| <br>Total loans, excluding covered assets                                                                | <br>171,823      | <br>173,779          |
| Covered assets                                                                                           | 10,489           | 11,450               |
| <br>Total loans                                                                                          | <br>182,312      | <br>185,229          |
| Less allowance for loan losses                                                                           | (4,377)          | (3,514)              |
| <br>Net loans                                                                                            | <br>177,935      | <br>181,715          |
| Premises and equipment                                                                                   | 2,073            | 1,790                |
| Goodwill                                                                                                 | 8,451            | 8,571                |
| Other intangible assets                                                                                  | 2,961            | 2,834                |
| Other assets                                                                                             | 19,584           | 21,412               |
| <br>Total assets                                                                                         | <br>\$ 265,560   | <br>\$ 265,912       |
| <br><b>Liabilities and Shareholders' Equity</b>                                                          |                  |                      |
| Deposits                                                                                                 |                  |                      |
| Noninterest-bearing                                                                                      | \$ 35,684        | \$ 37,494            |
| Interest-bearing                                                                                         | 97,691           | 85,886               |
| Time deposits greater than \$100,000                                                                     | 30,508           | 35,970               |
| <br>Total deposits                                                                                       | <br>163,883      | <br>159,350          |



|                                                                                                                                                                      |                |                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Short-term borrowings                                                                                                                                                | 29,698         | 33,983         |
| Long-term debt                                                                                                                                                       | 39,196         | 38,359         |
| Other liabilities                                                                                                                                                    | 7,897          | 7,187          |
| <br>Total liabilities                                                                                                                                                | <br>240,674    | <br>238,879    |
| Shareholders' equity                                                                                                                                                 |                |                |
| Preferred stock                                                                                                                                                      | 1,500          | 7,931          |
| Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued:<br>6/30/09 and 12/31/08 2,125,725,742 shares and 1,972,643,007 shares, respectively | 21             | 20             |
| Capital surplus                                                                                                                                                      | 8,434          | 5,830          |
| Retained earnings                                                                                                                                                    | 23,140         | 22,541         |
| Less cost of common stock in treasury: 6/30/09 213,845,489 shares; 12/31/08<br>217,610,679 shares                                                                    | (6,540)        | (6,659)        |
| Accumulated other comprehensive income (loss)                                                                                                                        | (2,384)        | (3,363)        |
| <br>Total U.S. Bancorp shareholders' equity                                                                                                                          | <br>24,171     | <br>26,300     |
| Noncontrolling interests                                                                                                                                             | 715            | 733            |
| <br>Total equity                                                                                                                                                     | <br>24,886     | <br>27,033     |
| <br>Total liabilities and equity                                                                                                                                     | <br>\$ 265,560 | <br>\$ 265,912 |

*See Notes to Consolidated Financial Statements.*

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

|                                                                                     | Three Months<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-------------------------------------------------------------------------------------|-----------------------------------|-----------|------------------------------|-----------|
| (Dollars and Shares in Millions, Except Per Share Data)<br>(Unaudited)              | 2009                              | 2008      | 2009                         | 2008      |
| <b>Interest Income</b>                                                              |                                   |           |                              |           |
| Loans                                                                               | \$ 2,345                          | \$ 2,429  | \$ 4,695                     | \$ 4,989  |
| Loans held for sale                                                                 | 71                                | 49        | 134                          | 122       |
| Investment securities                                                               | 402                               | 494       | 836                          | 1,029     |
| Other interest income                                                               | 22                                | 43        | 42                           | 80        |
| <br>Total interest income                                                           | <br>2,840                         | <br>3,015 | <br>5,707                    | <br>6,220 |
| <b>Interest Expense</b>                                                             |                                   |           |                              |           |
| Deposits                                                                            | 314                               | 458       | 638                          | 1,064     |
| Short-term borrowings                                                               | 131                               | 263       | 274                          | 585       |
| Long-term debt                                                                      | 341                               | 419       | 694                          | 893       |
| <br>Total interest expense                                                          | <br>786                           | <br>1,140 | <br>1,606                    | <br>2,542 |
| <br>Net interest income                                                             | <br>2,054                         | <br>1,875 | <br>4,101                    | <br>3,678 |
| Provision for credit losses                                                         | 1,395                             | 596       | 2,713                        | 1,081     |
| <br>Net interest income after provision for credit losses                           | <br>659                           | <br>1,279 | <br>1,388                    | <br>2,597 |
| <b>Noninterest Income</b>                                                           |                                   |           |                              |           |
| Credit and debit card revenue                                                       | 259                               | 266       | 515                          | 514       |
| Corporate payment products revenue                                                  | 168                               | 174       | 322                          | 338       |
| Merchant processing services                                                        | 278                               | 309       | 536                          | 580       |
| ATM processing services                                                             | 104                               | 93        | 206                          | 177       |
| Trust and investment management fees                                                | 304                               | 350       | 598                          | 685       |
| Deposit service charges                                                             | 250                               | 278       | 476                          | 535       |
| Treasury management fees                                                            | 142                               | 137       | 279                          | 261       |
| Commercial products revenue                                                         | 144                               | 117       | 273                          | 229       |
| Mortgage banking revenue                                                            | 308                               | 81        | 541                          | 186       |
| Investment products fees and commissions                                            | 27                                | 37        | 55                           | 73        |
| Securities gains (losses), net                                                      |                                   |           |                              |           |
| Realized gains (losses), net                                                        | 69                                | 14        | 125                          | 16        |
| Total other-than-temporary impairment                                               | (331)                             | (77)      | (834)                        | (330)     |
| Portion of other-than-temporary impairment recognized in other comprehensive income | 243                               |           | 492                          |           |

|                                                               |            |            |              |              |
|---------------------------------------------------------------|------------|------------|--------------|--------------|
| Total securities gains (losses), net                          | (19)       | (63)       | (217)        | (314)        |
| Other                                                         | 90         | 113        | 259          | 672          |
| <br>Total noninterest income                                  | <br>2,055  | <br>1,892  | <br>3,843    | <br>3,936    |
| <b>Noninterest Expense</b>                                    |            |            |              |              |
| Compensation                                                  | 764        | 761        | 1,550        | 1,506        |
| Employee benefits                                             | 140        | 129        | 295          | 266          |
| Net occupancy and equipment                                   | 208        | 190        | 419          | 380          |
| Professional services                                         | 59         | 59         | 111          | 106          |
| Marketing and business development                            | 80         | 66         | 136          | 145          |
| Technology and communications                                 | 157        | 149        | 312          | 289          |
| Postage, printing and supplies                                | 72         | 73         | 146          | 144          |
| Other intangibles                                             | 95         | 87         | 186          | 174          |
| Other                                                         | 554        | 304        | 845          | 587          |
| <br>Total noninterest expense                                 | <br>2,129  | <br>1,818  | <br>4,000    | <br>3,597    |
| <br>Income before income taxes                                | <br>585    | <br>1,353  | <br>1,231    | <br>2,936    |
| Applicable income taxes                                       | 100        | 386        | 201          | 862          |
| <br>Net income                                                | <br>485    | <br>967    | <br>1,030    | <br>2,074    |
| Net income attributable to noncontrolling interests           | (14)       | (17)       | (30)         | (34)         |
| <br>Net income attributable to U.S. Bancorp                   | <br>\$ 471 | <br>\$ 950 | <br>\$ 1,000 | <br>\$ 2,040 |
| <br>Net income applicable to U.S. Bancorp common shareholders | <br>\$ 221 | <br>\$ 926 | <br>\$ 640   | <br>\$ 2,003 |
| <br>Earnings per common share                                 | <br>\$ .12 | <br>\$ .53 | <br>\$ .36   | <br>\$ 1.15  |
| Diluted earnings per common share                             | \$ .12     | \$ .53     | \$ .36       | \$ 1.14      |
| Dividends declared per common share                           | \$ .050    | \$ .425    | \$ .100      | \$ .850      |
| Average common shares outstanding                             | 1,833      | 1,740      | 1,794        | 1,735        |
| Average diluted common shares outstanding                     | 1,840      | 1,755      | 1,801        | 1,752        |

*See Notes to Consolidated Financial Statements*

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

| U.S. Bancorp Shareholders'                                             |             |           |        |          |           |            |               |               |              |
|------------------------------------------------------------------------|-------------|-----------|--------|----------|-----------|------------|---------------|---------------|--------------|
| and Shares in Millions)                                                | Common      | Preferred | Common | Capital  | Retained  | Treasury   | Comprehensive | Shareholders' | Total        |
|                                                                        | Shares      | Stock     | Stock  | Surplus  | Earnings  | Stock      | Income        | Equity        | U.S. Bancorp |
| (continued)                                                            | Outstanding | Stock     | Stock  | Surplus  | Earnings  | Stock      | (Loss)        | Equity        | Interests    |
| <b>December 31, 2007</b>                                               | 1,728       | \$ 1,000  | \$ 20  | \$ 5,749 | \$ 22,693 | \$ (7,480) | \$ (936)      | \$ 21,046     | \$ 780       |
| Income                                                                 |             |           |        |          | 2,040     |            |               | 2,040         | 34           |
| Change in unrealized gains and losses on securities available-for-sale |             |           |        |          |           |            | (1,264)       | (1,264)       |              |
| Net gain on derivatives                                                |             |           |        |          |           |            | 16            | 16            |              |
| Change in currency translation                                         |             |           |        |          |           |            | (43)          | (43)          |              |
| Provision for realized losses                                          |             |           |        |          |           |            | 345           | 345           |              |
| Change in retirement obligation                                        |             |           |        |          |           |            | 6             | 6             |              |
| Income taxes                                                           |             |           |        |          |           |            | 357           | 357           |              |
| Comprehensive income                                                   |             |           |        |          |           |            |               | 1,457         | 34           |
| Dividend stock dividends                                               |             |           |        |          | (34)      |            |               | (34)          |              |
| Dividend stock dividends                                               |             |           |        |          | (1,479)   |            |               | (1,479)       |              |
| Dividend of preferred stock                                            |             | 500       |        | (9)      |           |            |               | 491           |              |
| Dividend of common and treasury stock                                  | 15          |           |        | (59)     |           | 496        |               | 437           |              |
| Dividend of treasury stock                                             | (2)         |           |        |          |           | (88)       |               | (88)          |              |
| Change in controlling interests                                        |             |           |        |          |           |            |               |               | (56)         |
| Issuance of restricted stock                                           |             |           |        | 1        |           |            |               | 1             |              |
| Reserve to meet deferred compensation obligations                      |             |           |        |          |           | (3)        |               | (3)           |              |
| <b>June 30, 2008</b>                                                   | 1,741       | \$ 1,500  | \$ 20  | \$ 5,682 | \$ 23,220 | \$ (7,075) | \$ (1,519)    | \$ 21,828     | \$ 758       |
| <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)         |               |              |
| Income                                                                 |             |           |        |          | 1,000     |            |               | 1,000         | 30           |
| Change in unrealized gains and losses on securities available-for-sale |             |           |        |          |           |            | 1,642         | 1,642         |              |
| Change in temporary impairment                                         |             |           |        |          |           |            | (492)         | (492)         |              |
| Change in earnings on                                                  |             |           |        |          |           |            |               |               |              |

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

| (Dollars in Millions)<br>(Unaudited)                            | Six Months Ended<br>June 30, |         |
|-----------------------------------------------------------------|------------------------------|---------|
|                                                                 | 2009                         | 2008    |
| <b>Operating Activities</b>                                     |                              |         |
| Net cash provided by operating activities                       | \$774                        | \$2,207 |
| <b>Investing Activities</b>                                     |                              |         |
| Proceeds from sales of available-for-sale investment securities | 3,810                        | 1,802   |
| Proceeds from maturities of investment securities               | 3,658                        | 2,809   |
| Purchases of investment securities                              | (6,727)                      | (3,122) |
| Net (increase) decrease in loans outstanding                    | 366                          | (7,721) |
| Proceeds from sales of loans                                    | 1,881                        | 59      |
| Purchases of loans                                              | (1,277)                      | (2,462) |
| Acquisitions, net of cash acquired                              | 222                          | 631     |
| Other, net                                                      | 838                          | (530)   |
| Net cash provided by (used in) investing activities             | 2,771                        | (8,534) |
| <b>Financing Activities</b>                                     |                              |         |
| Net increase in deposits                                        | 4,307                        | 907     |
| Net increase (decrease) in short-term borrowings                | (4,285)                      | 8,689   |
| Proceeds from issuance of long-term debt                        | 4,682                        | 6,241   |
| Principal payments or redemption of long-term debt              | (3,741)                      | (9,762) |
| Proceeds from issuance of preferred stock                       |                              | 491     |
| Proceeds from issuance of common stock                          | 2,684                        | 333     |
| Redemption of preferred stock                                   | (6,599)                      |         |
| Cash dividends paid on preferred stock                          | (237)                        | (27)    |
| Cash dividends paid on common stock                             | (834)                        | (1,473) |
| Net cash provided by (used in) financing activities             | (4,023)                      | 5,399   |
| Change in cash and due from banks                               | (478)                        | (928)   |
| Cash and due from banks at beginning of period                  | 6,859                        | 8,884   |
| Cash and due from banks at end of period                        | \$6,381                      | \$7,956 |

*See Notes to Consolidated Financial Statements.*

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### Notes to Consolidated Financial Statements (Unaudited)

#### **Note 1** Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. 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

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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 guaranteed 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 does not expect the adoption of this guidance will 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 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 its economic performance and the obligation to absorb its losses or the right to receive its benefits. 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:

|                                                                 | June 30, 2009     |                  |                      |            |            | December 31, 2008 |                  |                   |            |  |
|-----------------------------------------------------------------|-------------------|------------------|----------------------|------------|------------|-------------------|------------------|-------------------|------------|--|
|                                                                 | Unrealized Losses |                  |                      |            |            |                   |                  |                   |            |  |
| (Dollars in Millions)                                           | Amortized Cost    | Unrealized Gains | Other-than-Temporary | Other      | Fair Value | Amortized Cost    | Unrealized Gains | Unrealized Losses | Fair Value |  |
| <b>Held-to-maturity (a)</b>                                     |                   |                  |                      |            |            |                   |                  |                   |            |  |
| Agency residential mortgage-backed securities                   | \$ 5              | \$               | \$                   |            | \$ 5       | \$ 5              | \$               |                   | \$ 5       |  |
| Obligations of state and political subdivisions                 | 34                | 2                |                      | (1)        | 35         | 38                | 2                | (1)               | 39         |  |
| Other debt securities                                           | 10                |                  |                      |            | 10         | 10                |                  |                   | 10         |  |
| Total held-to-maturity                                          | \$ 49             | \$ 2             | \$                   | (1)        | \$ 50      | \$ 53             | \$ 2             | (1)               | \$ 54      |  |
| <b>Available-for-sale (b)</b>                                   |                   |                  |                      |            |            |                   |                  |                   |            |  |
| U.S. Treasury and agencies                                      | \$ 2,532          | \$ 9             | \$                   | (18)       | \$ 2,523   | \$ 664            | \$ 18            |                   | \$ 682     |  |
| Mortgage-backed securities                                      |                   |                  |                      |            |            |                   |                  |                   |            |  |
| Residential                                                     |                   |                  |                      |            |            |                   |                  |                   |            |  |
| Agency                                                          | 25,848            | 434              |                      | (95)       | 26,187     | 26,512            | 426              | (410)             | 26,528     |  |
| Non-agency                                                      |                   |                  |                      |            |            |                   |                  |                   |            |  |
| Prime (c)                                                       | 2,801             | 5                | (129)                | (246)      | 2,431      | 3,160             |                  | (729)             | 2,431      |  |
| Non-prime                                                       | 1,519             | 8                | (322)                | (147)      | 1,058      | 1,574             | 3                | (423)             | 1,154      |  |
| Commercial                                                      | 16                |                  | (1)                  |            | 15         | 17                |                  |                   | 17         |  |
| Asset-backed securities                                         |                   |                  |                      |            |            |                   |                  |                   |            |  |
| Collateralized debt obligations/Collateralized loan obligations | 94                | 6                | (1)                  | (13)       | 86         | 101               | 1                | (11)              | 91         |  |
| Other                                                           | 576               | 9                | (142)                | (8)        | 435        | 533               | 7                | (14)              | 526        |  |
| Obligations of state and political subdivisions                 | 6,725             | 1                |                      | (476)      | 6,250      | 7,220             | 4                | (808)             | 6,416      |  |
| Obligations of foreign governments                              | 6                 |                  |                      |            | 6          | 7                 |                  |                   | 7          |  |
| Corporate debt securities                                       | 1,233             |                  |                      | (417)      | 816        | 1,238             |                  | (482)             | 756        |  |
| Perpetual preferred securities                                  | 518               | 32               |                      | (166)      | 384        | 777               | 1                | (387)             | 391        |  |
| Other investments                                               | 563               | 3                |                      | (1)        | 565        | 480               |                  | (11)              | 469        |  |
| Total available-for-sale                                        | \$ 42,431         | \$ 507           | \$ (595)             | \$ (1,587) | \$ 40,756  | \$ 42,283         | \$ 460           | \$ (3,275)        | \$ 39,468  |  |

(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 other comprehensive income (loss) in shareholders' equity.*
- (c) *Prime securities are those designated as such by the issuer or those with FICO scores and/or credit enhancements consistent with prime mortgage-backed securities.*

The weighted-average maturity of the available-for-sale investment securities was 7.5 years at June 30, 2009, compared with 7.7 years at December 31, 2008. The corresponding weighted-average yields were 3.96 percent and 4.56 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 8.5 years at June 30, 2009, and 8.5 years at December 31, 2008. The corresponding weighted-average yields were 5.35 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 June 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 \$32.1 billion at June 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 \$8.8 billion at June 30, 2009, and \$9.5 billion at December 31, 2008, respectively.

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

| (Dollars in Millions)                            | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|--------------------------------------------------|--------------------------------|--------|------------------------------|----------|
|                                                  | 2009                           | 2008   | 2009                         | 2008     |
| Taxable                                          | \$ 328                         | \$ 414 | \$ 684                       | \$ 870   |
| Non-taxable                                      | 74                             | 80     | 152                          | 159      |
| Total interest income from investment securities | \$ 402                         | \$ 494 | \$ 836                       | \$ 1,029 |

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<br>June 30, |       | Six Months Ended<br>June 30, |       |
|-------------------------------------------------|--------------------------------|-------|------------------------------|-------|
|                                                 | 2009                           | 2008  | 2009                         | 2008  |
| Realized gains                                  | \$ 70                          | \$ 14 | \$ 127                       | \$ 16 |
| Realized losses                                 | (1)                            |       | (2)                          |       |
| Net realized gains (losses)                     | \$ 69                          | \$ 14 | \$ 125                       | \$ 16 |
| Income tax (benefit) on realized gains (losses) | \$ 27                          | \$ 5  | \$ 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 carrying amount and accretable balance of the securities that evidenced credit deterioration at the time of acquisition were as follows:

| (Dollars in Millions) | Three Months Ended June 30,<br>Carrying Amount<br>of |        |                 |          | Six Months Ended June 30,<br>Carrying Amount<br>of |        |                 |          |
|-----------------------|------------------------------------------------------|--------|-----------------|----------|----------------------------------------------------|--------|-----------------|----------|
|                       | Accretable<br>Balance                                |        | Debt Securities |          | Accretable<br>Balance                              |        | Debt Securities |          |
|                       | 2009                                                 | 2008   | 2009            | 2008     | 2009                                               | 2008   | 2009            | 2008     |
|                       | \$ 224                                               | \$ 303 | \$ 611          | \$ 1,670 | \$ 349                                             | \$ 105 | \$ 508          | \$ 2,427 |

|                                                             |        |        |        |          |        |        |        |          |
|-------------------------------------------------------------|--------|--------|--------|----------|--------|--------|--------|----------|
| Balance at beginning of period                              |        |        |        |          |        |        |        |          |
| Impact of other-than-temporary impairment accounting change |        |        |        |          | (124)  |        | 124    |          |
| Adjusted balance at beginning of period                     | 224    | 303    | 611    | 1,670    | 225    | 105    | 632    | 2,427    |
| Purchases (a)                                               |        | 30     |        | 54       |        | 49     |        | 134      |
| Payments received                                           |        |        | (7)    | (103)    |        |        | (20)   | (145)    |
| Impairment writedowns                                       |        | (12)   | (36)   | (52)     |        | 183    | (45)   | (305)    |
| Accretion                                                   | (1)    | (9)    | 1      | 9        | (2)    | (15)   | 2      | 15       |
| Transfers in/(out) (b)                                      | (49)   | (121)  |        | (523)    | (49)   | (131)  |        | (1,071)  |
| Balance at end of period                                    | \$ 174 | \$ 191 | \$ 569 | \$ 1,055 | \$ 174 | \$ 191 | \$ 569 | \$ 1,055 |

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

(b) Principally represents investment securities that did not evidence credit deterioration at acquisition date, received in exchange for SIVs.

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 issuers' credit rating, historical financial performance and strength, the ability to sustain earnings, and other factors such as market presence and management experience.

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

|                                             | Three Months Ended June 30,<br>2009            |                                   |          | Six Months Ended June 30, 2009                 |                                   |          |
|---------------------------------------------|------------------------------------------------|-----------------------------------|----------|------------------------------------------------|-----------------------------------|----------|
|                                             | Credit<br>Losses<br>Recorded<br>in<br>Earnings | Losses<br>Other<br>than<br>Credit | Total    | Credit<br>Losses<br>Recorded<br>in<br>Earnings | Losses<br>Other<br>than<br>Credit | Total    |
| (Dollars in Millions)                       |                                                |                                   |          |                                                |                                   |          |
| <b>Available-for-sale</b>                   |                                                |                                   |          |                                                |                                   |          |
| Mortgage-backed securities                  |                                                |                                   |          |                                                |                                   |          |
| Non-agency residential                      |                                                |                                   |          |                                                |                                   |          |
| Prime (a)                                   | \$ (1)                                         | \$ (10)                           | \$ (11)  | \$ (8)                                         | \$ (129)                          | \$ (137) |
| Non-prime                                   | (49)                                           | (96)                              | (145)    | (76)                                           | (224)                             | (300)    |
| Commercial                                  |                                                |                                   |          | (1)                                            | (1)                               | (2)      |
| Asset-backed securities                     |                                                |                                   |          |                                                |                                   |          |
| Collateralized debt                         |                                                |                                   |          |                                                |                                   |          |
| obligations/Collateralized loan obligations |                                                | (1)                               | (1)      | (5)                                            |                                   | (5)      |
| Other                                       | (26)                                           | (136)                             | (162)    | (42)                                           | (138)                             | (180)    |
| Corporate debt securities                   |                                                |                                   |          | (3)                                            |                                   | (3)      |
| Perpetual preferred securities              | (12)                                           |                                   | (12)     | (207)                                          |                                   | (207)    |
| Total available-for-sale                    | \$ (88)                                        | \$ (243)                          | \$ (331) | \$ (342)                                       | \$ (492)                          | \$ (834) |

(a) Prime securities are those designated as such by the issuer or those with FICO scores and/or credit enhancements consistent with prime mortgage-backed securities.

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 second 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   | 8%      | 16%     | 15%     | 3%        | 15%     | 8%      |
| Lifetime probability of default rates | 1       | 5       | 1       | 2         | 28      | 8       |
| Lifetime loss severity rates          | 60      | 60      | 60      | 44        | 90      | 57      |

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:

| (Dollars in Millions)                                                                                                 | Three Months<br>Ended<br>June 30, 2009 | Six Months<br>Ended<br>June 30, 2009 |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------|
| Balance at beginning of period                                                                                        | \$ 358                                 | \$ 299                               |
| Credit losses on securities not previously considered<br>other-than-temporarily impaired                              | 21                                     | 75                                   |
| Decreases in expected cash flows on securities for which<br>other-than-temporary impairment was previously recognized | 55                                     | 60                                   |
| Increases in expected cash flows                                                                                      | (27)                                   | (27)                                 |
| Realized losses                                                                                                       | (7)                                    | (7)                                  |
| Balance at end of period                                                                                              | \$ 400                                 | \$ 400                               |

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At June 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 June 30, 2009:

| (Dollars in Millions)                                           | Less Than 12<br>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                 | \$ 2                   | \$                | \$ 10                | \$ (1)            | \$ 12      | \$ (1)            |
| Total held-to-maturity                                          | \$ 2                   | \$                | \$ 10                | \$ (1)            | \$ 12      | \$ (1)            |
| Available-for-sale                                              |                        |                   |                      |                   |            |                   |
| U.S. Treasury and agencies                                      | \$ 1,780               | \$ (18)           | \$ 1                 | \$                | \$ 1,781   | \$ (18)           |
| Mortgage-backed securities                                      |                        |                   |                      |                   |            |                   |
| Residential                                                     |                        |                   |                      |                   |            |                   |
| Agency                                                          | 4,223                  | (38)              | 4,057                | (57)              | 8,280      | (95)              |
| Non-agency                                                      |                        |                   |                      |                   |            |                   |
| Prime                                                           | 220                    | (10)              | 2,109                | (365)             | 2,329      | (375)             |
| Non-prime                                                       | 389                    | (142)             | 613                  | (327)             | 1,002      | (469)             |
| Commercial                                                      | 13                     | (1)               |                      |                   | 13         | (1)               |
| Asset-backed securities                                         |                        |                   |                      |                   |            |                   |
| Collateralized debt obligations/Collateralized loan obligations | 20                     | (1)               | 2                    | (13)              | 22         | (14)              |
| Other                                                           | 358                    | (141)             | 17                   | (9)               | 375        | (150)             |
| Obligations of state and political subdivisions                 | 750                    | (13)              | 5,210                | (463)             | 5,960      | (476)             |
| Obligations of foreign governments                              | 6                      |                   |                      |                   | 6          |                   |
| Corporate debt securities                                       | 39                     | (22)              | 777                  | (395)             | 816        | (417)             |
| Perpetual preferred securities                                  |                        |                   | 283                  | (166)             | 283        | (166)             |
| Other investments                                               |                        |                   | 3                    | (1)               | 3          | (1)               |
| Total available-for-sale                                        | \$ 7,798               | \$ (386)          | \$ 13,072            | \$ (1,796)        | \$ 20,870  | \$ (2,182)        |

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 obligations of state and political subdivisions 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. The Company has no plan 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 its amortized cost.



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The composition of the loan portfolio was as follows:

| (Dollars in Millions)                 | June 30, 2009 |                  | December 31, 2008 |                  |
|---------------------------------------|---------------|------------------|-------------------|------------------|
|                                       | Amount        | Percent of Total | Amount            | Percent of Total |
| <b>Commercial</b>                     |               |                  |                   |                  |
| Commercial                            | \$ 46,073     | 25.2 %           | \$ 49,759         | 26.9 %           |
| Lease financing                       | 6,657         | 3.7              | 6,859             | 3.7              |
| Total commercial                      | 52,730        | 28.9             | 56,618            | 30.6             |
| <b>Commercial real estate</b>         |               |                  |                   |                  |
| Commercial mortgages                  | 23,978        | 13.2             | 23,434            | 12.6             |
| Construction and development          | 9,718         | 5.3              | 9,779             | 5.3              |
| Total commercial real estate          | 33,696        | 18.5             | 33,213            | 17.9             |
| <b>Residential mortgages</b>          |               |                  |                   |                  |
| Residential mortgages                 | 18,665        | 10.2             | 18,232            | 9.8              |
| Home equity loans, first liens        | 5,305         | 2.9              | 5,348             | 2.9              |
| Total residential mortgages           | 23,970        | 13.1             | 23,580            | 12.7             |
| <b>Retail</b>                         |               |                  |                   |                  |
| Credit card                           | 14,874        | 8.2              | 13,520            | 7.3              |
| Retail leasing                        | 4,955         | 2.7              | 5,126             | 2.8              |
| Home equity and second mortgages      | 19,328        | 10.6             | 19,177            | 10.3             |
| Other retail                          |               |                  |                   |                  |
| Revolving credit                      | 3,358         | 1.8              | 3,205             | 1.7              |
| Installment                           | 5,499         | 3.0              | 5,525             | 3.0              |
| Automobile                            | 9,104         | 5.0              | 9,212             | 5.0              |
| Student                               | 4,309         | 2.4              | 4,603             | 2.5              |
| Total other retail                    | 22,270        | 12.2             | 22,545            | 12.2             |
| Total retail                          | 61,427        | 33.7             | 60,368            | 32.6             |
| Total loans, excluding covered assets | 171,823       | 94.2             | 173,779           | 93.8             |
| <b>Covered Assets</b>                 | 10,489        | 5.8              | 11,450            | 6.2              |
| Total loans                           | \$ 182,312    | 100.0 %          | \$ 185,229        | 100.0 %          |

Loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.5 billion at June 30, 2009, and 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 \$2.4 billion at June 30, 2009, and 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)                                        | June 30, 2009                  |                |                 |           | December 31, 2008              |                |                 |           |
|--------------------------------------------------------------|--------------------------------|----------------|-----------------|-----------|--------------------------------|----------------|-----------------|-----------|
|                                                              | Purchased<br>Impaired<br>Loans | Other<br>Loans | Other<br>Assets | Total     | Purchased<br>Impaired<br>Loans | Other<br>Loans | Other<br>Assets | Total     |
| Residential mortgage<br>loans                                | \$ 4,919                       | \$ 1,863       | \$              | \$ 6,782  | \$ 5,763                       | \$ 2,022       | \$              | \$ 7,785  |
| Commercial real<br>estate loans                              | 477                            | 454            |                 | 931       | 427                            | 455            |                 | 882       |
| Commercial loans                                             |                                | 95             |                 | 95        |                                | 127            |                 | 127       |
| Foreclosed real estate<br>Losses reimbursable<br>by the FDIC |                                |                | 314             | 314       |                                |                | 274             | 274       |
|                                                              |                                |                | 2,367           | 2,367     |                                |                | 2,382           | 2,382     |
| Total                                                        | \$ 5,396                       | \$ 2,412       | \$ 2,681        | \$ 10,489 | \$ 6,190                       | \$ 2,604       | \$ 2,656        | \$ 11,450 |

At June 30, 2009, \$318 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 the other purchased loans in covered assets through 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 because they were recorded at fair value, including expected credit losses at the date of 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.

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Changes in the accretable balance for loans that evidenced credit deterioration at the acquisition date were as follows for the three and six months ended June 30, 2009:

| (Dollars in Millions)                                     | Three Months<br>Ended<br>June 30, 2009 | Six Months<br>Ended<br>June 30, 2009 |
|-----------------------------------------------------------|----------------------------------------|--------------------------------------|
| Balance at beginning of period                            | \$ 2,405                               | \$ 2,719                             |
| Accretion                                                 | (87)                                   | (183)                                |
| Disposals                                                 | (36)                                   | (47)                                 |
| Reclassifications (to) from nonaccretable difference, net | (212)                                  | (233)                                |
| Other, including purchase accounting adjustments          | 4                                      | (182)                                |
| Balance at end of period                                  | \$ 2,074                               | \$ 2,074                             |

**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 provide sufficient financial resources for the entity to support its activities. The Company's investments in VIEs primarily represent private investment funds that make equity investments, provide debt financing or partnerships to support community-based investments in affordable housing, development entities that provide capital for communities located in low-income districts and for historic rehabilitation projects that may enable the Company to ensure regulatory compliance with the Community Reinvestment Act.

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 June 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 variable interest does not absorb the majority of the variability of the conduit's cash flows or fair value because of the 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 June 30, 2009, the amount advanced to the conduit under the liquidity facility was \$.8 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 June 30, 2009, approximately \$467 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 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 \$83 million, with an aggregate amount of approximately \$2.2 billion at June 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 June 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.

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**Table of Contents****Note 6 Mortgage Servicing Rights**

The Company serviced \$134.7 billion of residential mortgage loans for others at June 30, 2009, and \$120.3 billion at December 31, 2008. The net impact of assumption changes on the fair value of mortgage servicing rights (MSRs), and fair value changes of derivatives used to offset MSR value changes included in mortgage banking revenue and net interest income was a net gain of \$45 million and a net loss of \$16 million for the three months ended June 30, 2009 and 2008, respectively, and a \$47 million net gain and \$27 million net loss for the six months ended June 30, 2009 and 2008, respectively. Loan servicing fees, not including valuation changes included in mortgage banking revenue, were \$126 million and \$99 million for the three months ended June 30, 2009 and 2008, respectively, and \$243 million and \$194 million for the six months ended June 30, 2009 and 2008, respectively.

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

| (Dollars in Millions)                      | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                            | 2009                           | 2008     | 2009                         | 2008     |
| Balance at beginning of period             | \$ 1,182                       | \$ 1,390 | \$ 1,194                     | \$ 1,462 |
| Rights purchased                           | 42                             | 13       | 75                           | 17       |
| Rights capitalized                         | 239                            | 136      | 432                          | 279      |
| Changes in fair value of MSRs              |                                |          |                              |          |
| Due to change in valuation assumptions (a) | 131                            | 258      | (4)                          | 99       |
| Other changes in fair value (b)            | (112)                          | (66)     | (215)                        | (126)    |
| Balance at end of period                   | \$ 1,482                       | \$ 1,731 | \$ 1,482                     | \$ 1,731 |

(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 June 30, 2009, was as follows:

| (Dollars in Millions) | Down Scenario |        | Up Scenario |         |
|-----------------------|---------------|--------|-------------|---------|
|                       | 50 bps        | 25 bps | 25 bps      | 50 bps  |
| Net fair value        | \$ (15)       | \$ (3) | \$ (3)      | \$ (13) |

**Note 7 Preferred Stock**

At June 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:

|                           | June 30, 2009 |          | December 31, 2008 |          |
|---------------------------|---------------|----------|-------------------|----------|
|                           | Shares        |          | Shares            |          |
|                           | Issued        | Carrying | Issued            | Carrying |
| (Dollars in Millions)     | and           | Amount   | and               | Amount   |
|                           | Outstanding   |          | Outstanding       |          |
| 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 June 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 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 second quarter and first six 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. The warrant repurchase transaction is not reflected in the consolidated financial statements as of June 30, 2009.

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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:

|                                                                                                                 | Three Months<br>Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------|--------|------------------------------|----------|
| (Dollars and Shares in Millions, Except Per Share Data)                                                         | 2009                              | 2008   | 2009                         | 2008     |
| Net income attributable to U.S. Bancorp                                                                         | \$ 471                            | \$ 950 | \$ 1,000                     | \$ 2,040 |
| Preferred dividends                                                                                             | (90)                              | (22)   | (190)                        | (34)     |
| Accretion of preferred stock discount                                                                           | (6)                               |        | (14)                         |          |
| Deemed dividend on preferred stock redemption                                                                   | (154)                             |        | (154)                        |          |
| Earnings allocated to participating stock awards                                                                |                                   | (2)    | (2)                          | (3)      |
| Net income applicable to U.S. Bancorp common shareholders                                                       | \$ 221                            | \$ 926 | \$ 640                       | \$ 2,003 |
| Average common shares outstanding                                                                               | 1,833                             | 1,740  | 1,794                        | 1,735    |
| Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes | 7                                 | 15     | 7                            | 17       |
| Average diluted common shares outstanding                                                                       | 1,840                             | 1,755  | 1,801                        | 1,752    |
| Earnings per common share                                                                                       | \$ .12                            | \$ .53 | \$ .36                       | \$ 1.15  |
| Diluted earnings per common share                                                                               | \$ .12                            | \$ .53 | \$ .36                       | \$ 1.14  |

Options and warrants to purchase 109 million and 27 million common shares for the three months ended June 30, 2009 and 2008, respectively, and 109 million and 27 million common shares for the six months ended June 30, 2009 and 2008, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive.

**Note 9 Employee Benefits**

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



| (Dollars in Millions)                                                         | Three Months Ended June 30, |       |                                |      | Six Months Ended June 30, |       |                                |      |
|-------------------------------------------------------------------------------|-----------------------------|-------|--------------------------------|------|---------------------------|-------|--------------------------------|------|
|                                                                               | Pension Plans               |       | Postretirement<br>Welfare Plan |      | Pension Plans             |       | Postretirement<br>Welfare Plan |      |
|                                                                               | 2009                        | 2008  | 2009                           | 2008 | 2009                      | 2008  | 2009                           | 2008 |
| Service cost                                                                  | \$ 20                       | \$ 19 | \$ 2                           | \$ 2 | \$ 40                     | \$ 38 | \$ 3                           | \$ 3 |
| Interest cost                                                                 | 38                          | 35    | 3                              | 3    | 76                        | 70    | 6                              | 6    |
| Expected return on plan assets                                                | (53)                        | (56)  | (2)                            | (2)  | (107)                     | (112) | (3)                            | (3)  |
| Prior service (credit) cost and transition<br>(asset) obligation amortization | (2)                         | (2)   |                                |      | (3)                       | (3)   |                                |      |
| Actuarial (gain) loss amortization                                            | 12                          | 8     | (2)                            | (1)  | 24                        | 16    | (4)                            | (2)  |
| Net periodic benefit cost                                                     | \$ 15                       | \$ 4  | \$ 1                           | \$ 2 | \$ 30                     | \$ 9  | \$ 2                           | \$ 4 |

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The components of income tax expense were:

| (Dollars in Millions)      | Three Months<br>Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|----------------------------|-----------------------------------|--------|------------------------------|--------|
|                            | 2009                              | 2008   | 2009                         | 2008   |
| <b>Federal</b>             |                                   |        |                              |        |
| Current                    | \$ 310                            | \$ 363 | \$ 684                       | \$ 819 |
| Deferred                   | (225)                             | (42)   | (520)                        | (84)   |
| Federal income tax         | 85                                | 321    | 164                          | 735    |
| <b>State</b>               |                                   |        |                              |        |
| Current                    | 36                                | 68     | 85                           | 133    |
| Deferred                   | (21)                              | (3)    | (48)                         | (6)    |
| State income tax           | 15                                | 65     | 37                           | 127    |
| Total income tax provision | \$ 100                            | \$ 386 | \$ 201                       | \$ 862 |

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<br>Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|------------------------------------------------------------------|-----------------------------------|--------|------------------------------|----------|
|                                                                  | 2009                              | 2008   | 2009                         | 2008     |
| Tax at statutory rate                                            | \$ 205                            | \$ 474 | \$ 431                       | \$ 1,028 |
| State income tax, at statutory rates, net of federal tax benefit | 10                                | 42     | 24                           | 82       |
| Tax effect of                                                    |                                   |        |                              |          |
| Tax credits                                                      | (76)                              | (72)   | (151)                        | (140)    |
| Tax-exempt income                                                | (49)                              | (44)   | (98)                         | (85)     |
| Noncontrolling interests                                         | (4)                               | (6)    | (10)                         | (12)     |
| Other items                                                      | 14                                | (8)    | 5                            | (11)     |
| Applicable income taxes                                          | \$ 100                            | \$ 386 | \$ 201                       | \$ 862   |

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of June 30, 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 \$951 million at June 30, 2009, and \$1.1 billion at December 31, 2008.

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**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 \$55.5 billion of total notional amount of asset and liability management positions at June 30, 2009, \$19.1 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, junior subordinated debentures and deposit obligations. 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 six months ended June 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 second quarter and first six 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 June 30, 2009, the Company had \$403 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 \$100 million and \$200 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 six months ended June 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.

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The following table summarizes the derivative positions of the Company at June 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                | \$ 3,300          | \$ 125   | 41.24     | \$ 2,630              | \$ 29   | 5.39      |
| Foreign exchange cross-currency swaps           | 1,791             | 180      | 7.34      |                       |         |           |
| Cash flow hedges                                |                   |          |           |                       |         |           |
| Interest rate contracts                         |                   |          |           |                       |         |           |
| Pay fixed/receive floating swaps                |                   |          |           | 11,363                | 655     | 3.01      |
| Net investment hedges                           |                   |          |           |                       |         |           |
| Foreign exchange forward contracts (a)          |                   |          |           | 534                   | 1       | .08       |
| Other economic hedges                           |                   |          |           |                       |         |           |
| Interest rate contracts                         |                   |          |           |                       |         |           |
| Futures and forwards                            |                   |          |           |                       |         |           |
| Buy                                             | 11,909            | 71       | .33       | 3,419                 | 25      | .06       |
| Sell                                            | 7,392             | 115      | .07       | 6,931                 | 57      | .11       |
| Options                                         |                   |          |           |                       |         |           |
| Written                                         | 2,410             | 19       | .09       | 813                   | 4       | .07       |
| Foreign exchange forward contracts              | 354               | 12       | .08       | 39                    |         | .08       |
| Equity contracts                                | 33                | 1        | 2.08      | 24                    |         | .79       |
| Credit contracts                                | 942               | 9        | 3.92      | 1,693                 | 4       | 2.97      |
| <b>Customer-Related Positions</b>               |                   |          |           |                       |         |           |
| Interest rate contracts                         |                   |          |           |                       |         |           |
| Receive fixed/pay floating swaps                | 18,651            | 957      | 4.66      | 2,094                 | 22      | 4.91      |
| Pay fixed/receive floating swaps                | 1,928             | 27       | 5.11      | 18,815                | 930     | 4.69      |
| Options                                         |                   |          |           |                       |         |           |
| Purchased                                       | 1,825             | 25       | 2.11      | 390                   | 19      | 2.41      |
| Written                                         | 426               | 15       | .90       | 1,540                 | 21      | 2.11      |
| Foreign exchange rate contracts                 |                   |          |           |                       |         |           |
| Forwards, spots and swaps (a)                   | 4,785             | 185      | .49       | 4,641                 | 158     | .49       |
| Options                                         |                   |          |           |                       |         |           |
| Purchased                                       | 408               | 17       | .89       |                       |         |           |
| Written                                         |                   |          |           | 408                   | 17      | .89       |
| Total fair value of derivative positions        |                   | 1,758    |           |                       | 1,942   |           |
| Netting (b)                                     |                   | (354)    |           |                       | (1,164) |           |
| Total                                           |                   | \$ 1,404 |           |                       | \$ 778  |           |

(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 June 30, 2009, the amount of cash collateral posted by counterparties that was netted against derivative assets was \$80 million, and the amount of cash collateral posted by the Company that was netted against derivative liabilities was \$889 million.*

*Note: Asset and liability derivatives are included in Other assets and Other liabilities on the Consolidated Balance Sheet, respectively.*

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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 June 30,<br>2009         |                                                          | Six Months Ended June 30,<br>2009           |                                                          |
|-------------------------------------------------|---------------------------------------------|----------------------------------------------------------|---------------------------------------------|----------------------------------------------------------|
|                                                 | Gains (Losses)<br>Reclassified<br>from      |                                                          | Gains (Losses)<br>Reclassified<br>from      |                                                          |
|                                                 | Gains<br>(Losses)<br>Recognized<br>in Other | Other<br>Comprehensive<br>Income (Loss)<br>into Earnings | Gains<br>(Losses)<br>Recognized<br>in Other | Other<br>Comprehensive<br>Income (Loss)<br>into Earnings |
| (Dollars in Millions)                           | Comprehensive<br>Income<br>(Loss)           |                                                          | Comprehensive<br>Income<br>(Loss)           |                                                          |
| <b>Asset and Liability Management Positions</b> |                                             |                                                          |                                             |                                                          |
| Cash flow hedges                                |                                             |                                                          |                                             |                                                          |
| Interest rate contracts                         |                                             |                                                          |                                             |                                                          |
| Pay fixed/receive floating swaps(a)             | \$ 403                                      | \$ (2)                                                   | \$ 978                                      | \$ (5)                                                   |
| Net investment hedges                           |                                             |                                                          |                                             |                                                          |
| Foreign exchange forward contracts              | (29)                                        |                                                          | (9)                                         |                                                          |

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

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

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

|                                                 |                                                      | Gains (Losses) Recognized in<br>Earnings     |                                      |
|-------------------------------------------------|------------------------------------------------------|----------------------------------------------|--------------------------------------|
|                                                 | Location of Gains (Losses)<br>Recognized in Earnings | Three<br>Months<br>Ended<br>June 30,<br>2009 | Six Months<br>Ended<br>June 30, 2009 |
| <b>Asset and Liability Management Positions</b> |                                                      |                                              |                                      |
| Fair value hedges (a)                           |                                                      |                                              |                                      |
| Interest rate contracts                         | Other noninterest income                             | \$ (75)                                      | \$ (105)                             |
| Foreign exchange cross-currency swaps           | Other noninterest income                             | 104                                          | 51                                   |
| Other economic hedges                           |                                                      |                                              |                                      |
| Interest rate contracts                         |                                                      |                                              |                                      |
| Futures and forwards                            | Mortgage banking revenue                             | 116                                          | 273                                  |
| Purchased and written options                   | Mortgage banking revenue                             | 48                                           | 157                                  |
|                                                 | Commercial products                                  |                                              |                                      |
| Foreign exchange forward contracts              | revenue                                              | (31)                                         | (20)                                 |



|                                       |                                  |       |       |
|---------------------------------------|----------------------------------|-------|-------|
| Equity contracts                      | Compensation expense             | 5     | (14)  |
|                                       | Other noninterest income/expense |       | 35    |
| Credit contracts                      |                                  |       |       |
| <b>Customer-Related Positions (b)</b> |                                  |       |       |
| Interest rate contracts               |                                  |       |       |
| Receive fixed/pay floating swaps      | Other noninterest income         | (440) | (571) |
| Pay fixed/receive floating swaps      | Other noninterest income         | 451   | 601   |
| Purchased and written options         | Other noninterest income         | (1)   | (1)   |
| Foreign exchange rate contracts       |                                  |       |       |
|                                       | Commercial products revenue      | 13    | 28    |
| Forwards, spots and swaps             | Commercial products revenue      | 1     | 1     |
| Purchased and written options         |                                  |       |       |

(a) *Gains (Losses) on items hedged by interest rate contracts and foreign exchange forward contracts, included in noninterest income (expense), were \$73 million and \$(104) million for the three months ended June 30, 2009, respectively, and \$103 million and \$(50) million for the six months ended June 30, 2009, respectively. Ineffective portion was immaterial for the three months and six months ended June 30, 2009.*

(b) *Gains (Losses) recognized in earnings for interest rate and foreign exchange options were immaterial for the three months and six months ended June 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

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position at June 30, 2009, was \$1.4 billion. At June 30, 2009, the Company had \$.9 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 MSRs 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 MSRs, certain debt securities, including the Company's SIV-related investments and non-agency mortgaged-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

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collateralized loan obligations, and certain corporate debt securities. In the first six 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 second quarter of 2009:

|                                       | Prime (a) |         |         | Non-prime |         |         |
|---------------------------------------|-----------|---------|---------|-----------|---------|---------|
|                                       | Minimum   | Maximum | Average | Minimum   | Maximum | Average |
| Estimated lifetime prepayment rates   | 3%        | 21%     | 12%     | 3%        | 15%     | 8%      |
| Lifetime probability of default rates |           | 10      | 1       |           | 28      | 7       |
| Lifetime loss severity rates          | 23        | 60      | 44      |           | 90      | 52      |
| Discount margin                       | 2         | 20      | 6       | 4         | 31      | 13      |

(a) *Prime securities are those designated as such by the issuer or those with FICO scores and/or credit enhancements consistent with prime mortgage-backed securities.*

**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 second quarter of 2009 and 2008, was \$67 million and \$46 million of net losses, respectively, and \$35 million and \$58 million of net losses for the first six 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 \$6.9 billion as of June 30, 2009, which exceeded the unpaid principal balance by \$26 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 MSR 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 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

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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.

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>June 30, 2009</b>                                            |         |          |         |         |          |
| Available-for-sale securities                                   |         |          |         |         |          |
| U.S. Treasury and agencies                                      | \$ 7    | \$ 2,516 | \$      | \$      | \$ 2,523 |
| Mortgage-backed securities                                      |         |          |         |         |          |
| Residential                                                     |         |          |         |         |          |
| Agency                                                          |         | 26,187   |         |         | 26,187   |
| Non-agency                                                      |         |          |         |         |          |
| Prime                                                           |         |          | 2,431   |         | 2,431    |
| Non-prime                                                       |         |          | 1,058   |         | 1,058    |
| Commercial                                                      |         |          | 15      |         | 15       |
| Asset-backed securities                                         |         |          |         |         |          |
| Collateralized debt obligations/Collateralized loan obligations |         | 2        | 84      |         | 86       |
| Other                                                           |         |          | 435     |         | 435      |
| Obligations of state and political subdivisions                 |         | 6,250    |         |         | 6,250    |
| Obligations of foreign governments                              |         | 6        |         |         | 6        |
| Corporate debt securities                                       |         | 806      | 10      |         | 816      |
| Perpetual preferred securities                                  |         | 384      |         |         | 384      |
| Other investments                                               | 564     | 1        |         |         | 565      |

|                               |        |           |          |            |           |
|-------------------------------|--------|-----------|----------|------------|-----------|
| Total available-for-sale      | 571    | 36,152    | 4,033    |            | 40,756    |
| Mortgage loans held for sale  |        | 6,939     |          |            | 6,939     |
| Mortgage servicing rights     |        |           | 1,482    |            | 1,482     |
| Other assets (a)              |        | 727       | 1,037    | (354)      | 1,410     |
| Total                         | \$ 571 | \$ 43,818 | \$ 6,552 | \$ (354)   | \$ 50,587 |
| Derivative liabilities        | \$     | \$ 1,873  | \$ 69    | \$ (1,164) | \$ 778    |
| <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 |
| Derivative liabilities        | \$     | \$ 3,127  | \$ 46    | \$ (1,251) | \$ 1,922  |

(a) Represents primarily derivative receivables and trading securities.

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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):

|                                                      |                           | Net<br>Gains                          | Net<br>Gains                               | Purchases,<br>Sales,<br>Principal            |                                 | Net<br>Change<br>in<br>Unrealized<br>Gains<br>(Losses)<br>Relating<br>to |
|------------------------------------------------------|---------------------------|---------------------------------------|--------------------------------------------|----------------------------------------------|---------------------------------|--------------------------------------------------------------------------|
|                                                      | Beginning<br>of<br>Period | (Losses)<br>Included<br>Net<br>Income | Other<br>Comprehensive<br>Income<br>(Loss) | Payments,<br>Issuances<br>and<br>Settlements | Transfers<br>into<br>Level<br>3 | End<br>of<br>Period<br>Balance                                           |
| Three Months Ended June 30,<br>(Dollars in Millions) | Balance                   | Income                                | (Loss)                                     |                                              |                                 | Assets<br>Still<br>Held at<br>End of<br>Period                           |
| <b>2009</b>                                          |                           |                                       |                                            |                                              |                                 |                                                                          |
| Available-for-sale securities                        |                           |                                       |                                            |                                              |                                 |                                                                          |
| Mortgage-backed securities                           |                           |                                       |                                            |                                              |                                 |                                                                          |
| Residential non-agency                               |                           |                                       |                                            |                                              |                                 |                                                                          |
| Prime                                                | \$ 2,560                  | \$ 1                                  | \$ 100                                     | \$ (230)                                     | \$                              | \$ 2,431                                                                 |
| Non-prime                                            | 1,060                     | (49)                                  | 103                                        | (56)                                         |                                 | 1,058                                                                    |
| Commercial                                           | 15                        |                                       |                                            |                                              |                                 | 15                                                                       |
| Asset-backed securities                              |                           |                                       |                                            |                                              |                                 |                                                                          |
| Collateralized debt                                  |                           |                                       |                                            |                                              |                                 |                                                                          |
| obligations/Collateralized loan                      |                           |                                       |                                            |                                              |                                 |                                                                          |
| obligations                                          | 82                        |                                       | 3                                          | (1)                                          |                                 | 84                                                                       |
| Other                                                | 502                       | (25)                                  | (41)                                       | (1)                                          |                                 | 435                                                                      |
| Corporate debt securities                            | 10                        |                                       |                                            |                                              |                                 | 10                                                                       |
| Total                                                | 4,229                     | (73)(a)                               | 165                                        | (288)                                        |                                 | 4,033                                                                    |
| Mortgage servicing rights                            | 1,182                     | 19(b)                                 |                                            | 281                                          |                                 | 1,482                                                                    |
| Net other assets and liabilities                     | 1,556                     | (602)(b)                              |                                            | 13                                           | 1                               | 968                                                                      |
| <b>2008</b>                                          |                           |                                       |                                            |                                              |                                 |                                                                          |
| Available-for-sale securities                        | \$ 2,528                  | \$ (47)(a)                            | \$ (81)                                    | \$ (434)                                     | \$ 25                           | \$ 1,991                                                                 |
| Mortgage servicing rights                            | 1,390                     | 192(b)                                |                                            | 149                                          |                                 | 1,731                                                                    |
| Net other assets and liabilities                     | 824                       | (646)(d)                              |                                            | 82                                           | 10                              | 270                                                                      |

Net  
Gains  
(Losses) Purchases,  
Sales,  
Principal

Net  
Change  
in  
Unrealized  
Gains



| Six Months Ended June 30,        | Beginning<br>of<br>Period | Net<br>Gains<br>(Losses)<br>Included<br>Comprehensive<br>Net<br>Income | Included<br>in<br>Other<br>Income<br>(Loss) | Sales,<br>Principal<br>Payments,<br>Issuances<br>and<br>Settlements | Transfers<br>into<br>Level 3 | End<br>of<br>Period<br>Balance | (Losses)<br>Relating<br>to Assets<br>Still Held<br>at<br>End of<br>Period |
|----------------------------------|---------------------------|------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------------------------------|------------------------------|--------------------------------|---------------------------------------------------------------------------|
| (Dollars in Millions)            | Balance                   | Income                                                                 |                                             |                                                                     |                              | Balance                        |                                                                           |
| <b>2009</b>                      |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| Available-for-sale securities    |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| Mortgage-backed securities       |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| Residential non-agency           |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| Prime                            | \$ 183                    | \$ (5)                                                                 | \$ 368                                      | \$ (363)                                                            | \$ 2,248                     | \$ 2,431                       | \$ 360                                                                    |
| Non-prime                        | 1,022                     | (75)                                                                   | 81                                          | (103)                                                               | 133                          | 1,058                          | (42)                                                                      |
| Commercial                       | 17                        | (1)                                                                    | (1)                                         |                                                                     |                              | 15                             | (1)                                                                       |
| Asset-backed securities          |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| Collateralized debt              |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| obligations/Collateralized       |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| loan obligations                 | 86                        | (5)                                                                    | 5                                           | (6)                                                                 | 4                            | 84                             | 4                                                                         |
| Other                            | 523                       | (40)                                                                   | (37)                                        | (14)                                                                | 3                            | 435                            | (134)                                                                     |
| Corporate debt securities        | 13                        | (3)                                                                    |                                             |                                                                     |                              | 10                             |                                                                           |
| Total                            | 1,844                     | (129)(a)                                                               | 416                                         | (486)                                                               | 2,388                        | 4,033                          | 187                                                                       |
| Mortgage servicing rights        | 1,194                     | (219)(b)                                                               |                                             | 507                                                                 |                              | 1,482                          | (219)(b)                                                                  |
| Net other assets and liabilities | 1,698                     | (639)(f)                                                               |                                             | (92)                                                                | 1                            | 968                            | (1,002)(g)                                                                |
| <b>2008</b>                      |                           |                                                                        |                                             |                                                                     |                              |                                |                                                                           |
| Available-for-sale securities    | \$ 2,923                  | \$ (294)(a)                                                            | \$ (87)                                     | \$ (576)                                                            | \$ 25                        | \$ 1,991                       | \$ (87)                                                                   |
| Mortgage servicing rights        | 1,462                     | (27)(b)                                                                |                                             | 296                                                                 |                              | 1,731                          | (27)(b)                                                                   |
| Net other assets and liabilities | 338                       | (184)(h)                                                               |                                             | 116                                                                 |                              | 270                            | (33)(i)                                                                   |

(a) Included in securities gains (losses).

(b) Included in mortgage banking revenue.

(c) Approximately \$(478) million included in other noninterest income and \$(117) million included in mortgage banking revenue.

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

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

(f) Approximately \$(921) million included in other noninterest income and \$282 million included in mortgage banking revenue.

(g) Approximately \$(663) million included in other noninterest income and \$(339) million included in mortgage banking revenue.

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

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

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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-market 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)       | June 30, 2009 |         |         |       | December 31, 2008 |         |         |       |
|-----------------------------|---------------|---------|---------|-------|-------------------|---------|---------|-------|
|                             | Level 1       | Level 2 | Level 3 | Total | Level 1           | Level 2 | Level 3 | Total |
| Loans held for sale         | \$            | \$ 7    | \$      | \$ 7  | \$                | \$ 12   | \$      | \$ 12 |
| Loans (a)                   |               | 98      |         | 98    |                   | 117     |         | 117   |
| Other real estate owned (b) |               | 106     |         | 106   |                   | 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 June 30, |      | Six Months Ended June 30, |      |
|-----------------------------|-----------------------------|------|---------------------------|------|
|                             | 2009                        | 2008 | 2009                      | 2008 |
| Loans held for sale         | \$                          | \$ 2 | \$ 1                      | \$ 6 |
| Loans (a)                   | 59                          | 17   | 145                       | 21   |
| Other real estate owned (b) | 42                          | 20   | 64                        | 30   |
| Other intangible assets     | 1                           |      | 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:

| June 30, 2009 | December 31, 2008 |
|---------------|-------------------|
| Excess of     | Excess of         |

|                                | Fair<br>Value      | Aggregate           | Carrying<br>Amount<br>Over<br>(Under)<br>Unpaid<br>Principal | Fair<br>Value      | Aggregate           | Carrying<br>Amount<br>Over<br>(Under)<br>Unpaid<br>Principal |
|--------------------------------|--------------------|---------------------|--------------------------------------------------------------|--------------------|---------------------|--------------------------------------------------------------|
| (Dollars in Millions)          | Carrying<br>Amount | Unpaid<br>Principal | Unpaid<br>Principal                                          | Carrying<br>Amount | Unpaid<br>Principal | Unpaid<br>Principal                                          |
| Total loans                    | \$ 6,939           | \$ 6,913            | \$ 26                                                        | \$ 2,728           | \$ 2,649            | \$ 79                                                        |
| Loans 90 days or more past due | 24                 | 28                  | (4)                                                          | 11                 | 13                  | (2)                                                          |

**Disclosures about Fair Value of Financial Instruments** The following table summarizes the estimated fair value for financial instruments as of June 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.

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

| (Dollars in Millions)                  | June 30, 2009   |            | December 31, 2008 |            |
|----------------------------------------|-----------------|------------|-------------------|------------|
|                                        | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial Assets</b>                |                 |            |                   |            |
| Cash and due from banks                | \$ 6,381        | \$ 6,381   | \$ 6,859          | \$ 6,859   |
| Investment securities held-to-maturity | 49              | 50         | 53                | 54         |
| Mortgage loans held for sale (a)       | 8               | 8          | 14                | 14         |
| Other loans held for sale              | 423             | 424        | 468               | 470        |
| Loans                                  | 177,935         | 176,944    | 181,715           | 180,311    |
| <b>Financial Liabilities</b>           |                 |            |                   |            |
| Deposits                               | 163,883         | 164,138    | 159,350           | 161,196    |
| Short-term borrowings                  | 29,698          | 30,027     | 33,983            | 34,333     |
| Long-term debt                         | 39,196          | 38,822     | 38,359            | 38,135     |

(a) Balance excludes mortgage loans held for sale for which the fair value option 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 \$328 million and \$238 million at June 30, 2009 and December 31, 2008, respectively. The carrying value of other guarantees was \$285 million and \$302 million at June 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.

As of June 30, 2009, the carrying amount of the Company's liability related to the remaining Visa Litigation was \$149 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.

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**Table of Contents****Other Guarantees and Contingent Liabilities**

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

| (Dollars in Millions)               | Carrying<br>Amount | Maximum<br>Potential<br>Future<br>Payments |
|-------------------------------------|--------------------|--------------------------------------------|
| Standby letters of credit           | \$ 94              | \$ 17,294                                  |
| Third-party borrowing arrangements  |                    | 310                                        |
| Securities lending indemnifications |                    | 6,487                                      |
| Asset sales (a)                     | 32                 | 507                                        |
| Merchant processing                 | 66                 | 66,768                                     |
| Other guarantees                    | 6                  | 5,938                                      |
| Other contingent liabilities        | 32                 | 2,039                                      |

(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 June 30, 2009, the value of airline tickets purchased to be delivered at a future date was \$4.8 billion. The Company held collateral of \$1.3 billion 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 June 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.



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**Note 14** Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to June 30, 2009 through August 10, 2009, the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized in the consolidated financial statements.

On July 15, 2009, the Company repurchased for \$139 million the warrant to purchase 33 million shares of the Company's common stock held by the U.S. Department of the Treasury. The warrant repurchase transaction will be accounted for as a reduction in the Company's capital surplus in the third quarter of 2009.

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## Daily Average Balance Sheet And Related Yields And Rates

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

For the Three Months Ended June 30,  
20092008

| (Dollars in Millions)<br>(Unaudited)                       | Average<br>Balances | Interest | Yields<br>and<br>Rates | Average<br>Balances | Interest | Yields<br>and<br>Rates | %<br>Change<br>Average<br>Balances |
|------------------------------------------------------------|---------------------|----------|------------------------|---------------------|----------|------------------------|------------------------------------|
| <b>Assets</b>                                              |                     |          |                        |                     |          |                        |                                    |
| Investment securities                                      | \$ 42,189           | \$ 443   | 4.20%                  | \$ 42,999           | \$ 538   | 5.01%                  | (1.9)%                             |
| Loans held for sale                                        | 6,092               | 71       | 4.65                   | 3,417               | 49       | 5.70                   | 78.3                               |
| Loans (b)                                                  |                     |          |                        |                     |          |                        |                                    |
| Commercial                                                 | 54,059              | 523      | 3.89                   | 53,979              | 645      | 4.80                   | .1                                 |
| Commercial real estate                                     | 33,727              | 361      | 4.29                   | 30,473              | 429      | 5.67                   | 10.7                               |
| Residential mortgages                                      | 23,964              | 338      | 5.64                   | 23,307              | 354      | 6.08                   | 2.8                                |
| Retail                                                     | 61,427              | 1,011    | 6.60                   | 55,311              | 1,009    | 7.34                   | 11.1                               |
| Total loans, excluding<br>covered assets                   | 173,177             | 2,233    | 5.17                   | 163,070             | 2,437    | 6.01                   | 6.2                                |
| Covered assets                                             | 10,701              | 124      | 4.66                   |                     |          |                        | *                                  |
| Total loans                                                | 183,878             | 2,357    | 5.14                   | 163,070             | 2,437    | 6.01                   | 12.8                               |
| Other earning assets                                       | 2,106               | 22       | 4.16                   | 2,603               | 43       | 6.58                   | (19.1)                             |
| Total earning assets                                       | 234,265             | 2,893    | 4.95                   | 212,089             | 3,067    | 5.81                   | 10.5                               |
| Allowance for loan losses                                  | (4,260)             |          |                        | (2,292)             |          |                        | (85.9)                             |
| Unrealized gain (loss) on<br>available-for-sale securities | (1,857)             |          |                        | (1,548)             |          |                        | (20.0)                             |
| Other assets                                               | 37,959              |          |                        | 33,972              |          |                        | 11.7                               |
| Total assets                                               | \$ 266,107          |          |                        | \$ 242,221          |          |                        | 9.9                                |
| <b>Liabilities and<br/>Shareholders' Equity</b>            |                     |          |                        |                     |          |                        |                                    |
| Noninterest-bearing deposits                               | \$ 37,388           |          |                        | \$ 27,851           |          |                        | 34.2                               |
| Interest-bearing deposits                                  |                     |          |                        |                     |          |                        |                                    |
| Interest checking                                          | 37,393              | 21       | .23                    | 32,479              | 67       | .83                    | 15.1                               |
| Money market savings                                       | 27,250              | 34       | .50                    | 26,426              | 79       | 1.21                   | 3.1                                |
| Savings accounts                                           | 12,278              | 16       | .52                    | 5,377               | 2        | .18                    | *                                  |
| Time certificates of deposit<br>less than \$100,000        | 17,968              | 123      | 2.73                   | 12,635              | 109      | 3.48                   | 42.2                               |
| Time deposits greater than<br>\$100,000                    | 30,943              | 120      | 1.56                   | 31,041              | 201      | 2.59                   | (.3)                               |
|                                                            | 125,832             | 314      | 1.00                   | 107,958             | 458      | 1.71                   | 16.6                               |

|                                                             |            |          |       |            |          |       |        |
|-------------------------------------------------------------|------------|----------|-------|------------|----------|-------|--------|
| Total interest-bearing deposits                             |            |          |       |            |          |       |        |
| Short-term borrowings                                       | 27,638     | 134      | 1.96  | 38,018     | 282      | 2.99  | (27.3) |
| Long-term debt                                              | 38,768     | 341      | 3.53  | 37,879     | 419      | 4.44  | 2.3    |
| Total interest-bearing liabilities                          | 192,238    | 789      | 1.65  | 183,855    | 1,159    | 2.53  | 4.6    |
| Other liabilities                                           | 7,565      |          |       | 7,434      |          |       | 1.8    |
| Shareholders equity                                         |            |          |       |            |          |       |        |
| Preferred equity                                            | 6,951      |          |       | 1,500      |          |       | *      |
| Common equity                                               | 21,251     |          |       | 20,820     |          |       | 2.1    |
| Total U.S. Bancorp shareholders equity                      | 28,202     |          |       | 22,320     |          |       | 26.4   |
| Noncontrolling interests                                    | 714        |          |       | 761        |          |       | (6.2)  |
| Total equity                                                | 28,916     |          |       | 23,081     |          |       | 25.3   |
| Total liabilities and equity                                | \$ 266,107 |          |       | \$ 242,221 |          |       | 9.9%   |
| Net interest income                                         |            | \$ 2,104 |       |            | \$ 1,908 |       |        |
| Gross interest margin                                       |            |          | 3.30% |            |          | 3.28% |        |
| Gross interest margin without taxable-equivalent increments |            |          | 3.21  |            |          | 3.22  |        |
| <b>Percent of Earning Assets</b>                            |            |          |       |            |          |       |        |
| Interest income                                             |            |          | 4.95% |            |          | 5.81% |        |
| Interest expense                                            |            |          | 1.35  |            |          | 2.20  |        |
| Net interest margin                                         |            |          | 3.60% |            |          | 3.61% |        |
| Net interest margin without taxable-equivalent increments   |            |          | 3.51% |            |          | 3.55% |        |

\* 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

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

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|                                                             |            |          |       |            |          |       |        |
|-------------------------------------------------------------|------------|----------|-------|------------|----------|-------|--------|
| Short-term borrowings                                       | 29,915     | 282      | 1.90  | 36,954     | 630      | 3.43  | (19.0) |
| Long-term debt                                              | 38,279     | 694      | 3.65  | 38,851     | 893      | 4.62  | (1.5)  |
| Total interest-bearing liabilities                          | 193,367    | 1,614    | 1.68  | 181,653    | 2,587    | 2.86  | 6.4    |
| Other liabilities                                           | 7,863      |          |       | 7,648      |          |       | 2.8    |
| Shareholders' equity                                        |            |          |       |            |          |       |        |
| Preferred equity                                            | 7,440      |          |       | 1,291      |          |       | *      |
| Common equity                                               | 20,074     |          |       | 20,608     |          |       | (2.6)  |
| Total U.S. Bancorp shareholders' equity                     | 27,514     |          |       | 21,899     |          |       | 25.6   |
| Noncontrolling interests                                    | 720        |          |       | 763        |          |       | (5.6)  |
| Total equity                                                | 28,234     |          |       | 22,662     |          |       | 24.6   |
| Total liabilities and equity                                | \$ 266,171 |          |       | \$ 239,448 |          |       | 11.2%  |
| Net interest income                                         |            | \$ 4,199 |       |            | \$ 3,738 |       |        |
| Gross interest margin                                       |            |          | 3.30% |            |          | 3.20% |        |
| Gross interest margin without taxable-equivalent increments |            |          | 3.22  |            |          | 3.14  |        |
| <b>Percent of Earning Assets</b>                            |            |          |       |            |          |       |        |
| Interest income                                             |            |          | 4.98% |            |          | 6.06% |        |
| Interest expense                                            |            |          | 1.39  |            |          | 2.48  |        |
| Net interest margin                                         |            |          | 3.59% |            |          | 3.58% |        |
| Net interest margin without taxable-equivalent increments   |            |          | 3.51% |            |          | 3.52% |        |

\* Not meaningful

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

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

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Part II Other Information

**Item 1A. Risk Factors** There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 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 second quarter of 2009.

**Item 4. Submission of Matters to a Vote of Security Holders** The information contained in Part II, Item 4 of the Company's Form 10-Q for the quarterly period ended March 31, 2009, is incorporated herein by reference.

**Item 6. Exhibits**

- 3.1 Restated Certificate of Incorporation, as amended
- 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 June 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.

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**SIGNATURE**

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

U.S. BANCORP

By: /s/ Terrance R. Dolan

Terrance R. Dolan  
Executive Vice President and Controller  
(Principal Accounting Officer and Duly Authorized Officer)  
DATE: August 10, 2009

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U.S. Bancorp

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

| (Dollars in Millions)                                                                        | Three Months<br>Ended<br>June 30, 2009 | Six Months<br>Ended<br>June 30, 2009 |
|----------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------|
| <b>Earnings</b>                                                                              |                                        |                                      |
| 1. Net income attributable to U.S. Bancorp                                                   | \$ 471                                 | \$ 1,000                             |
| 2. Applicable income taxes, including interest expense related to unrecognized tax positions | 100                                    | 201                                  |
| 3. Income before income taxes (1 + 2)                                                        | \$ 571                                 | \$ 1,201                             |
| 4. Fixed charges:                                                                            |                                        |                                      |
| a. Interest expense excluding interest on deposits*                                          | \$ 472                                 | \$ 968                               |
| b. Portion of rents representative of interest and amortization of debt expense              | 24                                     | 48                                   |
| c. Fixed charges excluding interest on deposits (4a + 4b)                                    | 496                                    | 1,016                                |
| d. Interest on deposits                                                                      | 314                                    | 638                                  |
| e. Fixed charges including interest on deposits (4c + 4d)                                    | \$ 810                                 | \$ 1,654                             |
| 5. Amortization of interest capitalized                                                      | \$                                     | \$                                   |
| 6. Earnings excluding interest on deposits (3 + 4c + 5)                                      | 1,067                                  | 2,217                                |
| 7. Earnings including interest on deposits (3 + 4e + 5)                                      | 1,381                                  | 2,855                                |
| 8. Fixed charges excluding interest on deposits (4c)                                         | 496                                    | 1,016                                |
| 9. Fixed charges including interest on deposits (4e)                                         | 810                                    | 1,654                                |
| <b>Ratio of Earnings to Fixed Charges</b>                                                    |                                        |                                      |
| 10. Excluding interest on deposits (line 6/line 8)                                           | 2.15                                   | 2.18                                 |
| 11. Including interest on deposits (line 7/line 9)                                           | 1.70                                   | 1.73                                 |

\* Excludes interest expense related to unrecognized tax positions.

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**EXHIBIT 31.1**

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

I, Richard K. Davis, certify that:

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

/s/ Richard K. Davis  
Richard K. Davis



*Chief Executive Officer*

Dated: August 10, 2009

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**EXHIBIT 31.2**

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

I, Andrew Cecere, certify that:

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

/s/ Andrew Cecere  
Andrew Cecere

*Chief Financial Officer*

Dated: August 10, 2009

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**EXHIBIT 32**

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

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 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: August 10, 2009

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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, Corporate 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

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