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

Table of Contents

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP
(Exact name of registrant as specified in its charter)

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

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

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

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

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

YES þ NO o

Indicate by check mark whether the registrant 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 þ NO o

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

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

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

YES o NO þ

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

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

Table of Contents and Form 10-Q Cross Reference Index

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

This Quarterly Report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date made. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance could be impacted as the financial industry restructures in the current environment, by increased regulation of financial institutions or other effects of recently enacted legislation, and by changes in the competitive landscape. U.S. Bancorp s results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, market risk, operational risk, legal risk, and regulatory and compliance risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2008, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

Table of Contents

Table 1 Selected Financial Data

hares in Millions, Except Per Share Data)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Percent Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
ncome Statement					
come (taxable-equivalent basis) (a)	$ 2,157	$ 1,967	9.7%	$ 6,356	$ 5,705
come	2,169	1,823	19.0	6,229	6,073
s (losses), net	(76)	(411)	81.5	(293)	(725)
nue	4,250	3,379	25.8	12,292	11,053
pense	2,053	1,813	13.2	6,053	5,410
redit losses	1,456	748	94.7	4,169	1,829
taxes	741	818	(9.4)	2,070	3,814
alent adjustment	50	34	47.1	148	94
ome taxes	86	198	(56.6)	287	1,060
	605	586	3.2	1,635	2,660
ributable to noncontrolling interests	(2)	(10)	80.0	(32)	(44)
ributable to U.S. Bancorp	$ 603	$ 576	4.7	$ 1,603	$ 2,616
plicable to U.S. Bancorp common	$ 583	$ 557	4.7	$ 1,223	$ 2,560
Share					
hare	$ .31	$ .32	(3.1)%	$ .67	$ 1.47
gs per share	.30	.32	(6.3)	.66	1.46
lared per share	.050	.425	(88.2)	.150	1.275
r share	12.38	11.50	7.7		
per share	21.86	36.02	(39.3)		
non shares outstanding	1,908	1,743	9.5	1,832	1,738
ed common shares outstanding	1,917	1,756	9.2	1,840	1,753
ios					
rage assets	.90%	.94%		.81%	1.45%
rage common equity	10.0	10.8		7.7	16.6
argin (taxable-equivalent basis) (a)	3.67	3.65		3.62	3.60
o (b)	47.5	47.8		48.1	45.9
nces					
	$181,968	$166,560	9.3%	$ 183,837	$ 161,639
sale	7,359	3,495	*	6,222	4,008
curities	42,558	42,548		42,357	43,144
	234,111	214,973	8.9	234,559	211,372
	264,411	243,623	8.5	265,579	240,850
earing deposits	36,982	28,322	30.6	36,800	27,766

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

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

* *Not meaningful.*

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

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

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

Table of Contents

Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $603 million for the third quarter of 2009 or $.30 per diluted common share, compared with $576 million, or $.32 per diluted common share for the third quarter of 2008. Return on average assets and return on average common equity were .90 percent and 10.0 percent, respectively, for the third quarter of 2009, compared with .94 percent and 10.8 percent, respectively, for the third quarter of 2008. During the third quarter of 2009, the Company strengthened its allowance for credit losses by recording $415 million of provision for credit losses in excess of net charge-offs in light of continued credit deterioration arising from the current economic environment. Other significant items in the third quarter of 2009 included $76 million of net securities losses and a $39 million gain related to the Company s investment in Visa Inc. Significant items included in the third quarter of 2008 results were $250 million of provision for credit losses in excess of net charge-offs and net securities losses of $411 million.

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2009 was $871 million (25.8 percent) higher than the third quarter of 2008, reflecting a 9.7 percent increase in net interest income and a 48.2 percent increase in noninterest income. The increase in net interest income from a year ago was principally the result of growth in average earning assets and an increase in core deposit funding. Noninterest income increased from a year ago, principally due to strong growth in mortgage banking revenue, a decrease in net securities losses, and lower retail lease residual losses.

Total noninterest expense in the third quarter of 2009 was $240 million (13.2 percent) higher than the third quarter of 2008, primarily due to the impact of acquisitions, higher Federal Deposit Insurance Corporation (FDIC) deposit insurance expense, and marketing expense principally associated with the introduction of a new credit card product.

The provision for credit losses for the third quarter of 2009 increased $708 million over the third quarter of 2008, reflecting weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected stress in the residential real estate markets. Net charge-offs in the third quarter of 2009 were $1.0 billion, compared with net charge-offs of $498 million in the third quarter of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income attributable to U.S. Bancorp of $1.6 billion for the first nine months of 2009 or $.66 per diluted common share, compared with $2.6 billion, or $1.46 per diluted common share for the first nine months of 2008. Return on average assets and return on average common equity were .81 percent and 7.7 percent, respectively, for the first nine months of 2009, compared with 1.45 percent and 16.6 percent, respectively, for the first nine months of 2008. The Company s results for the first nine months of 2009 reflected several significant items, including provision for credit losses in excess of net charge-offs of $1.4 billion, $293 million of net securities losses, a $123 million FDIC special assessment, a $92 million gain from a corporate real estate transaction and the $39 million gain related to the Company s investment in Visa Inc. Significant items included in the first nine months of 2008 results were a $492 million gain related to the Company s ownership position in Visa Inc. (2008 Visa Gain), $642 million provision for credit losses in excess of net charge-offs and net securities losses of $725 million.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2009 was $1.2 billion (11.2 percent) higher than the first nine months of 2008, reflecting an 11.4 percent increase in net interest income and an 11.0 percent increase in noninterest income. The increase in net interest income from a year ago was principally the result of growth in average earning assets and an increase in core deposit funding. Noninterest income increased due to strong growth in mortgage banking revenue, a significant decrease in net securities losses, higher commercial products revenue and treasury management fees, and gains from a corporate real estate transaction and the Company s investment in Visa Inc. These revenue increases were partially offset by lower trust and investment management fees, lower deposit service charges and the 2008 Visa Gain.

Total noninterest expense in the first nine months of 2009 was $643 million (11.9 percent) higher than in the first nine months of 2008, primarily due to the impact of acquisitions, higher FDIC deposit insurance expense, and marketing expense, principally related to credit card initiatives.

The provision for credit losses for the first nine months of 2009 increased $2.3 billion over the first nine months of 2008. The increase in the provision for credit losses reflected weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected stress in the residential real estate markets. Net charge-offs in the first nine months of 2009 were $2.8 billion, compared with net charge-offs of $1.2 billion in the first nine months of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $2.2 billion in the third quarter of 2009, compared with $2.0 billion in the third quarter of 2008. Net interest income, on a taxable-equivalent basis, was $6.4 billion in the first nine months of 2009, compared with $5.7 billion in the first nine months of 2008. The increases were due to growth in average earning assets and an increase in core deposit funding. Average earning assets were $19.1 billion (8.9 percent) higher in the third quarter of 2009 and $23.2 billion (11.0 percent) higher in the first nine months of 2009, compared with the same periods of 2008, primarily driven by increases in average loans, including originated and acquired loans. The net interest margin in the third quarter and first nine months of 2009 was 3.67 percent and 3.62 percent, respectively, compared with 3.65 percent and 3.60 percent, respectively, for the same periods of 2008. Given the current interest rate environment, the Company expects the net interest margin to remain relatively stable, with a bias toward modest improvement in the fourth quarter of 2009. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Total average loans for the third quarter and first nine months of 2009 were $15.4 billion (9.3 percent) and $22.2 billion (13.7 percent) higher, respectively, than the same periods of 2008, driven by new loan originations, acquisitions and portfolio purchases. Retail loan growth, year-over-year, was driven by increases in credit card, home equity and federally-guaranteed student loans. Average credit card balances for the third quarter and first nine months of 2009 were $3.2 billion (25.9 percent) and $2.8 billion (24.4 percent) higher, respectively, than the same periods of 2008, reflecting both growth in existing portfolios and portfolio purchases of approximately $.3 billion and $1.3 billion during the second and third quarters of 2009, respectively. Commercial real estate loan growth reflected new business and higher utilization of existing credits driven by market conditions. Residential mortgage growth reflected increased origination activity as a result of market interest rate declines. Commercial loans decreased for the third quarter of 2009, compared with the same period of 2008, principally due to lower utilization of existing commitments and a reduction in demand for new loans. Assets covered by loss sharing agreements with the FDIC (covered assets) relate to the 2008 acquisitions of the banking operations of Downey Savings and Loan Association, F.A. and PFF Bank and Trust (Downey and PFF) and the average balances were $10.3 billion and $10.8 billion in the third quarter and first nine months of 2009, respectively.

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

Total average deposits for the third quarter and first nine months of 2009 increased $32.8 billion (24.6 percent) and $30.0 billion (22.5 percent), respectively, over the same periods of 2008. Excluding deposits from 2008 and 2009 acquisitions, third quarter 2009 average total deposits increased $21.5 billion (16.1 percent) over the third quarter of 2008. Average noninterest-bearing deposits for the third quarter and first nine months of 2009 increased $8.7 billion (30.6 percent) and $9.1 billion (32.5 percent), respectively, compared with same periods of 2008, primarily due to growth in the Consumer and Wholesale Banking business lines. Average total savings deposits increased $21.4 billion (33.5 percent) in the third quarter and $14.5 billion (23.0 percent) in the first nine months of 2009, compared with the same periods in 2008, the result of higher consumer, government, broker-dealer and institutional trust customer balances and the impact of acquisitions. Contributing to the increase in savings accounts was strong participation in a new savings product introduced across the franchise by Consumer Banking late in the third quarter of 2008. Average time certificates of deposit less than $100,000 were higher in the third quarter and first nine months of 2009 by $4.3 billion (34.1 percent) and $4.7 billion

Table of Contents

Table 2 Noninterest Income

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

* *Not meaningful*

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

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2009 increased $708 million and $2.3 billion, respectively, over the same periods of 2008, reflecting the adverse impact of current economic conditions compared with a year ago. The provision for credit losses exceeded net charge-offs by $415 million and $1.4 billion in the third quarter and first nine months of 2009, respectively, compared with $250 million and $642 million in the same periods of 2008. The increases in the provision and allowance for credit losses reflected weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected stress in residential real estate markets. Net charge-offs were $1.0 billion in the third quarter and $2.8 billion in the first nine months of 2009, compared with net charge-offs of $498 million in the third quarter and $1.2 billion in the first nine months of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was $2.1 billion in the third quarter and $5.9 billion in the first nine months of 2009, increasing $681 million (48.2 percent) and $588 million (11.0 percent), respectively, from the same periods of 2008. The increases in noninterest income from a year ago were principally due to a significant increase in mortgage banking revenue, as the lower rate environment drove strong mortgage loan production and related gains. Other increases in noninterest income included higher ATM processing services related to growth in transaction volumes and business expansion, higher treasury management fees resulting from increased new business activity and pricing, and higher commercial products revenue due to higher letters of credit, capital markets and other commercial loan fees. Net securities losses for the third quarter and first nine months of 2009 were also lower than the same periods a year ago. Other income increased in the third quarter of 2009, compared with the third quarter of 2008, due principally to a significant reduction in retail lease residual losses, a gain related to the Company s investment in Visa Inc., and the impact of lower market-related valuation losses relative to the prior year, partially offset by higher valuation losses on equity investments. Other income decreased in the first nine months of 2009, compared with the same period of the prior year, due to the 2008 Visa Gain, partially offset by a reduction in residual lease valuation losses in the current year and the gain related to the Company s investment in Visa Inc. recorded in the third quarter of 2009. Deposit service charges decreased primarily due to a decrease in the number of overdraft incidences, which more than offset account growth. Trust and investment management fees declined, as did investment product

Table 3 Noninterest Expense

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

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

fees and commissions, reflecting adverse equity market conditions.

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

Income Tax Expense The provision for income taxes was $86 million (an effective rate of 12.4 percent) for the third quarter and $287 million (an effective rate of 14.9 percent) for the first nine months of 2009, compared with $198 million (an effective rate of 25.3 percent) and $1.1 billion (an effective rate of 28.5 percent) for the same periods of 2008. The declines in the effective tax rates in the third quarter and first nine months of 2009, compared with the same periods of the prior year, reflected the impact of the relative level of tax-exempt income, and investments in affordable housing and other tax-advantaged projects, combined with lower pre-tax earnings year-over-year. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

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

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

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

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

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

Investment Securities Investment securities, totaled $42.3 billion at September 30, 2009, compared with $39.5 billion at December 31, 2008. The $2.8 billion increase principally reflected a decrease in unrealized losses. At September 30, 2009, adjustable-rate financial instruments comprised 47 percent of the investment securities portfolio, compared with 40 percent at December 31, 2008.
The Company conducts a regular assessment of its investment securities to determine whether any securities are other-than-temporarily impaired. During the first nine months of 2009, the Financial Accounting Standards Board issued new accounting guidance, which the Company adopted effective January 1, 2009, for the measurement and recognition of other-than-temporary impairment for debt securities. This guidance requires the portion of other-than-temporary impairment related to factors other than anticipated credit losses be recognized in other comprehensive income (loss), rather than earnings.
Net unrealized losses included in accumulated other comprehensive income (loss) were $.6 billion at September 30, 2009, compared with $2.8 billion at December 31, 2008. The decrease in unrealized losses was primarily due to increases in the fair value of agency mortgage-backed securities and obligations of state and political subdivisions, and to amounts recognized as other-than-temporary impairment in earnings.
During the third quarter and first nine months of 2009, the Company recognized impairment charges in earnings related to perpetual preferred securities, primarily issued by financial institutions, of $21 million and $228 million, respectively. The net unrealized loss for the Company s remaining investments in perpetual preferred securities was $53 million at September 30, 2009.
There is limited market activity for the remaining structured investment security and the non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management s assessment of various market factors, which are judgmental in nature. The Company recorded $51 million and $183 million of impairment charges in earnings on non-agency mortgage-backed and structured investment related securities during the third quarter and first nine months of 2009, respectively. These impairment charges were due to changes in expected cash flows resulting from the continuing decline in housing prices and an increase in foreclosure activity. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 3 and 12 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $169.8 billion at September 30, 2009, compared with $159.3 billion at December 31, 2008, an increase of $10.5 billion (6.5 percent) that reflected customer flight to quality. The increase in total deposits was primarily the result of increases in money market savings, savings accounts and interest checking balances, partially offset by decreases in noninterest-bearing deposit accounts and time deposits. Money market savings balances increased $10.5 billion (40.0 percent) due to higher corporate trust, institutional trust and custody, and broker-dealer balances. Savings account balances increased $5.6 billion (62.2 percent) due primarily to strong participation in a new savings product introduced late in the third quarter of 2008 by Consumer Banking and higher broker-dealer balances. Interest checking balances increased $5.3 billion (16.4 percent) due to higher government, branch-based, and broker-dealer balances. Noninterest-bearing deposits decreased $3.2 billion (8.7 percent) due primarily to declines in broker-dealer and corporate trust balances. Time certificates of deposit less than $100,000 decreased $2.3 billion (12.6 percent), and time deposits greater than $100,000 decreased $5.4 billion (15.1 percent), reflecting the Company s funding and pricing decisions. Time deposits greater than $100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing.

Table 4 Investment Securities

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

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

(a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
(b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.
(c) The weighted-average maturity of the available-for-sale investment securities was 7.7 years at December 31, 2008, with a corresponding weighted-average yield of 4.56 percent. The weighted-average maturity of the held-to-maturity investment securities was 8.5 years at December 31, 2008, with a corresponding weighted-average yield of 5.78 percent.
(d) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

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

Table of Contents

Borrowings The Company utilizes both short-term and long-term borrowings to fund growth of assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $28.2 billion at September 30, 2009, compared with $34.0 billion at December 31, 2008. The decrease principally reflected reduced borrowing needs as a result of increases in deposits due to customer flight to quality.

Long-term debt was $33.3 billion at September 30, 2009, compared with $38.4 billion at December 31, 2008, primarily reflecting $4.4 billion of medium-term note maturities and a $4.7 billion net decrease in Federal Home Loan Bank advances, partially offset by $4.0 billion of issuances of medium-term notes in the first nine months of 2009. The $5.1 billion (13.3 percent) decrease in long-term debt reflected asset/liability management decisions to fund the balance sheet with other sources. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

Overview

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

Credit Risk Management

The Company s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors, such as changes in unemployment rates, gross domestic product and consumer bankruptcy filings. Refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for a more detailed discussion on credit risk management processes.

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

Table of Contents

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

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

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

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

Less than or equal to 80%	$ 12,447	$ 1,792	$ 14,239	73.3%
Over 80% through 90%	2,240	710	2,950	15.2
Over 90% through 100%	1,163	833	1,996	10.3
Over 100%	114	128	242	1.2
Total	$ 15,964	$ 3,463	$ 19,427	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 September 30, 2009, approximately $2.6 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent credit rating agencies at loan origination, compared with $2.9 billion at December 31, 2008.

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

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

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

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

(Dollars in Millions)	Lines	Loans	Total	Percent of Division
Sub-Prime Borrowers				

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

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

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

90 days or more past due **excluding** nonperforming loans	September 30, 2009	December 31, 2008
Commercial		
Commercial	.19%	.15%
Lease financing		
Total commercial	.17	.13
Commercial Real Estate		
Commercial mortgages	.01	
Construction and development	.39	.36
Total commercial real estate	.12	.11
Residential Mortgages	2.32	1.55
Retail		
Credit card	2.41	2.20
Retail leasing	.11	.16
Other retail	.56	.45
Total retail	1.00	.82
Total loans, excluding covered assets	.78	.56
Covered Assets	7.92	5.13
Total loans	1.16%	.84%

90 days or more past due **including** nonperforming loans	September 30, 2009	December 31, 2008
Commercial	2.19%	.82%
Commercial real estate	5.22	3.34
Residential mortgages (a)	3.86	2.44
Retail (b)	1.28	.97
Total loans, excluding covered assets	2.69	1.57
Covered assets	14.74	10.74
Total loans	3.34%	2.14%

(a) Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due including nonperforming loans was 11.19 percent at

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

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including the guaranteed amounts, the ratio of retail loans 90 days or more past due including nonperforming loans was 1.44 percent at September 30, 2009, and 1.10 percent at December 31, 2008.

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

Table of Contents

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

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

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

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

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

(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.

Table of Contents

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

The following table provides summary delinquency information for covered assets:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
30-89 days	$ 299	$ 740	3.03%	6.46%
90 days or more	781	587	7.92	5.13
Nonperforming	672	643	6.82	5.62
Total	$ 1,752	$ 1,970	17.77%	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 accrue interest as long as the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles.

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

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

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

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

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

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

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

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

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. At September 30, 2009, total nonperforming assets were $4.4 billion, compared with $2.6 billion at December 31, 2008. Nonperforming assets at September 30, 2009 included $672 million of covered assets, compared with $643 million at December 31, 2008. These assets are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses. The ratio of total nonperforming assets to total loans and other real estate was 2.39 percent (2.14 percent excluding covered assets) at September 30, 2009, compared with 1.42 percent (1.14 percent excluding covered assets) at December 31, 2008. The increase in nonperforming assets was driven primarily by the residential construction portfolio and related industries, as well as the residential mortgage portfolio, an increase in foreclosed residential properties and the impact of the economic slowdown on other commercial customers.

Table 6 Nonperforming Assets (a)

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

Changes in Nonperforming Assets

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

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

(a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.

(b) Excludes $319 million and $209 million at September 30, 2009, and December 31, 2008, respectively of foreclosed GNMA loans which continue to accrue interest.

(c) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.

(d) Residential mortgage information excludes changes related to residential mortgages serviced by others.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
(Dollars in Millions)	2009	2008	2009	2008	2009	2008	2009	2008
Consumer Finance (a)								
Residential mortgages	$ 9,996	$ 9,941	3.69%	2.40%	$ 9,882	$ 9,943	3.52%	1.65%
Home equity and second mortgages	2,476	2,139	5.93	5.77	2,450	2,015	6.38	5.70
Other retail	591	471	4.70	5.91	561	450	5.96	5.34
Other Retail								
Residential mortgages	$ 14,409	$ 13,368	.99%	.33%	$ 14,214	$ 13,255	.71%	.27%
Home equity and second mortgages	16,892	15,719	1.22	.43	16,848	15,151	.99	.35
Other retail	22,056	21,184	1.87	1.31	22,234	19,692	1.73	1.19
Total Company								
Residential mortgages	$ 24,405	$ 23,309	2.10%	1.21%	$ 24,096	$ 23,198	1.86%	.86%
Home equity and second mortgages	19,368	17,858	1.82	1.07	19,298	17,166	1.68	.98
Other retail	22,647	21,655	1.94	1.41	22,795	20,142	1.83	1.28

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

The following table provides further information on net charge-offs as a percent of average loans outstanding on an annualized basis for the consumer finance division:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
(Dollars in Millions)	2009	2008	2009	2008	2009	2008	2009	2008
Residential mortgages								
Sub-prime borrowers	$ 2,620	$ 3,070	6.06%	4.28%	$ 2,726	$ 3,147	5.79%	3.01%
Other borrowers	7,376	6,871	2.85	1.56	7,156	6,796	2.65	1.02

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

Analysis and Determination of the Allowance for Credit Losses The allowance for loan losses reserves for probable and estimable losses incurred in the Company s loan and lease portfolio, and considers credit loss protection from loss sharing agreements with the FDIC. Management evaluates the allowance each quarter to ensure it is sufficient to cover incurred losses. Several factors were taken into consideration in evaluating the allowance for credit losses at September 30, 2009, including the risk profile of the portfolios, net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in restructured loan balances. Management also considered the uncertainty related to certain industry sectors, and the extent of credit exposure to specific borrowers within the portfolio. In addition, concentration risks associated with commercial real estate and the mix of loans, including credit cards, loans originated through the consumer finance division and residential mortgage balances, and their relative credit risks, were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio.

At September 30, 2009, the allowance for credit losses was $5.0 billion (2.72 percent of total loans and 2.88 percent of loans excluding covered assets), compared with an allowance of $3.6 billion (1.96 percent of total loans and 2.09 percent of loans excluding covered assets) at December 31, 2008. The increase reflected weak economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. It also reflected continued stress in the residential real estate markets.

Table 8 Summary of Allowance for Credit Losses

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

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

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

Residual Value Risk Management

The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2009, no significant change in the amount of residuals or concentration of the portfolios has occurred since December 31, 2008. Refer to Management s Discussion and Analysis Residual Value Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on residual value risk management.

Operational Risk Management

The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Corporate Risk Committee (Risk Committee) provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. Refer to Management s Discussion and Analysis Operational Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on operational risk management.

Interest Rate Risk Management

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

Net Interest Income Simulation Analysis Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The table below summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALPC policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At September 30, 2009, and December 31, 2008, the Company was within policy. Refer to Management s Discussion and Analysis Net Interest Income Simulation Analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on net interest income simulation analysis.

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. The ALPC policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. The up 200 bps scenario resulted in a 5.9 percent decrease in the market value of equity at September 30, 2009, compared with a 7.6 percent decrease at

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

Sensitivity of Net Interest Income

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

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

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

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. At September 30, 2009, the duration of assets, liabilities and equity was 1.7 years, 1.8 years and 1.3 years, respectively, compared with 1.6 years, 1.7 years and 1.2 years, respectively, at December 31, 2008. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on market value of equity modeling.

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

- To convert fixed-rate debt, issued to finance the Company, from fixed-rate payments to floating-rate payments;
- To convert the cash flows associated with floating-rate debt, issued to finance the Company, from floating-rate payments to fixed-rate payments; and
- To mitigate changes in value of the Company s mortgage origination pipeline, mortgage loans held for sale and mortgage servicing rights (MSRs).

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

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

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

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

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

Market Risk Management

In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. These trading activities principally support the risk management processes of the Company s customers including their management of foreign currency, interest rate risks and funding activities. The Company also manages market risk of non-trading business activities, including its MSRs and loans held-for-sale. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the amount the Company has at risk of loss to adverse market movements over a specified time horizon. The Company measures VaR at the ninety-ninth percentile using distributions derived from past market data. On average, the Company expects the one day VaR to be exceeded two to three times per year. The Company monitors the effectiveness of its risk program by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. As part of its market risk management approach, the Company sets and monitors VaR limits for each trading portfolio. The Company s trading VaR did not exceed $3 million during the first

Table 9 Capital Ratios

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

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

Liquidity Risk Management

The ALPC establishes policies and guidelines, as well as analyzes and manages liquidity, to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, as well as from an asset and liability perspective. Management monitors liquidity through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk.

During 2008 and 2009, the financial markets have been challenging for many financial institutions. As a result of these market conditions, liquidity premiums widened and many banks experienced liquidity constraints, substantially increased pricing to retain deposits or utilized the Federal Reserve System discount window to secure adequate funding. The Company s profitable operations, sound credit quality and strong balance sheet have enabled it to develop a large and reliable base of core deposit funding within its market areas and in domestic and global capital markets. As depositors and investors in the wholesale funding markets have migrated to stable financial institutions, the Company has maintained a strong liquidity position. Refer to Management s Discussion and Analysis Liquidity Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on liquidity risk management.

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

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately $2.9 billion at September 30, 2009.

Capital Management

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

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

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

Table of Contents

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

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

Time Period	Total Number of Shares Purchased as Part of the Program	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Program
July	13,150	$ 18.46	19,704,671
August	783	22.27	19,703,888
September	704	22.25	19,703,184
Total	14,637	$ 18.85	19,703,184

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company s business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2009, business line results were restated and presented on a comparable basis for organization and methodology changes to more closely align capital allocation with Basel II requirements and to allocate the provision for credit losses based on net charge-offs and changes in the risks of specific loan portfolios. Previously, the provision in excess of net charge-offs remained in Treasury and Corporate Support, and the other lines of business results included only the portion of the provision for credit losses equal to net charge-offs.

Wholesale Banking Wholesale Banking offers lending, equipment finance and small-ticket leasing, depository, treasury management, capital markets, foreign exchange, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution and public sector clients. Wholesale Banking contributed $29 million of the Company s net income in the third quarter and $142 million in the first nine months of 2009, or decreases of $253 million (89.7 percent) and $665 million (82.4 percent), respectively, compared with the same periods of 2008. The decreases were primarily driven by higher provision for credit losses and noninterest expense, partially offset by higher net revenue.

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

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

Table of Contents

Table 10 Line of Business Financial Performance

Three Months Ended September 30 (Dollars in Millions)	Wholesale Banking 2009	 2008	Percent Change	Consumer Banking 2009	 2008	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 542	$ 505	7.3%	$ 1,021	$ 973	4.9%
Noninterest income	237	234	1.3	774	505	53.3
Securities gains (losses), net		(11)	*			
Total net revenue	779	728	7.0	1,795	1,478	21.4
Noninterest expense	267	248	7.7	886	793	11.7
Other intangibles	6	6		22	14	57.1
Total noninterest expense	273	254	7.5	908	807	12.5
Income before provision and income taxes	506	474	6.8	887	671	32.2
Provision for credit losses	460	34	*	480	433	10.9
Income before income taxes	46	440	(89.5)	407	238	71.0
Income taxes and taxable-equivalent adjustment	17	160	(89.4)	148	87	70.1
Net income	29	280	(89.6)			