

US BANCORP \DE\
Form 10-Q
November 04, 2011

Table of Contents

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

41-0255900

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant's telephone number, including area code)

(not applicable)

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

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

YES NO

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

YES NO

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

YES NO

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

Class	Outstanding as of October 31, 2011
Common Stock, \$.01 Par Value	1,908,404,050 shares

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

1) Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)	
<u>a) Overview</u>	3
<u>b) Statement of Income Analysis</u>	4
<u>c) Balance Sheet Analysis</u>	6
<u>d) Non-Regulatory Capital Ratios</u>	30
<u>e) Critical Accounting Policies</u>	31
<u>f) Controls and Procedures (Item 4)</u>	31
2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)	
<u>a) Overview</u>	8
<u>b) Credit Risk Management</u>	9
<u>c) Residual Value Risk Management</u>	21
<u>d) Operational Risk Management</u>	21
<u>e) Interest Rate Risk Management</u>	21
<u>f) Market Risk Management</u>	22
<u>g) Liquidity Risk Management</u>	23
<u>h) Capital Management</u>	24
<u>3) Line of Business Financial Review</u>	24
<u>4) Financial Statements (Item 1)</u>	32
Part II Other Information	
<u>1) Risk Factors (Item 1A)</u>	72
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)</u>	72
<u>3) Exhibits (Item 6)</u>	72
<u>4) Signature</u>	73
<u>5) Exhibits</u>	74
<u>EX-12</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

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

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

certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Continued 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 is likely to be negatively impacted by effects of recently enacted and future legislation and regulation. 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, residual value risk, market risk, operational risk, interest rate risk, and liquidity 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, 2010, 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

and Shares in Millions, Except Per Share Data)	Three Months Ended September 30,			Nine Months Ended September 30,		Pe CH
	2011	2010	Percent Change	2011	2010	
Income Statement						
Interest income (taxable-equivalent basis) (a)	\$ 2,624	\$ 2,477	5.9%	\$ 7,675	\$ 7,289	
Interest income	2,180	2,119	2.9	6,351	6,202	
Provision for credit losses gains (losses), net	(9)	(9)		(22)	(64)	
Net revenue	4,795	4,587	4.5	14,004	13,427	
Interest expense	2,476	2,385	3.8	7,215	6,898	
Provision for credit losses	519	995	(47.8)	1,846	3,444	
Income before taxes	1,800	1,207	49.1	4,943	3,085	
Taxable-equivalent adjustment	58	53	9.4	169	156	
Income before income taxes	490	260	88.5	1,314	620	
Income tax expense	1,252	894	40.0	3,460	2,309	
(Income) loss attributable to noncontrolling interests	21	14	50.0	62	34	
Income attributable to U.S. Bancorp	\$ 1,273	\$ 908	40.2	\$ 3,522	\$ 2,343	
Income applicable to U.S. Bancorp common shareholders	\$ 1,237	\$ 871	42.0	\$ 3,407	\$ 2,381	
Common Share						
Book value per share	\$.65	\$.46	41.3%	\$ 1.78	\$ 1.25	
Earnings per share	.64	.45	42.2	1.77	1.24	
Dividends declared per share	.125	.050	*	.375	.150	
Market value per share	16.01	14.19	12.8			
Book value per share	23.54	21.62	8.9			
Weighted average common shares outstanding	1,915	1,913	.1	1,918	1,911	
Weighted average diluted common shares outstanding	1,922	1,920	.1	1,926	1,920	
Financial Ratios						
Return on average assets	1.57%	1.26%		1.50%	1.11%	
Return on average common equity	16.1	12.8		15.5	12.3	
Interest margin (taxable-equivalent basis) (a)	3.65	3.91		3.67	3.90	
Asset coverage ratio (b)	51.5	51.9		51.4	51.1	
Charge-offs as a percent of average loans outstanding	1.31	2.05		1.49	2.26	
Asset Balances						
Assets held for sale	\$ 202,169	\$ 192,541	5.0%	\$ 199,533	\$ 192,192	
Available-for-sale securities	3,946	6,465	(39.0)	4,382	4,824	
Other securities	66,252	47,870	38.4	61,907	47,080	
Other assets	286,269	251,916	13.6	279,305	249,408	
Total assets	321,581	286,060	12.4	314,079	283,056	

Interest-bearing deposits	58,606	39,732	47.5	50,558	39,223
Loans	215,369	182,660	17.9	209,735	182,837
Term borrowings	30,597	36,303	(15.7)	30,597	33,727
Term debt	31,609	29,422	7.4	31,786	30,696
U.S. Bancorp shareholders' equity	33,087	28,887	14.5	31,699	27,582

	September 30, 2011	December 31, 2010	
End Balances			
Investment securities	\$ 204,768	\$ 197,061	3.9%
Loans	68,378	52,978	29.1
Term debt	330,141	307,786	7.3
U.S. Bancorp shareholders' equity	222,632	204,252	9.0
Quality	30,624	31,537	(2.9)
Forming assets	33,230	29,519	12.6
Provision for credit losses	\$ 4,339	\$ 5,048	(14.0)%
Provision for credit losses as a percentage of period-end	5,190	5,531	(6.2)
	2.53%	2.81%	

	September 30, 2011	December 31, 2010
Ratios		
Capital	10.8%	10.5%
Bank-based capital	13.5	13.3
Common equity to risk-weighted assets using Basel III definition (c)	9.0	9.1
Common equity to risk-weighted assets using Basel III definition (c)	8.5	7.8
Common equity to tangible assets (c)	8.2	7.3
Common equity to risk-weighted assets (c)	6.6	6.0
Common equity to risk-weighted assets (c)	8.1	7.2

* 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 net securities gains (losses).

(c) See Non-Regulatory Capital Ratios on page 30.

U.S. Bancorp

Table of Contents

Management's Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of \$1.3 billion for the third quarter of 2011, or \$.64 per diluted common share, compared with \$908 million, or \$.45 per diluted common share for the third quarter of 2010. Return on average assets and return on average common equity were 1.57 percent and 16.1 percent, respectively, for the third quarter of 2011, compared with 1.26 percent and 12.8 percent, respectively, for the third quarter of 2010. The provision for credit losses for the third quarter of 2011 was \$150 million lower than net charge-offs. The provision for credit losses equaled net charge-offs in the third quarter of 2010.

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2011 was \$208 million (4.5 percent) higher than the third quarter of 2010, reflecting a 5.9 percent increase in net interest income and a 2.9 percent increase in total noninterest income. The increase in net interest income over a year ago was largely the result of an increase in average earning assets and continued growth in lower cost core deposit funding. Noninterest income increased over a year ago, primarily due to higher payments-related revenue, deposit service charges and commercial products revenue, partially offset by lower mortgage banking revenue.

Total noninterest expense in the third quarter of 2011 was \$91 million (3.8 percent) higher than the third quarter of 2010, primarily due to higher total compensation and employee benefits expense, including higher pension costs, higher professional services expense and other business initiatives.

The provision for credit losses for the third quarter of 2011 was \$519 million, or \$476 million (47.8 percent) lower than the third quarter of 2010. Net charge-offs in the third quarter of 2011 were \$669 million, compared with \$995 million in the third quarter of 2010. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other 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 \$3.5 billion for the first nine months of 2011, or \$1.77 per diluted common share, compared with \$2.3 billion, or \$1.24 per diluted common share for the first nine months of 2010. Return on average assets and return on average common equity were 1.50 percent and 15.5 percent, respectively, for the first nine months of 2011, compared with 1.11 percent and 12.3 percent, respectively, for the first nine months of 2010. The Company's results for the first nine months of 2011 included a \$46 million gain related to the acquisition of First Community Bank of New Mexico (FCB) in a transaction with the Federal Deposit Insurance Corporation (FDIC) during the first quarter of 2011. Results for the first nine months of 2011 also included net securities losses of \$22 million and a provision for credit losses lower than net charge-offs by \$375 million. Diluted earnings per common share for the first nine months of 2010 included a non-recurring \$.05 benefit in the second quarter related to an exchange of perpetual preferred stock for outstanding income trust securities. The first nine months of 2010 also included \$200 million of provision for credit losses in excess of net charge-offs and \$64 million of net securities losses.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2011 was \$577 million (4.3 percent) higher than the first nine months of 2010, reflecting a 5.3 percent increase in net interest income and a 3.1 percent increase in total noninterest income. The increase in net interest income over a year ago was largely the result of an increase in average earning assets and continued growth in lower cost core deposit funding. Noninterest income increased over a year ago, primarily due to higher payments-related revenue, commercial products revenue and other income, as well as lower net securities losses, partially offset by lower mortgage banking revenue.

Total noninterest expense in the first nine months of 2011 was \$317 million (4.6 percent) higher than the first nine months of 2010, primarily due to higher total compensation and employee benefits expense, including higher pension costs, higher professional services expense and other business initiatives.

The provision for credit losses for the first nine months of 2011 was \$1.8 billion, or \$1.6 billion (46.4 percent) lower than the first nine months of 2010. Net charge-offs in the first nine months of 2011 were \$2.2 billion, compared with \$3.2 billion in the first nine months of 2010. Refer to Corporate Risk Profile for further information on the provision

for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

U.S. Bancorp

Table of Contents**STATEMENT OF INCOME ANALYSIS**

Net Interest Income Net interest income, on a taxable-equivalent basis, was \$2.6 billion in the third quarter of 2011, compared with \$2.5 billion in the third quarter of 2010. Net interest income, on a taxable-equivalent basis, was \$7.7 billion in the first nine months of 2011, compared with \$7.3 billion in the first nine months of 2010. The increases were primarily the result of growth in average earning assets and lower cost core deposit funding. Average earning assets increased \$34.4 billion (13.6 percent) in the third quarter and \$29.9 billion (12.0 percent) in the first nine months of 2011, compared with the same periods of 2010, driven by increases in investment securities, loans and other earning assets, which included cash balances held at the Federal Reserve. The net interest margin in the third quarter and first nine months of 2011 was 3.65 percent and 3.67 percent, respectively, compared with 3.91 percent and 3.90 percent in the third quarter and first nine months of 2010, respectively. The decreases in the net interest margin reflected higher balances in lower yielding investment securities and growth in cash balances held at the Federal Reserve. 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 2011 were \$9.6 billion (5.0 percent) and \$7.3 billion (3.8 percent) higher, respectively, than the same periods of 2010, driven by growth in residential mortgages, commercial loans, commercial real estate loans and other retail loans, partially offset by decreases in credit card balances and loans covered by loss sharing agreements with the FDIC (covered loans). The increases were driven by demand for loans and lines by new and existing credit-worthy borrowers and the impact of the FCB acquisition. Average covered loans decreased for the third quarter and first nine months of 2011, by \$3.5 billion (18.2 percent) and \$3.7 billion (18.1 percent), respectively, compared with the same periods of 2010.

Average investment securities in the third quarter and first nine months of 2011 were \$18.4 billion (38.4 percent) and \$14.8 billion (31.5 percent) higher, respectively, than the same periods of 2010, primarily due to purchases of U.S. Treasury and government agency-related securities, as the Company increased its on-balance sheet liquidity in response to anticipated regulatory requirements.

Average total deposits for the third quarter and first nine months of 2011 were \$32.7 billion (17.9 percent) and \$26.9 billion (14.7 percent) higher, respectively, than the same periods of 2010. Excluding deposits from acquisitions, third quarter 2011 average total deposits increased \$24.2 billion (13.2 percent) over the third quarter of 2010. Average noninterest-bearing deposits for the third quarter and first nine months of 2011 were \$18.9 billion (47.5 percent) and \$11.3 billion (28.9 percent) higher, respectively, than the same periods of 2010, with growth in Wholesale Banking and Commercial Real Estate, Wealth Management and Securities Services, and Consumer and Small Business Banking balances. Average total savings deposits for the third quarter and first nine months of 2011 were \$13.4 billion (13.5 percent) and \$14.4 billion (14.5 percent) higher, respectively, than the same periods of 2010, primarily due to growth in corporate and institutional trust balances, including the impact of the December 30, 2010 acquisition of the securitization trust administration business of Bank of America, N.A. (securitization trust administration acquisition), as well as increases in Consumer and Small Business Banking balances, partially offset by lower broker-dealer balances. Average time certificates of deposit less than \$100,000 were lower in the third quarter and first nine months of 2011 by \$773 million (4.8 percent) and \$1.8 billion (10.6 percent), respectively, compared with the same periods of 2010, as a result of expected decreases in acquired certificates of deposit and decreases in Consumer and Small Business Banking balances. Average time deposits greater than \$100,000 were \$1.2 billion (4.4 percent) and \$3.0 billion (11.0 percent) higher in the third quarter and first nine months of 2011, respectively, compared with the same periods of 2010, principally due to higher balances in Wholesale Banking and Commercial Real Estate and institutional and corporate trust, including the impact of the securitization trust administration and FCB acquisitions.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2011 decreased \$476 million (47.8 percent) and \$1.6 billion (46.4 percent), respectively, from the same periods of 2010. Net charge-offs decreased \$326 million (32.8 percent) and \$1.0 billion (31.5 percent) in the third quarter and first nine months of 2011, respectively, compared with the same periods of 2010, principally due to improvement in the commercial, commercial real estate, credit card and other retail loan portfolios. The provision for credit losses was

lower than net charge-offs by \$150 million in the third quarter and \$375 million in the first nine months of 2011, equaled net charge-offs in the third quarter of 2010, and exceeded net charge-offs by \$200 million in the first nine months of 2010. Refer to [Corporate Risk Profile](#) for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

U.S. Bancorp

4

Table of Contents**Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percent Change	2011	2010	Percent Change
Credit and debit card revenue	\$ 289	\$ 274	5.5%	\$ 842	\$ 798	5.5%
Corporate payment products revenue	203	191	6.3	563	537	4.8
Merchant processing services	338	318	6.3	977	930	5.1
ATM processing services	115	105	9.5	341	318	7.2
Trust and investment management fees	241	267	(9.7)	755	798	(5.4)
Deposit service charges	183	160	14.4	488	566	(13.8)
Treasury management fees	137	139	(1.4)	418	421	(.7)
Commercial products revenue	212	197	7.6	621	563	10.3
Mortgage banking revenue	245	310	(21.0)	683	753	(9.3)
Investment products fees and commissions	31	27	14.8	98	82	19.5
Securities gains (losses), net	(9)	(9)		(22)	(64)	65.6
Other	186	131	42.0	565	436	29.6
Total noninterest income	\$ 2,171	\$ 2,110	2.9%	\$ 6,329	\$ 6,138	3.1%

Noninterest Income Noninterest income in the third quarter and first nine months of 2011 was \$2.2 billion and \$6.3 billion, respectively, compared with \$2.1 billion and \$6.1 billion in the same periods of 2010, or increases of \$61 million (2.9 percent) and \$191 million (3.1 percent), respectively. Payments-related revenues and ATM processing services income were higher largely due to increased transaction volumes. Commercial products revenue increased due to higher commercial leasing revenue, syndication fees and other commercial loan fees. Investment products fees and commissions also increased due to business initiatives. Deposit service charges increased in the third quarter of 2011, compared with the third quarter of 2010, primarily due to new account growth, higher transaction volumes and recent product redesign initiatives, partially offset by 2010 legislative and pricing changes. Deposit service charges were lower in the first nine months of 2011, compared with the same period of the prior year, due to the 2010 legislative and pricing changes, partially offset by account growth. Other income increased in the third quarter and first nine months of 2011, compared with the same periods of the prior year, primarily due to higher retail lease residual revenue and customer-related derivative revenue. In addition, other income for the first nine months of 2011 also increased over the same period of the prior year due to a gain recognized on the FCB acquisition in the first quarter of 2011. Trust and investment management fees decreased as a result of the sale of the Company's long-term asset management business in the fourth quarter of 2010 and increased money market investment fee waivers, partially offset by the positive impact of the securitization trust administration acquisition and improved market conditions. In addition, mortgage banking revenue decreased due to lower origination and sales revenue. The Company anticipates the implementation of recently passed legislation, under the Durbin Amendment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, will reduce future noninterest income by approximately \$300 million on an annualized basis beginning in the fourth quarter of 2011, based on anticipated transaction volume excluding any mitigating actions the Company may take.

Noninterest Expense Noninterest expense was \$2.5 billion in the third quarter and \$7.2 billion in the first nine months of 2011, compared with \$2.4 billion in the third quarter and \$6.9 billion in the first nine months of 2010, or

increases of \$91 million (3.8 percent) and \$317 million (4.6 percent), respectively. The increase in noninterest expense from a year ago was principally due to increased total compensation, employee benefits, net occupancy and equipment expense, and professional services expense, partially offset by decreases in other intangibles expense and other expense. Total compensation increased primarily due to an increase in staffing related to branch expansion and other business initiatives, and merit increases. Employee benefits expense increased due to higher pension costs and the impact of additional staff. Net occupancy and equipment expense increased principally due to business expansion and technology initiatives. Professional services expense increased due to mortgage servicing-related and other projects across multiple business lines. These increases were partially offset by decreases in other intangibles expense due to the reduction or completion of the amortization of certain intangibles. Other expense was also lower due to lower costs related to other real estate owned, insurance and litigation matters.

Table of Contents**Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percent Change	2011	2010	Percent Change
Compensation	\$ 1,021	\$ 973	4.9%	\$ 2,984	\$ 2,780	7.3%
Employee benefits	203	171	18.7	643	523	22.9
Net occupancy and equipment	252	229	10.0	750	682	10.0
Professional services	100	78	28.2	252	209	20.6
Marketing and business development	102	108	(5.6)	257	254	1.2
Technology and communications	189	186	1.6	563	557	1.1
Postage, printing and supplies	76	74	2.7	226	223	1.3
Other intangibles	75	90	(16.7)	225	278	(19.1)
Other	458	476	(3.8)	1,315	1,392	(5.5)
Total noninterest expense	\$ 2,476	\$ 2,385	3.8%	\$ 7,215	\$ 6,898	4.6%
Efficiency ratio (a)	51.5%	51.9%		51.4%	51.1%	

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

Income Tax Expense The provision for income taxes was \$490 million (an effective rate of 28.1 percent) for the third quarter and \$1.3 billion (an effective rate of 27.5 percent) for the first nine months of 2011, compared with \$260 million (an effective rate of 22.5 percent) and \$620 million (an effective rate of 21.2 percent) for the same periods of 2010. The increases in the effective tax rates for the third quarter and first nine months of 2011, compared with the same periods of the prior year, principally reflected the marginal impact of higher pretax earnings year-over-year. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company's total loan portfolio was \$204.8 billion at September 30, 2011, compared with \$197.1 billion at December 31, 2010, an increase of \$7.7 billion (3.9 percent). The increase was driven by increases in most major loan categories, partially offset by lower credit card and covered loans. The \$5.4 billion (11.2 percent) increase in commercial loans was primarily driven by higher loan demand from new and existing customers, and the \$908 million (2.6 percent) increase in commercial real estate loans was primarily due to the FCB acquisition. Residential mortgages held in the loan portfolio increased \$4.4 billion (14.3 percent) at September 30, 2011, compared with December 31, 2010, as a result of mortgage originations exceeding prepayments and paydowns in the portfolio. Most loans retained in the portfolio are to customers with prime or near-prime credit characteristics at the date of origination.

Total credit card loans decreased \$471 million (2.8 percent) at September 30, 2011, compared with December 31, 2010. Other retail loans, which include retail leasing, home equity and other consumer loans, were essentially

unchanged at September 30, 2011, compared with December 31, 2010.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were \$5.4 billion at September 30, 2011, compared with \$8.4 billion at December 31, 2010. The decrease in loans held for sale was principally due to a high level of mortgage loan origination and refinancing activity in the second half of 2010.

Most of the Company's residential mortgage loans are originated to guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government sponsored enterprises (GSEs). The Company also originates residential mortgages that follow its own investment guidelines with the intent to hold such loans in the loan portfolio, primarily well secured jumbo mortgages to borrowers with high credit quality, as well as near-prime non-conforming mortgages. The Company generally retains portfolio loans through maturity; however, the Company's intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company's intent or ability to hold an existing portfolio loan changes, it is transferred to loans held for sale.

Investment Securities Investment securities totaled \$68.4 billion at September 30, 2011, compared with \$53.0 billion at December 31, 2010. The \$15.4 billion (29.1 percent) increase primarily reflected \$14.1 billion of net investment purchases, primarily in the held-to-maturity investment portfolio, as well as a \$1.0 billion favorable change in unrealized gains (losses) on available-for-sale investment securities. Held-to-maturity securities were \$16.3 billion at September 30, 2011, compared with \$1.5 billion at December 31, 2010, primarily reflecting increases in U.S. Treasury and agency mortgage-backed securities, as the Company increased its on-balance sheet liquidity in response to anticipated regulatory requirements.

U.S. Bancorp

Table of Contents

MDA Tables Throw Away Note and Keep Tables

Table 4 Investment Securities

September 30, 2011 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
maturing in one year or less	\$ 852	\$ 853	.3	1.73%	\$	\$		
maturing after one year through five years	556	562	2.2	.92	2,501	2,537	2.4	.99
maturing after five years through ten years	49	53	8.5	4.24				
maturing after ten years	20	21	11.8	3.42	122	122	12.0	1.74
Total	\$ 1,477	\$ 1,489	1.4	1.53%	\$ 2,623	\$ 2,659	2.9	1.02%
Mortgage-Backed Securities (a)								
maturing in one year or less	\$ 679	\$ 680	.6	2.53%	\$ 200	\$ 198	.7	1.48%
maturing after one year through five years	30,646	31,508	3.4	2.92	10,884	11,168	3.6	2.57
maturing after five years through ten years	7,863	7,730	6.6	2.02	1,801	1,843	5.5	2.07
maturing after ten years	1,788	1,728	12.3	1.69	522	530	11.9	1.42
Total	\$ 40,976	\$ 41,646	4.4	2.69%	\$ 13,407	\$ 13,739	4.2	2.44%
Asset-Backed Securities (a)								
maturing in one year or less	\$ 6	\$ 15	.5	13.56%	\$ 2	\$ 2	.3	1.01%
maturing after one year through five years	179	185	3.5	13.01	44	44	2.9	.95
maturing after five years through ten years	689	695	8.0	2.81	14	17	6.3	.87
maturing after ten years	8	9	15.9	7.80	24	25	23.0	.82
Total	\$ 882	\$ 904	7.1	5.01%	\$ 84	\$ 88	9.1	.90%
Liabilities of State and Political Subdivisions (b)(c)								
maturing in one year or less	\$ 16	\$ 16	.4	6.08%	\$	\$.5	7.62%
maturing after one year through five years	3,083	3,145	4.1	6.59	5	6	3.3	8.38
maturing after five years through ten years	2,888	2,946	5.7	6.79	4	4	6.0	5.38
maturing after ten years	422	392	20.4	7.19	15	14	15.4	5.53
Total	\$ 6,409	\$ 6,499	5.9	6.72%	\$ 24	\$ 24	11.2	6.17%
Other Debt Securities								
maturing in one year or less	\$ 122	\$ 112	.4	6.24%	\$ 1	\$ 1	.5	.84%
maturing after one year through five years					12	10	2.0	1.29
maturing after five years through ten years	31	28	6.0	6.33	118	92	7.0	1.17

maturing after ten years	1,282	1,091	30.3	4.07				
total	\$ 1,435	\$ 1,231	27.2	4.30%	\$ 131	\$ 103	6.5	1.18%
Other Investments	\$ 313	\$ 340	17.3	3.99%	\$	\$		
total investment securities (d)	\$ 51,492	\$ 52,109	5.3	3.25%	\$ 16,269	\$ 16,613	4.0	2.20%

- (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) Maturity calculations for obligations of state and political subdivisions are based on the first optional call date for securities with a fair value above par and contractual maturity for securities with a fair value equal to or below par.
- (d) The weighted-average maturity of the available-for-sale investment securities was 7.4 years at December 31, 2010, with a corresponding weighted-average yield of 3.41 percent. The weighted-average maturity of the held-to-maturity investment securities was 6.3 years at December 31, 2010, with a corresponding weighted-average yield of 2.07 percent.
- (e) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

(Dollars in Millions)	September 30, 2011		December 31, 2010	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 4,100	6.1%	\$ 2,724	5.1%
Mortgage-backed securities	54,383	80.2	40,654	76.2
Asset-backed securities	966	1.4	1,197	2.3
Obligations of state and political subdivisions	6,433	9.5	6,862	12.9
Other debt securities and investments	1,879	2.8	1,887	3.5
Total investment securities	\$ 67,761	100.0%	\$ 53,324	100.0%

The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. At September 30, 2011, the Company's net unrealized gain on available-for-sale securities was \$617 million, compared with a net unrealized loss of \$346 million at December 31, 2010. The favorable change in net unrealized gains (losses) was primarily due to increases in the fair value of state and

Table of Contents

political securities and agency mortgage-backed securities. Unrealized losses on available-for-sale securities in an unrealized loss position totaled \$646 million at September 30, 2011, compared with \$1.2 billion at December 31, 2010. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying assets and market conditions. At September 30, 2011, the Company had no plans to sell securities with unrealized losses and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

There is limited market activity for 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 other market factors, which are judgmental in nature. The Company recorded \$9 million and \$24 million of impairment charges in earnings during the third quarter and first nine months of 2011, respectively, predominately on non-agency mortgage-backed securities. These impairment charges were due to changes in expected cash flows primarily resulting from increases in defaults in the underlying mortgage pools. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 4 and 13 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were \$222.6 billion at September 30, 2011, compared with \$204.3 billion at December 31, 2010, the result of increases in noninterest-bearing and savings account deposits, partially offset by decreases in money market and time deposits greater than \$100,000. Noninterest-bearing deposits increased \$18.9 billion (41.7 percent), primarily due to increases in Wholesale Banking and Commercial Real Estate, and corporate trust balances. Savings account balances increased \$3.0 billion (12.5 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking. Money market balances decreased \$2.0 billion (4.3 percent) primarily due to lower Consumer and Small Business Banking, and broker-dealer balances, partially offset by higher corporate trust balances. Time deposits greater than \$100,000, which are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing, decreased \$1.5 billion (5.0 percent) at September 30, 2011, compared with December 31, 2010. Interest checking balances decreased \$160 million (.4 percent) primarily due to lower institutional trust balances, partially offset by higher Consumer and Small Business Banking, and corporate trust balances.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were \$32.0 billion at September 30, 2011, compared with \$32.6 billion at December 31, 2010. The \$528 million (1.6 percent) decrease in short-term borrowings was primarily due to lower repurchase agreements, partially offset by higher commercial paper and other borrowed funds balances. Long-term debt was \$30.6 billion at September 30, 2011, compared with \$31.5 billion at December 31, 2010. The \$913 million (2.9 percent) decrease was primarily due to \$1.7 billion of medium-term note and subordinated debt repayments and maturities, \$.8 billion of extinguishments of junior subordinated debentures, and a \$.6 billion decrease in Federal Home Loan Bank advances, partially offset by \$1.0 billion of medium-term note issuances and a \$1.0 billion increase in long-term debt related to certain consolidated variable interest entities. 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, investment or derivative contract 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, processing errors, technology, breaches of internal controls and business continuation and disaster recovery. 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, mortgage servicing rights (MSRs) and derivatives that are accounted for on a fair value 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

U.S. Bancorp

8

Table of Contents

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. In addition, credit quality ratings as defined by the Company, are an important part of the Company's overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those not classified on the Company's rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including all of the Company's loans that are 90 days or more past due and still accruing, nonaccrual loans, and those considered troubled debt restructurings (TDRs), encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. Refer to Note 5 in the Notes to Consolidated Financial Statements for further discussion of the Company's loan portfolios including internal credit quality ratings. In addition, 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, 2010, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into three segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company's three loan portfolio segments are commercial lending, consumer lending and covered loans. The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution, and public sector customers. Key risk characteristics relevant to commercial lending segment loans include the industry and geography of the borrower's business, purpose of the loan, repayment source, borrower's debt capacity and financial flexibility, loan covenants, and nature of pledged collateral, if any. These risk characteristics, among others, are considered in determining estimates about the likelihood of default by the borrowers and the severity of loss in the event of default. The Company considers these risk characteristics in assigning internal risk ratings to these loans which is the primary factor in determining the allowance for credit losses for loans in the commercial lending segment.

The consumer lending segment represents loans and leases made to consumer customers including residential mortgages, credit cards, and other retail loans such as revolving consumer lines, auto loans and leases, student loans, and home equity loans and lines. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans with a 10 or 15 year fixed payment amortization schedule. Home equity lines are revolving accounts originated giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines are variable rates benchmarked to the prime rate, with a 15 year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 10 year amortization period. At September 30, 2011, substantially all of the Company's home equity lines were in the draw period. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, and customer payment history. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment. The covered loan segment represents loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC that greatly reduce the risk of future credit losses to the Company. Key risk characteristics

for covered segment loans are consistent with the segment they would otherwise be included in had the loss share coverage not been in place but consider the indemnification provided by the FDIC. The Company further disaggregates its loan portfolio segments into various classes based on their underlying risk characteristics. The two classes within the commercial lending segment are commercial loans and commercial real estate loans. The three classes within the consumer lending segment are residential

Table of Contents

mortgages, credit card loans and other retail loans. The covered loan segment consists of only one class. The Company's consumer lending segment utilizes several distinct business processes and channels to originate consumer 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.

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, 2011:

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Consumer Finance				
Less than or equal to 80%	\$ 1,350	\$ 5,753	\$ 7,103	56.6%
Over 80% through 90%	405	2,912	3,317	26.4
Over 90% through 100%	376	1,578	1,954	15.6
Over 100%		180	180	1.4
Total	\$ 2,131	\$ 10,423	\$ 12,554	100.0%
Other				
Less than or equal to 80%	\$ 1,867	\$ 19,155	\$ 21,022	93.1%
Over 80% through 90%	43	779	822	3.7
Over 90% through 100%	57	669	726	3.2
Over 100%				
Total	\$ 1,967	\$ 20,603	\$ 22,570	100.0%
Total Company				
Less than or equal to 80%	\$ 3,217	\$ 24,908	\$ 28,125	80.1%
Over 80% through 90%	448	3,691	4,139	11.8
Over 90% through 100%	433	2,247	2,680	7.6
Over 100%		180	180	.5
Total	\$ 4,098	\$ 31,026	\$ 35,124	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%	\$ 1,077	\$ 193	\$ 1,270	52.2%
Over 80% through 90%	455	122	577	23.7
Over 90% through 100%	299	190	489	20.1

Over 100%	46	50	96	4.0
Total	\$ 1,877	\$ 555	\$ 2,432	100.0%
Other				
Less than or equal to 80%	\$ 11,381	\$ 1,014	\$ 12,395	77.6%
Over 80% through 90%	2,176	425	2,601	16.3
Over 90% through 100%	608	308	916	5.7
Over 100%	42	24	66	.4
Total	\$ 14,207	\$ 1,771	\$ 15,978	100.0%
Total Company				
Less than or equal to 80%	\$ 12,458	\$ 1,207	\$ 13,665	74.2%
Over 80% through 90%	2,631	547	3,178	17.3
Over 90% through 100%	907	498	1,405	7.6
Over 100%	88	74	162	.9
Total	\$ 16,084	\$ 2,326	\$ 18,410	100.0%

(a) *Consumer finance category includes 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, 2011, approximately \$1.9 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 \$2.1 billion at December 31, 2010.

The following table provides further information on the loan-to-values of residential mortgages specifically for the consumer finance division at September 30, 2011:

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Division
Sub-Prime Borrowers				
Less than or equal to 80%	\$ 4	\$ 924	\$ 928	7.4%
Over 80% through 90%	2	439	441	3.5
Over 90% through 100%	12	505	517	4.1
Over 100%		34	34	.3
Total	\$ 18	\$ 1,902	\$ 1,920	15.3%
Other Borrowers				
Less than or equal to 80%	\$ 1,346	\$ 4,829	\$ 6,175	49.2%
Over 80% through 90%	403	2,473	2,876	22.9
Over 90% through 100%	364	1,073	1,437	11.4
Over 100%		146	146	1.2
Total	\$ 2,113	\$ 8,521	\$ 10,634	84.7%
Total Consumer Finance	\$ 2,131	\$ 10,423	\$ 12,554	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.

In addition to residential mortgages, at September 30, 2011, the consumer finance division had \$.5 billion of home equity and second mortgage loans to customers that may be defined as sub-prime borrowers, unchanged from December 31, 2010.

U.S. Bancorp

10

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

	September 30, 2011	December 31, 2010
90 days or more past due excluding nonperforming loans		
Commercial		
Commercial	.09%	.15%
Lease financing	.02	.02
Total commercial	.08	.13
Commercial Real Estate		
Commercial mortgages	.09	
Construction and development	.03	.01
Total commercial real estate	.08	
Residential Mortgages (a)	1.03	1.63
Credit Card	1.28	1.86
Other Retail		
Retail leasing	.02	.05
Other	.40	.49
Total other retail (b)	.36	.45
Total loans, excluding covered loans	.43	.61
Covered Loans	5.14	6.04
Total loans	.78%	1.11%
	September 30,	December 31,
90 days or more past due including nonperforming loans	2011	2010
Commercial	.79%	1.37%
Commercial real estate	3.51	3.73
Residential mortgages (a)	2.88	3.70
Credit card	2.81	3.22
Other retail (b)	.50	.58
Total loans, excluding covered loans	1.79	2.19
Covered loans	11.70	12.94
Total loans	2.53%	3.17%

(a) Delinquent loan ratios exclude \$2.5 billion at September 30, 2011, and \$2.6 billion at December 31, 2010, of loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose

repayments are primarily 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 all nonperforming loans was 10.09 percent at September 30, 2011, and 12.28 percent at December 31, 2010.

- (b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including the guaranteed amounts, the ratio of total other retail loans 90 days or more past due including nonperforming loans was .95 percent at September 30, 2011, and 1.04 percent at December 31, 2010.

The following table provides further information on the loan-to-values of home equity and second mortgages specifically for the consumer finance division at September 30, 2011:

(Dollars in Millions)	Lines	Loans	Total	Percent of Total
Sub-Prime Borrowers				
Less than or equal to 80%	\$ 61	\$ 113	\$ 174	7.1%
Over 80% through 90%	39	66	105	4.3
Over 90% through 100%	6	115	121	5.0
Over 100%	30	42	72	3.0
Total	\$ 136	\$ 336	\$ 472	19.4%
Other Borrowers				
Less than or equal to 80%	\$ 1,016	\$ 80	\$ 1,096	45.1%
Over 80% through 90%	416	56	472	19.4
Over 90% through 100%	293	75	368	15.1
Over 100%	16	8	24	1.0
Total	\$ 1,741	\$ 219	\$ 1,960	80.6%
Total Consumer Finance	\$ 1,877	\$ 555	\$ 2,432	100.0%

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.

The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only .7 percent of total assets at September 30, 2011, compared with .9 percent at December 31, 2010. Covered loans included \$1.6 billion in loans with negative-amortization payment options at September 30, 2011, unchanged from December 31, 2010. The Company does not have any residential mortgages with payment schedules that would cause balances to increase over time other than certain covered loans.

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

Table of Contents

totaled \$1.6 billion (\$814 million excluding covered loans) at September 30, 2011, compared with \$2.2 billion (\$1.1 billion excluding covered loans) at December 31, 2010. These balances exclude loans purchased from Government National Mortgage Association mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. The \$280 million (25.6 percent) decrease, excluding covered loans, reflected a moderation in the level of stress in economic conditions in the first nine months of 2011. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was .78 percent (.43 percent excluding covered loans) at September 30, 2011, compared with 1.11 percent (.61 percent excluding covered loans) at December 31, 2010.

The following table provides summary delinquency information for residential mortgages, credit card and other retail loans included in the consumer lending segment:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Residential mortgages (a)				
30-89 days	\$ 385	\$ 456	1.09%	1.48%
90 days or more	361	500	1.03	1.63
Nonperforming	650	636	1.85	2.07
Total	\$ 1,396	\$ 1,592	3.97%	5.18%
Credit card				
30-89 days	\$ 225	\$ 269	1.38%	1.60%
90 days or more	209	313	1.28	1.86
Nonperforming	250	228	1.53	1.36
Total	\$ 684	\$ 810	4.19%	4.82%
Other retail				
Retail leasing				
30-89 days	\$ 10	\$ 17	.19%	.37%
90 days or more	1	2	.02	.05
Nonperforming				
Total	\$ 11	\$ 19	.21%	.42%
Home equity and second mortgages				
30-89 days	\$ 153	\$ 175	.83%	.93%
90 days or more	123	148	.67	.78
Nonperforming	36	36	.19	.19
Total	\$ 312	\$ 359	1.69%	1.90%
Other (b)				
30-89 days	\$ 166	\$ 212	.67%	.85%
90 days or more	50	66	.20	.26
Nonperforming	30	29	.12	.12

Total	\$ 246	\$ 307	.99%	1.23%
--------------	--------	--------	------	-------

- (a) *Excludes \$2.5 billion and \$2.6 billion at September 30, 2011, and December 31, 2010, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest.*
- (b) *Includes revolving credit, installment, automobile and student loans.*

U.S. Bancorp

12

Table of Contents

The following table provides information on delinquent and nonperforming consumer lending loans as a percent of ending loan balances, by channel:

	Consumer Finance (a)		Other Consumer Lending	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Residential mortgages (b)				
30-89 days	1.75%	2.38%	.74%	.95%
90 days or more	1.63	2.26	.69	1.24
Nonperforming	2.53	2.99	1.47	1.52
Total	5.91%	7.63%	2.90%	3.71%
Credit card				
30-89 days	%	%	1.38%	1.60%
90 days or more			1.28	1.86
Nonperforming			1.53	1.36
Total	%	%	4.19%	4.82%
Other retail				
Retail leasing				
30-89 days	%	%	.19%	.37%
90 days or more			.02	.05
Nonperforming				
Total	%	%	.21%	.42%
Home equity and second mortgages				
30-89 days	1.73%	1.98%	.70%	.76%
90 days or more	1.23	1.82	.58	.62
Nonperforming	.17	.20	.20	.19
Total	3.13%	4.00%	1.48%	1.57%
Other (c)				
30-89 days	4.73%	4.42%	.59%	.77%
90 days or more	.83	.68	.19	.25
Nonperforming			.12	.12
Total	5.56%	5.10%	.90%	1.14%

(a) Consumer finance category includes 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.

(b) Excludes loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest.

(c) Includes revolving credit, installment, automobile and student loans.

Within the consumer finance division at September 30, 2011, approximately \$340 million and \$58 million of these delinquent and nonperforming residential mortgages and home equity and other retail loans, respectively, were to customers that may be defined as sub-prime borrowers, compared with \$412 million and \$75 million, respectively, at

December 31, 2010.

The following table provides summary delinquency information for covered loans:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
30-89 days	\$ 581	\$ 757	3.78%	4.19%
90 days or more	792	1,090	5.14	6.04
Nonperforming	1,010	1,244	6.56	6.90
Total	\$ 2,383	\$ 3,091	15.48%	17.13%

Restructured Loans In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due when a borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term. In most cases the modification is either a concessionary reduction in interest rate, extension of the maturity date or reduction in the principal balance that would otherwise not be considered. Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

Troubled Debt Restructurings The Company continues to work with customers to modify loans for borrowers who are experiencing financial difficulties, including those acquired through FDIC-assisted acquisitions. Many of the Company's TDRs are determined on a case-by-case basis in connection with ongoing loan collection processes. The modifications vary within each of the Company's loan classes. Commercial lending segment TDRs generally include extensions of the maturity date and may be accompanied by an increase or decrease to the interest rate. The Company may also work with the borrower to make other changes to the loan to mitigate losses, such as obtaining additional collateral and/or guarantees to support the loan.

The Company has also implemented certain residential mortgage loan restructuring programs that

Table of Contents

may result in TDRs. The Company participates in the U.S. Department of the Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to permanently modify their loan and achieve 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 also modifies residential mortgage loans under Federal Housing Administration, Department of Veterans Affairs, or other internal programs. Under these programs, the Company provides concessions to qualifying borrowers experiencing financial difficulties. The concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extensions of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement and the loan documents are not modified until that time. Loans in trial period arrangements are not reported as TDRs. Loans permanently modified are reported as TDRs. Loans in trial period arrangements were \$96 million at September 30, 2011.

Modifications in the credit card class are generally part of a workout program providing customers modification solutions over a specified time period, generally up to 60 months. The Company also provides modification programs to qualifying customers experiencing a temporary financial hardship in which reductions are made to monthly required minimum payments for up to 12 months.

Modifications to loans in the covered segment are similar in nature to that described above for non-covered loans, and the evaluation and determination of TDR status is similar, except that acquired loans restructured after acquisition are not considered TDRs for purposes of the Company's accounting and disclosure if the loans evidenced credit deterioration as of the acquisition date and are accounted for in pools. Losses associated with modifications on covered loans, including the economic impact of interest rate reductions, are generally eligible for reimbursement under the loss sharing agreements.

The following table provides a summary of TDRs by loan class, including the delinquency status for TDRs that continue to accrue interest and TDRs included in nonperforming assets:

September 30, 2011	Performing	As a Percent of		Nonperforming	Total
		Performing TDRs	Performing TDRs		
(Dollars in Millions)					
Commercial	\$ 255	2.3%	1.1%	\$ 106(a)	\$ 361
Commercial real estate	459	4.5		365(b)	824
Residential mortgages	1,938	5.4	4.4	151	2,089
Credit card	330	11.4	7.3	250(c)	580
Other retail	113	8.5	6.2	30(c)	143
TDRs, excluding GNMA and covered loans	3,095	5.8	3.9	902	3,997
Loans purchased from GNMA mortgage pools	866	12.6	7.4		866
Covered loans	159	17.2	10.1	251	410
Total	\$ 4,120	7.6%	4.9%	\$ 1,153	\$ 5,273

- (a) *Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months) and small business credit cards with a modified rate equal to 0 percent.*
- (b) *Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months).*
- (c) *Primarily represents loans with a modified rate equal to 0 percent.*

U.S. Bancorp

Table of Contents

During the third quarter of 2011, the Company adopted new accounting guidance that provided clarification to the scope of determining whether loan modifications should be considered TDRs. The adoption of this guidance resulted in additional restructurings considered to be TDRs, but did not have a material impact on the Company's allowance for credit losses.

Short-term Modifications The Company makes short-term modifications that it does not consider to be TDRs in limited circumstances to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed.

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. Nonperforming assets include nonaccrual loans, restructured loans not performing in accordance with modified terms, other real estate and other nonperforming assets owned by the Company, and are generally either originated by the Company or acquired under FDIC loss sharing agreements that substantially reduce the risk of credit losses to the Company. At September 30, 2011, total nonperforming assets were \$4.3 billion, compared with \$5.0 billion at December 31, 2010. Excluding covered assets, nonperforming assets were \$3.0 billion at September 30, 2011, compared with \$3.4 billion at December 31, 2010. The \$315 million (9.4 percent) decline was principally in the commercial portfolio, reflecting the stabilizing economy. However, stress continued in the commercial real estate and residential mortgage portfolios due to the overall duration of the economic slowdown. Nonperforming covered assets at September 30, 2011, were \$1.3 billion, compared with \$1.7 billion at December 31, 2010. The ratio of total nonperforming assets to total loans and other real estate was 2.11 percent (1.60 percent excluding covered assets) at September 30, 2011, compared with 2.55 percent (1.87 percent excluding covered assets) at December 31, 2010.

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

(Dollars in Millions)	September 30, 2011	December 31, 2010
Commercial		
Commercial	\$ 342	\$ 519
Lease financing	40	78
Total commercial	382	597
Commercial real estate		
Commercial mortgages	600	545
Construction and development	620	748
Total commercial real estate	1,220	1,293
Residential mortgages (b)	650	636
Credit card	250	228
Other retail		
Retail leasing		
Other	66	65
Total other retail	66	65
Total nonperforming loans, excluding covered loans	2,568	2,819
Covered loans	1,010	1,244
Total nonperforming loans	3,578	4,063
Other real estate (c)(d)	452	511
Covered other real estate (d)	293	453
Other assets	16	21
Total nonperforming assets	\$ 4,339	\$ 5,048
Total nonperforming assets, excluding covered assets	\$ 3,036	\$ 3,351
Excluding covered assets:		
Accruing loans 90 days or more past due (b)	\$ 814	\$ 1,094
Nonperforming loans to total loans	1.36%	1.57%
Nonperforming assets to total loans plus other real estate (c)	1.60%	1.87%
Including covered assets:		
Accruing loans 90 days or more past due (b)	\$ 1,606	\$ 2,184
Nonperforming loans to total loans	1.75%	2.06%
Nonperforming assets to total loans plus other real estate (c)	2.11%	2.55%

Changes in Nonperforming Assets

	Commercial and Commercial	Credit Card, Other Retail and Residential	Covered Assets	Total
(Dollars in Millions)	Real Estate	Mortgages (f)		
Balance December 31, 2010	\$ 2,204	\$ 1,147	\$ 1,697	\$ 5,048
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	1,251	539	461	2,251
Advances on loans	62		3	65
Total additions	1,313	539	464	2,316
Reductions in nonperforming assets				
Paydowns, payoffs	(417)	(241)	(359)	(1,017)
Net sales	(282)	(45)	(299)	(626)
Return to performing status	(147)	(65)	(202)	(414)
Net charge-offs (e)	(760)	(210)	2	(968)
Total reductions	(1,606)	(561)	(858)	(3,025)
Net additions to (reductions in) nonperforming assets	(293)	(22)	(394)	(709)
Balance September 30, 2011	\$ 1,911	\$ 1,125	\$ 1,303	\$ 4,339

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$2.5 billion and \$2.6 billion at September 30, 2011, and December 31, 2010, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
- (c) Foreclosed GNMA loans of \$627 million at September 30, 2011, and \$575 million at December 31, 2010, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
- (d) Includes equity investments in entities whose principal assets are other real estate owned.
- (e) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.
- (f) Residential mortgage information excludes changes related to residential mortgages serviced by others.

The Company expects total nonperforming assets to trend lower in the fourth quarter of 2011.

Other real estate, excluding covered assets, was \$452 million at September 30, 2011, compared with \$511 million at December 31, 2010, and was related to foreclosed properties that previously secured loan balances.

U.S. Bancorp

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Commercial				
Commercial	.77%	1.49%	.90%	2.04%
Lease financing	.61	1.18	.81	1.58
Total commercial	.75	1.45	.89	1.98
Commercial real estate				
Commercial mortgages	.93	1.72	.81	1.20
Construction and development	3.43	4.56	4.60	6.25
Total commercial real estate	1.39	2.40	1.56	2.45
Residential mortgages	1.42	1.88	1.51	2.05
Credit card (a)	4.40	7.11	5.35	7.54
Other retail				
Retail leasing	(.08)	.19		.34
Home equity and second mortgages	1.59	1.62	1.66	1.71
Other	1.11	1.65	1.20	1.76
Total other retail	1.16	1.51	1.25	1.61
Total loans, excluding covered loans	1.42	2.26	1.62	2.51
Covered loans	.08	.14	.08	.10
Total loans	1.31%	2.05%	1.49%	2.26%

(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 4.54 percent and 7.84 percent for the three months ended September 30, 2011 and 2010, respectively, and 5.53 percent and 8.26 percent for the nine months ended September 30, 2011 and 2010, 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 geographical location detail for residential (residential mortgage, home equity and second mortgage) and commercial (commercial and commercial real estate) loan balances:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Residential				
Minnesota	\$ 22	\$ 28	.40%	.53%

California	16	21	.23	.34
Illinois	15	16	.49	.57
Washington	8	9	.25	.29
Colorado	8	9	.22	.27
All other states	110	135	.35	.47
Total residential	179	218	.33	.44
Commercial				
Nevada	63	58	4.79	3.93
California	38	23	.28	.18
Ohio	20	20	.45	.48
Oregon	19	26	.54	.74
Utah	18	11	.93	.64
All other states	115	155	.18	.26
Total commercial	273	293	.31	.35
Total OREO	\$ 452	\$ 511	.24%	.29%

Analysis of Loan Net Charge-Offs Total net charge-offs were \$669 million for the third quarter and \$2.2 billion for the first nine months of 2011, compared with net charge-offs of \$995 million and \$3.2 billion for the same periods of 2010. 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 2011 was 1.31 percent and 1.49 percent, respectively, compared with 2.05 percent and 2.26 percent, for the same periods of 2010. The year-over-year decreases in total net charge-offs were principally due to stabilizing economic conditions. The Company expects the level of net charge-offs to continue to trend lower in the fourth quarter of 2011.

Commercial and commercial real estate loan net charge-offs for the third quarter of 2011 were \$224 million (1.01 percent of average loans outstanding on an annualized basis), compared with \$378 million (1.85 percent of average loans outstanding on an annualized basis) for the third quarter of 2010. Commercial and commercial real estate loan net charge-offs for the first nine months of 2011 were \$748 million (1.17 percent of average loans outstanding on an annualized basis), compared with \$1.3 billion (2.18 percent of average loans outstanding on an annualized basis) for the first nine months of 2010. The decreases reflected the impact of efforts to resolve and reduce exposure to problem assets in the Company's commercial real estate portfolios and improvement in the other commercial portfolios due to the stabilizing economy.

Residential mortgage loan net charge-offs for the third quarter of 2011 were \$122 million (1.42 percent of average loans outstanding on an annualized basis), compared with \$132 million (1.88 percent of average loans outstanding on an annualized basis) for the third quarter of 2010. Residential mortgage loan net charge-offs for the first nine months of 2011 were \$370 million (1.51 percent of average loans outstanding on an annualized basis), compared with \$415 million (2.05 percent of average loans outstanding on an annualized basis) for the first nine months of 2010. Credit card loan net charge-offs for the third quarter of 2011 were \$178 million (4.40 percent of average loans

Table of Contents

outstanding on an annualized basis), compared with \$296 million (7.11 percent of average loans outstanding on an annualized basis) for the third quarter of 2010. Credit card loan net charge-offs for the first nine months of 2011 were \$641 million (5.35 percent of average loans outstanding on an annualized basis), compared with \$925 million (7.54 percent of average loans outstanding on an annualized basis) for the first nine months of 2010. Other retail loan net charge-offs for the third quarter of 2011 were \$142 million (1.16 percent of average loans outstanding on an annualized basis), compared with \$182 million (1.51 percent of average loans outstanding on an annualized basis) for the third quarter of 2010. Other retail loan net charge-offs for the first nine months of 2011 were \$452 million (1.25 percent of average loans outstanding on an annualized basis), compared with \$570 million (1.61 percent of average loans outstanding on an annualized basis) for the first nine months of 2010. The year-over-year decreases in residential mortgage, credit card and other retail loan net charge-offs reflected the impact of more stable economic conditions.

The following table provides an analysis of net charge-offs as a percent of average loans outstanding managed by the consumer finance division, compared with other consumer lending 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)	2011	2010	2011	2010	2011	2010	2011	2010
Consumer Finance (a)								
Residential mortgages	\$ 12,397	\$ 10,805	2.59%	3.49%	\$ 12,127	\$ 10,546	2.87%	3.78%
Home equity and second mortgages	2,442	2,448	3.57	4.86	2,476	2,461	4.32	5.49
Other	501	608	3.96	3.92	536	607	2.99	3.52
Other Consumer Lending								
Residential mortgages	\$ 21,629	\$ 17,085	.75%	.86%	\$ 20,727	\$ 16,499	.71%	.95%
Home equity and second mortgages	16,068	16,841	1.28	1.15	16,172	16,879	1.25	1.16
Other	24,272	23,673	1.05	1.59	24,118	23,057	1.16	1.71
Total Company								
Residential mortgages	\$ 34,026	\$ 27,890	1.42%	1.88%	\$ 32,854	\$ 27,045	1.51%	2.05%
Home equity and second mortgages	18,510	19,289	1.59	1.62	18,648	19,340	1.66	1.71
Other (b)	24,773	24,281	1.11	1.65	24,654	23,664	1.20	1.76

(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.

(b) Includes revolving credit, installment, automobile and student loans.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Percent of		Percent of	

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

	Average Loans		Average Loans		Average Loans		Average Loans	
(Dollars in Millions)	2011	2010	2011	2010	2011	2010	2011	2010
Residential mortgages								
Sub-prime borrowers	\$ 1,940	\$ 2,266	6.14%	6.30%	\$ 2,009	\$ 2,348	6.12%	6.38%
Other borrowers	10,457	8,539	1.93	2.74	10,118	8,198	2.22	3.03
Total	\$ 12,397	\$ 10,805	2.59%	3.49%	\$ 12,127	\$ 10,546	2.87%	3.78%
Home equity and second mortgages								
Sub-prime borrowers	\$ 480	\$ 553	8.27%	9.33%	\$ 503	\$ 581	9.30%	10.36%
Other borrowers	1,962	1,895	2.43	3.56	1,973	1,880	3.05	3.98
Total	\$ 2,442	\$ 2,448	3.57%	4.86%	\$ 2,476	\$ 2,461	4.32%	5.49%

U.S. Bancorp

Table of Contents

Analysis and Determination of the Allowance for Credit Losses The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio and includes certain amounts that do not represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the FDIC. The allowance for credit losses is increased through provisions charged to operating earnings and reduced by net charge-offs. Management evaluates the allowance each quarter to ensure it appropriately reserves for incurred losses.

The allowance recorded for loans in the commercial lending segment is generally based on quarterly reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. The Company currently uses an 11 year period of historical losses in considering actual loss experience. This timeframe and the results of the analysis are evaluated quarterly to determine the appropriateness. The allowance recorded for impaired loans greater than \$5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price, or the fair value of the collateral for collateral-dependent loans. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends.

The allowance recorded for purchased impaired and TDR loans in the consumer lending segment is determined on a homogenous pool basis utilizing expected cash flows discounted using the original effective interest rate of the pool. The allowance recorded for all other consumer lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends. In addition, when evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the default and/or delinquency status of any first lien account serviced by the Company, as well as whether the first lien account has been modified by the Company. At September 30, 2011, the Company serviced the first lien on 30 percent of the home equity loans and lines in a junior lien position. The Company also considers the results of this analysis in evaluating the potential exposure to credit losses for the population of home equity loans and lines in a junior lien position where the Company does not service the first lien.

The allowance for covered segment loans is evaluated each quarter in a manner similar to that described for non-covered loans, and represents any decreases in expected cash flows on those loans after the acquisition date. The provision for credit losses for covered segment loans considers the indemnification provided by the FDIC.

The Company's methodology for determining the appropriate allowance for credit losses for all the loan segments also considers the imprecision inherent in the methodologies used. As a result, in addition to the amounts determined under the methodologies described above, management also considers the potential impact of other qualitative factors which include, but are not limited to, economic factors; geographic and other concentration risks; delinquency and nonaccrual trends; current business conditions; changes in lending policy, underwriting standards, internal review and other relevant business practices; and the regulatory environment. The consideration of these items results in adjustments to allowance amounts included in the Company's allowance for credit losses for each of the above loan segments.

Refer to Management's Discussion and Analysis - Analysis and Determination of the Allowance for Credit Losses in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on the analysis and determination of the allowance for credit losses.

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 5,308	\$ 5,536	\$ 5,531	\$ 5,264
Charge-offs				
Commercial				
Commercial	108	163	348	646
Lease financing	18	28	64	108
Total commercial	126	191	412	754
Commercial real estate				
Commercial mortgages	70	114	185	232
Construction and development	61	95	261	405
Total commercial real estate	131	209	446	637
Residential mortgages	124	135	380	422
Credit card	203	314	712	975
Other retail				
Retail leasing	2	5	8	21
Home equity and second mortgages	78	84	245	261
Other	95	124	298	375
Total other retail	175	213	551	657
Covered loans (a)	3	7	10	16
Total charge-offs	762	1,069	2,511	3,461
Recoveries				
Commercial				
Commercial	18	10	50	27
Lease financing	9	10	28	34
Total commercial	27	20	78	61
Commercial real estate				
Commercial mortgages	2	1	13	2
Construction and development	4	1	19	9
Total commercial real estate	6	2	32	11
Residential mortgages	2	3	10	7
Credit card	25	18	71	50
Other retail				
Retail leasing	3	3	8	10
Home equity and second mortgages	4	5	14	13

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

Other	26	23	77	64
Total other retail	33	31	99	87
Covered loans (a)				1
Total recoveries	93	74	290	217
Net Charge-offs				
Commercial				
Commercial	90	153	298	619
Lease financing	9	18	36	74
Total commercial	99	171	334	693
Commercial real estate				
Commercial mortgages	68	113	172	230
Construction and development	57	94	242	396
Total commercial real estate	125	207	414	626
Residential mortgages	122	132	370	415
Credit card	178	296	641	925
Other retail				
Retail leasing	(1)	2		11
Home equity and second mortgages	74	79	231	248
Other	69	101	221	311
Total other retail	142	182	452	570
Covered loans (a)	3	7	10	15
Total net charge-offs	669	995	2,221	3,244
Provision for credit losses	519	995	1,846	3,444
Net change for credit losses to be reimbursed by the FDIC	32	4	34	76
Balance at end of period	\$ 5,190	\$ 5,540	\$ 5,190	\$ 5,540
Components				
Allowance for loan losses, excluding losses to be reimbursed by the FDIC	\$ 4,823	\$ 5,245		
Allowance for credit losses to be reimbursed by the FDIC	127	76		
Liability for unfunded credit commitments	240	219		
Total allowance for credit losses	\$ 5,190	\$ 5,540		
Allowance for credit losses as a percentage of				
Period-end loans, excluding covered loans	2.66%	3.10%		
Nonperforming loans, excluding covered loans	196	181		
Nonperforming assets, excluding covered assets	166	153		
Annualized net charge-offs, excluding covered loans	190	139		
Period-end loans	2.53	2.85		
Nonperforming loans	145	133		

Nonperforming assets	120	102
Annualized net charge-offs	196	140

Note: At September 30, 2011 and 2010, \$1.9 billion and \$2.2 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

(a) Relates to covered loan charge-offs and recoveries not reimbursable by the FDIC.

U.S. Bancorp

Table of Contents

At September 30, 2011, the allowance for credit losses was \$5.2 billion (2.53 percent of total loans and 2.66 percent of loans excluding covered loans), compared with an allowance of \$5.5 billion (2.81 percent of total loans and 3.03 percent of loans excluding covered loans) at December 31, 2010. The Company increased the allowance for credit losses by \$32 million and \$34 million during the third quarter and first nine months of 2011, respectively, compared with increases of \$4 million and \$76 million for the same periods of the prior year, to reflect covered loan losses reimbursable by the FDIC. The ratio of the allowance for credit losses to nonperforming loans was 145 percent (196 percent excluding covered loans) at September 30, 2011, compared with 136 percent (192 percent excluding covered loans) at December 31, 2010. The ratio of the allowance for credit losses to annualized loan net charge-offs was 196 percent at September 30, 2011, compared with 132 percent of full year 2010 net charge-offs at December 31, 2010, as net charge-offs continue to decline due to stabilizing economic conditions.

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, 2011, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2010. 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, 2010, 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 Risk Management Committee of the Company's Board of Directors provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Management 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, 2010, 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 the 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 Committee (ALCO) and approved by the Board of Directors. The ALCO has the responsibility for approving and ensuring compliance with the ALCO 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 ALCO 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, 2011, and December 31, 2010, 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, 2010, for further discussion on net interest income simulation analysis.

Sensitivity of Net Interest Income

	September 30, 2011				December 31, 2010			
	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	*	1.62%	*	2.09%	*	1.64%	*	3.14%

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

Table of Contents

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. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The ALCO policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. A 200 bps increase would have resulted in a 2.5 percent decrease in the market value of equity at September 30, 2011, compared with a 3.6 percent decrease at December 31, 2010. A 200 bps decrease, where possible given current rates, would have resulted in a 6.2 percent decrease in the market value of equity at September 30, 2011, compared with a 5.2 percent decrease at December 31, 2010. 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, 2010, 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 from fixed-rate payments to floating-rate payments;

- To convert the cash flows associated with floating-rate loans and debt from floating-rate payments to fixed-rate payments; and

- To mitigate changes in value of the Company's mortgage origination pipeline, funded mortgage loans held for sale and MSR's.

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 support 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 and may instead elect fair value accounting for the related hedged items. In particular, the Company enters into U.S. Treasury futures, options on U.S. Treasury futures contracts, interest rate swaps and forward commitments to buy residential mortgage loans to mitigate fluctuations in the value of its MSR's, 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, 2011, the Company had \$12.6 billion of forward commitments to sell mortgage loans hedging \$5.2 billion of mortgage loans held for sale and \$13.2 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 hedging 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 where possible 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 12 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, principally related to trading activities which support customers' strategies to manage their own foreign currency,

interest rate risk and funding activities. The ALCO established the Market Risk Committee (MRC), which oversees market risk management. The MRC monitors and reviews the Company's trading positions and establishes policies for market risk management, including exposure limits for each portfolio. 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 statistical risk of loss

U.S. Bancorp

Table of Contents

the Company has to adverse market movements over a one-day time horizon. The Company uses the Historical Simulation method to calculate VaR for its trading businesses measured at the ninety-ninth percentile using a one-year look-back period for distributions derived from past market data. The market factors used in the calculations include those pertinent to market risks inherent in the underlying trading portfolios, principally those that affect its investment grade bond trading business, foreign currency transaction business, client derivatives business, loan trading business and municipal securities business. On average, the Company expects the one-day VaR to be exceeded two to three times per year in each business. The Company monitors the effectiveness of its risk programs by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. If the Company were to experience market losses in excess of the estimated VaR more often than expected, the VaR models and associated assumptions would be analyzed and adjusted. The Company stress tests its market risk measurements to provide management with perspectives on market events that may not be captured by its VaR models, including worst case historical market movement combinations that have not necessarily occurred on the same date. The average, high and low VaR amounts for the nine months ended September 30, 2011 were \$2 million, \$4 million and \$1 million, respectively, compared with \$2 million, \$5 million and \$1 million, respectively, for the nine months ended September 30, 2010. There have been no incidents where the actual trading losses exceeded the bank-wide one-day VaR during the nine months ended September 30, 2011 and nine months ended September 30, 2010.

Liquidity Risk Management The Company's liquidity risk management framework is designed to maintain sufficient liquidity in both normal operating environments as well as in periods of severe stress. The ALCO reviews and approves the Company's liquidity policies and guidelines, and regularly reviews the overall liquidity position of the Company.

The Company maintains a substantial level of total available liquidity in the form of on- and off-balance sheet funding sources. These include cash at the Federal Reserve, unencumbered liquid assets, and capacity to borrow at the Federal Home Loan Bank and Federal Reserve Discount Window. The Company monitors liquidity risk through various metrics and reporting, including analysis of scenarios that estimate the impact of stress events on the Company's consolidated liquidity position.

In addition to assessing liquidity risk on a consolidated basis, the Company monitors the parent company liquidity and maintains sufficient funding to meet expected parent company obligations, without access to the wholesale funding markets or dividends from subsidiaries, for 12 months when forecasted payments of common stock dividends are included and 24 months assuming dividends were reduced to zero. The parent company currently has available funds considerably greater than the amounts required to satisfy these conditions.

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, 2010, for further discussion on liquidity risk management.

At September 30, 2011, parent company long-term debt outstanding was \$13.4 billion, compared with \$13.0 billion at December 31, 2010. The \$.4 billion increase was primarily due to \$1.0 billion of medium-term note issuances, partially offset by \$.6 billion of extinguishments of junior subordinated debentures. As of September 30, 2011, there was no parent company debt scheduled to mature in the remainder of 2011.

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 \$7.1 billion at September 30, 2011.

Off-Balance Sheet Arrangements Off-balance sheet arrangements include any contractual arrangements to which an unconsolidated entity is a party under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. Refer to Note 14 of the Notes to Consolidated Financial Statements for further

U.S. Bancorp

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

(Dollars in Millions)	September 30, 2011	December 31, 2010
Tier 1 capital	\$ 28,081	\$ 25,947
As a percent of risk-weighted assets	10.8%	10.5%
As a percent of adjusted quarterly average assets (leverage ratio)	9.0%	9.1%
Total risk-based capital	\$ 35,369	\$ 33,033
As a percent of risk-weighted assets	13.5%	13.3%

information on these arrangements. The Company has not significantly utilized private label asset securitizations or conduits as a source of funding. Off-balance sheet arrangements also include any obligation related to a variable interest held in an unconsolidated entity that provides financing, liquidity, credit enhancement or market risk support. Refer to Note 6 of the Notes to Consolidated Financial Statements for further information related to the Company's interests in variable interest entities.

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Table 9 provides a summary of regulatory capital ratios as of September 30, 2011, and December 31, 2010. All regulatory ratios exceeded regulatory well-capitalized requirements. Total U.S. Bancorp shareholders' equity was \$33.2 billion at September 30, 2011, compared with \$29.5 billion at December 31, 2010. The increase was primarily the result of corporate earnings, the issuance of \$.7 billion of perpetual preferred stock in exchange for the extinguishment of income trust securities and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income, partially offset by dividends and common share repurchases. Refer to Management's Discussion and Analysis - Capital Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on capital management.

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 equity (using Basel I definition) and tangible common equity, as a percent of risk-weighted assets, were 8.5 percent and 8.1 percent, respectively, at September 30, 2011, compared with 7.8 percent and 7.2 percent, respectively, at December 31, 2010. The Company's tangible common equity divided by tangible assets was 6.6 percent at September 30, 2011, compared with 6.0 percent at December 31, 2010.

Additionally, the Company's Tier 1 common as a percent of risk-weighted assets, under anticipated Basel III guidelines, was 8.2 percent at September 30, 2011, compared with 7.3 percent at December 31, 2010. Refer to Non-Regulatory Capital Ratios for further information regarding the calculation of these measures.

On March 18, 2011, the Company announced its Board of Directors had approved an authorization to repurchase 50 million shares of common stock through December 31, 2011. All shares repurchased during the third quarter of 2011 were repurchased under this authorization.

The following table provides a detailed analysis of all shares repurchased by the Company during the third quarter of 2011:

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	4,560,115	\$ 26.30	42,914,405
August	190	20.56	42,914,215
September	8,518,511	23.46	34,395,704
Total	13,078,816	\$ 24.45	34,395,704

LINE OF BUSINESS FINANCIAL REVIEW

The Company's major lines of business are Wholesale Banking and Commercial Real Estate, Consumer and Small Business Banking, Wealth Management and 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, 2010, for further discussion on the business lines basis for financial presentation.

U.S. Bancorp

Table of Contents

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 2011, certain organization and methodology changes were made and, accordingly, 2010 results were restated and presented on a comparable basis.

Wholesale Banking and Commercial Real Estate Wholesale Banking and Commercial Real Estate 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 and Commercial Real Estate contributed \$304 million of the Company's net income in the third quarter and \$781 million in the first nine months of 2011, or increases of \$160 million and \$526 million, respectively, compared with the same periods of 2010. The increases were primarily driven by higher net revenue and lower provision for credit losses, partially offset by higher noninterest expense.

Total net revenue increased \$69 million (8.7 percent) in the third quarter and \$220 million (9.5 percent) in the first nine months of 2011, compared with the same periods of 2010. Net interest income, on a taxable-equivalent basis, increased \$26 million (5.0 percent) in the third quarter and \$111 million (7.5 percent) in the first nine months of 2011, compared with the same periods of 2010. The year-over-year increases in net interest income were primarily due to higher average loan and deposit balances and increases in loan fees, partially offset by the impact of declining rates on the margin benefit from deposits. Total noninterest income increased \$43 million (15.6 percent) in the third quarter and \$109 million (13.2 percent) in the first nine months of 2011, compared with the same periods of 2010. The increases were primarily due to growth in commercial products revenue, including syndication and other capital markets fees, commercial leasing, foreign exchange and international trade revenue, and commercial loan fees. In addition, other revenue increased due to higher equity investment and customer-related derivative revenue.

Total noninterest expense increased \$12 million (3.9 percent) in the third quarter and \$66 million (7.5 percent) in the first nine months of 2011, compared with the same periods of 2010. The increases were primarily due to higher total compensation and employee benefits expense, and increased net shared services costs. The provision for credit losses decreased \$198 million (75.3 percent) in the third quarter and \$672 million (65.4 percent) in the first nine months of 2011, compared with the same periods of 2010. The favorable changes were primarily due to lower net charge-offs in the third quarter and first nine months of 2011, compared with the same periods of 2010. Nonperforming assets were \$1.2 billion at September 30, 2011, \$1.3 billion at June 30, 2011, and \$1.8 billion at September 30, 2010.

Nonperforming assets as a percentage of period-end loans were 2.01 percent at September 30, 2011, 2.22 percent at June 30, 2011, and 3.26 percent at September 30, 2010. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

Consumer and Small Business Banking Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and over mobile devices. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer and Small Business Banking contributed \$228 million of the Company's net income in the third quarter and \$556 million in the first nine months of 2011, or increases of \$1 million (.4 percent), and \$16 million (3.0 percent), respectively, compared with the same periods of 2010.

Within Consumer and Small Business Banking, the retail banking division contributed \$117 million of the total net income in the third quarter and \$196 million in the first nine months of 2011, compared with \$41 million and \$108 million in the same periods of 2010. Mortgage banking contributed \$111 million and \$360 million of Consumer and Small Business Banking's net income in the third quarter and first nine months of 2011, respectively, compared with \$186 million and \$432 million in the same periods of 2010.

Total net revenue decreased \$7 million (.4 percent) in the third quarter and increased \$74 million (1.4 percent) in the first nine months of 2011, compared with the same periods of 2010. Net interest income, on a taxable-equivalent basis, increased \$18 million (1.6 percent) in the third quarter and \$176 million (5.4 percent) in the first nine months of

2011, compared with the same periods of 2010. The year-over-year increases in net interest income were due to higher loan and deposit volumes, partially offset by declines in the margin benefit from deposits. Total noninterest income decreased \$25 million (3.4 percent) in the third quarter and \$102 million (4.9 percent) in the first nine months of 2011, compared with the same periods of 2010. The decline in third quarter noninterest income, compared to

U.S. Bancorp

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

Three Months Ended September 30 (Dollars in Millions)	Wholesale Banking and Commercial Real Estate			Consumer and Small Business Banking		
	2011	2010	Percent Change	2011	2010	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	\$ 544	\$ 518	5.0%	\$ 1,154	\$ 1,136	1.6%
Noninterest income	318	276	15.2	708	733	(3.4)
Securities gains (losses), net		(1)	*			
Total net revenue	862	793	8.7	1,862	1,869	(.4)
Noninterest expense	314	302	4.0	1,154	1,094	5.5
Other intangibles	4	4		18	22	(18.2)
Total noninterest expense	318	306	3.9	1,172	1,116	5.0
Income before provision and income taxes	544	487	11.7	690	753	(8.4)
Provision for credit losses	65	263	(75.3)	332	394	(15.7)
Income before income taxes	479	224	*	358	359	(.3)
Income taxes and taxable-equivalent adjustment	174	82	*	130	131	(.8)
Net income	305	142	*	228	228	
Net (income) loss attributable to noncontrolling interests	(1)	2	*		(1)	*
Net income attributable to U.S. Bancorp	\$ 304	\$ 144	*	\$ 228	\$ 227	.4
Average Balance Sheet						
Commercial	\$ 38,069	\$ 32,952	15.5%	\$ 7,322	\$ 7,368	(.6)%
Commercial real estate	19,119	19,540	(2.2)	15,647	13,940	12.2
Residential mortgages	53	74	(28.4)	33,569	27,438	22.3
Credit card						
Other retail	4	33	(87.9)	45,968	45,208	1.7
Total loans, excluding covered loans	57,245	52,599	8.8	102,506	93,954	9.1
Covered loans	1,352	1,866	(27.5)	8,247	9,361	(11.9)
Total loans	58,597	54,465	7.6	110,753	103,315	7.2
Goodwill	1,604	1,608	(.2)	3,515	3,546	(.9)
Other intangible assets	50	67	(25.4)	1,945	1,734	12.2

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

Assets	64,556	59,501	8.5	123,932	118,574	4.5
Noninterest-bearing deposits	27,840	17,104	62.8	17,806	16,902	5.3
Interest checking	10,978	12,822	(14.4)	26,995	23,779	13.5
Savings products	9,273	10,668	(13.1)	40,789	36,717	11.1
Time deposits	14,733	11,629	26.7	24,492	25,036	(2.2)
Total deposits	62,824	52,223	20.3	110,082	102,434	7.5
Total U.S. Bancorp shareholders equity	5,606	5,291	6.0	9,326	8,525	9.4

Nine Months Ended September 30 (Dollars in Millions)	Wholesale Banking and Commercial Real Estate			Consumer and Small Business Banking		
	2011	2010	Percent Change	2011	2010	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	\$ 1,588	\$ 1,477	7.5%	\$ 3,417	\$ 3,241	5.4%
Noninterest income	937	829	13.0	2,001	2,103	(4.9)
Securities gains (losses), net		(1)	*			
Total net revenue	2,525	2,305	9.5	5,418	5,344	1.4
Noninterest expense	936	869	7.7	3,387	3,178	6.6
Other intangibles	12	13	(7.7)	54	74	(27.0)
Total noninterest expense	948	882	7.5	3,441	3,252	5.8
Income before provision and income taxes	1,577	1,423	10.8	1,977	2,092	(5.5)
Provision for credit losses	356	1,028	(65.4)	1,102	1,236	(10.8)
Income before income taxes	1,221	395	*	875	856	2.2
Income taxes and taxable-equivalent adjustment	444	143	*	318	314	1.3
Net income	777	252	*	557	542	2.8
Net (income) loss attributable to noncontrolling interests	4	3	33.3	(1)	(2)	50.0
Net income attributable to U.S. Bancorp	\$ 781	\$ 255	*	\$ 556	\$ 540	3.0
Average Balance Sheet						
Commercial	\$ 36,478	\$ 33,196	9.9%	\$ 7,213	\$ 7,244	(.4)%
Commercial real estate	19,184	19,628	(2.3)	15,454	13,660	13.1
Residential mortgages	56	71	(21.1)	32,399	26,593	21.8
Credit card						
Other retail	6	43	(86.0)	45,661	44,737	2.1

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

Total loans, excluding covered loans	55,724	52,938	5.3	100,727	92,234	9.2
Covered loans	1,603	2,015	(20.4)	8,496	9,693	(12.3)
Total loans	57,327	54,953	4.3	109,223	101,927	7.2
Goodwill	1,604	1,608	(.2)	3,520	3,532	(.3)
Other intangible assets	55	71	(22.5)	2,137	1,936	10.4
Assets	63,204	60,140	5.1	122,892	115,545	6.4
Noninterest-bearing deposits	23,746	16,866	40.8	17,603	16,175	8.8
Interest checking	13,028	13,192	(1.2)	26,172	23,647	10.7
Savings products	9,482	11,930	(20.5)	40,313	35,518	13.5
Time deposits	14,870	11,196	32.8	24,469	26,612	(8.1)
Total deposits	61,126	53,184	14.9	108,557	101,952	6.5
Total U.S. Bancorp shareholders equity	5,538	5,357	3.4	9,275	8,451	9.8

* *Not meaningful*

U.S. Bancorp

Table of Contents

Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		Per Ch
2010	Percent Change	2011	2010	Percent Change	2011	2010	Percent Change	2011	2010	Ch	
\$ 79	13.9%	\$ 334	\$ 335	(.3)%	\$ 502	\$ 409	22.7%	\$ 2,624	\$ 2,477		
277	(8.3)	856	805	6.3	44	28	57.1	2,180	2,119		
					(9)	(8)	(12.5)	(9)	(9)		
356	(3.4)	1,190	1,140	4.4	537	429	25.2	4,795	4,587		
245	9.4	446	430	3.7	219	224	(2.2)	2,401	2,295		
13	(23.1)	43	51	(15.7)				75	90		
258	7.8	489	481	1.7	219	224	(2.2)	2,476	2,385		
98	(32.7)	701	659	6.4	318	205	55.1	2,319	2,202		
13	*	124	305	(59.3)	(2)	20	*	519	995		
85	(22.4)	577	354	63.0	320	185	73.0	1,800	1,207		
31	(22.6)	210	129	62.8	10	(60)	*	548	313		
54	(22.2)	367	225	63.1	310	245	26.5	1,252	894		
		(10)	(8)	(25.0)	32	21	52.4	21	14		
\$ 54	(22.2)	\$ 357	\$ 217	64.5	\$ 342	\$ 266	28.6	\$ 1,273	\$ 908		
\$ 986	6.3%	\$ 5,828	\$ 5,328	9.4%	\$ 77	\$ 150	(48.7)%	\$ 52,344	\$ 46,784		
574	(.2)				230	136	69.1	35,569	34,190		
361	9.7				8	17	(52.9)	34,026	27,890		
		16,057	16,510	(2.7)				16,057	16,510		
1,625	(6.4)	885	992	(10.8)	2	1	*	48,380	47,859		
3,546	(.2)	22,770	22,830	(.3)	317	304	4.3	186,376	173,233		
14	(14.3)	5	5		6,177	8,062	(23.4)	15,793	19,308		
3,560	(.3)	22,775	22,835	(.3)	6,494	8,366	(22.4)	202,169	192,541		
1,515	(3.4)	2,367	2,340	1.2				8,949	9,009		
194	(7.7)	775	928	(16.5)	6	6		2,955	2,929		
5,656	5.5	28,235	27,536	2.5	98,893	74,793	32.2	321,581	286,060		
4,916	*	653	619	5.5	451	191	*	58,606	39,732		
2,582	11.7	184	124	48.4	1	1		41,042	39,308		
12,433	71.8	31	24	29.2	207	171	21.1	71,665	60,013		
6,527	(26.6)		1	*	37	414	(91.1)	44,056	43,607		
26,458	54.6	868	768	13.0	696	777	(10.4)	215,369	182,660		
2,090	(.8)	5,276	5,289	(.2)	10,806	7,692	40.5	33,087	28,887		

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

Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		Per Share
2010	Percent Change	2011	2010	Percent Change	2011	2010	Percent Change	2011	2010	Per Share	
\$ 215	20.5%	\$ 991	\$ 1,013	(2.2)%	\$ 1,420	\$ 1,343	5.7%	\$ 7,675	\$ 7,289		
829	(4.3)	2,450	2,339	4.7	170	102	66.7	6,351	6,202		
					(22)	(63)	65.1	(22)	(64)		
1,044	.8	3,441	3,352	2.7	1,568	1,382	13.5	14,004	13,427		
723	10.9	1,300	1,227	5.9	565	623	(9.3)	6,990	6,620		
40	(25.0)	129	151	(14.6)				225	278		
763	9.0	1,429	1,378	3.7	565	623	(9.3)	7,215	6,898		
281	(21.7)	2,012	1,974	1.9	1,003	759	32.1	6,789	6,529		
17	*	376	1,128	(66.7)	13	35	(62.9)	1,846	3,444		
264	(16.3)	1,636	846	93.4	990	724	36.7	4,943	3,085		
94	(14.9)	595	306	94.4	46	(81)	*	1,483	776		
170	(17.1)	1,041	540	92.8	944	805	17.3	3,460	2,309		
		(29)	(23)	(26.1)	88	56	57.1	62	34		
\$ 170	(17.1)	\$ 1,012	\$ 517	95.7	\$ 1,032	\$ 861	19.9	\$ 3,522	\$ 2,343		
\$ 1,033	1.4%	\$ 5,561	\$ 5,126	8.5%	\$ 84	\$ 199	(57.8)%	\$ 50,383	\$ 46,798		
569	2.1				198	308	(35.7)	35,417	34,165		
369	5.4				10	12	(16.7)	32,854	27,045		
		16,022	16,399	(2.3)		4	*	16,022	16,403		
1,580	(.2)	909	1,015	(10.4)	1	16	(93.8)	48,154	47,391		
3,551	1.2	22,492	22,540	(.2)	293	539	(45.6)	182,830	171,802		
14	(14.3)	5	5		6,587	8,663	(24.0)	16,703	20,390		
3,565	1.2	22,497	22,545	(.2)	6,880	9,202	(25.2)	199,533	192,192		
1,517	(3.6)	2,366	2,346	.9		3	*	8,953	9,006		
208	(9.6)	807	967	(16.5)	5		*	3,192	3,182		
5,726	4.8	27,680	27,243	1.6	94,301	74,402	26.7	314,079	283,056		
5,338	54.1	684	613	11.6	298	231	29.0	50,558	39,223		
2,626	12.6	174	115	51.3	2	19	(89.5)	42,334	39,599		
12,040	77.6	29	23	26.1	193	238	(18.9)	71,396	59,749		
5,940	(.2)		1	*	182	517	(64.8)	45,447	44,266		
25,944	48.4	887	752	18.0	675	1,005	(32.8)	209,735	182,837		
2,109	(1.6)	5,272	5,308	(.7)	9,538	6,357	50.0	31,699	27,582		

U.S. Bancorp

Table of Contents

the same period of 2010, was driven by a reduction in mortgage origination and sales revenue. Partially offsetting this decline was higher deposit service charges due to new account growth, higher transaction volumes and recent product redesign initiatives, partially offset by the impact of 2010 legislative and pricing changes. In addition, other income increased year-over-year due to higher retail lease residual revenue and ATM processing services income. The decline in noninterest income for the first nine months of 2011 compared to the same period of 2010 was primarily due to reductions in mortgage origination and sales revenue, and lower deposit service charges due to the impact of 2010 legislative and pricing changes, partially offset by new account growth, higher transaction volumes and recent product redesign initiatives.

Total noninterest expense increased \$56 million (5.0 percent) in the third quarter and \$189 million (5.8 percent) in the first nine months of 2011, compared with the same periods of 2010. The increases reflected higher compensation and employee benefits expense, mortgage servicing-related professional service projects, net shared services costs and net occupancy and equipment expenses related to business initiatives, partially offset by lower other intangibles expense. The provision for credit losses decreased \$62 million (15.7 percent) in the third quarter and \$134 million (10.8 percent) in the first nine months of 2011, compared with the same periods of 2010, principally due to lower net charge-offs. As a percentage of average loans outstanding on an annualized basis, net charge-offs decreased to 1.16 percent in the third quarter of 2011, compared with 1.43 percent in the third quarter of 2010. Nonperforming assets were \$1.6 billion at September 30, 2011, \$1.7 billion at June 30, 2011, and \$1.6 billion at September 30, 2010. Nonperforming assets as a percentage of period-end loans were 1.41 percent at September 30, 2011, 1.58 percent at June 30, 2011, and 1.55 percent at September 30, 2010. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

During the second quarter of 2011, the Company's two primary banking subsidiaries, U.S. Bank National Association and U.S. Bank National Association ND, entered into a Consent Order with the Office of the Comptroller of the Currency regarding residential mortgage servicing and foreclosure processes. The Company also entered into a related Consent Order with the Board of Governors of the Federal Reserve System. The Consent Orders were the result of an interagency horizontal review of the foreclosure practices of the 14 largest mortgage servicers in the United States. The Consent Orders mandate certain changes to the Company's mortgage servicing and foreclosure processes. Specifically, the Consent Orders require the Company, U.S. Bank National Association and U.S. Bank National Association ND to, among other things, submit a comprehensive action plan setting forth the steps necessary to ensure residential mortgage servicing and foreclosure processes are conducted in accordance with the Consent Orders; develop and implement other plans and programs to enhance residential mortgage servicing and foreclosure processes; retain an independent consultant to conduct a review of certain residential mortgage foreclosure actions and to remediate errors or deficiencies identified by the consultant; and oversee compliance with the Consent Orders and the new plans and programs. The Company has made significant progress in complying with these requirements during the last several months.

The Company has long been committed to sound modification and foreclosure practices and is committed to revising its practices where necessary to satisfy the requirements of the Consent Orders. The Company does not believe that the resolution of any outstanding issues will materially affect its financial position, results of operations, or ability to conduct normal business activities.

Wealth Management and Securities Services Wealth Management and Securities Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Securities Services contributed \$42 million of the Company's net income in the third quarter and \$141 million in the first nine months of 2011, or decreases of \$12 million (22.2 percent) and \$29 million (17.1 percent), respectively, compared with the same periods of 2010. The decreases were due to lower net revenue and higher total noninterest expense, partially offset by lower provision for credit losses.

Total net revenue decreased \$12 million (3.4 percent) in the third quarter and increased \$8 million (.8 percent) in the first nine months of 2011, compared with the same periods of 2010. Net interest income, on a taxable-equivalent basis, increased \$11 million (13.9 percent) in the third quarter and \$44 million (20.5 percent) in the first nine months of 2011, compared with the same periods of 2010. The year-over-year increases in net interest income were primarily due to higher average deposit balances, including the impact of the securitization trust

U.S. Bancorp

Table of Contents

administration acquisition. Total noninterest income declined \$23 million (8.3 percent) in the third quarter and \$36 million (4.3 percent) in the first nine months of 2011, compared with the same periods of 2010. Trust and investment management fees declined, primarily due to the sale of the long-term asset management business in the fourth quarter of 2010 and money market investment fee waivers, partially offset by the impact of the fourth quarter 2010 securitization trust administration acquisition and improved market conditions during the third quarter and first nine months of 2011. Additionally, investment product fees were higher due to increased sales volumes. Total noninterest expense increased \$20 million (7.8 percent) in the third quarter and \$69 million (9.0 percent) in the first nine months of 2011, compared with the same periods of 2010. The increases in noninterest expense were primarily due to higher compensation and employee benefits expense, higher net shared services expense and the impact of the securitization trust administration acquisition, partially offset by reductions in other intangibles expense and expenses related to the sale of the long-term asset management business.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed \$357 million of the Company's net income in the third quarter and \$1.0 billion in the first nine months of 2011, or increases of \$140 million (64.5 percent) and \$495 million (95.7 percent), respectively, compared with the same periods of 2010. The increases were primarily due to a lower provision for credit losses and higher total net revenue, partially offset by an increase in total noninterest expense.

Total net revenue increased \$50 million (4.4 percent) in the third quarter and \$89 million (2.7 percent) in the first nine months of 2011, compared with the same periods of 2010. Net interest income, on a taxable-equivalent basis, decreased \$1 million (.3 percent) in the third quarter and \$22 million (2.2 percent) in the first nine months of 2011, compared with the same periods of 2010, primarily due to lower retail credit card average loan balances. Noninterest income increased \$51 million (6.3 percent) in the third quarter and \$111 million (4.7 percent) in the first nine months of 2011, compared with the same periods of 2010, primarily due to increased transaction volumes.

Total noninterest expense increased \$8 million (1.7 percent) in the third quarter and \$51 million (3.7 percent) in the first nine months of 2011, compared with the same periods of 2010. The increases were driven by higher compensation and employee benefits expense and processing costs, partially offset by lower other intangibles expense. The provision for credit losses decreased \$181 million (59.3 percent) in the third quarter and \$752 million (66.7 percent) in the first nine months of 2011, compared with the same periods of 2010. The decreases were due to lower net charge-offs and favorable changes in the reserve allocation due to improved loss rates. As a percentage of average loans outstanding, net charge-offs were 3.78 percent in the third quarter of 2011, compared with 6.08 percent in the third quarter of 2010.

Treasury and Corporate Support Treasury and Corporate Support includes the Company's investment portfolios, most covered commercial and commercial real estate loans and related other real estate owned, funding, capital management, asset securitization, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of \$342 million in the third quarter and \$1.0 billion in the first nine months of 2011, compared with \$266 million in the third quarter and \$861 million in the first nine months of 2010.

Total net revenue increased \$108 million (25.2 percent) in the third quarter and \$186 million (13.5 percent) in the first nine months of 2011, compared with the same periods of 2010. Net interest income, on a taxable-equivalent basis, increased \$93 million (22.7 percent) in the third quarter and \$77 million (5.7 percent) in the first nine months of 2011, compared with the same periods of 2010, reflecting the impact of growth in the investment portfolio, wholesale funding decisions and the Company's asset/liability position. Total noninterest income increased \$15 million (75.0 percent) in the third quarter of 2011, compared with the third quarter of 2010, due to income from sales of tax-advantaged projects and higher commercial products revenue. Total noninterest income increased \$109 million in the first nine months of 2011, compared with the same period of 2010, principally due to the FCB gain recorded in the first quarter of 2011 and lower net securities losses.

Total noninterest expense decreased \$5 million (2.2 percent) in the third quarter and \$58 million (9.3 percent) in the first nine months of 2011, compared with the same periods of 2010, as favorable variances in net shared services expense and lower litigation and insurance costs, were partially offset by increased compensation and employee benefits expense.

Table of Contents

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support.

NON-REGULATORY CAPITAL RATIOS

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

- Tangible common equity to tangible assets,
- Tier 1 common equity to risk-weighted assets using Basel I definition,
- Tier 1 common equity to risk-weighted assets using anticipated Basel III definition, and
- Tangible common equity to risk-weighted assets using Basel I definition.

These non-regulatory capital ratios are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market conditions. Additionally, presentation of these ratios allows readers to compare the Company's capitalization to other financial services companies. These ratios differ from capital ratios defined by banking regulators principally in that the numerator excludes preferred securities, the nature and extent of which varies among different financial services companies. These ratios are not defined in Generally Accepted Accounting Principles (GAAP) or federal banking regulations. As a result, these non-regulatory capital ratios disclosed by the Company may be considered non-GAAP financial measures.

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

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

(Dollars in Millions)	September 30, 2011	December 31, 2010
Total equity	\$ 34,210	\$ 30,322
Preferred stock	(2,606)	(1,930)
Noncontrolling interests	(980)	(803)
Goodwill (net of deferred tax liability)	(8,265)	(8,337)
Intangible assets, other than mortgage servicing rights	(1,209)	(1,376)
Tangible common equity (a)	21,150	17,876
Tier 1 capital, determined in accordance with prescribed regulatory requirements using Basel I definition	28,081	25,947
Trust preferred securities	(2,675)	(3,949)
Preferred stock	(2,606)	(1,930)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital	(695)	(692)
Tier 1 common equity using Basel I definition (b)	22,105	19,376
Tier 1 capital, determined in accordance with prescribed regulatory requirements using anticipated Basel III definition	24,902	20,854
Preferred stock	(2,606)	(1,930)

Noncontrolling interests of real estate investment trusts	(667)	(667)
Tier 1 common equity using anticipated Basel III definition (c)	21,629	18,257
Total assets	330,141	307,786
Goodwill (net of deferred tax liability)	(8,265)	(8,337)
Intangible assets, other than mortgage servicing rights	(1,209)	(1,376)
Tangible assets (d)	320,667	298,073
Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (e)	261,115	247,619
Risk-weighted assets using anticipated Basel III definition (f)	264,103	251,704
Ratios		
Tangible common equity to tangible assets (a)/(d)	6.6%	6.0%
Tier 1 common equity to risk-weighted assets using Basel I definition (b)/(e)	8.5	7.8
Tier 1 common equity to risk-weighted assets using anticipated Basel III definition (c)/(f)	8.2	7.3
Tangible common equity to risk-weighted assets (a)/(e)	8.1	7.2

Note: Anticipated Basel III definitions reflect adjustments for changes to the related elements as proposed in December 2010 by regulatory authorities.

U.S. Bancorp

Table of Contents

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The Company's financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company's financial statements. Critical accounting policies are those policies management believes are the most important to the portrayal of the Company's financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, purchased loans and related indemnification assets, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company's Audit Committee. These accounting policies are discussed in detail in Management's Discussion and Analysis - Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

CONTROLS AND PROCEDURES

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

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

31

U.S. Bancorp

Table of ContentsU.S. Bancorp
Consolidated Balance Sheet

(Dollars in Millions)	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	\$ 13,708	\$ 14,487
Investment securities		
Held-to-maturity (fair value \$16,613 and \$1,419, respectively)	16,269	1,469
Available-for-sale	52,109	51,509
Loans held for sale (included \$5,152 and \$8,100 of mortgage loans carried at fair value, respectively)	5,375	8,371
Loans		
Commercial	53,832	48,398
Commercial real estate	35,603	34,695
Residential mortgages	35,124	30,732
Credit card	16,332	16,803
Other retail	48,479	48,391
Total loans, excluding covered loans	189,370	179,019
Covered loans	15,398	18,042
Total loans	204,768	197,061
Less allowance for loan losses	(4,950)	(5,310)
Net loans	199,818	191,751
Premises and equipment	2,581	2,487
Goodwill	8,933	8,954
Other intangible assets	2,675	3,213
Other assets	28,673	25,545
Total assets	\$ 330,141	\$ 307,786
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	\$ 64,228	\$ 45,314
Interest-bearing	130,332	129,381
Time deposits greater than \$100,000	28,072	29,557
Total deposits	222,632	204,252
Short-term borrowings	32,029	32,557
Long-term debt	30,624	31,537
Other liabilities	10,646	9,118
Total liabilities	295,931	277,464
Shareholders equity		
Preferred stock	2,606	1,930

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

Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/11 and 12/31/10 2,125,725,742 shares	21	21
Capital surplus	8,248	8,294
Retained earnings	29,704	27,005
Less cost of common stock in treasury: 9/30/11 213,050,586 shares; 12/31/10 204,822,330 shares	(6,419)	(6,262)
Accumulated other comprehensive income (loss)	(930)	(1,469)
Total U.S. Bancorp shareholders equity	33,230	29,519
Noncontrolling interests	980	803
Total equity	34,210	30,322
Total liabilities and equity	\$ 330,141	\$ 307,786

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Table of ContentsU.S. Bancorp
Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest Income				
Loans	\$ 2,621	\$ 2,560	\$ 7,736	\$ 7,580
Loans held for sale	42	71	139	162
Investment securities	470	400	1,357	1,204
Other interest income	67	46	187	119
Total interest income	3,200	3,077	9,419	9,065
Interest Expense				
Deposits	202	231	646	696
Short-term borrowings	143	149	407	414
Long-term debt	289	273	860	822
Total interest expense	634	653	1,913	1,932
Net interest income	2,566	2,424	7,506	7,133
Provision for credit losses	519	995	1,846	3,444
Net interest income after provision for credit losses	2,047	1,429	5,660	3,689
Noninterest Income				
Credit and debit card revenue	289	274	842	798
Corporate payment products revenue	203	191	563	537
Merchant processing services	338	318	977	930
ATM processing services	115	105	341	318
Trust and investment management fees	241	267	755	798
Deposit service charges	183	160	488	566
Treasury management fees	137	139	418	421
Commercial products revenue	212	197	621	563
Mortgage banking revenue	245	310	683	753
Investment products fees and commissions	31	27	98	82
Securities gains (losses), net				
Realized gains (losses), net		9	2	21
Total other-than-temporary impairment	(11)	(28)	(41)	(145)
Portion of other-than-temporary impairment recognized in other comprehensive income	2	10	17	60
Total securities gains (losses), net	(9)	(9)	(22)	(64)
Other	186	131	565	436
Total noninterest income	2,171	2,110	6,329	6,138
Noninterest Expense				
Compensation	1,021	973	2,984	2,780

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

Employee benefits	203	171	643	523
Net occupancy and equipment	252	229	750	682
Professional services	100	78	252	209
Marketing and business development	102	108	257	254
Technology and communications	189	186	563	557
Postage, printing and supplies	76	74	226	223
Other intangibles	75	90	225	278
Other	458	476	1,315	1,392
Total noninterest expense	2,476	2,385	7,215	6,898
Income before income taxes	1,742	1,154	4,774	2,929
Applicable income taxes	490	260	1,314	620
Net income	1,252	894	3,460	2,309
Net (income) loss attributable to noncontrolling interests	21	14	62	34
Net income attributable to U.S. Bancorp	\$ 1,273	\$ 908	\$ 3,522	\$ 2,343
Net income applicable to U.S. Bancorp common shareholders	\$ 1,237	\$ 871	\$ 3,407	\$ 2,381
Earnings per common share	\$.65	\$.46	\$ 1.78	\$ 1.25
Diluted earnings per common share	\$.64	\$.45	\$ 1.77	\$ 1.24
Dividends declared per common share	\$.125	\$.050	\$.375	\$.150
Average common shares outstanding	1,915	1,913	1,918	1,911
Average diluted common shares outstanding	1,922	1,920	1,926	1,920

See Notes to Consolidated Financial Statements.

33

U.S. Bancorp

Table of Contents

U.S. Bancorp
Consolidated Statement of Shareholders' Equity

	U.S. Bancorp Shareholders							Total U.S. Bancorp	
	Common Shares	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Comprehensive Income (Loss)	Shareholders' Equity	Noncontrolling Interests
as of and Shares in Millions)	Outstanding	Stock	Stock	Surplus	Earnings	Stock	(Loss)	Equity	Interests
as of December 31, 2009	1,913	\$ 1,500	\$ 21	\$ 8,319	\$ 24,116	\$ (6,509)	\$ (1,484)	\$ 25,963	\$ 698
Change in accounting principle					(72)		(1)	(73)	(16)
Change in net income (loss)					2,343			2,343	(34)
Change in unrealized gains and losses on securities available-for-sale								1,265	1,265
Change in other-than-temporary impairment recognized in earnings on securities available-for-sale								(60)	(60)
Change in net realized gain (loss) on derivative hedges								(331)	(331)
Change in net currency translation adjustment								16	16
Change in net tax effects								65	65
Change in net tax effects								(364)	(364)
Comprehensive income									
Change in net tax effects								2,934	(34)
Change in net tax effects					(70)			(70)	
Change in net tax effects					(288)			(288)	
Change in net tax effects		430		10	118			558	
Change in net tax effects	6			(103)		162		59	
Change in net tax effects	(1)					(16)		(16)	
Change in net tax effects									(57)
Change in net tax effects									201
Change in net tax effects				84				84	
as of September 30, 2010	1,918	\$ 1,930	\$ 21	\$ 8,310	\$ 26,147	\$ (6,363)	\$ (894)	\$ 29,151	\$ 792
as of December 31, 2010	1,921	\$ 1,930	\$ 21	\$ 8,294	\$ 27,005	\$ (6,262)	\$ (1,469)	\$ 29,519	\$ 803
Change in accounting principle					(2)			(2)	
Change in net income (loss)					3,522			3,522	(62)

Changes in unrealized gains and losses on securities available-for-sale								1,000	1,000			
Change in temporary impairment recognized in earnings on securities available-for-sale								(17)	(17)			
Change in unrealized gain (loss) on derivative hedges								(323)	(323)			
Change in currency translation adjustment for realized losses								(16)	(16)			
Change in income taxes								228	228			
								(333)	(333)			
Comprehensive income											4,061	(62)
Change in stock dividends								(99)	(99)			
Change in stock dividends								(722)	(722)			
Change in value of preferred stock		676									676	
Change in value of common and treasury stock	8			(121)		252					131	
Change in value of treasury stock	(16)					(409)					(409)	
Change in value of investments to noncontrolling interests												(57)
Change in value of other changes in noncontrolling interests												296
Change in value of acquisition and restricted stock				75							75	
September 30, 2011	1,913	\$ 2,606	\$ 21	\$ 8,248	\$ 29,704	\$ (6,419)	\$ (930)	\$ 33,230	\$ 980	\$ 3		

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Table of ContentsU.S. Bancorp
Consolidated Statement of Cash Flows

(Dollars in Millions) (Unaudited)	Nine Months Ended	
	September 30, 2011	2010
Operating Activities		
Net income attributable to U.S. Bancorp	\$3,522	\$2,343
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,846	3,444
Depreciation and amortization of premises and equipment	196	169
Amortization of intangibles	225	278
Provision for deferred income taxes	250	(291)
Gain on sales of securities and other assets, net	(982)	(1,271)
Loans originated for sale in the secondary market, net of repayments	(29,486)	(34,328)
Proceeds from sales of loans held for sale	33,237	31,839
Other, net	(53)	623
Net cash provided by operating activities	8,755	2,806
Investing Activities		
Proceeds from sales of available-for-sale investment securities	926	1,113
Proceeds from maturities of held-to-maturity investment securities	714	133
Proceeds from maturities of available-for-sale investment securities	7,872	10,811
Purchases of held-to-maturity investment securities	(15,192)	(64)
Purchases of available-for-sale investment securities	(8,399)	(14,365)
Net increase in loans outstanding	(8,458)	(2,720)
Proceeds from sales of loans	454	1,365
Purchases of loans	(1,750)	(3,669)
Acquisitions, net of cash acquired	650	832
Other, net	(1,006)	(1,151)
Net cash used in investing activities	(24,189)	(7,715)
Financing Activities		
Net increase in deposits	16,593	3,681
Net increase (decrease) in short-term borrowings	(644)	2,376
Proceeds from issuance of long-term debt	2,002	5,349
Principal payments or redemption of long-term debt	(3,048)	(7,942)
Fees paid on exchange of income trust securities for perpetual preferred stock		(4)
Proceeds from issuance of preferred stock	676	
Proceeds from issuance of common stock	125	56
Repurchase of common stock	(383)	
Cash dividends paid on preferred stock	(88)	(56)
Cash dividends paid on common stock	(578)	(287)
Net cash provided by financing activities	14,655	3,173
Change in cash and due from banks	(779)	(1,736)
Cash and due from banks at beginning of period	14,487	6,206

Cash and due from banks at end of period	\$13,708	\$4,470
--	----------	---------

See Notes to Consolidated Financial Statements.

U.S. Bancorp

35

Table of Contents

Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs, expenses and other financial elements to each line of business. Table 10 Line of Business Financial Performance included in Management's Discussion and Analysis provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Troubled Debt Restructurings On July 1, 2011, the Company adopted accounting guidance issued by the Financial Accounting Standards Board related to identifying and disclosing troubled debt restructurings (TDRs), applicable to modifications occurring on or after January 1, 2011. This guidance provides clarification in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for the purpose of determining whether a restructuring constitutes a TDR. The adoption of this guidance resulted in \$1.4 billion of additional loan modifications considered to be TDRs which the Company had not previously considered to be impaired. The allowance for credit losses had previously been measured under a collective allowance for credit losses methodology. Under the new accounting guidance, the allowance for credit losses associated with these loans as of September 30, 2011, was \$94 million. The adoption of this guidance did not have a material impact on the Company's total allowance for credit losses.

Note 3 Business Combinations

In January 2011, the Company acquired the banking operations of First Community Bank of New Mexico (FCB) from the Federal Deposit Insurance Corporation (FDIC). The FCB transaction did not include a loss sharing agreement. The Company acquired 38 branch locations and approximately \$2.1 billion in assets, assumed approximately \$2.1 billion in liabilities, and received approximately \$412 million in cash from the FDIC. In addition, the Company recognized a \$46 million gain on this transaction during the first quarter of 2011.

U.S. Bancorp

Table of Contents

Note 4 Investment Securities

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

	September 30, 2011				Fair Value	December 31, 2010				Fair Value
	Amortized Cost	Unrealized Gains	Other-than-Temporary (d)	Unrealized Losses Other (e)		Amortized Cost	Unrealized Gains	Other-than-Temporary (d)	Unrealized Losses Other (e)	
Held-to-maturity (a)										
Treasury and agencies	\$ 2,623	\$ 36	\$	\$	\$ 2,659	\$ 165	\$	\$	\$ (1)	\$ 1
Mortgage-backed securities										
Residential										
Agency	13,400	339		(4)	13,735	847			(4)	8
Non-agency non-prime	2			(1)	1	3				
Commercial non-agency	5			(2)	3	10			(5)	
Mortgage-backed securities										
Securitized debt										
Collateralized										
Debt obligations	60	13		(3)	70	157	13		(18)	1
Other	24	1		(7)	18	127		(1)	(7)	1
Debt obligations of state and										
Political subdivisions	24	1		(1)	24	27	1		(1)	
Debt obligations of foreign										
Governments	7				7	7				
Other debt securities	124			(28)	96	126			(27)	
Total held-to-maturity	\$ 16,269	\$ 390	\$	\$ (46)	\$ 16,613	\$ 1,469	\$ 14	\$ (1)	\$ (63)	\$ 1,4
Available-for-sale (b)										
Treasury and agencies	\$ 1,477	\$ 12	\$	\$	\$ 1,489	\$ 2,559	\$ 6	\$	\$ (28)	\$ 2,5
Mortgage-backed securities										
Residential										
Agency	38,767	992		(21)	39,738	37,144	718		(159)	37,7
Non-agency										
Prime (c)	950	6	(48)	(49)	859	1,216	12	(86)	(39)	1,1
Non-prime	1,076	17	(224)	(12)	857	1,193	15	(243)	(18)	9
Commercial										
Agency	140	7			147	194	5		(2)	1
Non-agency	43	2			45	47	3			
Mortgage-backed securities										
Total available-for-sale	189	34	(2)	(3)	218	204	23	(2)	(1)	2

ateralized debt gations/Collateralized obligations	693	19	(3)	(23)	686	709	23	(3)	(9)	7
gations of state and tical subdivisions	6,409	130		(40)	6,499	6,835	3		(421)	6,4
gations of foreign ernments	6				6	6				
porate debt securities	1,109			(140)	969	1,109			(151)	9
etual preferred urities	455	31		(80)	406	456	41		(49)	4
er investments	178	13		(1)	190	183	17		(1)	1
l available-for-sale	\$ 51,492	\$ 1,263	\$ (277)	\$ (369)	\$ 52,109	\$ 51,855	\$ 866	\$ (334)	\$ (878)	\$ 51,5

- (a) *Held-to-maturity securities are carried at historical cost adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment.*
- (b) *Available-for-sale securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive income (loss) in shareholders' equity.*
- (c) *Prime securities are those designated as such by the issuer or those with underlying asset characteristics and/or credit enhancements consistent with securities designated as prime.*
- (d) *Represents impairment not related to credit for those securities that have been determined to be other-than-temporarily impaired.*
- (e) *Represents unrealized losses on securities that have not been determined to be other-than-temporarily impaired.*

The weighted-average maturity of the available-for-sale investment securities was 5.3 years at September 30, 2011, compared with 7.4 years at December 31, 2010. The corresponding weighted-average yields were 3.25 percent and 3.41 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 4.0 years at September 30, 2011, and 6.3 years at December 31, 2010. The corresponding weighted-average yields were 2.20 percent and 2.07 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale securities outstanding at September 30, 2011, refer to Table 4 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

Securities carried at \$21.3 billion at September 30, 2011, and \$28.0 billion at December 31, 2010, were pledged to secure public, private and trust deposits, repurchase agreements and for other purposes required by law. Included in these amounts were securities sold under agreements to repurchase where the buyer/lender has the right to sell or pledge the securities and which were collateralized by securities with a carrying amount of \$7.0 billion at September 30, 2011, and \$9.3 billion at December 31, 2010.

Table of Contents

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

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Taxable	\$ 394	\$ 323	\$ 1,127	\$ 973
Non-taxable	76	77	230	231
Total interest income from investment securities	\$ 470	\$ 400	\$ 1,357	\$ 1,204

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

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Realized gains	\$ 4	\$ 9	\$ 6	\$ 21
Realized losses	(4)		(4)	
Net realized gains (losses)	\$	\$ 9	\$ 2	\$ 21
Income tax (benefit) on realized gains (losses)	\$	\$ 4	\$ 1	\$ 8

In 2007, the Company purchased certain structured investment securities (SIVs) from certain money market funds managed by an affiliate of the Company. Subsequent to the initial purchase, the Company exchanged its interest in the SIVs for a pro-rata portion of the underlying investment securities according to the applicable restructuring agreements. The SIVs and the investment securities received are collectively referred to as SIV-related securities.

Some of the SIV-related securities evidenced credit deterioration at the time of acquisition by the Company. Investment securities with evidence of credit deterioration at acquisition had an unpaid principal balance and fair value of \$429 million and \$157 million, respectively, at September 30, 2011, and \$485 million and \$173 million, respectively, at December 31, 2010. Changes in the accretable balance for these securities were as follows:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 117	\$ 302	\$ 139	\$ 292
Additions (a)		66		66
Disposals (a)		(50)		(50)

Accretion	(4)	(8)	(13)	(23)
Other (b)	(6)	(1)	(19)	24
Balance at end of period	\$ 107	\$ 309	\$ 107	\$ 309

(a) *Additions and disposals resulted from the exchange of certain SIV s for the underlying investment securities.*

(b) *Primarily represents changes in projected future cash flows related to variable rates on certain investment securities.*

The Company conducts a regular assessment of its investment securities with unrealized losses to determine whether securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and whether the Company intends to sell or it is more likely than not the Company will be required to sell the securities.

U.S. Bancorp

Table of Contents

The following tables summarize other-than-temporary impairment by investment category:

Three Months Ended September 30 (Dollars in Millions)	2011			2010		
	Losses Recorded in Earnings	Other Gains (Losses) (b)	Total	Losses Recorded in Earnings	Other Gains (Losses) (b)	Total
Held-to-maturity						
Asset-backed securities						
Other	\$	\$	\$	\$	\$	\$
Total held-to-maturity	\$	\$	\$	\$	\$	\$
Available-for-sale						
Mortgage-backed securities						
Non-agency residential						
Prime (a)	\$	\$	\$	\$ (1)	\$ (1)	\$ (2)
Non-prime	(6)	(4)	(10)	(13)	(11)	(24)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations				(1)		(1)
Other	(3)	2	(1)	(2)	2	(1)
Perpetual preferred securities				(1)		(1)
Total available-for-sale	\$ (9)	\$ (2)	\$ (11)	\$ (18)	\$ (10)	\$ (28)

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

(b) Represents the non-credit portion of other-than-temporary impairment recorded in other comprehensive income for securities determined to be other-than-temporarily impaired during the period.

Nine Months Ended September 30 (Dollars in Millions)	2011			2010		
	Losses Recorded in Earnings	Other Gains (Losses) (b)	Total	Losses Recorded in Earnings	Other Gains (Losses) (b)	Total
Held-to-maturity						
Asset-backed securities						
Other	\$	\$	\$	\$ (2)	\$	\$ (2)
Total held-to-maturity	\$	\$	\$	\$ (2)	\$	\$ (2)

Available-for-sale
Mortgage-backed securities

Non-agency residential						
Prime (a)	\$ (2)	\$ (3)	\$ (5)	\$ (4)	\$ (11)	\$ (15)
Non-prime	(18)	(16)	(34)	(59)	(54)	(113)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations				(6)		(6)
Other	(4)	2	(2)	(12)	4	(8)
Perpetual preferred securities				(1)		(1)
Other debt securities				(1)	1	
Total available-for-sale	\$ (24)	\$ (17)	\$ (41)	\$ (83)	\$ (60)	\$ (143)

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

(b) *Represents the non-credit portion of other-than-temporary impairment recorded in other comprehensive income for securities determined to be other-than-temporarily impaired during the period.*

Table of Contents

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

	Prime		Non-Prime			
	Minimum	Maximum	Average	Minimum	Maximum	Average
September 30, 2011						
Estimated lifetime prepayment rates	7%	15%	13%	1%	11%	6%
Lifetime probability of default rates	2	7	3	1	19	6
Lifetime loss severity rates	40	55	46	8	70	53
December 31, 2010						
Estimated lifetime prepayment rates	4%	14%	13%	1%	12%	6%
Lifetime probability of default rates	3	9	3	1	20	8
Lifetime loss severity rates	40	55	41	37	71	55

Changes in the credit losses on debt securities (excludes perpetual preferred securities) are summarized as follows:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 319	\$ 382	\$ 358	\$ 335
Additions to credit losses due to other-than-temporary impairments				
Credit losses on securities not previously considered other-than-temporarily impaired	1	3	3	18
Decreases in expected cash flows on securities for which other-than-temporary impairment was previously recognized	8	15	21	67
Total other-than-temporary impairment on debt securities	9	18	24	85
Other changes in credit losses				
Increases in expected cash flows	(3)	(4)	(20)	(17)
Realized losses (a)	(19)	(19)	(55)	(44)
Credit losses on security sales and securities expected to be sold			(1)	
Other				18
Balance at end of period	\$ 306	\$ 377	\$ 306	\$ 377

(a) Primarily represents principal losses allocated to mortgage and asset-backed securities in the Company's portfolio under the terms of the securitization transaction documents.

Table of Contents

At September 30, 2011, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time the individual securities have been in continuous unrealized loss positions, at September 30, 2011:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity						
Mortgage-backed securities						
Residential						
Agency	\$ 1,769	\$ (4)	\$	\$	\$ 1,769	\$ (4)
Non-agency non-prime (a)			1	(1)	1	(1)
Commercial non-agency			3	(2)	3	(2)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations						
Other			31	(3)	31	(3)
Other			15	(7)	15	(7)
Obligations of state and political subdivisions						
Other debt securities			96	(28)	96	(28)
Total held-to-maturity	\$ 1,769	\$ (4)	\$ 155	\$ (42)	\$ 1,924	\$ (46)
Available-for-sale						
U.S. Treasury and agencies	\$ 208	\$	\$	\$	\$ 208	\$
Mortgage-backed securities						
Residential						
Agency	10,936	(21)	141		11,077	(21)
Non-agency (a)						
Prime (b)	103	(4)	689	(93)	792	(97)
Non-prime	59	(6)	699	(230)	758	(236)
Commercial non-agency	22				22	
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations						
Other	16	(3)	7	(2)	23	(5)
Other	460	(12)	117	(14)	577	(26)
Obligations of state and political subdivisions						
Corporate debt securities	457	(3)	1,087	(37)	1,544	(40)
Perpetual preferred securities	186	(4)	641	(136)	827	(140)
Other investments	61	(14)	231	(66)	292	(80)
Other investments	1		3	(1)	4	(1)
Total available-for-sale	\$ 12,509	\$ (67)	\$ 3,615	\$ (579)	\$ 16,124	\$ (646)

- (a) *The Company has \$334 million of unrealized losses on residential non-agency mortgage-backed securities. Credit-related other-than-temporary impairment on these securities may occur if there is further deterioration in underlying collateral pool performance. Borrower defaults may increase if current economic conditions persist or worsen. Additionally, further deterioration in home prices may increase the severity of projected losses.*
- (b) *Prime securities are those designated as such by the issuer or those with underlying asset characteristics and/or credit enhancements consistent with securities designated as prime.*

The Company does not consider these unrealized losses to be credit-related. These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of securities that have unrealized losses are either corporate debt, obligations of state and political subdivisions or mortgage-backed securities issued with high investment grade credit ratings. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these securities. At September 30, 2011, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not it would not be required to sell such securities before recovery of their amortized cost.

Table of Contents**Note 5** Loans and Allowance for Credit Losses

The composition of the loan portfolio, disaggregated by class and underlying specific portfolio type, was as follows:

(Dollars in Millions)	September 30, 2011		December 31, 2010	
	Amount	Percent of Total	Amount	Percent of Total
Commercial				
Commercial	\$ 47,947	23.4 %	\$ 42,272	21.5 %
Lease financing	5,885	2.9	6,126	3.1
Total commercial	53,832	26.3	48,398	24.6
Commercial real estate				
Commercial mortgages	29,241	14.3	27,254	13.8
Construction and development	6,362	3.1	7,441	3.8
Total commercial real estate	35,603	17.4	34,695	17.6
Residential mortgages				
Residential mortgages	27,495	13.4	24,315	12.3
Home equity loans, first liens	7,629	3.7	6,417	3.3
Total residential mortgages	35,124	17.1	30,732	15.6
Credit card	16,332	8.0	16,803	8.5
Other retail				
Retail leasing	5,173	2.5	4,569	2.3
Home equity and second mortgages	18,410	9.0	18,940	9.6
Revolving credit	3,315	1.6	3,472	1.8
Installment	5,376	2.6	5,459	2.8
Automobile	11,453	5.6	10,897	5.5
Student	4,752	2.4	5,054	2.5
Total other retail	48,479	23.7	48,391	24.5
Total loans, excluding covered loans	189,370	92.5	179,019	90.8
Covered loans	15,398	7.5	18,042	9.2
Total loans	\$ 204,768	100.0 %	\$ 197,061	100.0 %

The Company had loans of \$62.8 billion at September 30, 2011, and December 31, 2010, pledged at the Federal Home Loan Bank (FHLB), and loans of \$46.1 billion at September 30, 2011, and \$44.6 billion at December 31, 2010, pledged at the Federal Reserve Bank.

Net gains on the sale of loans of \$74 million and \$105 million for the three months ended September 30, 2011 and 2010, respectively, and \$340 million and \$308 million for the nine months ended September 30, 2011 and 2010, respectively, were included in noninterest income, primarily in mortgage banking revenue.

Originated loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.1 billion at September 30, 2011, and \$1.3 billion at December 31, 2010. In accordance with applicable authoritative accounting

guidance, all purchased loans and related indemnification assets are recorded at fair value at the date of purchase. The Company evaluates purchased loans for impairment at the date of purchase in accordance with applicable authoritative accounting guidance. Purchased loans with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are considered purchased impaired loans. All other purchased loans are considered purchased nonimpaired loans.

Covered assets represent loans and other assets acquired from the FDIC subject to loss sharing agreements in the Downey Savings and Loan Association, F.A.; PFF Bank and Trust; and First Bank of Oak Park Corporation transactions and included expected reimbursements from the FDIC of approximately \$2.4 billion at September 30, 2011 and \$3.1 billion at December 31, 2010.

U.S. Bancorp

Table of Contents

The carrying amount of the covered assets consisted of purchased impaired loans, purchased nonimpaired loans, and other assets as shown in the following table:

(Dollars in Millions)	September 30, 2011				December 31, 2010			
	Purchased impaired loans	Purchased nonimpaired loans	Other assets	Total	Purchased impaired loans	Purchased nonimpaired loans	Other assets	Total
Commercial loans	\$ 68	\$ 160	\$	\$ 228	\$ 70	\$ 260	\$	\$ 330
Commercial real estate loans	2,092	4,385		6,477	2,254	5,952		8,206
Residential mortgage loans	3,953	1,417		5,370	3,819	1,620		5,439
Credit card loans		5		5		5		5
Other retail loans		878		878		925		925
Losses reimbursable by the FDIC			2,440	2,440			3,137	3,137
Covered loans	6,113	6,845	2,440	15,398	6,143	8,762	3,137	18,042
Foreclosed real estate			293	293			453	453
Total covered assets	\$ 6,113	\$ 6,845	\$ 2,733	\$ 15,691	\$ 6,143	\$ 8,762	\$ 3,590	\$ 18,495

At September 30, 2011, \$.3 billion of the purchased impaired loans included in covered loans were classified as nonperforming assets, compared with \$.5 billion at December 31, 2010, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. Interest income is recognized on other purchased impaired loans through accretion of the difference between the carrying amount of those loans and their expected cash flows. The initial determination of the fair value of the purchased loans includes the impact of expected credit losses and, therefore, no allowance for credit losses is recorded at the purchase date. To the extent credit deterioration occurs after the date of acquisition, the Company records an allowance for credit losses.

On the acquisition date, the estimate of the contractually required payments receivable for all purchased impaired loans acquired in the FCB transaction were \$502 million, the cash flows expected to be collected were \$338 million including interest, and the estimated fair values of the loans were \$238 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which includes the effects of estimated prepayments. For the purchased nonimpaired loans acquired in the FCB transaction, the estimate as of the acquisition date of the contractually required payments receivable were \$1.2 billion, the contractual cash flows not expected to be collected were \$184 million, and the estimated fair value of the loans was \$828 million.

Changes in the accretable balance for all purchased impaired loans, including those acquired in the FCB transaction, were as follows:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Balance at beginning of period	\$ 3,015	\$ 2,749	\$ 2,890	\$ 2,845
Purchases			100	

Accretion	(110)	(103)	(337)	(308)
Disposals	(43)	(2)	(47)	(20)
Reclassifications (to)/from nonaccretable difference (a)	(170)	156	117	316
Other	(7)	(4)	(38)	(37)
Balance at end of period	\$ 2,685	\$ 2,796	\$ 2,685	\$ 2,796

(a) *Primarily relates to changes in expected credit performance and changes in variable rates.*

The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio and includes certain amounts that do not represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the FDIC. The allowance for credit losses is increased through provisions charged to operating earnings and reduced by net charge-offs. Management evaluates the allowance each quarter to ensure it appropriately reserves for incurred losses.

The allowance recorded for loans in the commercial lending segment is generally based on quarterly reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. The Company currently uses an 11 year period of historical losses in considering actual loss experience. This timeframe and the results of the analysis are evaluated quarterly to determine the appropriateness. The allowance recorded for impaired loans greater than \$5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the

Table of Contents

observable market price, or the fair value of the collateral for collateral-dependent loans. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends. The Company also considers the impacts of any loan modifications made to commercial lending segment loans and any subsequent payment defaults to its expectations of cash flows, principal balance, and current expectations about the borrower's ability to pay in determining the allowance for credit losses.

The allowance recorded for purchased impaired and TDR loans in the consumer lending segment is determined on a homogenous pool basis utilizing expected cash flows discounted using the original effective interest rate of the pool. The allowance recorded for all other consumer lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends. The Company also considers any modifications made to consumer lending segment loans including the impacts of any subsequent payment defaults since modification in determining the allowance for credit losses, such as borrower's ability to pay under the restructured terms, and the timing and amount of payments. The allowance for covered segment loans is evaluated each quarter in a manner similar to that described for non-covered loans and represents any decreases in expected cash flows of those loans after the acquisition date. The provision for credit losses for covered segment loans considers the indemnification provided by the FDIC.

The Company's methodology for determining the appropriate allowance for credit losses for all the loan segments also considers the imprecision inherent in the methodologies used. As a result, in addition to the amounts determined under the methodologies described above, management also considers the potential impact of other qualitative factors which include, but are not limited to, economic factors; geographic and other concentration risks; delinquency and nonaccrual trends; current business conditions; changes in lending policy, underwriting standards, internal review and other relevant business practices; and the regulatory environment. The consideration of these items results in adjustments to allowance amounts included in the Company's allowance for credit losses for each of the above loan segments.

The Company also assesses the credit risk associated with off-balance sheet loan commitments, letters of credit, and derivatives. Credit risk associated with derivatives is reflected in the fair values recorded for those positions. The liability for off-balance sheet credit exposure related to loan commitments and other credit guarantees is included in other liabilities. Because business processes and credit risks associated with unfunded credit commitments are essentially the same as for loans, the Company utilizes similar processes to estimate its liability for unfunded credit commitments.

Activity in the allowance for credit losses by portfolio class was as follows:

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
Three months ended September 30, 2011:								
Balance at beginning of period	\$ 1,109	\$ 1,258	\$ 841	\$ 1,140	\$ 843	\$ 5,191	\$ 117	\$ 5,308
Add								
Provision for credit losses	15	88	168	106	131	508	11	519
Deduct								
Loans charged off	126 (27)	131 (6)	124 (2)	203 (25)	175 (33)	759 (93)	3	762 (93)

Less recoveries of loans
charged off

Net loans charged off	99	125	122	178	142	666	3	669
Net change for credit losses to be reimbursed by the FDIC							32	32
Balance at end of period	\$ 1,025	\$ 1,221	\$ 887	\$ 1,068	\$ 832	\$ 5,033	\$ 157	\$ 5,190

**Nine months ended
September 30, 2011:**

Balance at beginning of period	\$ 1,104	\$ 1,291	\$ 820	\$ 1,395	\$ 807	\$ 5,417	\$ 114	\$ 5,531
Add								
Provision for credit losses	255	344	437	314	477	1,827	19	1,846
Deduct								
Loans charged off	412	446	380	712	551	2,501	10	2,511
Less recoveries of loans charged off	(78)	(32)	(10)	(71)	(99)	(290)		(290)
Net loans charged off	334	414	370	641	452	2,211	10	2,221
Net change for credit losses to be reimbursed by the FDIC							34	34
Balance at end of period	\$ 1,025	\$ 1,221	\$ 887	\$ 1,068	\$ 832	\$ 5,033	\$ 157	\$ 5,190

U.S. Bancorp

Table of Contents

Additional detail of the allowance for credit losses by portfolio class was as follows:

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
Allowance balance at September 30, 2011 related to:								
Loans individually evaluated for impairment (a)	\$ 16	\$ 70	\$ 1	\$	\$	\$ 87	\$	\$ 87
TDRs collectively evaluated for impairment	37	17	459	226	55	794		794
Other loans collectively evaluated for impairment	972	1,132	427	842	777	4,150	26	4,176
Loans acquired with deteriorated credit quality		2				2	131	133
Total allowance for credit losses	\$ 1,025	\$ 1,221	\$ 887	\$ 1,068	\$ 832	\$ 5,033	\$ 157	\$ 5,190
Allowance balance at December 31, 2010 related to:								
Loans individually evaluated for impairment (a)	\$ 38	\$ 55	\$	\$	\$	\$ 93	\$	\$ 93
TDRs collectively evaluated for impairment			320	223	30	573		573
Other loans collectively evaluated for impairment	1,066	1,235	500	1,172	777	4,750	28	4,778
Loans acquired with deteriorated credit quality		1				1	86	87
Total allowance for credit losses	\$ 1,104	\$ 1,291	\$ 820	\$ 1,395	\$ 807	\$ 5,417	\$ 114	\$ 5,531

(a) Represents the allowance for credit losses related to loans greater than \$5 million classified as nonperforming or TDRs.

Additional detail of loan balances by portfolio class was as follows:

(Dollars in Millions)	Commercial	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
-----------------------	------------	--------------------------	----------------	-----------------	--	------------------	----------------

	Real Estate				Covered Loans			
September 30, 2011:								
Loans individually evaluated for impairment (a)	\$ 177	\$ 903	\$ 6	\$	\$	\$ 1,086	\$ 182	\$ 1,268
TDRs collectively evaluated for impairment	241	287	2,949	580	143	4,200	89	4,289
Other loans collectively evaluated for impairment	53,402	34,237	32,160	15,752	48,336	183,887	9,014	192,901
Loans acquired with deteriorated credit quality	12	176	9			197	6,113	6,310
Total loans	\$ 53,832	\$ 35,603	\$ 35,124	\$ 16,332	\$ 48,479	\$ 189,370	\$ 15,398(b)	\$ 204,768
December 31, 2010:								
Loans individually evaluated for impairment (a)	\$ 295	\$ 801	\$	\$	\$	\$ 1,096	\$	\$ 1,096
TDRs collectively evaluated for impairment			1,957	452	114	2,523		2,523
Other loans collectively evaluated for impairment	48,103	33,834	28,775	16,351	48,277	175,340	11,899	187,239
Loans acquired with deteriorated credit quality		60				60	6,143	6,203
Total loans	\$ 48,398	\$ 34,695	\$ 30,732	\$ 16,803	\$ 48,391	\$ 179,019	\$ 18,042(b)	\$ 197,061

(a) Represents loans greater than \$5 million classified as nonperforming or TDRs.

(b) Includes expected reimbursements from the FDIC under loss sharing agreements.

Table of Contents

Credit Quality The quality of the Company's loan portfolios is assessed as a function of net credit losses, levels of nonperforming assets and delinquencies, and credit quality ratings as defined by the Company. These credit quality ratings are an important part of the Company's overall credit risk management process and evaluation of its allowance for credit losses.

For all loan classes, loans are considered past due based on the number of days delinquent except for monthly amortizing loans which are classified delinquent based upon the number of contractually required payments not made (for example, two missed payments is considered 30 days delinquent).

Commercial lending segment loans are placed on nonaccrual status when the collection of principal and interest has become 90 days past due or is otherwise considered doubtful. When a loan is placed on nonaccrual status, unpaid accrued interest is reversed. Commercial lending segment loans are generally fully or partially charged down to the fair value of the collateral securing the loan, less costs to sell, when the loan is considered uncollectible.

Consumer lending segment loans are generally charged-off at a specific number of days or payments past due. Residential mortgages and other retail loans secured by 1-4 family properties are generally charged down to fair market value, less costs to sell, at 180 days past due, and placed on nonaccrual status in instances where a partial charge-off occurs unless the loan is well secured and in the process of collection. Credit card loans continue to accrue interest until the account is charged off. Credit cards are charged off at 180 days past due. Other retail loans not secured by 1-4 family properties are charged-off at 120 days past due; and revolving consumer lines are charged off at 180 days past due. Similar to credit cards, other retail loans are generally not placed on nonaccrual status because of the relative short period of time to charge-off. Certain retail customers having financial difficulties may have the terms of their credit card and other loan agreements modified to require only principal payments and, as such, are reported as nonaccrual.

For all loan classes, interest payments received on nonaccrual loans are generally recorded as a reduction to the loan carrying amount. Interest payments recorded as reductions to a loan's carrying amount while a loan is on nonaccrual are recognized as interest income only upon payoff of the loan. In certain circumstances, loans in any class may be restored to accrual status, such as when none of the principal and interest is past due and prospects for future payment are no longer in doubt; or the loan becomes well secured and is in the process of collection. Loans where there has been a partial charge-off may be returned to accrual status if all principal and interest (including amounts previously charged-off) is expected to be collected and the loan is current.

Covered loans not considered to be purchased impaired are evaluated for delinquency, nonaccrual status and charge-off consistent with the class of loan they would be included in had the loss share coverage not been in place. Generally, purchased impaired loans are considered accruing loans. However, the timing and amount of future cash flows for some loans is not reasonably estimable. Those loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of the future cash flows can be reasonably estimated.

U.S. Bancorp

Table of Contents

The following table provides a summary of loans by portfolio class, including the delinquency status of those that continue to accrue interest, and those that are nonperforming:

(Dollars in Millions)	Current	Accruing 30-89 Days Past Due	90 Days or More Past Due	Nonperforming	Total
September 30, 2011:					
Commercial	\$ 53,189	\$ 219	\$ 42	\$ 382	\$ 53,832
Commercial real estate	34,197	158	28	1,220	35,603
Residential mortgages (a)	33,728	385	361	650	35,124
Credit card	15,648	225	209	250	16,332
Other retail	47,910	329	174	66	48,479
Total loans, excluding covered loans	184,672	1,316	814	2,568	189,370
Covered loans	13,015	581	792	1,010	15,398
Total loans	\$ 197,687	\$ 1,897	\$ 1,606	\$ 3,578	\$ 204,768
December 31, 2010:					
Commercial	\$ 47,412	\$ 325	\$ 64	\$ 597	\$ 48,398
Commercial real estate	32,986	415	1	1,293	34,695
Residential mortgages (a)	29,140	456	500	636	30,732
Credit card	15,993	269	313	228	16,803
Other retail	47,706	404	216	65	48,391
Total loans, excluding covered loans	173,237	1,869	1,094	2,819	179,019
Covered loans	14,951	757	1,090	1,244	18,042
Total loans	\$ 188,188	\$ 2,626	\$ 2,184	\$ 4,063	\$ 197,061

(a) At September 30, 2011, \$507 million of loans 30 – 89 days past due and \$2.5 billion of loans 90 days or more past due purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, were classified as current, compared with \$439 million and \$2.6 billion at December 31, 2010, respectively.

The Company classifies its loan portfolios using internal credit quality ratings on a quarterly basis. These ratings include: pass, special mention and classified, and are an important part of the Company's overall credit risk management process and evaluation of the allowance for credit losses. Loans with a pass rating represent those not classified on the Company's rating scale for problem credits, as minimal credit risk has been identified. Special mention loans are those that have a potential weakness deserving management's close attention. Classified loans are those where a well-defined weakness has been identified that may put full collection of contractual cash flows at risk. It is possible that others, given the same information, may reach different reasonable conclusions regarding the credit quality rating classification of specific loans.

U.S. Bancorp

Table of Contents

The following table provides a summary of loans by portfolio class and the Company's internal credit quality rating:

(Dollars in Millions)	Pass	Special Mention	Criticized Classified (a)	Total Criticized	Total
September 30, 2011:					
Commercial	\$ 50,792	\$ 1,174	\$ 1,866	\$ 3,040	\$ 53,832
Commercial real estate	30,165	1,010	4,428	5,438	35,603
Residential mortgages (b)	33,879	19	1,226	1,245	35,124
Credit card	15,873		459	459	16,332
Other retail	48,066	21	392	413	48,479
Total loans, excluding covered loans	178,775	2,224	8,371	10,595	189,370
Covered loans	14,472	208	718	926	15,398
Total loans	\$ 193,247	\$ 2,432	\$ 9,089	\$ 11,521	\$ 204,768
Total outstanding commitments	\$ 393,645	\$ 3,862	\$ 10,087	\$ 13,949	\$ 407,594
December 31, 2010:					
Commercial	\$ 44,595	\$ 1,545	\$ 2,258	\$ 3,803	\$ 48,398
Commercial real estate	28,155	1,540	5,000	6,540	34,695
Residential mortgages (b)	29,355	29	1,348	1,377	30,732
Credit card	16,262		541	541	16,803
Other retail	47,906	70	415	485	48,391
Total loans, excluding covered loans	166,273	3,184	9,562	12,746	179,019
Covered loans	17,073	283	686	969	18,042
Total loans	\$ 183,346	\$ 3,467	\$ 10,248	\$ 13,715	\$ 197,061
Total outstanding commitments	\$ 370,031	\$ 4,923	\$ 11,576	\$ 16,499	\$ 386,530

(a) Classified rating on consumer loans primarily based on delinquency status.

(b) At September 30, 2011, \$2.5 billion of GNMA loans 90 days or more past due and \$1.8 billion of restructured GNMA loans whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs were classified with a pass rating, compared with \$2.6 billion and \$1.1 billion at December 31, 2010, respectively.

For all loan classes, a loan is considered to be impaired when, based on current events or information, it is probable the Company will be unable to collect all amounts due per the contractual terms of the loan agreement. Impaired loans include all nonaccrual and TDR loans. For all loan classes, interest income on TDR loans is recognized under the modified terms and conditions if the borrower has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Interest income is not recognized on other impaired loans until the loan is paid off.

Factors used by the Company in determining whether all principal and interest payments due on commercial and commercial real estate loans will be collected and therefore whether those loans are impaired, include but are not

limited to, the financial condition of the borrower, collateral and/or guarantees on the loan, and the borrower's estimated future ability to pay based on industry, geographic location and certain financial ratios. The evaluation of impairment on residential mortgages, credit card and other retail loans is primarily driven by delinquency status of individual loans or whether a loan has been modified. Individual covered loans, whose future losses are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Company, are evaluated for impairment and accounted for in a manner consistent with the class of loan they would have been included in had the loss sharing coverage not been in place.

U.S. Bancorp

Table of Contents

A summary of impaired loans by portfolio class was as follows:

(Dollars in Millions)	Period-end Recorded Investment (a)	Unpaid Principal Balance	Valuation Allowance	Commitments to Lend Additional Funds
September 30, 2011:				
Commercial	\$ 637	\$ 1,596	\$ 65	\$ 27
Commercial real estate	1,679	2,986	148	33
Residential mortgages	2,588	3,018	460	
Credit card	580	580	226	
Other retail	179	180	56	
Total impaired loans, excluding GNMA and covered loans	5,663	8,360	955	60
Loans purchased from GNMA mortgage pools	866	866	10	
Covered loans	1,169	1,704	50	108
Total	\$ 7,698	\$ 10,930	\$ 1,015	\$ 168
December 31, 2010:				
Commercial	\$ 596	\$ 1,631	\$ 59	\$ 80
Commercial real estate	1,308	2,659	118	17
Residential mortgages	2,440	2,877	334	
Credit card	452	452	218	
Other retail	152	189	32	
Total	\$ 4,948	\$ 7,808	\$ 761	\$ 97

(a) Substantially all loans classified as impaired at September 30, 2011 and December 31, 2010, had an associated allowance for credit losses.

Additional information on impaired loans follows:

(Dollars in Millions)	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial	\$ 536	\$ 4	\$ 529	\$ 7
Commercial real estate	1,558	6	1,519	10
Residential mortgages	2,573	24	2,540	74
Credit card	492	4	471	10
Other retail	165	1	160	3

Total impaired loans, excluding GNMA and covered loans	5,324	39	5,219	104
Loans purchased from GNMA mortgage pools	710	10	433	10
Covered loans	1,145	7	584	7
Total	\$ 7,179	\$ 56	\$ 6,236	\$ 121

Troubled Debt Restructurings In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due when a borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term. Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in payments to be received. The Company accrues interest on TDRs if the borrower complies with the revised terms and conditions as agreed upon with the Company and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. To the extent a previous restructuring was insignificant, the Company considers the cumulative effect of past restructurings related to the receivable when determining whether a current restructuring is a TDR. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

Table of Contents

The following table provides a summary of loans modified as TDRs during the periods presented, by portfolio class:

(Dollars in Millions)	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Number of Loans	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Loans	Pre-Modification Outstanding	Post-Modification Outstanding
		Loan Balance	Loan Balance		Loan Balance	Loan Balance
Commercial	1,137	\$ 89	\$ 74	3,984	\$ 337	\$ 310
Commercial real estate	115	124	115	380	906	896
Residential mortgages	2,857	440	462 (a)	8,613	1,328	1,383 (a)
Credit card	14,942	78	78	41,610	239	238
Other retail	956	16	16	3,020	55	55
Total loans, excluding covered loans	20,007	747	745	57,607	2,865	2,882
Covered loans	67	148	133	233	456	430
Total loans	20,074	\$ 895	\$ 878	57,840	\$ 3,321	\$ 3,312

(a) Includes accrued interest and/or outstanding advances capitalized into the outstanding loan balance upon modification under the HAMP program of \$32 million and \$85 million for the three and nine months ended September 30, 2011, respectively.

Many of the Company's TDRs are determined on a case-by-case basis in connection with ongoing loan collection processes. However, the Company has also implemented certain restructuring programs that may result in TDRs. The modifications made to each of the loans presented in the table above varies within each of the portfolio classes, however, generally result in revisions to interest rates, changes to payment frequency, extensions of maturity dates, forgiveness of accrued interest and/or fees, and in limited circumstances, reductions of principal.

For the commercial lending segment, modifications generally result in the Company working with borrowers on a case-by-case basis. Commercial and commercial real estate modifications generally include extensions of the maturity date and may be accompanied by an increase or decrease to the interest rate, which may not be deemed a market rate of interest. In addition, the Company may work with the borrower in identifying other changes that mitigate loss to the Company, which may include additional collateral or guarantees to support the loan. To a lesser extent, the Company may waive contractual principal. The Company classifies these concessions as TDRs to the extent the Company determines that the borrower is experiencing financial difficulty.

Modifications for the consumer lending segment are generally part of programs the Company has initiated. The Company participates in the U.S. Department of Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to permanently modify their loan and achieve more affordable monthly payments, with the U.S. Department of Treasury compensating the Company for a portion of the reduction in monthly amounts due from borrowers participating in this program. The Company also modifies residential mortgage loans under Federal Housing Administration, Department of Veterans Affairs, or other internal programs. Under these programs, the Company provides concessions to qualifying borrowers experiencing financial difficulties. The concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extension of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement and the loan documents are not

modified until that time. Loans in trial period arrangements are not reported as TDRs. Loans permanently modified are reported as TDRs. Loans in trial period arrangements were \$96 million at September 30, 2011.

Credit card and other retail loan modifications are generally part of two distinct restructuring programs. The Company offers workout programs providing customers experiencing financial difficulty with modifications whereby balances may be amortized up to 60 months, and generally include waiver of fees and reduced interest rates. The Company also provides modification programs to qualifying customers experiencing a temporary financial hardship in which reductions are made to monthly required minimum payments for up to 12 months. Balances related to these programs are generally frozen, however, may be reopened upon successful exit of the program, in which account privileges may be restored.

Modifications to loans in the covered segment are similar in nature to that described above for non-covered loans, and the evaluation and determination of TDR status is similar, except that acquired loans restructured after acquisition are not considered TDRs for purposes of the Company's accounting and disclosure if the loans evidenced credit deterioration as of the acquisition date and are accounted for in pools. Losses associated with the modification

U.S. Bancorp

Table of Contents

on covered loans, including the economic impact of interest rate reductions, are generally eligible for reimbursement under the loss sharing agreements.

The following table provides a summary of loans modified as TDRs within the previous 12 months for which there was a default (fully or partially charged-off or became 90 days or more past due) during the period:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Number of Loans	Amount Defaulted	Number of Loans	Amount Defaulted
(Dollars in Millions)				
Commercial	245	\$ 13	513	\$ 23
Commercial real estate	29	32	37	37
Residential mortgages	318	51	1,011	178
Credit card	2,183	12	6,304	34
Other retail	169	3	391	6
Total	2,944	\$ 111	8,256	\$ 278

Note 6 Accounting For Transfers and Servicing of Financial Assets and Variable Interest Entities

The Company sells financial assets in the normal course of business. The majority of the Company's financial asset sales are residential mortgage loan sales primarily to government-sponsored enterprises through established programs, the sale or syndication of tax-advantaged investments, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest and thus qualify for derecognition. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. The guarantees provided to certain third-parties in connection with the sale or syndication of certain assets, primarily loan portfolios and tax-advantaged investments, are further discussed in Note 14. When the Company sells financial assets, it may retain servicing rights and/or other interests in the transferred financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by the Company are initially recognized at fair value. For further information on mortgage servicing rights (MSRs), refer to Note 7. The Company has no asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

The Company is involved in various entities that are considered to be variable interest entities (VIEs). The Company's investments in VIEs primarily represent private investment funds or partnerships that make equity investments, provide debt financing or support community-based investments in affordable housing development entities that provide capital for communities located in low-income districts and for historic rehabilitation projects that may enable the Company to ensure regulatory compliance with the Community Reinvestment Act. In addition, the Company sponsors entities to which it transfers tax-advantaged investments. The Company's investments in these entities are designed to generate a return primarily through the realization of federal and state income tax credits over specified

time periods. The Company realized federal and state income tax credits related to these investments of \$191 million and \$189 million for the three months ended September 30, 2011 and 2010, respectively, and \$510 million and \$500 million for the nine months ended September 30, 2011 and 2010, respectively. The Company amortizes its investments in these entities as the tax credits are realized. Tax credit amortization expense is recorded in tax expense for investments meeting certain characteristics, and in other noninterest expense for other investments. Amortization expense recorded in tax expense was \$60 million and \$72 million, and in other noninterest expense was \$144 million and \$136 million for the three months ended September 30, 2011 and 2010, respectively. Amortization expense recorded in tax expense was \$175 million and \$159 million, and in other noninterest expense was \$386 million and \$391 million for the nine months ended September 30, 2011 and 2010, respectively.

At September 30, 2011, approximately \$5.1 billion of the Company's assets and \$3.7 billion of its liabilities included on the consolidated balance sheet were related to community development and tax-advantaged investment

Table of Contents

VIEs, compared with \$3.8 billion and \$2.6 billion, respectively, at December 31, 2010. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIEs is generally limited to the carrying value of its variable interests plus any related tax credits previously recognized or sold to others.

In addition, the Company sponsors a conduit to which it previously transferred high-grade investment securities. The Company consolidates the conduit because of its ability to manage the activities of the conduit. At September 30, 2011, \$214 million of the held-to-maturity investment securities on the Company's consolidated balance sheet related to the conduit, compared with \$400 million at December 31, 2010.

The Company also sponsors a municipal bond securities tender option bond program. The Company controls the activities of the program's entities, is entitled to the residual returns and provides credit, liquidity and remarketing arrangements to the program. As a result, the Company has consolidated the program's entities. At September 30, 2011, \$5.3 billion of available-for-sale securities and \$5.3 billion of short-term borrowings on the consolidated balance sheet were related to the tender option bond program, compared with \$5.3 billion of available-for-sale securities and \$5.7 billion of short-term borrowings at December 31, 2010.

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIEs. The Company's investments in unconsolidated VIEs ranged from less than \$1 million to \$70 million, with an aggregate amount of approximately \$1.9 billion at September 30, 2011, and from less than \$1 million to \$41 million, with an aggregate amount of approximately \$2.0 billion at December 31, 2010. The Company's investments in these unconsolidated VIEs generally are carried in other assets on the balance sheet. While the Company believes potential losses from these investments are remote, the Company's maximum exposure to loss from these unconsolidated VIEs was approximately \$4.7 billion at September 30, 2011, compared with \$5.0 billion at December 31, 2010. The maximum exposure to loss was primarily related to community development tax-advantaged investments and included \$1.8 billion at September 30, 2011 and \$1.9 billion at December 31, 2010 recorded on the Company's balance sheet and \$2.9 billion at September 30, 2011 and \$3.0 billion at December 31, 2010 of previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. The remaining amounts related to investments in private investment funds and partnerships for which the maximum exposure to loss included amounts recorded on the balance sheet and any unfunded commitments. The maximum exposure was determined by assuming a scenario where the separate investments within the individual private funds were to become worthless, and the community-based business and housing projects and related tax credits completely failed and did not meet certain government compliance requirements.

Note 7 Mortgage Servicing Rights

The Company serviced \$185.6 billion of residential mortgage loans for others at September 30, 2011, and \$173.9 billion at December 31, 2010. The net impact included in mortgage banking revenue of fair value changes of MSR and derivatives used to economically hedge MSR was a net gain of \$7 million and \$1 million for the three months ended September 30, 2011, and 2010, respectively, and a net gain of \$151 million and \$98 million for the nine months ended September 30, 2011 and 2010, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue, were \$166 million and \$154 million for the three months ended September 30, 2011, and 2010, respectively, and \$483 million and \$439 million for the nine months ended September 30, 2011 and 2010, respectively.

Table of Contents

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 1,989	\$ 1,543	\$ 1,837	\$ 1,749
Rights purchased	5	10	16	48
Rights capitalized	101	149	416	398
Changes in fair value of MSRs				
Due to change in valuation assumptions (a)	(532)	(186)	(542)	(536)
Other changes in fair value (b)	(97)	(94)	(261)	(237)
Balance at end of period	\$ 1,466	\$ 1,422	\$ 1,466	\$ 1,422

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

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

The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments at September 30, 2011 and December 31, 2010 follows:

(Dollars in Millions)	September 30, 2011				December 31, 2010			
	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps
Net fair value	\$ 24	\$ 8	\$ 2	\$ 14	\$ 6	\$ (5)	\$ 5	\$ 1

The fair value of MSRs and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of government-insured mortgages, conventional mortgages, and Mortgage Revenue Bond Programs (MRBP). The servicing portfolios are predominantly comprised of fixed-rate agency loans with limited adjustable-rate or jumbo mortgage loans. The MRBP division specializes in servicing loans made under state and local housing authority programs. These programs provide mortgages to low-income and moderate-income borrowers and are generally government-insured programs with a favorable rate subsidy, down payment and/or closing cost assistance.

A summary of the Company's MSRs and related characteristics by portfolio at September 30, 2011 and December 31, 2010 follows:

(Dollars in Millions)	September 30, 2011				December 31, 2010			
	MRBP	Government	Conventional	Total	MRBP	Government	Conventional	Total
Carrying portfolio	\$ 13,247	\$ 32,055	\$ 140,253	\$ 185,555	\$ 12,646	\$ 28,880	\$ 132,393	\$ 173,919
Market value	\$ 163	\$ 274	\$ 1,029	\$ 1,466	\$ 166	\$ 342	\$ 1,329	\$ 1,837
Sensitivity (bps) (a)	123	85	73	79	131	118	100	110
Weighted-average servicing fees (bps)	40	36	29	31	40	38	30	31
Weighted-average yield (servicing fees)	3.08	2.36	2.52	2.55	3.28	3.11	3.33	3.30
	5.56%	5.16 %	5.05%	5.11 %	5.75%	5.35 %	5.27%	5.30%

Weighted-average rate (in years)	4.2	2.4	2.7	2.8	4.1	2.2	2.7	2
Weighted prepayment rate	12.5%	22.7 %	22.1%	21.5 %	12.3%	17.2 %	16.2%	16
Weighted life (in years)	6.6	3.7	3.8	4.0	6.7	5.1	5.3	5
Weighted rate	11.9%	11.2 %	10.2%	10.5 %	11.9%	11.4 %	10.3%	10

(a) Value is calculated as fair market value divided by the servicing portfolio.

Table of Contents**Note 8 Preferred Stock**

At September 30, 2011 and December 31, 2010, the Company had authority to issue 50 million shares of preferred stock. The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock was as follows:

(Dollars in Millions)	September 30, 2011				December 31, 2010			
	Shares Issued	and Liquidation Preference	Discount	Carrying Amount	Shares Issued	and Liquidation Preference	Discount	Carrying Amount
Series A	12,510	\$ 1,251	\$ 145	\$ 1,106	5,746	\$ 575	\$ 145	\$ 430
Series B	40,000	1,000		1,000	40,000	1,000		1,000
Series D	20,000	500		500	20,000	500		500
Total preferred stock (a)	72,510	\$ 2,751	\$ 145	\$ 2,606	65,746	\$ 2,075	\$ 145	\$ 1,930

(a) *The par value of all shares issued and outstanding at September 30, 2011 and December 31, 2010, was \$1.00 a share.*

On April 15, 2011, the Company issued depository shares representing an ownership interest in 6,764 shares of Series A Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$100,000 per share (the Series A Preferred Stock). The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to the greater of three-month LIBOR plus 1.02 percent or 3.50 percent. The Series A Preferred Stock is redeemable at the Company's option, subject to prior approval by the Federal Reserve Board.

For further information on preferred stock, refer to Note 15 in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Note 9 Earnings Per Share

The components of earnings per share were:

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income attributable to U.S. Bancorp	\$ 1,273	\$ 908	\$ 3,522	\$ 2,343
Preferred dividends	(30)	(33)	(99)	(70)
Equity portion of gain on ITS exchange transaction, net of tax (a)				118
Earnings allocated to participating stock awards	(6)	(4)	(16)	(10)
Net income applicable to U.S. Bancorp common shareholders	\$ 1,237	\$ 871	\$ 3,407	\$ 2,381

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

Average common shares outstanding	1,915	1,913	1,918	1,911
Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes	7	7	8	9
Average diluted common shares outstanding	1,922	1,920	1,926	1,920
Earnings per common share	\$.65	\$.46	\$ 1.78	\$ 1.25
Diluted earnings per common share	\$.64	\$.45	\$ 1.77	\$ 1.24

(a) *On June 10, 2010, the Company exchanged depositary shares representing an ownership interest in 5,746 shares of Series A Preferred Stock for approximately 46 percent of the outstanding Income Trust Securities (ITS) issued by USB Capital IX to third-party investors, retired a pro-rata portion of the related junior subordinated debentures and cancelled a pro-rata portion of the related stock purchase contracts.*

Options and warrants to purchase 60 million and 65 million common shares for the three months ended September 30, 2011 and 2010, respectively, and 54 million and 56 million common shares for the nine months ended September 30, 2011 and 2010, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive. Convertible senior debentures that could potentially be converted into shares of the Company's common stock pursuant to specified formulas, were not included in the computation of dilutive earnings per share because they were antidilutive.

U.S. Bancorp

Table of Contents**Note 10** Employee Benefits

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

(Dollars in Millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Plans		Postretirement Welfare Plan		Pension Plans		Postretirement Welfare Plan	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 30	\$ 24	\$ 1	\$ 2	\$ 89	\$ 70	\$ 3	\$ 6
Interest cost	42	38	3	3	126	116	7	8
Expected return on plan assets	(52)	(54)	(1)	(2)	(155)	(161)	(3)	(4)
Prior service (credit) cost and transition (asset) obligation amortization	(2)	(3)			(7)	(9)		
Actuarial (gain) loss amortization	31	16	(2)	(1)	94	48	(5)	(4)
Net periodic benefit cost	\$ 49	\$ 21	\$ 1	\$ 2	\$ 147	\$ 64	\$ 2	\$ 6

Note 11 Income Taxes

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Federal				
Current	\$ 450	\$ 313	\$ 907	\$ 768
Deferred	(41)	(123)	232	(266)
Federal income tax	409	190	1,139	502
State				
Current	85	82	157	143
Deferred	(4)	(12)	18	(25)
State income tax	81	70	175	118
Total income tax provision	\$ 490	\$ 260	\$ 1,314	\$ 620

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Tax at statutory rate	\$ 610	\$ 403	\$ 1,671	\$ 1,025
State income tax, at statutory rates, net of federal tax benefit	53	46	114	77
Tax effect of				
Tax credits, net of related expenses	(124)	(114)	(319)	(324)
Tax-exempt income	(57)	(56)	(170)	(161)
Noncontrolling interests	8	5	22	12
Other items		(24)	(4)	(9)
Applicable income taxes	\$ 490	\$ 260	\$ 1,314	\$ 620

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of September 30, 2011, the federal taxing authority has completed its examination of the Company through the fiscal year ended December 31, 2006. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax position was a \$750 million liability at September 30, 2011, and a \$424 million asset at December 31, 2010.

Table of Contents**Note 12** Derivative Instruments

The Company recognizes all derivatives in the consolidated balance sheet at fair value as other assets or liabilities. On the date the Company enters into a derivative contract, the derivative is designated as either a hedge of the fair value of a recognized asset or liability (fair value hedge); a hedge of a forecasted transaction or the variability of cash flows to be paid related to a recognized asset or liability (cash flow hedge); a hedge of the volatility of an investment in foreign operations driven by changes in foreign currency exchange rates (net investment hedge); or a designation is not made as it is a customer-related transaction, an economic hedge for asset/liability risk management purposes or another stand-alone derivative created through the Company's operations (free-standing derivative).

Of the Company's \$53.1 billion of total notional amount of asset and liability management positions at September 30, 2011, \$14.9 billion was designated as a fair value, cash flow or net investment hedge. When a derivative is designated as a fair value, cash flow or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s).

Fair Value Hedges These derivatives are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and junior subordinated debentures. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. All fair value hedges were highly effective for the nine months ended September 30, 2011, and the change in fair value attributed to hedge ineffectiveness was not material.

Cash Flow Hedges These derivatives are interest rate swaps that are hedges of the forecasted cash flows from the underlying variable-rate loans and debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until expense from the cash flows of the hedged items is realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts within other comprehensive income (loss) remain. At September 30, 2011, the Company had \$510 million (net-of-tax) of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with \$414 million (net-of-tax) at December 31, 2010. The estimated amounts to be reclassified from other comprehensive income (loss) into earnings during the remainder of 2011 and the next 12 months are losses of \$34 million (net-of-tax) and \$129 million (net-of-tax), respectively. This includes gains and losses related to hedges that were terminated early for which the forecasted transactions are still probable. All cash flow hedges were highly effective for the nine months ended September 30, 2011, and the change in fair value attributed to hedge ineffectiveness was not material.

Net Investment Hedges The Company uses forward commitments to sell specified amounts of certain foreign currencies to hedge the volatility of its investment in foreign operations driven by fluctuations in foreign currency exchange rates. The ineffectiveness on all net investment hedges was not material for the nine months ended September 30, 2011.

Other Derivative Positions The Company enters into free-standing derivatives to mitigate interest rate risk and for other risk management purposes. These derivatives include forward commitments to sell residential mortgage loans, which are used to economically hedge the interest rate risk related to residential mortgage loans held for sale. The Company also enters into U.S. Treasury futures, options on U.S. Treasury futures contracts, interest rate swaps and forward commitments to buy residential mortgage loans to economically hedge the change in the fair value of the

Company's residential MSRs. In addition, the Company acts as a seller and buyer of interest rate derivatives and foreign exchange contracts for its customers. To mitigate the market and liquidity risk associated with these customer derivatives, the Company enters into similar offsetting positions with broker-dealers. The Company also has derivative contracts that are created through its operations, including commitments to originate mortgage loans held for sale and certain derivative financial guarantee contracts.

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

U.S. Bancorp

Table of Contents

The following table provides information on the fair value of the Company's derivative positions:

(Dollars in Millions)	September 30, 2011		December 31, 2010	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Total fair value of derivative positions	\$ 2,139	\$ 2,728	\$ 1,799	\$ 2,174
Netting (a)	(361)	(1,680)	(280)	(1,163)
Total	\$ 1,778	\$ 1,048	\$ 1,519	\$ 1,011

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

(a) Represents netting of derivative asset and liability balances, and related collateral, with the same counterparty subject to master netting agreements. Authoritative accounting guidance permits the netting of derivative receivables and payables when a legally enforceable master netting agreement exists between the Company and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. At September 30, 2011, the amount of cash and money market investments collateral posted by counterparties that was netted against derivative assets was \$111 million and the amount of cash collateral posted by the Company that was netted against derivative liabilities was \$1.4 billion. At December 31, 2010, the amount of cash and money market investments collateral posted by counterparties that was netted against derivative assets was \$55 million and the amount of cash collateral posted by the Company that was netted against derivative liabilities was \$936 million.

The following table summarizes the asset and liability management derivative positions of the Company:

(Dollars in Millions)	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
September 30, 2011						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 1,035	\$ 42	31.17	\$	\$	
Foreign exchange cross-currency swaps	895	52	5.49	447	8	5.49
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	750	1	3.05	11,039	845	3.67
Net investment hedges						
Foreign exchange forward contracts	738	15	.08			
Other economic hedges						
Interest rate contracts						

Futures and forwards						
Buy	12,832	132	.08	691	4	.05
Sell	2,893	9	.14	9,732	126	.12
Options						
Purchased	1,000		.06			
Written	4,664	79	.14	13		.16
Receive fixed/pay floating swaps	2,875	12	10.21			
Pay fixed/receive floating swaps	250	4	10.21			
Foreign exchange forward						
contracts	690	23	.09	144	1	.10
Equity contracts	30	2	1.53	31	5	.88
Credit contracts	710	6	2.85	1,611	8	3.05
December 31, 2010						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	1,800	72	55.75			
Foreign exchange cross-currency						
swaps	891	70	6.17	445		6.17
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps				4,788	688	5.03
Net investment hedges						
Foreign exchange forward						
contracts	512	3	.08			
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	2,879	20	.10	6,312	79	.05
Sell	9,082	207	.07	6,002	51	.09
Options						
Purchased	1,600		.06			
Written	6,321	23	.07	1,348	9	.07
Receive fixed/pay floating swaps	2,250	3	10.22			
Foreign exchange forward						
contracts	158	1	.09	694	6	.09
Equity contracts	61	3	1.60			
Credit contracts	650	2	3.22	1,183	7	2.71

Table of Contents

The following table summarizes the customer-related derivative positions of the company:

(Dollars in Millions)	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
September 30, 2011						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 16,482	\$ 1,270	5.05	\$ 239	\$	2.80
Pay fixed/receive floating swaps	217	1	3.94	16,572	1,241	5.07
Options						
Purchased	2,191	5	1.85	100	23	.08
Written	369	23	.20	1,962	5	2.04
Foreign exchange rate contracts						
Forwards, spots and swaps (a)	13,166	457	.41	12,357	456	.39
Options						
Purchased	144	6	.46			
Written				144	6	.46
December 31, 2010						
Interest rate contracts						
Receive fixed/pay floating swaps	15,730	956	4.64	1,294	21	6.01
Pay fixed/receive floating swaps	1,315	24	6.12	15,769	922	4.68
Options						
Purchased	2,024	13	1.98	115	12	.36
Written	472	12	.26	1,667	13	2.35
Foreign exchange rate contracts						
Forwards, spots and swaps (a)	7,772	384	.74	7,694	360	.75
Options						
Purchased	224	6	.40			
Written				224	6	.40

(a) Reflects the net of long and short positions.

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

Three Months Ended September 30,		Nine Months Ended September 30,	
Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Reclassified from Other Comprehensive Income (Loss)	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Reclassified from Other Comprehensive Income (Loss)

Dollars in Millions)	Income (Loss)		into Earnings		Income (Loss)		into Earnings	
	2011	2010	2011	2010	2011	2010	2011	2010
Asset and Liability Management Positions								
Cash flow hedges								
Interest rate contracts								
Pay fixed/receive floating swaps (a)	\$ (120)	\$ (111)	\$ (34)	\$ (34)	\$ (199)	\$ (317)	\$ (103)	\$ (113)
Net investment hedges								
Foreign exchange forward contracts	(57)	(53)			(104)	(36)		

Note: Ineffectiveness on cash flow and net investment hedges was not material for the three months and nine months ended September 30, 2011 and 2010.

(a) Gains (Losses) reclassified from other comprehensive income (loss) into interest income on loans and interest expense on long-term debt.

U.S. Bancorp

Table of Contents

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

(Dollars in Millions)	Location of Gains (Losses) Recognized in Earnings	Gains (Losses) Recognized in Earnings			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Asset and Liability Management Positions					
Fair value hedges (a)					
Interest rate contracts	Other noninterest income	\$ 1	\$ 20	\$ 25	\$ (64)
Foreign exchange cross-currency swaps	Other noninterest income	(111)	80	(13)	(151)
Other economic hedges					
Interest rate contracts					
Futures and forwards	Mortgage banking revenue	17	286	(7)	555
Purchased and written options	Mortgage banking revenue	181	183	323	374
Receive fixed/pay floating swaps	Mortgage banking revenue	377		479	
Pay fixed/receive floating swaps	Mortgage banking revenue	4		4	
Foreign exchange forward contracts	Commercial products revenue	(48)	(14)	(66)	(5)
Equity contracts	Compensation expense	1	1	2	3
Credit contracts	Other noninterest income/expense	4		2	
Customer-Related Positions					
Interest rate contracts					
Receive fixed/pay floating swaps	Other noninterest income	366	213	352	567
Pay fixed/receive floating swaps	Other noninterest income	(376)	(216)	(365)	(565)
Purchased and written options	Other noninterest income		1		1
Foreign exchange rate contracts					
Forwards, spots and swaps	Commercial products revenue	14	13	41	34
Purchased and written options	Commercial products revenue		1		1

(a) Gains (Losses) on items hedged by interest rate contracts and foreign exchange forward contracts, included in noninterest income (expense), were \$(3) million and \$117 million for the three months ended September 30, 2011, respectively, and \$(18) million and \$(80) million for the three months ended September 30, 2010, respectively. Gains (Losses) on items hedged by interest rate contracts and foreign exchange forward contracts, included in noninterest income (expense), were \$(27) million and \$20 million for the nine months ended September 30, 2011, respectively, and \$65 million and \$150 million for the nine months ended September 30, 2010, respectively. The ineffective portion was immaterial for the three months and nine months ended September 30, 2011 and 2010.

Derivatives are subject to credit risk associated with counterparties to the derivative contracts. The Company measures that credit risk based on its assessment of the probability of counterparty default and includes that within the fair value of the derivative. The Company manages counterparty credit risk through diversification of its derivative positions among various counterparties, by entering into master netting agreements where possible and by requiring collateral agreements which allow the Company to call for immediate, full collateral coverage when credit-rating thresholds are triggered by counterparties.

The Company's collateral agreements are bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral agreements, the counterparties to the derivatives could request immediate full collateral coverage for derivatives in net liability positions. The aggregate fair value of all derivatives under collateral agreements that were in a net liability position at September 30, 2011, was \$2.0 billion. At September 30, 2011, the Company had \$1.4 billion of cash posted as collateral against this net liability position.

Table of Contents**Note 13 Fair Values of Assets and Liabilities**

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value measurement reflects all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. The Company groups its assets and liabilities measured at fair value into a three-level hierarchy for valuation techniques used to measure financial assets and financial liabilities at fair value. This hierarchy is based on whether the valuation inputs are observable or unobservable. These levels are:

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

This category includes residential MSRs, certain debt securities, including the Company's SIV-related securities and non-agency mortgage-backed securities, and certain derivative contracts.

When the Company changes its valuation inputs for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the nine months ended September 30, 2011 and 2010, there were no significant transfers of financial assets or financial liabilities between the hierarchy levels.

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

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

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

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

U.S. Bancorp

Table of Contents

The fair value of securities for which there are no market trades, or where trading is inactive as compared to normal market activity, are classified within Level 3. Securities classified within Level 3 include non-agency mortgage-backed securities, certain asset-backed securities, certain collateralized debt obligations and collateralized loan obligations, certain corporate debt securities and SIV-related securities. Due to the limited number of trades of non-agency mortgage-backed securities and lack of reliable evidence about transaction prices, the Company determines the fair value of these securities using a cash flow methodology and incorporating observable market information, where available.

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

The following table shows the valuation assumption ranges for Level 3 available-for-sale non-agency mortgage-backed securities:

	Prime (a)			Non-prime		
	Minimum	Maximum	Average	Minimum	Maximum	Average
September 30, 2011						
Estimated lifetime prepayment rates	4%	23%	13%	1%	13%	6%
Lifetime probability of default rates		14	2		20	7
Lifetime loss severity rates	9	80	39	8	88	54
Discount margin	3	38	6	4	40	11
December 31, 2010						
Estimated lifetime prepayment rates	4%	28%	13%	1%	13%	6%
Lifetime probability of default rates		14	1		20	8
Lifetime loss severity rates	16	100	41	10	88	56
Discount margin	3	30	6	3	40	11

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

Certain mortgage loans held for sale MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. MLHFS are classified within Level 2. Included in mortgage banking revenue was a \$98 million net gain and a \$26 million net loss, for the three months ended September 30, 2011 and 2010, respectively, and a \$38 million net loss and a \$100 million net gain for the nine months ended September 30, 2011 and 2010, respectively, from the changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. The fair value of MLHFS was \$5.2 billion as of September 30, 2011, which exceeded the unpaid principal balance by \$242 million as of that date. Interest income for MLHFS is measured based on contractual interest rates and reported as interest income in the Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

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

Mortgage servicing rights MSRs are valued using a cash flow methodology and third-party prices, if available. Accordingly, MSRs are classified within Level 3. The Company determines fair value by estimating the present value of the asset's future cash flows using market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys, and independent third-party valuations. Risks inherent in MSRs valuation include higher than expected prepayment rates and/or delayed receipt of cash flows.

Table of Contents

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

The majority of derivatives held by the Company are executed over-the-counter and are valued using standard cash flow, Black-Scholes and Monte Carlo valuation techniques. The models incorporate inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. In addition, all derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk as well as external assessments of credit risk, where available. In its assessment of nonperformance risk, the Company considers its ability to net derivative positions under master netting agreements, as well as collateral received or provided under collateral support agreements. The majority of these derivatives are classified within Level 2 of the fair value hierarchy as the significant inputs to the models are observable. An exception to the Level 2 classification is certain derivative transactions for which the risk of nonperformance cannot be observed in the market. These derivatives are classified within Level 3 of the fair value hierarchy. In addition, commitments to sell, purchase and originate mortgage loans that meet the requirements of a derivative, are valued by pricing models that include market observable and unobservable inputs. Due to the significant unobservable inputs, these commitments are classified within Level 3 of the fair value hierarchy.

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

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

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

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

U.S. Bancorp

Table of Contents

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

(Dollars in Millions)	Level 1	Level 2	Level 3	Netting	Total
September 30, 2011					
Available-for-sale securities					
U.S. Treasury and agencies	\$ 583	\$ 906	\$	\$	\$ 1,489
Mortgage-backed securities					
Residential					
Agency		39,738			39,738
Non-agency					
Prime			859		859
Non-prime			857		857
Commercial					
Agency		147			147
Non-agency			45		45
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations		93	125		218
Other		566	120		686
Obligations of state and political subdivisions		6,499			6,499
Obligations of foreign governments		6			6
Corporate debt securities		960	9		969
Perpetual preferred securities		406			406
Other investments	182	8			190
Total available-for-sale	765	49,329	2,015		52,109
Mortgage loans held for sale		5,152			5,152
Mortgage servicing rights			1,466		1,466
Derivative assets		775	1,364	(361)	1,778
Other assets		927			927
Total	\$ 765	\$ 56,183	\$ 4,845	\$ (361)	\$ 61,432
Derivative liabilities	\$	\$ 2,694	\$ 34	\$ (1,680)	\$ 1,048
Other liabilities		876			876
Total	\$	\$ 3,570	\$ 34	\$ (1,680)	\$ 1,924
December 31, 2010					
Available-for-sale securities					
U.S. Treasury and agencies	\$ 873	\$ 1,664	\$	\$	\$ 2,537
Mortgage-backed securities					
Residential					
Agency		37,703			37,703
Non-agency					
Prime			1,103		1,103
Non-prime			947		947

Commercial					
Agency		197			197
Non-agency			50		50
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations		89	135		224
Other		587	133		720
Obligations of state and political subdivisions		6,417			6,417
Obligations of foreign governments		6			6
Corporate debt securities		949	9		958
Perpetual preferred securities		448			448
Other investments	181	18			199
Total available-for-sale	1,054	48,078	2,377		51,509
Mortgage loans held for sale		8,100			8,100
Mortgage servicing rights			1,837		1,837
Derivative assets		846	953	(280)	1,519
Other assets		470			470
Total	\$ 1,054	\$ 57,494	\$ 5,167	\$ (280)	\$ 63,435
Derivative liabilities	\$	\$ 2,072	\$ 102	\$ (1,163)	\$ 1,011
Other liabilities		470			470
Total	\$	\$ 2,542	\$ 102	\$ (1,163)	\$ 1,481

Table of Contents

The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30:

	Beginning of Period Balance	Net Gains (Losses) Included in Net Income	Net Gains (Losses) Included in Comprehensive Income (Loss)	Net Total Purchases, Sales, Principal Payments, Issuances and Settlements	End of Period Balance	Net Change in Unrealized Gains (Losses) Relating to Assets Still Held at End of Period
(Dollars in Millions)						
2011						
Available-for-sale securities						
Mortgage-backed securities						
Residential non-agency						
Prime	\$ 896	\$ 1	\$ (2)	\$ (36)	\$ 859	\$ (2)
Non-prime	895	(2)	(5)	(31)	857	(5)
Commercial non-agency	50	1	(1)	(5)	45	
Asset-backed securities						
Collateralized debt						
obligations/Collateralized loan						
obligations	133	3	(2)	(9)	125	(2)
Other	129	1	(4)	(6)	120	(4)
Corporate debt securities	9				9	
Total available-for-sale	2,112	4 (a)	(14)	(87)	2,015	(13)
Mortgage servicing rights	1,989	(629) (b)		106	1,466	(629) (b)
Net derivative assets and liabilities	836	836 (c)		(342)	1,330	77 (d)
2010						
Available-for-sale securities						
Mortgage-backed securities						
Residential non-agency						
Prime	\$ 1,197	\$ 1	\$ 22	\$ (51)	\$ 1,169	\$ 22
Non-prime	907	(9)	36	11	945	36
Commercial non-agency	15	1	1	33	50	1
Asset-backed securities						
Collateralized debt						
obligations/Collateralized loan						
obligations	75	3	2	69	149	2
Other	328	3	8	(209)	130	8
Corporate debt securities	10	(1)			9	
Other investments	266	2	16	(7)	277	16

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

Total available-for-sale	2,798	(e)	85	(154)	2,729	85
Mortgage servicing rights	1,543	(280) (b)		159	1,422	(280) (b)
Net derivative assets and liabilities	1,294	682 (f)		(544)	1,432	119 (g)

(a) Approximately \$(9) million included in securities gains (losses) and \$13 million included in interest income.

(b) Included in mortgage banking revenue.

(c) Approximately \$445 million included in other noninterest income and \$391 million included in mortgage banking revenue.

(d) Approximately \$317 million included in other noninterest income and \$(240) million included in mortgage banking revenue.

(e) Approximately \$(18) million included in securities gains (losses) and \$18 million included in interest income.

(f) Approximately \$252 million included in other noninterest income and \$430 million included in mortgage banking revenue.

(g) Approximately \$504 million included in other noninterest income and \$(385) million included in mortgage banking revenue.

Additional detail of purchases, sales, principal payments, issuances and settlements for assets and liabilities classified within Level 3 for the three months ended September 30, 2011, was as follows:

(Dollars in Millions)	Principal					Net Total
	Purchases	Sales	Payments	Issuances	Settlements	
Available-for-sale securities						
Mortgage-backed securities						
Residential non-agency						
Prime	\$	\$	\$ (36)	\$	\$	\$ (36)
Non-prime			(31)			(31)
Commercial non-agency		(4)	(1)			(5)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations			(9)			(9)
Other			(6)			(6)
Total available-for-sale		(4)	(83)			(87)
Mortgage servicing rights	5			101(a)		106
Net derivative assets and liabilities		(2)			(340)	(342)

(a) Represents MSR's capitalized during the period

U.S. Bancorp

Table of Contents

The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30:

(Dollars in Millions)	Beginning of Period Balance	Net Gains (Losses) Included in Net Income	Net (Losses) Included in Comprehensive Income (Loss)	Net Total Purchases, Sales, Principal Payments, Issuances and Settlements	End of Period Balance	Net Change in Unrealized Gains (Losses) Relating to Assets Still Held at End of Period
2011						
Available-for-sale securities						
Mortgage-backed securities						
Residential non-agency						
Prime	\$ 1,103	\$ 4	\$ 22	\$ (270)	\$ 859	\$ 14
Non-prime	947	(4)	27	(113)	857	26
Commercial non-agency	50	2	(1)	(6)	45	
Asset-backed securities						
Collateralized debt						
obligations/Collateralized loan						
obligations	135	10	6	(26)	125	7
Other	133	8	(2)	(19)	120	(2)
Corporate debt securities	9				9	
Total available-for-sale	2,377	20 (a)	52	(434)	2,015	45
Mortgage servicing rights	1,837	(803) (b)		432	1,466	(803) (b)
Net derivative assets and liabilities	851	1,252 (c)		(773)	1,330	(92) (d)
2010						
Available-for-sale securities						
Mortgage-backed securities						
Residential non-agency						
Prime	\$ 1,429	\$ 1	\$ 72	\$ (333)	\$ 1,169	\$ 66
Non-prime	968	(46)	104	(81)	945	104
Commercial non-agency	13	1	3	33	50	2
Asset-backed securities						
Collateralized debt						
obligations/Collateralized loan						
obligations	98	3		48	149	3
Other	357	(2)	6	(231)	130	7
Corporate debt securities	10	(1)			9	
Other investments	231	4	63	(21)	277	63

Total available-for-sale	3,106	(40) (e)	248	(585)	2,729	245
Mortgage servicing rights	1,749	(773) (b)		446	1,422	(773) (b)
Net derivative assets and liabilities	815	1,741 (f)		1,124	1,432	160 (g)

(a) Approximately \$(24) million included in securities gains (losses) and \$44 million included in interest income.

(b) Included in mortgage banking revenue.

(c) Approximately \$672 million included in other noninterest income and \$580 million included in mortgage banking revenue.

(d) Approximately \$303 million included in other noninterest income and \$(395) million included in mortgage banking revenue.

(e) Approximately \$(85) million included in securities gains (losses) and \$45 million included in interest income.

(f) Approximately \$865 million included in other noninterest income and \$876 million included in mortgage banking revenue.

(g) Approximately \$842 million included in other noninterest income and \$(682) million included in mortgage banking revenue.

Additional detail of purchases, sales, principal payments, issuances and settlements for assets and liabilities classified within Level 3 for the nine months ended September 30, 2011, was as follows:

(Dollars in Millions)	Purchases	Sales	Principal			Net Total
			Payments	Issuances	Settlements	
Available-for-sale securities						
Mortgage-backed securities						
Residential non-agency						
Prime	\$	\$ (115)	\$ (155)	\$	\$	\$ (270)
Non-prime		(12)	(101)			(113)
Commercial non-agency		(4)	(2)			(6)
Asset-backed securities						
Collateralized debt obligations/Collateralized loan obligations			(26)			(26)
Other			(19)			(19)
Total available-for-sale		(131)	(303)			(434)
Mortgage servicing rights	16			416 (a)		432
Net derivative assets and liabilities		(5)			(768)	(773)

(a) Represents MSR's capitalized during the period

Table of Contents

The Company is also required periodically to measure certain other financial assets at fair value on a nonrecurring basis. These measurements of fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

The following table summarizes the adjusted carrying values and the level of valuation assumptions for assets measured at fair value on a nonrecurring basis:

(Dollars in Millions)	September 30, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans (a)	\$	\$	\$ 170	\$ 170	\$	\$ 404	\$ 1	\$ 405
Other real estate owned (b)			255	255		812		812
Other intangible assets							1	1
Other assets			3	3		4	9	13

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

(b) Represents the fair value of foreclosed properties that were measured at fair value based on an appraisal or broker price opinion of the collateral subsequent to their initial acquisition.

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Loans (a)	\$ 32	\$ 67	\$ 153	\$ 280
Other real estate owned (b)	81	97	230	212
Other intangible assets				
Other assets				

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

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

Fair Value Option

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

September 30, 2011	December 31, 2010
Aggregate Carrying	Aggregate Carrying
Aggregate	Aggregate

	Fair Value	Unpaid Principal	Amount Over (Under) Unpaid Principal	Fair Value	Unpaid Principal	Amount Over (Under) Unpaid Principal
(Dollars in Millions)	Carrying Amount	Unpaid Principal	Unpaid Principal	Carrying Amount	Unpaid Principal	Unpaid Principal
Total loans	\$ 5,152	\$ 4,910	\$ 242	\$ 8,100	\$ 8,034	\$ 66
Nonaccrual loans	7	14	(7)	11	18	(7)
Loans 90 days or more past due	2	4	(2)	6	6	

U.S. Bancorp

Table of Contents

Disclosures about Fair Value of Financial Instruments The following table summarizes the estimated fair value for financial instruments as of September 30, 2011 and December 31, 2010, and includes financial instruments that are not accounted for at fair value. In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as the value of goodwill, long-term relationships with deposit, credit card, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other liabilities.

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

(Dollars in Millions)	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	\$ 13,708	\$ 13,708	\$ 14,487	\$ 14,487
Investment securities held-to-maturity	16,269	16,613	1,469	1,419
Mortgages held for sale (a)	4	4	4	4
Other loans held for sale	219	220	267	267
Loans	199,818	202,037	191,751	192,058
Financial Liabilities				
Deposits	222,632	223,042	204,252	204,799
Short-term borrowings	32,029	32,094	32,557	32,839
Long-term debt	30,624	31,467	31,537	31,981

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

The fair value of unfunded commitments, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments and standby letters of credit was \$358 million and \$353 million at September 30, 2011 and December 31, 2010, respectively. The carrying value of other guarantees was \$372 million and \$330 million at September 30, 2011 and December 31, 2010, respectively.

Note 14 Guarantees and Contingent Liabilities

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

judgment or negotiated settlements related to the Visa Litigation.

In 2007 and 2008, Visa announced settlement agreements relating to certain of the Visa Litigation matters. Visa U.S.A. member banks remain obligated to indemnify Visa Inc. for potential losses arising from the remaining Visa Litigation. Using proceeds from its IPO and through subsequent reductions to the conversion ratio applicable to the Class B shares held by Visa U.S.A. member banks, Visa Inc. has established an escrow account for the benefit of member financial institutions to fund the expenses of the Visa Litigation, as well as the members' proportionate share of any judgments or settlements that may arise out of the Visa Litigation. The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation contingent liability, and will decline as amounts are paid out of the escrow account. During the first quarter of 2011, Visa deposited additional funds into the escrow account and further reduced the conversion ratio applicable to the Class B shares. As a result, the Company recognized a gain of \$22 million during the first quarter of 2011 related to the effective repurchase of a portion of the Class B shares.

67

U.S. Bancorp

Table of Contents

At September 30, 2011, the carrying amount of the Company's liability related to the remaining Visa Litigation matters, was \$29 million. Class B shares are non-transferable, except for transfers to other Visa U.S.A. member banks. The remaining Class B shares held by the Company will be eligible for conversion to Class A shares upon settlement of the Visa Litigation.

The following table is a summary of other guarantees and contingent liabilities of the Company at September 30, 2011:

(Dollars in Millions)	Collateral Held	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit	\$	\$ 94	\$ 18,760
Third-party borrowing arrangements			127
Securities lending indemnifications	8,973		8,569
Asset sales		228	2,046 (a)
Merchant processing	680	73	77,914
Contingent consideration arrangements		5	5
Minimum revenue guarantees		22	37
Other	5,336	15	8,552

(a) *The maximum potential future payments do not include loan sales where the Company provides standard representation and warranties to the buyer against losses related to loan underwriting documentation defects that existed at the time of sale that generally are identified after the occurrence of a triggering event such as delinquency. For these types of loan sales, the maximum potential future payments is generally the unpaid principal balance of loans sold measured at the end of the current reporting period. Actual losses will be significantly less than the maximum exposure, as only a fraction of loans sold will have a representation and warranty breach, and any losses on repurchase would generally be mitigated as the loans are typically collateralized.*

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

The Company currently processes card transactions in the United States, Canada and Europe for airline companies. In the event of liquidation of these merchants, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At September 30, 2011, the value of airline tickets purchased to be delivered at a future date was \$5.8 billion. The Company held collateral of \$526 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

Asset Sales The Company regularly sells loans to government-sponsored entities (GSEs) as part of its mortgage banking activities. The Company provides customary representation and warranties to the GSEs in conjunction with

these sales. These representations and warranties generally require the Company to repurchase assets if it is subsequently determined that a loan did not meet specified criteria, such as a documentation deficiency or rescission of mortgage insurance. If the Company is unable to cure or refute a repurchase request, the Company is generally obligated to repurchase the loan or otherwise reimburse the counterparty for losses. The Company has been receiving repurchase requests from the GSEs. At September 30, 2011, the Company had reserved \$162 million for potential losses from representation and warranty obligations. The Company's reserve reflects Management's best estimate of losses for representation and warranty obligations. The Company's reserving methodology uses current information about investor repurchase requests, and various assumptions such as defect rate, concur rate, repurchase mix, and loss severity, based upon the Company's most recent loss trends. The Company also considers qualitative factors that may result in anticipated losses different from historical loss trends, such as loan vintage, underwriting characteristics and macroeconomic trends.

U.S. Bancorp

Table of Contents

The following table is a rollforward of the Company's representation and warranty reserve:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
Balance at beginning of period	\$ 173	\$ 101	\$ 180	\$ 72
Net realized losses	(31)	(24)	(106)	(66)
Additions to reserve	20	70	88	141
Balance at end of period	\$ 162	\$ 147	\$ 162	\$ 147

As of September 30, 2011 and December 31, 2010, the Company had \$115 million and \$165 million, respectively, of unresolved representation and warranty claims with the GSEs. The Company does not have a significant amount of unresolved claims from investors other than the GSEs.

Checking Account Overdraft Fee Litigation The Company is a defendant in three separate cases primarily challenging the Company's daily ordering of debit transactions posted to customer checking accounts for the period from 2003 to 2010. The plaintiffs have requested class action treatment; however, no class has been certified. The court has denied a motion by the Company to dismiss these cases. The Company believes it has meritorious defenses against these matters, including class certification. As these cases are in the early stages and no damages have been specified, no specific loss range or range of loss can be determined currently.

Other During the second quarter of 2011, the Company and its two primary banking subsidiaries entered into Consent Orders with U.S. federal banking regulators regarding the Company's residential mortgage servicing and foreclosure processes. The Company has not been notified of any monetary penalty related to the Consent Orders, however, the Consent Orders could result in fines, penalties, restitutions or other alterations to the Company's business practices. Other governmental authorities are reported to be discussing various actions with certain mortgage servicers, although the Company has not been notified of any pending regulatory actions or penalties beyond the Consent Orders. Such actions could also lead to fines, settlements or alterations in business practices.

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

For additional information on the nature of the Company's guarantees and contingent liabilities, refer to Note 22 in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Note 15 Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2011 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized or

disclosed in the consolidated financial statements and related notes.

U.S. Bancorp

Table of Contents

U.S. Bancorp
 Consolidated Daily Average Balance Sheet and Related
 Yields and Rates (a)

For the Three Months Ended September 30,
 2011

2010

(Dollars in Millions) (Unaudited)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
Assets							
Investment securities	\$ 66,252	\$ 511	3.08%	\$ 47,870	\$ 441	3.69%	38.4%
Loans held for sale	3,946	42	4.17	6,465	71	4.43	(39.0)
Loans (b)							
Commercial	52,344	521	3.96	46,784	501	4.26	11.9
Commercial real estate	35,569	414	4.62	34,190	390	4.52	4.0
Residential mortgages	34,026	408	4.79	27,890	361	5.17	22.0
Credit card	16,057	389	9.60	16,510	386	9.29	(2.7)
Other retail	48,380	671	5.51	47,859	696	5.77	1.1
Total loans, excluding covered loans							
	186,376	2,403	5.12	173,233	2,334	5.35	7.6
Covered loans	15,793	235	5.91	19,308	240	4.93	(18.2)
Total loans	202,169	2,638	5.19	192,541	2,574	5.31	5.0
Other earning assets	13,902	67	1.92	5,040	46	3.61	*
Total earning assets	286,269	3,258	4.53	251,916	3,132	4.95	13.6
Allowance for loan losses	(5,079)			(5,406)			6.0
Unrealized gain (loss) on available-for-sale securities	470			475			(1.1)
Other assets	39,921			39,075			2.2
Total assets	\$ 321,581			\$ 286,060			12.4
Liabilities and Shareholders Equity							
Noninterest-bearing deposits	\$ 58,606			\$ 39,732			47.5
Interest-bearing deposits							
Interest checking	41,042	14	.14	39,308	19	.19	4.4
Money market savings	44,623	16	.14	38,005	31	.33	17.4
Savings accounts	27,042	26	.38	22,008	32	.59	22.9
Time certificates of deposit less than \$100,000	15,251	74	1.92	16,024	75	1.86	(4.8)
Time deposits greater than \$100,000	28,805	72	.99	27,583	74	1.06	4.4

Total interest-bearing deposits	156,763	202	.51	142,928	231	.64	9.7
Short-term borrowings	30,597	143	1.86	36,303	151	1.65	(15.7)
Long-term debt	31,609	289	3.64	29,422	273	3.70	7.4
Total interest-bearing liabilities	218,969	634	1.15	208,653	655	1.25	4.9
Other liabilities	9,961			8,003			24.5
Shareholders' equity							
Preferred equity	2,606			1,930			35.0
Common equity	30,481			26,957			13.1
Total U.S. Bancorp shareholders' equity	33,087			28,887			14.5
Noncontrolling interests	958			785			22.0
Total equity	34,045			29,672			14.7
Total liabilities and equity	\$ 321,581			\$ 286,060			12.4%
Net interest income		\$ 2,624			\$ 2,477		
Gross interest margin			3.38%			3.70%	
Gross interest margin without taxable-equivalent increments			3.30			3.62	
Percent of Earning Assets							
Interest income			4.53%			4.95%	
Interest expense			.88			1.04	
Net interest margin			3.65%			3.91%	
Net interest margin without taxable-equivalent increments			3.57%			3.83%	

* *Not meaningful*

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

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

U.S. Bancorp

Table of Contents

U.S. Bancorp

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

(Dollars in Millions) (Unaudited)	For the Nine Months Ended September 30,						
	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
Assets							
Investment securities	\$ 61,907	\$ 1,479	3.19%	\$ 47,080	\$ 1,326	3.76%	31.5%
Loans held for sale	4,382	139	4.22	4,824	162	4.49	(9.2)
Loans (b)							
Commercial	50,383	1,539	4.08	46,798	1,472	4.20	7.7
Commercial real estate	35,417	1,210	4.57	34,165	1,137	4.45	3.7
Residential mortgages	32,854	1,201	4.88	27,045	1,059	5.22	21.5
Credit card	16,022	1,141	9.52	16,403	1,150	9.37	(2.3)
Other retail	48,154	1,992	5.53	47,391	2,057	5.80	1.6
Total loans, excluding covered loans							
	182,830	7,083	5.18	171,802	6,875	5.35	6.4
Covered loans	16,703	704	5.63	20,390	745	4.88	(18.1)
Total loans	199,533	7,787	5.22	192,192	7,620	5.30	3.8
Other earning assets	13,483	187	1.85	5,312	119	2.98	*
Total earning assets	279,305	9,592	4.59	249,408	9,227	4.94	12.0
Allowance for loan losses	(5,275)			(5,387)			2.1
Unrealized gain (loss) on available-for-sale securities	137			19			*
Other assets	39,912			39,016			2.3
Total assets	\$ 314,079			\$ 283,056			11.0
Liabilities and Shareholders Equity							
Noninterest-bearing deposits	\$ 50,558			\$ 39,223			28.9
Interest-bearing deposits							
Interest checking	42,335	50	.16	39,599	56	.19	6.9
Money market savings	45,091	62	.18	39,710	101	.34	13.6
Savings accounts	26,304	89	.45	20,038	87	.58	31.3
Time certificates of deposit less than \$100,000	15,294	219	1.92	17,105	230	1.80	(10.6)
Time deposits greater than \$100,000	30,153	226	1.00	27,162	222	1.09	11.0

Total interest-bearing deposits	159,177	646	.54	143,614	696	.65	10.8
Short-term borrowings	30,597	411	1.80	33,727	420	1.66	(9.3)
Long-term debt	31,786	860	3.62	30,696	822	3.58	3.6
Total interest-bearing liabilities	221,560	1,917	1.16	208,037	1,938	1.25	6.5
Other liabilities	9,377			7,477			25.4
Shareholders' equity							
Preferred equity	2,349			1,678			40.0
Common equity	29,350			25,904			13.3
Total U.S. Bancorp shareholders' equity	31,699			27,582			14.9
Noncontrolling interests	885			737			20.1
Total equity	32,584			28,319			15.1
Total liabilities and equity	\$ 314,079			\$ 283,056			11.0%
Net interest income		\$ 7,675			\$ 7,289		
Gross interest margin			3.43%			3.69%	
Gross interest margin without taxable-equivalent increments			3.35			3.61	
Percent of Earning Assets							
Interest income			4.59%			4.94%	
Interest expense			.92			1.04	
Net interest margin			3.67%			3.90%	
Net interest margin without taxable-equivalent increments			3.59%			3.82%	

* *Not meaningful*

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

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

U.S. Bancorp

71

Table of Contents

Part II Other Information

Item 1A. Risk Factors There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for discussion of these risks.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Refer to the Capital Management section within Management's Discussion and Analysis in Part I for information regarding shares repurchased by the Company during the third quarter of 2011.

Item 6. Exhibits

- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- 101 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2011, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Income, (iii) the Consolidated Statement of Shareholders' Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to Consolidated Financial Statements.

U.S. Bancorp

Table of Contents

SIGNATURE

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

U.S. BANCORP

By: /s/ Craig E. Gifford

Craig E. Gifford

Controller

(Principal Accounting Officer and Duly Authorized Officer)

DATE: November 4, 2011

73

U.S. Bancorp

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

(Dollars in Millions)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Earnings		
1. Net income attributable to U.S. Bancorp	\$ 1,273	\$ 3,522
2. Applicable income taxes, including expense related to unrecognized tax positions	490	1,314
3. Net income attributable to U.S. Bancorp before income taxes (1 + 2)	\$ 1,763	\$ 4,836
4. Fixed charges:		
a. Interest expense excluding interest on deposits*	\$ 432	\$ 1,267
b. Portion of rents representative of interest and amortization of debt expense	26	77
c. Fixed charges excluding interest on deposits (4a + 4b)	458	1,344
d. Interest on deposits	202	646
e. Fixed charges including interest on deposits (4c + 4d)	\$ 660	\$ 1,990
5. Amortization of interest capitalized	\$	\$
6. Earnings excluding interest on deposits (3 + 4c + 5)	2,221	6,180
7. Earnings including interest on deposits (3 + 4e + 5)	2,423	6,826
8. Fixed charges excluding interest on deposits (4c)	458	1,344
9. Fixed charges including interest on deposits (4e)	660	1,990
Ratio of Earnings to Fixed Charges		
10. Excluding interest on deposits (line 6/line 8)	4.85	4.60
11. Including interest on deposits (line 7/line 9)	3.67	3.43

* Excludes interest expense related to unrecognized tax positions

U.S. Bancorp

Table of Contents

EXHIBIT 31.1

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

I, Richard K. Davis, certify that:

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

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

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

Dated: November 4, 2011

75

U.S. Bancorp

Table of Contents

EXHIBIT 31.2

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

I, Andrew Cecere, certify that:

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

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

/s/ Andrew Cecere
Andrew Cecere
Chief Financial Officer

Dated: November 4, 2011

U.S. Bancorp

76

Table of Contents

EXHIBIT 32

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

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard K. Davis

/s/ Andrew Cecere

Richard K. Davis
Chief Executive Officer

Andrew Cecere
Chief Financial Officer

Dated: November 4, 2011

77

U.S. Bancorp

Table of Contents

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

Executive Offices

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

Common Stock Transfer Agent and Registrar

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

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

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

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

Independent Auditor

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

Common Stock Listing and Trading

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

Dividends and Reinvestment Plan

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

Investor Relations Contacts

Judith T. Murphy

Executive Vice President, Corporate Investor and Public Relations
judith.murphy@usbank.com
Phone: 612-303-0783 or 866-775-9668

Financial Information

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

Website For information about U.S. Bancorp, including news, financial results, annual reports and other documents filed with the Securities and Exchange Commission, access our home page on the internet at usbank.com, click on *About U.S. Bank*.

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

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

Media Requests

Thomas Joyce
Senior Vice President, Media Relations
thomas.joyce@usbank.com
Phone: 612-303-3167

Privacy

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

Code of Ethics

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

Diversity

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

Equal Employment Opportunity/Affirmative Action

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

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

U.S. Bancorp
Member FDIC

This report has been produced on recycled paper.