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

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

Form 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from (not applicable)

Commission file number 1-6880

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

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

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

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

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

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

YES þ NO o

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

YES þ NO o

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

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

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

YES o NO þ

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

Class	Outstanding as of July 31, 2009
Common Stock, $.01 Par Value	1,911,974,478 shares

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.
This Quarterly Report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words may, could, would, should, believes, expects, anticipates, estimates, targets, potentially, probably, projects, outlook or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A continuation of the challenging general business and economic conditions and turbulence in the global financial markets could impact U.S. Bancorp s performance, both directly by

affecting its revenues and the value of its assets and liabilities, and indirectly by affecting its customers and counterparties. Dramatic declines in the housing market in the past year have resulted in significant write-downs of asset values by financial institutions. Concerns about the stability of the financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity, and increased market volatility. There can be no assurance that any governmental program or legislation will help to stabilize the U.S. financial system or alleviate the industry or economic factors that may adversely impact U.S. Bancorp s business. In addition, U.S. Bancorp s business and financial performance could be impacted as the financial industry restructures in the current environment, by increased regulation of financial institutions or other effects of recently enacted legislation, by changes in the creditworthiness and performance of its counterparties, and by changes in the competitive landscape. U.S. Bancorp s results could also be adversely affected by changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, market risk, operational risk, legal risk, and regulatory and compliance risk.

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

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Table 1 Selected Financial Data

	Three Months Ended June 30,			Six Months Ended June 30,		
nd Shares in Millions, Except Per Share Data)	2009	2008	Percent Change	2009	2008	P C
ed Income Statement						
st income (taxable-equivalent basis) (a)	$ 2,104	$ 1,908	10.3%	$ 4,199	$ 3,738	
st income	2,074	1,955	6.1	4,060	4,250	
gains (losses), net	(19)	(63)	69.8	(217)	(314)	
revenue	4,159	3,800	9.4	8,042	7,674	
st expense	2,129	1,818	17.1	4,000	3,597	
for credit losses	1,395	596	*	2,713	1,081	
efore taxes	635	1,386	(54.2)	1,329	2,996	
quivalent adjustment	50	33	51.5	98	60	
e income taxes	100	386	(74.1)	201	862	
e	485	967	(49.8)	1,030	2,074	
e attributable to noncontrolling interests	(14)	(17)	17.6	(30)	(34)	
e attributable to U.S. Bancorp	$ 471	$ 950	(50.4)	$ 1,000	$ 2,040	
e applicable to U.S. Bancorp common ers	$ 221	$ 926	(76.1)	$ 640	$ 2,003	
mon Share						
per share	$ .12	$ .53	(77.4)%	$ .36	$ 1.15	
rnings per share	.12	.53	(77.4)	.36	1.14	
s declared per share	.050	.425	(88.2)	.100	.850	
e per share	11.86	11.67	1.6			
lue per share	17.92	27.89	(35.7)			
common shares outstanding	1,833	1,740	5.3	1,794	1,735	
diluted common shares outstanding	1,840	1,755	4.8	1,801	1,752	
Ratios						
average assets	.71%	1.58%		.76%	1.71%	
average common equity	4.2	17.9		6.4	19.6	
st margin (taxable-equivalent basis) (a)	3.60	3.61		3.59	3.58	
ratio (b)	51.0	47.1		48.4	45.0	
Balances						
	$ 183,878	$ 163,070	12.8%	$ 184,786	$ 159,151	
d for sale	6,092	3,417	78.3	5,644	4,267	
t securities	42,189	42,999	(1.9)	42,255	43,446	
ssets	234,265	212,089	10.5	234,786	209,552	
	266,107	242,221	9.9	266,171	239,448	
st-bearing deposits	37,388	27,851	34.2	36,707	27,485	

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

	June 30, 2009	December 31, 2008	
nd Balances			
	$ 182,312	$ 185,229	(1.6)%
e for credit losses	4,571	3,639	25.6
nt securities	40,805	39,521	3.2
	265,560	265,912	(.1)
	163,883	159,350	2.8
n debt	39,196	38,359	2.2
. Bancorp shareholders equity	24,171	26,300	(8.1)
tios			
pital	9.4%	10.6%	
-based capital	13.0	14.3	
	8.4	9.8	
nmon equity to risk-weighted assets (c)	6.7	5.1	
common equity to tangible assets (c)	5.1	3.3	
common equity to risk-weighted assets (c)	5.7	3.7	

* *Not meaningful.*

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

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

(c) *See Non-GAAP Financial Measures on page 26.*

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Management s Discussion and Analysis

OVERVIEW

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

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

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

The provision for credit losses for the second quarter of 2009 increased $799 million over the second quarter of 2008, reflecting continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs in the second quarter of 2009 were $929 million, compared with net charge-offs of $396 million in the second quarter of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income attributable to U.S. Bancorp of $1.0 billion for the first six months of 2009 or $.36 per diluted common share, compared with $2.0 billion, or $1.14 per diluted common share for the first six months of 2008. Return on average assets and return on average common equity were .76 percent and 6.4 percent, respectively, for the first six months of 2009, compared with 1.71 percent and 19.6 percent, respectively, for the first six months of 2008. The Company s results for the first six months of 2009 reflected several significant items, including provision for credit losses in excess of net charge-offs of $996 million, $217 million of net securities losses, the $123 million FDIC special assessment and a $92 million gain from a corporate real estate transaction. Significant items included in the first six months of 2008 results were a $492 million gain related to the Company s ownership position in Visa, Inc. (Visa Gain), $392 million provision for credit losses in excess of net charge-offs and net securities losses of $314 million.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2009 was $368 million (4.8 percent) higher than the first six months of 2008, reflecting a 12.3 percent increase in net interest income and a 2.4 percent decrease in noninterest income. The increase in net interest income from a year ago was a result of growth in average earning assets. Noninterest income decreased due to the Visa Gain in the first six months of 2008, in addition to the impact of the deteriorating economy on equity markets and customer spending. These revenue declines were partially offset by higher mortgage banking and commercial products revenue, a gain from a corporate real estate transaction and a lower level of net securities losses in the first six months of 2009.

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

The provision for credit losses for the first six months of 2009 increased $1.6 billion over the first six months of 2008. The increase in the provision for credit losses reflected continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs in the first six months of 2009 were $1.7 billion, compared with net charge-offs of $689 million in the first six months of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $2.1 billion in the second quarter of 2009, compared with $1.9 billion in the second quarter of 2008. Net interest income, on a taxable-equivalent basis, was $4.2 billion in the first six months of 2009, compared with $3.7 billion in the first six months of 2008. The increases were due to growth in average earning assets, which were $22.2 billion (10.5 percent) higher in the second quarter of 2009 and $25.2 billion (12.0 percent) higher in the first six months of 2009, compared with the same periods of 2008, primarily driven by increases in average loans, including originated and acquired loans. The net interest margin in the second quarter and first six months of 2009 was 3.60 percent and 3.59 percent, respectively, compared with 3.61 percent and 3.58 percent, respectively, for the same periods of 2008. Given the current interest rate environment, the Company expects the net interest margin to remain relatively stable for the remainder of 2009. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Total average loans for the second quarter and first six months of 2009 were $20.8 billion (12.8 percent) and $25.6 billion (16.1 percent) higher, respectively, than the same periods of 2008, driven by new loan originations and acquisitions. Retail loan growth, year-over-year, was driven by increases in credit card, home equity and federally-guaranteed student loans. Commercial real estate loan growth reflected new business driven by capital market conditions, slower loan payoffs and an acquisition in the second quarter of 2008. Residential mortgage growth reflected increased origination activity as a result of market interest rate declines. The increase in commercial loans was principally a result of growth in corporate and commercial banking balances as new and existing business customers used bank credit facilities to fund business growth and liquidity requirements. Assets covered by loss sharing agreements with the FDIC (covered assets) relate to the 2008 acquisitions of the banking operations of Downey Savings and Loan Association, F.A. and PFF Bank and Trust (Downey and PFF , respectively) and were $10.7 billion and $11.0 billion in the second quarter and first six months of 2009, respectively.

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

Average total deposits for the second quarter and first six months of 2009 increased $27.4 billion (20.2 percent) and $28.5 billion (21.4 percent), respectively, over the same periods of 2008. Excluding deposits from 2008 and 2009 acquisitions, second quarter 2009 average total deposits increased $15.1 billion (11.2 percent) over the second quarter of 2008. Average noninterest-bearing deposits for the second quarter and first six months of 2009 increased $9.5 billion (34.2 percent) and $9.2 billion (33.6 percent), respectively, compared with same periods of 2008, primarily due to growth in Consumer and Wholesale Banking business lines and the impact of acquisitions. Average total savings deposits increased $12.6 billion (19.7 percent) in the second quarter and $11.0 billion (17.5 percent) in the first six months of 2009, compared with the same periods in 2008, the result of higher Consumer Banking, government, broker-dealer and institutional trust customer balances and

U.S. Bancorp

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Table 2 Noninterest Income

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

* *Not meaningful*

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

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2009 increased $799 million and $1.6 billion, respectively, over the same periods of 2008, reflecting the current adverse economic conditions. The provision for credit losses exceeded net charge-offs by $466 million and $996 million in the second quarter and first six months of 2009, respectively, compared with $200 million and $392 million in the same periods of 2008. The increases in the provision and allowance for credit losses reflected continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs were $929 million in the second quarter and $1.7 billion in the first six months of 2009, compared with net charge-offs of $396 million in the second quarter and $689 million in the first six months of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income in the second quarter and first six months of 2009 was $2.1 billion and $3.8 billion, respectively, compared with $1.9 billion and $3.9 billion in the same periods of 2008. The $163 million (8.6 percent) increase during the second quarter and $93 million (2.4 percent) decrease during the first six months of 2009, compared with the same periods of 2008, were principally due to a significant rise in mortgage banking revenue as the lower rate environment drove record mortgage loan production and increased profitability on loan sales, offset by lower fee-based revenue in certain revenue categories due to weaker economic conditions adversely impacting consumer and business spending. In addition, noninterest income decreased in the first six months of 2009, compared with the first six months of 2008, due to the $492 million Visa Gain included in the first quarter of 2008. Other increases in noninterest income included higher ATM processing services related to growth in transaction volumes and business expansion, higher treasury management fees resulting from reduced earnings credit on customer compensating balances, and higher commercial products revenue due to higher standby letter of credit, capital markets and other commercial loan fees. Net securities losses for the second quarter and first six months of 2009 were also lower than the same periods a year ago. Corporate payment products revenue decreased in the second quarter and first six months of 2009, compared with the same periods of 2008, as transaction volumes declined due to

Table 3 Noninterest Expense

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

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

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

Noninterest Expense Noninterest expense was $2.1 billion in the second quarter and $4.0 billion in the first six months of 2009, increasing $311 million (17.1 percent) and $403 million (11.2 percent), respectively, from the same periods of 2008. The increases in noninterest expense from a year ago were principally due to the impact of higher FDIC deposit insurance expense and acquisitions. Compensation expense increased primarily due to acquisitions, offset by reductions from cost containment efforts. Employee benefits expense increased primarily due to increased pension costs associated with previous declines in the value of pension assets, as well as acquisitions. Net occupancy and equipment expense, and technology and communications expense increased primarily due to acquisitions, as well as branch-based and other business expansion initiatives. Marketing and business development expense increased in the second quarter of 2009, compared with the second quarter of 2008, due to costs related to new credit card product initiatives. Marketing and business development expense for the first six months of 2009 decreased from the same period of 2008 due to a contribution to the U.S. Bancorp Foundation in the first quarter of 2008, offset by the impact of costs related to new credit card product initiatives in 2009. Other intangibles expense increased due to acquisitions. Other expense increased year-over-year due to an increase in FDIC deposit insurance expense, a result of the special assessment in the second quarter of 2009 and the use of assessment credits in 2008 and the first quarter of 2009, which have been fully utilized. In addition, other expense included increased costs for other real estate owned, mortgage servicing, litigation and acquisition integration.

Income Tax Expense The provision for income taxes was $100 million (an effective rate of 17.1 percent) for the second quarter and $201 million (an effective rate of 16.3 percent) for the first six months of 2009, compared with $386 million (an effective rate of 28.5 percent) and $862 million (an effective rate of 29.4 percent) for the same periods of 2008. The declines in the effective tax rates in the second quarter and first six months of 2009, compared with the same periods of the prior year, reflected the impact of the decline in pre-tax earnings and the relative level of tax-advantaged investments. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s total loan portfolio was $182.3 billion at June 30, 2009, compared with $185.2 billion at December 31, 2008, a decrease of $2.9 billion (1.6 percent). The decrease was driven primarily by lower commercial loans and covered assets, partially offset by growth in retail loans, residential mortgages and commercial real estate loans. The $3.9 billion (6.9 percent) decrease in commercial loans was primarily driven by lower capital spending and lower utilization of bank credit facilities by business customers, along with improved access to the short-term and long-term bond markets to refinance their bank debt.

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

Residential mortgages held in the loan portfolio increased $.4 billion (1.7 percent) at June 30, 2009, compared with December 31, 2008, reflecting an increase in mortgage banking origination activity as a result of market interest rate declines. Most loans retained in the portfolio are to customers with prime or near-prime credit characteristics at the date of origination.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, increased $1.1 billion (1.8 percent) at June 30, 2009, compared with December 31, 2008. The increase was primarily driven by growth in credit card balances and home equity and second mortgages, partially offset by decreases in student and installment loans and retail leasing balances.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages and student loans to be sold in the secondary market, were $7.4 billion at June 30, 2009, compared with $3.2 billion at December 31, 2008. The increase in loans held for sale was principally due to an increase in mortgage loan origination activity as a result of a decline in rates.

Investment Securities Investment securities, including available-for-sale and held-to-maturity, totaled $40.8 billion at June 30, 2009, compared with $39.5 billion at December 31, 2008. The $1.3 billion increase reflected securities purchases of $6.7 billion and a decrease in unrealized losses, partially offset by sales, maturities, prepayments and securities impairments. At June 30, 2009, adjustable-rate financial instruments comprised 45 percent of the investment securities portfolio, compared with 40 percent at December 31, 2008.

The Company conducts a regular assessment of its investment securities to determine whether any securities are other-than-temporarily impaired. During the first six months of 2009, the Financial Accounting Standards Board issued new accounting guidance, which the Company adopted effective January 1, 2009, for the measurement and recognition of other-than-temporary impairment for debt securities. This guidance requires the portion of other-than-temporary impairment related to factors other than credit losses be recognized in other comprehensive income (loss), rather than earnings. The effect of the adoption of this guidance was not significant.

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

As of June 30, 2009, approximately 1 percent of the available-for-sale securities portfolio consisted of perpetual preferred securities, primarily issued by financial institutions. The net unrealized losses for these securities were $134 million at June 30, 2009, compared to $387 million at December 31, 2008. The decrease was principally a result of impairment charges recognized on these securities during the second quarter and first six months of 2009 of $12 million and $210 million, respectively. Impairment charges recognized for the first six months of 2009 were primarily related to the perpetual preferred stock of a large domestic bank downgraded during the first quarter of 2009.

There is limited market activity for the remaining structured investment security and the non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management s assessment of various market factors, which are judgmental in nature. The Company recorded $76 million and $132 million of impairment charges on non-agency mortgage-backed and structured investment related securities during the second quarter and first six months of 2009, respectively. These impairment charges were due to changes in expected cash flows resulting from the continuing decline in housing prices and an increase in foreclosure activity. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 3 and 12 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $163.9 billion at June 30, 2009, compared with $159.3 billion at December 31, 2008, an increase of $4.6 billion (2.8 percent) that reflected customer flight to quality. The increase in total deposits was primarily the result of increases in money market savings, savings accounts and interest checking balances, partially offset by decreases in noninterest-bearing deposit accounts and time deposits greater than $100,000. Money market savings balances increased $5.6 billion (21.6 percent) due to higher corporate trust, trust and custody, and broker-dealer balances. Savings account balances increased $3.7 billion (40.8 percent) due primarily to strong participation in a new savings

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Table 4 Investment Securities

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

Maturing after five years through ten years								
Maturing after ten years	5,309	4,856	22.3	6.81	16	15	17.4	5.52
Total	$ 6,725	$ 6,250	18.9	6.68%	$ 34	$ 35	10.8	6.39%
Other Debt Securities								
Maturing in one year or less	$	$ 1	.4	8.01%	$ 3	$ 3	.7	1.96%
Maturing after one year through five years	80	56	2.6	5.46	7	7	3.5	2.06
Maturing after five years through ten years	61	45	8.0	6.33				
Maturing after ten years	1,481	986	33.8	4.86				
Total	$ 1,622	$ 1,088	31.3	4.94%	$ 10	$ 10	2.6	2.03%
Other Investments	$ 698	$ 683	8.7	1.93%	$	$		%
Total investment securities (c)	$ 42,431	$ 40,756	7.5	3.96%	$ 49	$ 50	8.5	5.35%

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

(b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.

(c) The weighted-average maturity of the available-for-sale investment securities was 7.7 years at December 31, 2008, with a corresponding weighted-average yield of 4.56 percent. The weighted-average maturity of the held-to-maturity investment securities was 8.5 years at December 31, 2008, with a corresponding weighted-average yield of 5.78 percent.

(d) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

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

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

Borrowings The Company utilizes both short-term and long-term borrowings to fund growth of assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $29.7 billion at June 30, 2009, compared with $34.0 billion at December 31, 2008. The decrease principally reflected reduced borrowing needs as a result of increases in deposits due to customer flight to quality.

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

CORPORATE RISK PROFILE

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

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

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

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

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

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

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

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

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

Note: *Loan-to-values determined on original appraisal value of collateral and the current amortized loan balance, or maximum of current commitment or current balance on lines.*

Within the consumer finance division, at June 30, 2009, approximately $2.7 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent credit rating agencies at loan origination, compared with $2.9 billion at December 31, 2008.

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

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Division
Sub-Prime Borrowers				
Less than or equal to 80%	$ 4	$ 1,056	$ 1,060	10.8%
Over 80% through 90%	6	644	650	6.7
Over 90% through 100%	17	887	904	9.3
Over 100%		73	73	.7
Total	$ 27	$ 2,660	$ 2,687	27.5%
Other Borrowers				
Less than or equal to 80%	$ 1,052	$ 1,920	$ 2,972	30.5%
Over 80% through 90%	662	896	1,558	16.0
Over 90% through 100%	664	1,808	2,472	25.3
Over 100%		68	68	.7

Total	$	2,378	$	4,692	$	7,070	72.5%
Total Consumer Finance	$	2,405	$	7,352	$	9,757	100.0%

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

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

(Dollars in Millions)		Lines		Loans		Total	Percent of Total
Sub-Prime Borrowers							
Less than or equal to 80%	$	29	$	128	$	157	6.4%
Over 80% through 90%		37		119		156	6.3
Over 90% through 100%		2		239		241	9.8
Over 100%		42		82		124	5.0
Total	$	110	$	568	$	678	27.5%
Other Borrowers							
Less than or equal to 80%	$	733	$	72	$	805	32.7%
Over 80% through 90%		327		65		392	15.9
Over 90% through 100%		389		145		534	21.7
Over 100%		23		31		54	2.2
Total	$	1,472	$	313	$	1,785	72.5%
Total Consumer Finance	$	1,582	$	881	$	2,463	100.0%

The total amount of residential mortgage, home equity and second mortgage loans, other than covered assets, to customers that may be defined as sub-prime borrowers represented only 1.3 percent of total assets at June 30, 2009, compared with 1.4 percent at December 31, 2008. Covered assets include $2.7 billion in loans with negative-amortization payment options at June 30, 2009, compared with $3.3 billion at December 31, 2008. The Company s risk on covered assets is limited by loss sharing agreements with the FDIC. Other than covered assets, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

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

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

90 days or more past due **including** nonperforming loans	June 30, 2009	December 31, 2008
Commercial	1.89%	.82%
Commercial real estate	5.05	3.34

Residential mortgages (a)	3.46	2.44
Retail (b)	1.19	.97
Total loans, excluding covered assets	2.48	1.57
Covered assets	14.10	10.74
Total loans	3.15%	2.14%

(a) Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due including nonperforming loans was 10.05 percent at June 30, 2009, and 6.95 percent at December 31, 2008.

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including the guaranteed amounts, the ratio of retail loans 90 days or more past due including nonperforming loans was 1.36 percent at June 30, 2009, and 1.10 percent at December 31, 2008.

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $2.0 billion ($1.2 billion excluding covered assets) at June 30, 2009, compared with $1.6 billion ($967 million excluding covered assets) at December 31, 2008. The increase in 90 day delinquent loans related to covered assets was $210 million. The $278 million increase excluding covered assets reflected stress in residential mortgages, commercial loans, construction loans, credit cards and home equity loans. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 1.12 percent (.72 percent excluding covered assets) at June 30, 2009, compared with .84 percent (.56 percent excluding covered assets) at December 31, 2008. The Company expects delinquencies to continue to increase as difficult economic conditions affect more borrowers within both the consumer and commercial loan portfolios.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Residential mortgages				
30-89 days	$ 552	$ 536	2.30%	2.28%
90 days or more	505	366	2.11	1.55
Nonperforming	324	210	1.35	.89
Total	$ 1,381	$ 1,112	5.76%	4.72%
Retail				
Credit card				
30-89 days	$ 354	$ 369	2.38%	2.73%
90 days or more	352	297	2.37	2.20
Nonperforming	107	67	.72	.49
Total	$ 813	$ 733	5.47%	5.42%
Retail leasing				
30-89 days	$ 42	$ 49	.85%	.95%
90 days or more	5	8	.10	.16
Nonperforming				
Total	$ 47	$ 57	.95%	1.11%
Home equity and second mortgages				
30-89 days	$ 179	$ 170	.92%	.89%
90 days or more	137	106	.71	.55
Nonperforming	27	14	.14	.07
Total	$ 343	$ 290	1.77%	1.51%
Other retail				
30-89 days	$ 243	$ 255	1.09%	1.13%
90 days or more	85	81	.38	.36
Nonperforming	21	11	.10	.05
Total	$ 349	$ 347	1.57%	1.54%

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

	Consumer Finance (a)		Other Retail	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Residential mortgages				

30-89 days	3.75%	3.96%	1.31%	1.06%
90 days or more	2.98	2.61	1.50	.79
Nonperforming	2.29	1.60	.71	.38
Total	9.02%	8.17%	3.52%	2.23%
Retail				
Credit card				
30-89 days	%	%	2.38%	2.73%
90 days or more			2.37	2.20
Nonperforming			.72	.49
Total	%	%	5.47%	5.42%
Retail leasing				
30-89 days	%	%	.85%	.95%
90 days or more			.10	.16
Nonperforming				
Total	%	%	.95%	1.11%
Home equity and second mortgages				
30-89 days	2.52%	3.24%	.69%	.59%
90 days or more	2.07	2.36	.51	.32
Nonperforming	.24	.14	.13	.07
Total	4.83%	5.74%	1.33%	.98%
Other retail				
30-89 days	5.38%	6.91%	.98%	1.00%
90 days or more	1.04	1.98	.36	.32
Nonperforming			.10	.05
Total	6.42%	8.89%	1.44%	1.37%

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

Within the consumer finance division at June 30, 2009, approximately $456 million and $99 million of these delinquent and nonperforming residential mortgages and other retail loans, respectively, were with customers that may be defined as sub-prime borrowers, compared with $467 million and $121 million, respectively, at December 31, 2008.

The following table provides summary delinquency information for covered assets:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Covered assets				
30-89 days	$ 365	$ 740	3.48%	6.46%
90 days or more	797	587	7.60	5.13
Nonperforming	682	643	6.50	5.62
Total	$ 1,844	$ 1,970	17.58%	17.21%

Restructured Loans Accruing Interest In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due. In most cases, the modification is either a reduction in interest rate, extension of the maturity date or a reduction in the principal balance. Restructured loans, except those where the principal balance has been reduced, accrue interest as long as the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Commercial	$ 56	$ 35	.11%	.06%
Commercial real estate	132	138	.39	.42
Residential mortgages	1,289	813	5.38	3.45
Credit card	541	450	3.64	3.33
Other retail	89	73	.19	.16
Total loans	$ 2,107	$ 1,509	1.16%	.81%

Restructured loans, excluding covered assets, were $598 million higher at June 30, 2009, compared with December 31, 2008, reflecting the impact of restructurings for certain residential mortgage and credit card customers in light of current economic conditions. The Company expects this trend to continue as the Company works to modify loans for borrowers who are having financial difficulties.

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

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. At June 30, 2009, total nonperforming assets were $4.0 billion, compared with $2.6 billion at December 31, 2008. Nonperforming assets at June 30, 2009 included $682 million of covered assets, compared with $643 million at December 31, 2008. The ratio of total nonperforming assets to total loans and other real estate was 2.20 percent (1.94 percent excluding covered assets) at June 30, 2009, compared with 1.42 percent (1.14 percent excluding covered assets) at December 31, 2008. The increase in nonperforming assets was driven primarily by the residential construction portfolio and related industries, the residential mortgage and credit card portfolios, an increase in foreclosed residential properties and the impact of the economic slowdown on other commercial customers. Included in nonperforming loans were restructured loans that are not accruing interest of $189 million at June 30, 2009, compared with $151 million at December 31, 2008.

Other real estate, excluding covered assets, was $293 million at June 30, 2009, compared with $190 million at December 31, 2008, and was primarily related to foreclosed properties that previously secured residential mortgages, home equity and second mortgage loan balances. The increase in other real estate assets reflected continuing stress in residential construction and related supplier industries and higher residential mortgage loan foreclosures.

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Table 6 Nonperforming Assets (a)

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

Changes in Nonperforming Assets

Retail and

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

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

(b) Excludes $282 million and $209 million at June 30, 2009, and December 31, 2008, respectively of foreclosed GNMA loans which continue to accrue interest.

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

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

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Residential				
Minnesota	$ 24	$ 18	.44%	.34%
California	19	13	.36	.29
Michigan	12	12	2.42	2.39
Arizona	10	5	.97	.53
Ohio	9	9	.36	.37
All other states	109	88	.38	.30
Total residential	183	145	.42	.34
Commercial	110	45	.33	.14

Total OREO	$ 293	$ 190	.16%	.10%

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

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

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

Analysis of Loan Net Charge-Offs Total net charge-offs were $929 million and $1.7 billion for the second quarter and first six months of 2009, respectively, compared with net charge-offs of $396 million and $689 million for the same periods of 2008. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the second quarter and first six months of 2009 was 2.03 percent and 1.87 percent, respectively, compared with .98 percent and .87 percent, for the same periods of 2008. The year-over-year increases in total net charge-offs were driven by factors affecting the residential housing markets, including homebuilding and related industries, and credit costs associated with credit card and other consumer and commercial loans as the economy weakened. Given current economic conditions and the continuing weakness in home prices, rising unemployment levels and the economy in general, the Company expects net charge-offs will continue to increase for the remainder of 2009, however at a decreasing rate as compared with prior periods.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2009 increased to $353 million (1.61 percent of average loans outstanding on an annualized basis), compared with $87 million (.41 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Commercial and commercial real estate loan net charge-offs for the first six months of 2009 increased to $650 million (1.48 percent of average loans outstanding on an annualized basis), compared with $154 million (.37 percent of average loans outstanding on an annualized basis) for the first six months of 2008. The year-over-year increases in net charge-offs reflected continuing stress in housing, especially residential homebuilding and related industry sectors, along with the impact of the deteriorating economic conditions on the commercial loan portfolios.

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

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

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

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

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

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

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

At June 30, 2009, the allowance for credit losses was $4.6 billion (2.51 percent of total loans and 2.66 percent of loans excluding covered assets), compared with an allowance of $3.6 billion (1.96 percent of total loans and 2.09 percent of loans excluding covered assets) at December 31, 2008. The ratio of the allowance for credit losses to nonperforming loans was 124 percent (152 percent excluding covered assets) at June 30, 2009, compared with 151 percent (206 percent excluding covered assets) at December 31, 2008. The ratio of the allowance for credit losses to annualized loan net charge-offs was 123 percent (both including and excluding covered assets) at June 30, 2009, compared with 200 percent of full year 2008 net charge-offs (201 percent excluding covered assets) at December 31, 2008.

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Table 8 Summary of Allowance for Credit Losses

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

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

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

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

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

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

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. The ALPC policy limits the change in market value of equity in a 200 basis point parallel rate shock to a 15.0 percent decline. The up 200 basis point scenario resulted in a 7.1 percent decrease in the market value of equity at June 30, 2009, compared with a 7.6 percent decrease at December 31, 2008. The down 200 basis point scenario resulted in a 1.5 percent decrease in the market value of equity at June 30, 2009, compared with a 2.8 percent decrease at December 31, 2008.

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. At June 30, 2009, the duration of assets, liabilities and equity was 1.7 years, 1.6 years and 1.9 years, respectively, compared with 1.6 years, 1.7 years and 1.2 years, respectively, at December 31, 2008. Refer to

Sensitivity of Net Interest Income

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

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

Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on market value of equity modeling.

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

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

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

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

Additionally, the Company uses forward commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At June 30, 2009, the Company had $14.3 billion of forward commitments to sell mortgage loans hedging $6.9 billion of mortgage loans held for sale and $10.7 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedge activities, and the Company has elected the fair value option for the mortgage loans held for sale.

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

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

Market Risk Management

In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. These trading activities principally support the risk management processes of the Company s customers including their management of foreign currency and interest rate risks. The Company also manages market risk of non-trading business activities, including its MSRs and loans held-for-sale. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the amount the Company has at risk of loss to adverse market movements over a specified time horizon. The Company measures VaR at the ninety-ninth percentile using distributions derived from past market data. On average, the Company expects the one day VaR to be exceeded two to three times per year. The Company monitors the effectiveness of its risk program by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. As part of its market risk management approach, the Company sets and monitors VaR limits for each trading portfolio. The Company s trading VaR did not exceed $2 million during the first six months of 2009 and $1 million during the first six months of 2008.

Liquidity Risk Management

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

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

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

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately $2.4 billion at June 30, 2009.

Capital Management

The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. On May 7, 2009, the Federal Reserve completed an assessment of the capital adequacy of the nineteen largest domestic bank holding companies. Based on the results of their capital adequacy assessment, the Federal Reserve projected the Company s capital would be sufficient under the Federal Reserve s projected scenarios. Following a $2.7 billion sale of common stock and issuance of $1.0 billion of non-guaranteed medium-term notes, the Company received approval to redeem the $6.6 billion of preferred stock previously issued to the U.S. Department of the Treasury and completed the redemption on June 17, 2009. Subsequently, the Company repurchased the related common stock warrant from the U.S. Department of the Treasury on July 15, 2009, for $139 million.

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

The Company believes certain capital ratios in addition to regulatory capital ratios are useful in evaluating its capital adequacy. The Company s Tier 1 common and tangible common equity, as a percent of risk-weighted assets, was 6.7 percent and 5.7 percent, respectively, at June 30, 2009, compared with 5.1 percent and 3.7 percent, respectively, at December 31, 2008. The Company s tangible common equity divided by tangible assets was 5.1 percent at June 30, 2009, compared with 3.3 percent at December 31, 2008. Refer to Non-GAAP Financial

Table 9 Capital Ratios

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

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

Time Period	Total 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
April	7,903	$	17.80	19,727,341
May	7,441		18.05	19,719,900
June	2,079		17.92	19,717,821
Total	17,423	$	17.92	19,717,821

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company s business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for further discussion on the business lines basis for financial presentation.
Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2009, business line results were restated and presented on a comparable basis for organization and methodology changes to more closely align capital allocation with Basel II requirements and to allocate the provision for credit losses based on net charge-offs and changes in the risks of specific loan portfolios. Previously, the provision in excess of net charge-offs remained in Treasury and Corporate Support, and the other lines of business results included only the portion of the provision for credit losses equal to net charge-offs.

Wholesale Banking Wholesale Banking offers lending, equipment finance and small-ticket leasing, depository, treasury management, capital markets, foreign exchange, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution and public sector clients. Wholesale Banking contributed $107 million of the Company s net income in the second quarter and $126 million in the first six months of 2009, or decreases of $173 million (61.8 percent) and $410 million (76.5 percent), respectively, compared with the same periods of 2008. The decreases were primarily driven by increases in the provision for credit losses and higher noninterest expense, partially offset by higher net revenue.
Total net revenue increased $61 million (8.6 percent) in the second quarter and $135 million (9.7 percent) in the first six months of 2009, compared with the same periods of 2008. Net interest income, on a taxable-equivalent basis,

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

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

Table 10 Line of Business Financial Performance

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

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

Six Months Ended June 30 (Dollars in Millions)	Wholesale Banking 2009	2008	Percent Change	Consumer Banking 2009	2008	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 1,069	$ 964	10.9%	$ 1,994	$ 1,886	5.7%
Noninterest income	457	435	5.1	1,453	1,166	24.6
Securities gains (losses), net	(3)	(11)	72.7			
Total net revenue	1,523	1,388	9.7	3,447	3,052	12.9
Noninterest expense	534	516	3.5	1,805	1,546	16.8
Other intangibles	12	7	71.4	47	29	62.1
Total noninterest expense	546	523	4.4	1,852	1,575	17.6
Income before provision and income taxes	977	865	12.9	1,595	1,477	8.0
Provision for credit losses	781	22	*	994	600	65.7
Income before income taxes	196	843	(76.7)	601	877	(31.5)
Income taxes and taxable-equivalent adjustment	71	307	(76.9)	219	319	(31.3)
Net income	125	536	(76.7)	382	558	(31.5)
Net (income) loss attributable to noncontrolling interests	1		*			
Net income attributable to U.S. Bancorp	$ 126	$ 536	(76.5)	$ 382	$ 558	(31.5)
Average Balance Sheet						
Commercial	$ 42,052	$ 39,149	7.4%	$ 6,342	$ 6,761	(6.2)%
Commercial real estate	21,346	18,116	17.8	11,595	11,296	2.6
Residential mortgages	85	86	(1.2)	23,453	22,661	3.5
Retail	65	75	(13.3)	44,424	39,186	13.4
Total loans, excluding covered assets	63,548	57,426	10.7	85,814	79,904	7.4
Covered assets				11,022		*
Total loans	63,548	57,426	10.7	96,836	79,904	21.2

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

* *Not meaningful*

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th Management & curities Services		Payment Services			Treasury and Corporate Support			Consolidated Company		
2008	Percent Change	2009	2008	Percent Change	2009	2008	Percent Change	2009	2008	Perc Char
$ 99	(16.2)%	$ 281	$ 241	16.6%	$ 216	$ 149	45.0%	$ 2,104	$ 1,908	10
352	(14.8)	723	762	(5.1)	18	18		2,074	1,955	6
					(19)	(53)	64.2	(19)	(63)	69
451	(15.1)	1,004	1,003	.1	215	114	88.6	4,159	3,800	9
235	(8.1)	348	341	2.1	271	104	*	2,034	1,731	17
19	(10.5)	48	49	(2.0)				95	87	9
254	(8.3)	396	390	1.5	271	104	*	2,129	1,818	17
197	(23.9)	608	613	(.8)	(56)	10	*	2,030	1,982	2
2	*	501	217	*				1,395	596	
195	(25.6)	107	396	(73.0)	(56)	10	*	635	1,386	(54
71	(25.4)	39	144	(72.9)	(102)	(81)	(25.9)	150	419	(64
124	(25.8)	68	252	(73.0)	46	91	(49.5)	485	967	(49
		(6)	(6)		(8)	(10)	20.0	(14)	(17)	17
$ 124	(25.8)	$ 62	$ 246	(74.8)	$ 38	$ 81	(53.1)	$ 471	$ 950	(50
$ 1,725	(30.1)%	$ 4,500	$ 4,577	(1.7)%	$ 974	$ 1,098	(11.3)%	$ 54,059	$ 53,979	
539	8.9				31	41	(24.4)	33,727	30,473	10
402	(1.7)				3	3		23,964	23,307	2
1,545	5.8	15,414	12,551	22.8	31	35	(11.4)	61,427	55,311	1
4,211	(9.2)	19,914	17,128	16.3	1,039	1,177	(11.7)	173,177	163,070	6