US BANCORP \DE\
Form 10-Q
August 06, 2010

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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, 2010

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. (Check one):

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, 2010
Common Stock, $.01 Par Value	1,917,160,774 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 and are based on the information available to, and assumptions and estimates made by, management as of the date made. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance is likely to be impacted by effects of recently enacted and future legislation and regulation. U.S. Bancorp s results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk and liquidity risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2009, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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Table 1 Selected Financial Data

	Three Months Ended June 30,			Six Months Ended June 30,	
d Shares in Millions, Except Per Share Data)	2010	2009	Percent Change	2010	2009
d Income Statement					
t income (taxable-equivalent basis) (a)	$2,409	$2,104	14.5%	$ 4,812	$ 4,199
t income	2,131	2,074	2.7	4,083	4,060
gains (losses), net	(21)	(19)	(10.5)	(55)	(217)
evenue	4,519	4,159	8.7	8,840	8,042
t expense	2,377	2,129	11.6	4,513	4,000
or credit losses	1,139	1,395	(18.4)	2,449	2,713
fore taxes	1,003	635	58.0	1,878	1,329
uivalent adjustment	52	50	4.0	103	98
income taxes	199	100	99.0	360	201
e	752	485	55.1	1,415	1,030
e) loss attributable to noncontrolling interests	14	(14)	*	20	(30)
e attributable to U.S. Bancorp	$766	$471	62.6	$ 1,435	$ 1,000
e applicable to U.S. Bancorp common rs	$862	$221	*	$ 1,510	$ 640
non Share					
er share	$.45	$.12	*%	$ .79	$ .36
nings per share	.45	.12	*	.79	.36
declared per share	.05	.05		.10	.10
e per share	13.69	11.86	15.4		
ue per share	22.35	17.92	24.7		
ommon shares outstanding	1,912	1,833	4.3	1,911	1,794
luted common shares outstanding	1,921	1,840	4.4	1,920	1,801
Ratios					
average assets	1.09%	.71%		1.03%	.76%
average common equity	13.4	4.2		12.0	6.4
t margin (taxable-equivalent basis) (a)	3.90	3.60		3.90	3.59
ratio (b)	52.4	51.0		50.7	48.4
alances					
	$191,161	$183,878	4.0%	$ 192,015	$ 184,786
for sale	4,048	6,092	(33.6)	3,990	5,644
securities	47,140	42,189	11.7	46,678	42,255
sets	247,446	234,265	5.6	248,133	234,786
	281,340	266,107	5.7	281,530	266,171
t-bearing deposits	39,917	37,388	6.8	38,964	36,707

	183,318	163,220	12.3	182,927	161,880
borrowings	32,286	27,638	16.8	32,418	29,915
debt	30,242	38,768	(22.0)	31,343	38,279
Bancorp shareholders equity	27,419	28,202	(2.8)	26,919	27,514

	June 30, 2010	December 31, 2009	
d Balances			
	$191,584	$194,755	(1.6)%
for credit losses	5,536	5,264	5.2
securities	48,367	44,768	8.0
	283,243	281,176	.7
	183,123	183,242	(.1)
debt	29,137	32,580	(10.6)
Bancorp shareholders equity	28,169	25,963	8.5
os			
al	10.1%	9.6%	
based capital	13.4	12.9	
	8.8	8.5	
mon equity to risk-weighted assets (c)	7.4	6.8	
ommon equity to tangible assets (c)	6.0	5.3	
ommon equity to risk-weighted assets (c)	6.9	6.1	

* *Not meaningful.*

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

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

(c) *See Non-Regulatory Capital Ratios beginning 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 $766 million for the second quarter of 2010 or $.45 per diluted common share, compared with $471 million, or $.12 per diluted common share for the second quarter of 2009. Return on average assets and return on average common equity were 1.09 percent and 13.4 percent, respectively, for the second quarter of 2010, compared with .71 percent and 4.2 percent, respectively, for the second quarter of 2009. Diluted earnings per common share for the second quarter of 2010 included a non-recurring $.05 benefit related to an exchange of newly issued perpetual preferred stock for outstanding income trust securities (ITS exchange), net of related debt extinguishment costs. Also impacting the second quarter of 2010 were $25 million of provision for credit losses in excess of net charge-offs, net securities losses of $21 million and a $28 million gain related to the Company s investment in Visa Inc. The second quarter of 2009 included $466 million of provision for credit losses in excess of net charge-offs, net securities losses of $19 million, a $123 million accrual for a Federal Deposit Insurance Corporation (FDIC) special assessment and a reduction to earnings per share from recognition of $154 million of unaccreted preferred stock discount as a result of the redemption of preferred stock previously issued to the U.S. Department of the Treasury.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2010 was $360 million (8.7 percent) higher than the second quarter of 2009, reflecting a 14.5 percent increase in net interest income and a 2.7 percent increase in total noninterest income. The increase in net interest income over a year ago was largely the result of continued growth in lower cost core deposit funding and an increase in average earning assets, primarily related to acquisitions. Noninterest income increased over a year ago as a result of higher payments-related and commercial products revenue and other income.

Total noninterest expense in the second quarter of 2010 was $248 million (11.6 percent) higher than the second quarter of 2009, primarily due to the impact of acquisitions, higher compensation and employee benefits expense and costs related to investments in affordable housing and other tax-advantaged projects, partially offset by lower FDIC deposit insurance expense due to the FDIC special assessment in the second quarter of the prior year.

The provision for credit losses for the second quarter of 2010 was $1.1 billion, or $256 million (18.4 percent) lower than the second quarter of 2009. The provision for credit losses exceeded net charge-offs by $25 million in the second quarter of 2010, compared with $466 million in the second quarter of 2009. Net charge-offs in the second quarter of 2010 were $1.1 billion, compared with net charge-offs of $929 million in the second quarter of 2009. 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 $1.4 billion for the first six months of 2010 or $.79 per diluted common share, compared with $1.0 billion, or $.36 per diluted common share for the first six months of 2009. Return on average assets and return on average common equity were 1.03 percent and 12.0 percent, respectively, for the first six months of 2010, compared with .76 percent and 6.4 percent, respectively, for the first six months of 2009. The Company s results for the first six months of 2010 reflected $200 million of provision for credit losses in excess of net charge-offs, $55 million of net securities losses and a $28 million gain related to the Company s investment in Visa Inc. The first six months of 2009 included $996 million of provision for credit losses in excess of net charge-offs, $217 million of net securities losses, the $123 million FDIC special assessment, the $154 million preferred stock discount recognition and a $92 million gain from a corporate real estate transaction.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2010 was $798 million (9.9 percent) higher than the first six months of 2009, reflecting a 14.6 percent increase in net interest income and a 4.8 percent increase in total noninterest income. The increase in net interest income over a year ago was largely the result of continued growth in lower cost core deposit funding and an increase in average earning assets. Noninterest income increased over a year ago, principally due to higher payments-related and commercial products revenue and a decrease in net securities losses, partially offset by lower mortgage banking revenue and other service charges.

Total noninterest expense in the first six months of 2010 was $513 million (12.8 percent) higher than the first six months of 2009, primarily due to the impact of acquisitions, higher compensation and employee benefits expense and costs related to investments in affordable housing and other tax-advantaged projects, partially offset by lower FDIC deposit insurance expense due to the special assessment in the second quarter of 2009.

The provision for credit losses for the first six months of 2010 was $2.4 billion, or $264 million (9.7 percent) lower than the first six months of 2009. The provision for credit losses exceeded net charge-offs by $200 million in the first six months of 2010, compared with $996 million in the first six months of 2009. Net charge-offs in the first six months of 2010 were $2.2 billion, compared with net charge-offs of $1.7 billion in the first six months of 2009. 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 $2.4 billion in the second quarter of 2010, compared with $2.1 billion in the second quarter of 2009. Net interest income, on a taxable-equivalent basis, was $4.8 billion in the first six months of 2010, compared with $4.2 billion in the first six months of 2009. The increases were primarily the result of continued growth in lower cost core deposit funding, increases in average earning assets and a higher net interest margin. Average deposits increased $20.1 billion (12.3 percent) in the second quarter and $21.0 billion (13.0 percent) in the first six months of 2010, compared with the same periods of 2009. Average earning assets were $13.2 billion (5.6 percent) higher in the second quarter and $13.3 billion (5.7 percent) higher in the first six months of 2010, compared with the same periods of 2009, driven by increases in average loans and investment securities. The net interest margin in the second quarter and first six months of 2010 was 3.90 percent, compared with 3.60 percent in the second quarter of 2009 and 3.59 percent in the first six months of 2009. The increases in net interest margin were principally due to the impact of favorable funding rates as a result of the increase in deposits and improved credit spreads. 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 2010 were $7.3 billion (4.0 percent) and $7.2 billion (3.9 percent) higher, respectively, than the same periods of 2009, driven by growth in residential mortgages, retail loans, commercial real estate loans and acquired loans covered by loss sharing agreements with the FDIC, partially offset by a decline in commercial loans which was principally the result of lower utilization by customers of available commitments. Residential mortgage growth reflected an increase in activity throughout most of 2009 as a result of market interest rate declines, including an increase in government agency-guaranteed mortgages. Average retail loans increased year-over-year, driven by increases in credit card, home equity and other retail (primarily auto) loans. Average credit card balances for the second quarter and first six months of 2010 were $2.0 billion (14.0 percent) and $2.4 billion (17.1 percent) higher, respectively, than the same periods of 2009, reflecting growth in existing portfolios and portfolio purchases of $1.6 billion during 2009 and $.5 billion in the second quarter of 2010. Growth in average commercial real estate balances reflected the impact of new business activity, partially offset by customer debt deleveraging. Assets acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered assets or covered loans) relate to the fourth quarter 2008 acquisitions of the banking operations of Downey Savings and Loan Association, F.A. and PFF Bank and Trust (Downey and PFF , respectively) and the fourth quarter 2009 acquisition of the banking operations of First Bank of Oak Park Corporation (FBOP). Average covered loans were $20.5 billion and $20.9 billion in the second quarter and first six months of 2010, respectively, compared with $10.7 billion and $11.0 billion in the same periods of 2009, respectively.

Average investment securities in the second quarter and first six months of 2010 were $5.0 billion (11.7 percent) and $4.4 billion (10.5 percent) higher, respectively, than the same periods of 2009, primarily due to purchases of U.S. government agency-related securities and the consolidation of $.6 billion of held-to-maturity securities held in a variable interest entity (VIE) due to the adoption of new authoritative accounting guidance effective January 1, 2010. As a result, the composition of the Company s investment portfolio shifted to a larger concentration in agency mortgage-backed securities, compared with a year ago.

Average total deposits for the second quarter and first six months of 2010 were $20.1 billion (12.3 percent) and $21.0 billion (13.0 percent) higher, respectively, than the same periods of 2009. Excluding deposits from acquisitions, second quarter 2010 average total deposits increased $6.7 billion (4.1 percent) over the second quarter of 2009. Average noninterest-bearing

Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Percent Change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Percent Change
Credit and debit card revenue	$ 266	$ 259	2.7%	$ 524	$ 515	1.7%
Corporate payment products revenue	178	168	6.0	346	322	7.5
Merchant processing services	320	278	15.1	612	536	14.2
ATM processing services	108	104	3.8	213	206	3.4
Trust and investment management fees	267	304	(12.2)	531	598	(11.2)
Deposit service charges	199	250	(20.4)	406	476	(14.7)
Treasury management fees	145	142	2.1	282	279	1.1
Commercial products revenue	205	144	42.4	366	273	34.1
Mortgage banking revenue	243	308	(21.1)	443	541	(18.1)
Investment products fees and commissions	30	27	11.1	55	55	
Securities gains (losses), net	(21)	(19)	(10.5)	(55)	(217)	74.7
Other	170	90	88.9	305	259	17.8
Total noninterest income	$ 2,110	$ 2,055	2.7%	$ 4,028	$ 3,843	4.8%

deposits for the second quarter and first six months of 2010 were $2.5 billion (6.8 percent) and $2.3 billion (6.1 percent) higher, respectively, than the same periods of 2009, primarily due to growth in corporate and institutional trust balances, higher Consumer and Wholesale Banking business line balances and the impact of acquisitions. Average total savings deposits were $22.9 billion (29.7 percent) higher in the second quarter and $25.7 billion (34.9 percent) higher in the first six months of 2010, compared with the same periods of 2009, the result of growth in Consumer Banking, broker-dealer, institutional and corporate trust balances, and the impact of acquisitions. Average time certificates of deposit less than $100,000 were lower in the second quarter and first six months of 2010 by $988 million (5.5 percent) and $396 million (2.2 percent), respectively, compared with the same periods in 2009, as decreases in Consumer Banking balances, reflecting the Company s funding and pricing decisions, were partially offset by acquisition-related growth. Average time deposits greater than $100,000 were $4.3 billion (13.9 percent) and $6.5 billion (19.5 percent) lower in the second quarter and first six months of 2010, respectively, compared with the same periods of 2009, reflecting a decrease in overall wholesale funding requirements, partially offset by the impact of acquisitions.

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2010 decreased $256 million (18.4 percent) and $264 million (9.7 percent), respectively, from the same periods of 2009. Net charge-offs increased $185 million (19.9 percent) and $532 million (31.0 percent) in the second quarter and first six months of 2010, respectively, compared with the same periods of 2009, as borrowers impacted by weak economic conditions and real estate markets defaulted on loans. Overall, however, the loan portfolio experienced decreases in delinquencies in all major loan categories in the second quarter of 2010, compared to the first quarter of 2010. The Company recorded provision for credit losses in excess of net charge-offs of $25 million in the second quarter and $200 million in the first six months of 2010, compared with $466 million in the second quarter and $996 million in the first six months of 2009. 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 2010 was $2.1 billion and $4.0 billion, respectively, compared with $2.1 billion and $3.8 billion in the same periods of 2009. The $55 million (2.7 percent) increase during the second quarter and $185 million (4.8 percent) increase during the first six months of 2010, compared with the same periods of 2009, were due to higher payments-related income, due to increased volumes, and increases in commercial products revenue attributable to higher standby letters of credit fees, commercial loan fees and syndication revenue. In addition, noninterest income for the first six months of 2010 also increased over the same period of the prior year due to a favorable variance in net securities losses of $162 million. Trust and investment management fees declined as low interest rates negatively impacted money market investment fees and lower money market fund balances led to a decline in account-level fees. Deposit service charges decreased as a result of Company-initiated revisions to overdraft fee policies and lower overdraft incidences. Mortgage banking revenue declined principally due to lower loan

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Table 3 Noninterest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in Millions)	2010	2009	Percent Change	2010	2009	Percent Change
Compensation	$ 946	$ 764	23.8%	$ 1,807	$ 1,550	16.6%
Employee benefits	172	140	22.9	352	295	19.3
Net occupancy and equipment	226	208	8.7	453	419	8.1
Professional services	73	59	23.7	131	111	18.0
Marketing and business development	86	80	7.5	146	136	7.4
Technology and communications	186	157	18.5	371	312	18.9
Postage, printing and supplies	75	72	4.2	149	146	2.1
Other intangibles	91	95	(4.2)	188	186	1.1
Other	522	554	(5.8)	916	845	8.4
Total noninterest expense	$ 2,377	$ 2,129	11.6%	$ 4,513	$ 4,000	12.8%
Efficiency ratio (a)	52.4%	51.0%		50.7%	48.4%	

(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.

production, partially offset by higher servicing income and favorable net changes in the valuation of mortgage servicing rights (MSRs) and related economic hedging activities. Other income increased in the second quarter and first six months of 2010, compared with the same periods of 2009, primarily due to the $28 million gain related to the Company s investment in Visa Inc., lower retail lease residual valuation losses and improved equity investment income over the prior year. The increases in other income for the first six months of 2010, compared with the first six months of 2009, were partially offset by the $92 million gain on a corporate real estate transaction that occurred in the first quarter of 2009.

Noninterest Expense Noninterest expense was $2.4 billion in the second quarter and $4.5 billion in the first six months of 2010, compared with $2.1 billion in the second quarter and $4.0 billion in the first six months of 2009, or increases of $248 million (11.6 percent) and $513 million (12.8 percent), respectively. The increases in noninterest expense from a year ago were principally due to acquisitions, increased compensation and employee benefits expense, and higher costs related to investments in affordable housing and other tax-advantaged projects. Compensation and employee benefits expense increased reflecting acquisitions, ending a five percent cost reduction program that was in effect during the second quarter of 2009, higher incentives costs related to improved financial results, merit increases, and increased pension costs associated with previous declines in the value of pension assets. Net occupancy and equipment expense and professional services expense increased principally due to acquisitions and other business initiatives. Technology and communications expense increased as a result of payments-related initiatives and acquisitions. Other expense decreased in the second quarter and increased in the first six months of 2010, compared with the same periods of 2009, reflecting the net effect of the $123 million FDIC special assessment recorded in the second quarter of 2009, offset by higher costs related to investments in affordable housing and other tax-advantaged projects which benefit the Company s income tax expense, higher merchant processing expense, increased other real estate owned (OREO) costs and debt extinguishment expense associated with the ITS exchange.

Income Tax Expense The provision for income taxes was $199 million (an effective rate of 20.9 percent) for the second quarter and $360 million (an effective rate of 20.3 percent) for the first six months of 2010, compared with $100 million (an effective rate of 17.1 percent) and $201 million (an effective rate of 16.3 percent) for the same periods of 2009. The increases in the effective tax rate for the second quarter and first six months of 2010, compared with the same periods of the prior year, primarily reflected the marginal impact of higher pre-tax earnings year-over-year. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s total loan portfolio was $191.6 billion at June 30, 2010, compared with $194.8 billion at December 31, 2009, a decrease of $3.2 billion (1.6 percent). The decrease was driven primarily by lower commercial and covered loans, partially offset by higher residential mortgages. The $2.0 billion (4.2 percent) decrease in commercial loans was primarily driven by lower capital spending and uncertain economic conditions decreasing utilization of existing commitments by business customers. The decrease was also due to the consolidation of a VIE and the elimination of a related loan balance, the result of the adoption of new authoritative accounting guidance effective January 1, 2010.

Commercial real estate loans decreased $149 million (.4 percent) at June 30, 2010, compared with December 31, 2009, reflecting customer debt deleveraging, partially offset by the impact of new business activity.

Residential mortgages held in the loan portfolio increased $1.2 billion (4.6 percent) at June 30, 2010, compared with December 31, 2009. 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, decreased $316 million (.5 percent) at June 30, 2010, compared with December 31, 2009. The decrease was primarily driven by lower student loans and retail leasing balances, partially offset by higher installment loans.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages, were $4.9 billion at June 30, 2010, compared with $4.8 billion at December 31, 2009, as residential mortgage production volume was similar in the second quarter of 2010 to the fourth quarter of 2009.

Investment Securities Investment securities totaled $48.4 billion at June 30, 2010, compared with $44.8 billion at December 31, 2009. The $3.6 billion (8.0 percent) increase reflected $2.1 billion of net investment purchases, the consolidation of $.6 billion of held-to-maturity securities held in a VIE due to the adoption of new authoritative accounting guidance effective January 1, 2010, and a $.9 billion favorable change in net unrealized gains (losses) on available-for-sale securities.

The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. At June 30, 2010, the Company s net unrealized gain on available-for-sale securities was $226 million, compared with a net unrealized loss of $635 million at December 31, 2009. The favorable change in net unrealized gains (losses) was primarily due to increases in the fair value of agency mortgage-backed securities. Unrealized losses on securities in an unrealized loss position totaled $948 million at June 30, 2010, compared with $1.3 billion at December 31, 2009. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying collateral or assets and market conditions. At June 30, 2010, the Company had no plans to sell securities with unrealized losses and believes it is more likely than not it would not be required to sell such securities before recovery of their amortized cost.

There is limited market activity for structured investment related and non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management s assessment of various other market factors, which are judgmental in nature. The Company recorded $21 million and $67 million of impairment charges in earnings during the second quarter and first six months of 2010, respectively, predominately on non-agency mortgage-backed and structured investment related securities. These impairment charges were due to changes in expected cash flows resulting from increases in defaults in the underlying mortgage pools and regulatory actions in the first quarter of 2010 related to an insurer of some of the securities. 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 $183.1 billion at June 30, 2010, compared with $183.2 billion at December 31, 2009, the result of increases in savings accounts and noninterest-bearing deposit balances, offset by decreases in time certificates of deposit, money market savings and interest checking balances. Savings account balances increased $4.1 billion (24.2 percent) primarily due to continued strong participation in a savings product offered by Consumer Banking beginning in 2008. Noninterest-bearing deposits increased $3.5 billion (9.1 percent) primarily due to increases in corporate and commercial banking, and corporate trust balances. Money market savings balances decreased $2.8 billion (7.0 percent), reflecting the Company s deposit pricing decisions in relation to other funding sources. Interest checking balances decreased $861 million (2.2 percent) due to lower Consumer Banking balances.

Time certificates of deposit less than $100,000 decreased $2.5 billion (13.2 percent), and time deposits greater than $100,000 decreased $1.5 billion (5.0 percent), reflecting the Company s funding and pricing decisions. Time deposits greater than $100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing.

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Table 4 Investment Securities

	Available-for-Sale				Held-to-Maturity			
June 30, 2010 (Dollars in Millions)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 1,420	$ 1,428	.1	2.29%	$	$		%
Maturing after one year through five years	427	431	1.2	2.44				
Maturing after five years through ten years	35	37	7.3	4.78				
Maturing after ten years	651	651	13.7	2.16	63	63	11.5	1.78
Total	$ 2,533	$ 2,547	3.9	2.31%	$ 63	$ 63	11.5	1.78%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 2,465	$ 2,461	.7	1.86%	$	$		%
Maturing after one year through five years	26,879	27,700	3.3	3.47	14	9	2.6	2.02
Maturing after five years through ten years	4,855	4,687	6.1	2.94	4	3	6.1	.84
Maturing after ten years	848	706	11.7	2.05				
Total	$ 35,047	$ 35,554	3.7	3.25%	$ 18	$ 12	3.3	1.78%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$ 3	.5	11.64%	$ 147	$ 136	.6	.77%
Maturing after one year through five years	367	366	2.8	8.76	97	95	2.9	.95
Maturing after five years through ten years	300	312	7.3	4.06	78	69	7.4	.99
Maturing after ten years	398	400	10.3	2.22	18	11	19.9	.95
Total	$ 1,065	$ 1,081	6.9	5.00%	$ 340	$ 311	3.8	.88%
Obligations of State and Political Subdivisions (b)								
Maturing in one year or less	$ 128	$ 129	.3	1.27%	$ 2	$ 1	.4	7.88%
Maturing after one year through five years	779	784	4.4	6.75	5	6	3.7	7.97
	4,412	4,409	6.4	6.77	8	9	6.5	6.85

Maturing after five years through ten years								
Maturing after ten years	1,542	1,462	21.5	6.91	15	14	16.6	5.54
Total	$ 6,861	$ 6,784	9.4	6.70%	$ 30	$ 30	10.9	6.43%
Other Debt Securities								
Maturing in one year or less	$ 6	$ 6	.4	.89%	$ 2	$ 2	.3	.84%
Maturing after one year through five years	67	54	1.9	6.36	16	12	3.0	1.17
Maturing after five years through ten years	31	28	7.3	6.33	88	71	7.6	1.41
Maturing after ten years	1,402	1,129	32.1	4.36	33	18	10.3	1.11
Total	$ 1,506	$ 1,217	30.1	4.48%	$ 139	$ 103	7.6	1.31%
Other Investments	$ 539	$ 594	13.3	3.50%	$	$		%
Total investment securities (c)	$ 47,551	$ 47,777	5.5	3.78%	$ 590	$ 519	5.9	1.38%

(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 7.1 years at December 31, 2009, with a corresponding weighted-average yield of 4.00 percent. The weighted-average maturity of the held-to-maturity investment securities was 8.4 years at December 31, 2009, with a corresponding weighted-average yield of 5.10 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, 2010		December 31, 2009	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 2,596	5.4%	$ 3,415	7.5%
Mortgage-backed securities	35,065	72.9	32,289	71.1
Asset-backed securities	1,405	2.9	559	1.2
Obligations of state and political subdivisions	6,891	14.3	6,854	15.1
Other debt securities and investments	2,184	4.5	2,286	5.1
Total investment securities	$ 48,141	100.0%	$ 45,403	100.0%

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 $33.8 billion at June 30, 2010, compared with $31.3 billion at December 31, 2009. The $2.5 billion (7.9 percent) increase in short-term borrowings reflected wholesale funding associated with the Company s asset growth and asset/liability management activities.

Long-term debt was $29.1 billion at June 30, 2010, compared with $32.6 billion at December 31, 2009, reflecting a $2.6 billion net decrease in Federal Home Loan Bank advances, $4.0 billion of medium-term note maturities and repayments and the extinguishment of $.6 billion of junior subordinated debentures in connection with the ITS exchange, partially offset by $2.3 billion of medium-term note and subordinated debt issuances and the consolidation of $1.7 billion of long-term debt related to certain VIEs at June 30, 2010. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

Overview

Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, residual value, operational, interest rate, market and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Operational risk includes risks related to fraud, legal and compliance 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 and derivatives that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. In addition, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company s stock value, customer base, funding sources or revenue.

Credit Risk Management

The Company s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors, such as changes in unemployment rates, gross domestic product and consumer bankruptcy filings. Refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and concentrations. As part of its normal business activities, the Company offers a broad array of 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, 2010 (excluding covered loans):

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Consumer Finance				
Less than or equal to 80%	$ 1,304	$ 3,967	$ 5,271	49.9%
Over 80% through 90%	556	1,911	2,467	23.4
Over 90% through 100%	519	2,154	2,673	25.3
Over 100%		149	149	1.4
Total	$ 2,379	$ 8,181	$ 10,560	100.0%
Other Retail				
Less than or equal to 80%	$ 1,986	$ 13,335	$ 15,321	91.8%
Over 80% through 90%	65	590	655	3.9
Over 90% through 100%	85	631	716	4.3
Over 100%				
Total	$ 2,136	$ 14,556	$ 16,692	100.0%
Total Company				
Less than or equal to 80%	$ 3,290	$ 17,302	$ 20,592	75.6%
Over 80% through 90%	621	2,501	3,122	11.5
Over 90% through 100%	604	2,785	3,389	12.4
Over 100%		149	149	.5
Total	$ 4,515	$ 22,737	$ 27,252	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%	$ 911	$ 206	$ 1,117	45.5%
Over 80% through 90%	415	163	578	23.6
Over 90% through 100%	348	274	622	25.4
Over 100%	56	80	136	5.5
Total	$ 1,730	$ 723	$ 2,453	100.0%
Other Retail				
Less than or equal to 80%	$ 11,769	$ 1,428	$ 13,197	78.2%
Over 80% through 90%	1,985	499	2,484	14.7
Over 90% through 100%	709	408	1,117	6.6
Over 100%	51	24	75	.5
Total	$ 14,514	$ 2,359	$ 16,873	100.0%

Total Company				
Less than or equal to 80%	$ 12,680	$ 1,634	$ 14,314	74.1%
Over 80% through 90%	2,400	662	3,062	15.8
Over 90% through 100%	1,057	682	1,739	9.0
Over 100%	107	104	211	1.1
Total	$ 16,244	$ 3,082	$ 19,326	100.0%

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

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

Within the consumer finance division, at June 30, 2010, approximately $2.3 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 $2.5 billion at December 31, 2009.

The following table provides further information on the loan-to-values of residential mortgages specifically for the consumer finance division at June 30, 2010:

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Division
Sub-Prime Borrowers				
Less than or equal to 80%	$ 6	$ 1,012	$ 1,018	9.7%
Over 80% through 90%	3	529	532	5.0
Over 90% through 100%	14	697	711	6.7
Over 100%		60	60	.6
Total	$ 23	$ 2,298	$ 2,321	22.0%
Other Borrowers				
Less than or equal to 80%	$ 1,298	$ 2,955	$ 4,253	40.3%
Over 80% through 90%	553	1,382	1,935	18.3
Over 90% through 100%	505	1,457	1,962	18.6
Over 100%		89	89	.8
Total	$ 2,356	$ 5,883	$ 8,239	78.0%
Total Consumer Finance	$ 2,379	$ 8,181	$ 10,560	100.0%

In addition to residential mortgages, at June 30, 2010, the consumer finance division had $.6 billion of home equity and second mortgage loans to customers that may be defined as sub-prime borrowers, unchanged from December 31, 2009.

The following table provides further information on the loan-to-values of home equity and second mortgages specifically for the consumer finance division at June 30, 2010:

(Dollars in Millions)	Lines	Loans	Total	Percent of Total

Sub-Prime Borrowers				
Less than or equal to 80%	$ 38	$ 121	$ 159	6.5%
Over 80% through 90%	43	98	141	5.7
Over 90% through 100%	6	167	173	7.1
Over 100%	36	62	98	4.0
Total	$ 123	$ 448	$ 571	23.3%
Other Borrowers				
Less than or equal to 80%	$ 873	$ 85	$ 958	39.1%
Over 80% through 90%	372	65	437	17.8
Over 90% through 100%	342	107	449	18.3
Over 100%	20	18	38	1.5
Total	$ 1,607	$ 275	$ 1,882	76.7%
Total Consumer Finance	$ 1,730	$ 723	$ 2,453	100.0%

The total amount of residential mortgage, home equity and second mortgage loans, other than covered loans, to customers that may be defined as sub-prime borrowers represented only 1.0 percent of total assets at June 30, 2010, compared with 1.1 percent at December 31, 2009. Covered loans include $1.8 billion in loans with negative-amortization payment options at June 30, 2010, compared with $2.2 billion at December 31, 2009. Other than covered loans, 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, 2010	December 31, 2009
Commercial		
Commercial	.24%	.25%
Lease financing	.03	
Total commercial	.21	.22
Commercial Real Estate		
Commercial mortgages	.11	
Construction and development	.04	.07
Total commercial real estate	.09	.02
Residential Mortgages	1.85	2.80
Retail		
Credit card	2.38	2.59
Retail leasing	.05	.11
Other retail	.48	.57
Total retail	.95	1.07
Total loans, excluding covered loans	.72	.88
Covered Loans	4.91	3.59
Total loans	1.16%	1.19%

90 days or more past due **including** nonperforming loans	June 30, 2010	December 31, 2009
Commercial	1.89%	2.25%
Commercial real estate	4.84	5.22
Residential mortgages (a)	4.08	4.59
Retail (b)	1.32	1.39
Total loans, excluding covered loans	2.61	2.87
Covered loans	11.72	9.76
Total loans	3.56%	3.64%

(a) Delinquent loan ratios exclude loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or

more past due including nonperforming loans was 12.67 percent at June 30, 2010, and 12.86 percent at December 31, 2009.

(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 1.53 percent at June 30, 2010, and 1.57 percent at December 31, 2009.

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 $2.2 billion ($1.2 billion excluding covered loans) at June 30, 2010, compared with $2.3 billion ($1.5 billion excluding covered loans) at December 31, 2009. The $286 million decrease, excluding covered loans, reflected a moderation in the level of stress in economic conditions in the first six months of 2010. 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 1.16 percent (.72 percent excluding covered loans) at June 30, 2010, compared with 1.19 percent (.88 percent excluding covered loans) at December 31, 2009.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Residential mortgages				
30-89 days	$ 477	$ 615	1.75%	2.36%
90 days or more	504	729	1.85	2.80
Nonperforming	607	467	2.23	1.79
Total	$ 1,588	$ 1,811	5.83%	6.95%
Retail				
Credit card				
30-89 days	$ 311	$ 400	1.86%	2.38%
90 days or more	399	435	2.38	2.59
Nonperforming	175	142	1.04	.84
Total	$ 885	$ 977	5.28%	5.81%
Retail leasing				
30-89 days	$ 20	$ 34	.46%	.74%
90 days or more	2	5	.05	.11
Nonperforming				
Total	$ 22	$ 39	.51%	.85%
Home equity and second mortgages				
30-89 days	$ 172	$ 181	.89%	.93%
90 days or more	131	152	.68	.78
Nonperforming	31	32	.16	.17
Total	$ 334	$ 365	1.73%	1.88%
Other retail				
30-89 days	$ 198	$ 256	.85%	1.10%
90 days or more	73	92	.32	.40
Nonperforming	31	30	.13	.13
Total	$ 302	$ 378	1.30%	1.63%

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

	Consumer Finance (a)		Other Retail	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009

Residential mortgages				
30-89 days	2.63%	3.99%	1.19%	1.30%
90 days or more	2.48	4.00	1.45	2.02
Nonperforming	3.50	3.04	1.42	.98
Total	8.61%	11.03%	4.06%	4.30%
Retail				
Credit card				
30-89 days	%	%	1.86%	2.38%
90 days or more			2.38	2.59
Nonperforming			1.04	.84
Total	%	%	5.28%	5.81%
Retail leasing				
30-89 days	%	%	.46%	.74%
90 days or more			.05	.11
Nonperforming				
Total	%	%	.51%	.85%
Home equity and second mortgages				
30-89 days	2.12%	2.54%	.71%	.70%
90 days or more	1.55	2.02	.55	.60
Nonperforming	.16	.20	.16	.16
Total	3.83%	4.76%	1.42%	1.46%
Other retail				
30-89 days	3.93%	5.17%	.77%	1.00%
90 days or more	.65	1.17	.30	.37
Nonperforming		.16	.14	.13
Total	4.58%	6.50%	1.21%	1.50%

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

Within the consumer finance division at June 30, 2010, approximately $425 million and $73 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 $557 million and $98 million, respectively, at December 31, 2009.

The following table provides summary delinquency information for covered loans:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
30-89 days	$ 998	$ 1,195	4.99%	5.46%
90 days or more	982	784	4.91	3.59
Nonperforming	1,360	1,350	6.81	6.18
Total	$ 3,340	$ 3,329	16.71%	15.23%

Restructured Loans In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due when a borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term. In most cases the modification is either a concessionary reduction in interest rate, extension of the maturity date or reduction in the principal balance that would otherwise not be considered. Concessionary modifications are classified as troubled debt restructurings (TDRs) unless the modification is short-term, or results in only an insignificant delay or shortfall in the payments to be received. TDRs 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.

Short-Term Modifications The Company makes short-term modifications to assist borrowers experiencing temporary hardships. Consumer programs include short-term interest rate reductions (three months or less for residential mortgages and twelve months or less for credit cards), deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments during the short-term modification period. At June 30, 2010, loans modified under these programs represented less than 1.0 percent of total residential mortgage loan balances and less than 2.5 percent of credit card receivable balances, respectively. Because these changes have an insignificant impact on the economic return on the loan, the Company does not consider loans modified under these hardship programs to be TDRs. The Company determines applicable allowances for loan losses for these loans in a manner consistent with other homogeneous loan portfolios.

The Company may also modify commercial loans on a short-term basis, with the most common modification being an extension of the maturity date of twelve months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress but the Company believes the borrower will ultimately pay all contractual amounts owed. These extended loans represented approximately 1.1 percent of total commercial and commercial real estate loan balances at June 30, 2010. Because interest is charged during the extension period (at the original contractual rate or, in many cases, a higher rate), the extension has an insignificant impact on the economic return on the loan. Therefore, the Company does not consider such extensions to be TDRs. The Company determines the applicable allowance for loan loss on these loans in a manner consistent with other commercial loans.

Troubled Debt Restructurings Many of the Company s TDRs are determined on a case-by-case basis in connection with ongoing loan collection processes. However, the Company has also implemented certain restructuring programs that may result in TDRs. The consumer finance division has a mortgage loan restructuring program where certain qualifying borrowers facing an interest rate reset who are current in their repayment status, are allowed to retain the lower of their existing interest rate or the market interest rate as of their interest reset date. The Company also participates in the U.S. Department of the Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to refinance into more affordable monthly payments, with the U.S. Department of the Treasury compensating the Company for a portion of the reduction in monthly amounts due from borrowers participating in this program. Both the consumer finance division modification program and the HAMP program require the customer to complete a trial period, where the loan modification is contingent on the customer satisfactorily completing the trial period and the loan documents are not modified until that time. The Company reports loans that are modified following the satisfactory completion of the trial period as TDRs. Loans in the pre-modification trial phase represented less than 1.0 percent of residential mortgage loan balances at June 30, 2010. In addition, the Company has also modified certain mortgage loans according to provisions in FDIC-assisted transaction loss sharing agreements. Losses associated with modifications on these loans, including the

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

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

The following table provides a summary of TDRs by loan type, including the delinquency status for TDRs that continue to accrue interest and TDRs included in nonperforming assets (excluding covered loans):

June 30, 2010 (Dollars in Millions)	Performing TDRs	As a Percent of Performing TDRs: 30-89 Days Past Due	As a Percent of Performing TDRs: 90 Days or more Past Due	Nonperforming TDRs	Total TDRs
Commercial	$ 51	8.9%	5.4%	$ 77(b)	$ 128
Commercial real estate	69			104(b)	173
Residential mortgages(a)	1,672	6.2	6.3	157	1,829
Credit card	234	12.5	10.3	175(c)	409
Other retail	86	9.6	7.0	22	108
Total	$ 2,112	6.9%	6.6%	$ 535	$ 2,647

(a) *Excludes loans purchased from GNMA mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, and loans in the trial period under HAMP or the Company s program where a legal modification of the loan is contingent on the customer successfully completing the trial modification period.*

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

(c) *Represents consumer credit cards with a modified rate equal to 0%.*

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Commercial	$ 51	$ 35	.11%	.07%
Commercial real estate	69	110	.20	.32
Residential mortgages (a)	1,672	1,354	6.14	5.20
Credit card	234	221	1.40	1.31
Other retail	86	74	.18	.16
Total	$ 2,112	$ 1,794	1.10%	.92%

(a) *Excludes loans purchased from GNMA mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, and loans in the trial period under HAMP or the Company s program where a legal modification of the loan is contingent on the customer successfully completing the trial modification period.*

TDRs, excluding covered loans, that are performing in accordance with modified terms were $318 million higher at June 30, 2010, than at December 31, 2009, primarily reflecting loan modifications for certain residential mortgage and consumer credit card customers in light of current economic conditions. The Company continues to work with customers to modify loans for borrowers who are having financial difficulties, but expects increases in TDRs to moderate.

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. At June 30, 2010, total nonperforming assets were $5.9 billion, unchanged from December 31, 2009. Excluding covered assets, nonperforming assets were $3.7 billion at June 30, 2010, compared with $3.9 billion at December 31, 2009. The $170 million (4.4 percent) decrease in nonperforming assets, excluding covered assets, was principally in the construction, land development and financial institution portfolios, as the Company continued to reduce the exposure to these assets. Nonperforming covered assets at June 30, 2010 were $2.2 billion, compared with $2.0 billion at December 31, 2009. These assets are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Company. In addition, the majority of the nonperforming covered assets were considered credit-impaired at acquisition and recorded at their estimated fair value at acquisition. The ratio of total nonperforming assets to total loans and other real estate was 3.05 percent (2.17 percent excluding covered assets) at June 30, 2010, compared with 3.02 percent (2.25 percent excluding covered assets) at December 31, 2009. The Company expects nonperforming assets, excluding covered assets, to trend lower in the third quarter of 2010.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2010	December 31, 2009
Commercial		
Commercial	$ 669	$ 866
Lease financing	115	125
Total commercial	784	991
Commercial Real Estate		
Commercial mortgages	601	581
Construction and development	1,013	1,192
Total commercial real estate	1,614	1,773
Residential Mortgages	607	467
Retail		
Credit card	175	142
Retail leasing		
Other retail	62	62
Total retail	237	204
Total nonperforming loans, excluding covered loans	3,242	3,435
Covered Loans	1,360	1,350
Total nonperforming loans	4,602	4,785
Other Real Estate (b)(c)	469	437
Covered Other Real Estate (c)	791	653
Other Assets	23	32
Total nonperforming assets	$ 5,885	$ 5,907
Total nonperforming assets, excluding covered assets	$ 3,734	$ 3,904
Excluding covered assets:		
Accruing loans 90 days or more past due	$ 1,239	$ 1,525
Nonperforming loans to total loans	1.89%	1.99%
Nonperforming assets to total loans plus other real estate (b)	2.17%	2.25%
Including covered assets:		
Accruing loans 90 days or more past due	$ 2,221	$ 2,309
Nonperforming loans to total loans	2.40%	2.46%
Nonperforming assets to total loans plus other real estate (b)	3.05%	3.02%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Retail and Residential Mortgages (e)	Total
Balance December 31, 2009	$ 4,727	$ 1,180	$ 5,907
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties	2,201	679	2,880
Advances on loans	118		118
Total additions	2,319	679	2,998
Reductions in nonperforming assets			
Paydowns, payoffs	(1,043)	(108)	(1,151)
Net sales	(259)	(232)	(491)
Return to performing status	(335)	(14)	(349)
Charge-offs (d)	(902)	(127)	(1,029)
Total reductions	(2,539)	(481)	(3,020)
Net additions to (reductions in) nonperforming assets	(220)	198	(22)
Balance June 30, 2010	$ 4,507	$ 1,378	$ 5,885

(a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
(b) Excludes $475 million and $359 million at June 30, 2010, and December 31, 2009, respectively, of foreclosed GNMA loans which continue to accrue interest.
(c) Includes equity investments whose only asset is other real estate owned.
(d) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.
(e) Residential mortgage information excludes changes related to residential mortgages serviced by others.

Other real estate, excluding covered assets, was $469 million at June 30, 2010, compared with $437 million at December 31, 2009, and was primarily related to foreclosed properties that previously secured loan balances. The increase in other real estate assets reflected continuing stress in residential construction and related supplier industries.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Commercial				
Commercial	2.23%	1.50%	2.32%	1.21%
Lease financing	1.41	3.29	1.78	3.29
Total commercial	2.12	1.72	2.25	1.46
Commercial Real Estate				
Commercial mortgages	1.11	.47	.92	.35
Construction and development	7.31	3.79	7.06	4.30
Total commercial real estate	2.67	1.44	2.47	1.51
Residential Mortgages	2.06	1.94	2.14	1.74
Retail				
Credit card (a)	7.79	7.36	7.76	6.86
Retail leasing	.37	.80	.41	.91
Home equity and second mortgages	1.64	1.72	1.76	1.60
Other retail	1.70	1.80	1.81	1.77
Total retail	3.16	2.99	3.23	2.81
Total loans, excluding covered loans	2.61	2.15	2.64	1.98
Covered Loans	.10	.07	.08	.15
Total loans	2.34%	2.03%	2.36%	1.87%

(a) Net charge-offs as a percent of average loans outstanding, excluding portfolio purchases where the acquired loans were recorded at fair value at the purchase date, were 8.53 percent and 8.47 percent for the three months and six months ended June 30, 2010, respectively.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Residential				
Minnesota	$ 26	$ 27	.47%	.49%
California	17	15	.29	.27

Arizona	13	6	1.23	.58
Illinois	10	8	.36	.29
Missouri	8	7	.30	.26
All other states	134	110	.47	.39
Total residential	208	173	.45	.38
Commercial				
Nevada	48	73	3.52	3.57
Oregon	33	28	.98	.81
California	25	43	.18	.30
Texas	21	3	.52	.07
Virginia	19	8	3.97	1.21
All other states	115	109	.20	.15
Total commercial	261	264	.32	.32
Total OREO	$ 469	$ 437	.27%	.25%

Analysis of Loan Net Charge-Offs Total net charge-offs were $1.1 billion and $2.2 billion for the second quarter and first six months of 2010, respectively, compared with net charge-offs of $929 million and $1.7 billion for the same periods of 2009. 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 2010 was 2.34 percent and 2.36 percent, respectively, compared with 2.03 percent and 1.87 percent, for the same periods of 2009. The year-over-year increases in total net charge-offs were driven by the weakening economy and rising unemployment throughout most of 2009 affecting the residential housing markets, including homebuilding and related industries, commercial real estate properties and credit costs associated with credit card and other consumer and commercial loans. The Company expects the level of net charge-offs to trend lower in the third quarter of 2010.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2010 were $472 million (2.35 percent of average loans outstanding on an annualized basis), compared with $353 million (1.61 percent of average loans outstanding on an annualized basis) for the second quarter of 2009. Commercial and commercial real estate loan net charge-offs for the first six months of 2010 were $941 million (2.34 percent of average loans outstanding on an annualized basis), compared with $650 million (1.48 percent of average loans outstanding on an annualized basis) for the first six months of 2009. The year-over-year increases in net charge-offs reflected stress in commercial real estate and residential housing, especially homebuilding and related industry sectors, along with the impact of current uncertain economic conditions on the Company s commercial loan portfolios.

Residential mortgage loan net charge-offs for the second quarter of 2010 were $138 million (2.06 percent of average loans outstanding on an annualized basis), compared with $116 million (1.94 percent of average loans outstanding on an annualized basis) for the second quarter of 2009. Residential mortgage loan net charge-offs for the first six months of 2010 were $283 million (2.14 percent of average loans outstanding on an annualized basis), compared with $207 million

(1.74 percent of average loans outstanding on an annualized basis) for the first six months of 2009. Retail loan net charge-offs for the second quarter of 2010 were $499 million (3.16 percent of average loans outstanding on an annualized basis), compared with $458 million (2.99 percent of average loans outstanding on an annualized basis) for the second quarter of 2009. Retail loan net charge-offs for the first six months of 2010 were $1.0 billion (3.23 percent of average loans outstanding on an annualized basis), compared with $852 million (2.81 percent of average loans outstanding on an annualized basis) for the first six months of 2009. The retail loan net charge-offs percentage was impacted by credit card portfolio purchases recorded at fair value beginning in the second quarter of 2009. The year-over-year increases in residential mortgage and retail loan net charge-offs reflected the continuing adverse impact of economic conditions on consumers, as rising unemployment levels increased losses in the prime-based residential mortgage and credit card portfolios.

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)	2010	2009	2010	2009	2010	2009	2010	2009
Consumer Finance (a)								
Residential mortgages	$ 10,487	$ 9,751	3.71%	3.87%	$ 10,415	$ 9,824	3.93%	3.43%
Home equity and second mortgages	2,462	2,457	5.38	7.02	2,468	2,437	5.80	6.62
Other retail	610	565	1.97	5.68	606	546	3.33	6.65
Other Retail								
Residential mortgages	$ 16,334	$ 14,213	1.01%	.62%	$ 16,201	$ 14,116	1.00%	.57%
Home equity and second mortgages	16,870	16,857	1.09	.95	16,899	16,826	1.17	.87
Other retail	22,747	22,188	1.69	1.70	22,744	22,323	1.77	1.65
Total Company								
Residential mortgages	$ 26,821	$ 23,964	2.06%	1.94%	$ 26,616	$ 23,940	2.14%	1.74%
Home equity and second mortgages	19,332	19,314	1.64	1.72	19,367	19,263	1.76	1.60
Other retail	23,357	22,753	1.70	1.80	23,350	22,869	1.81	1.77

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

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)	2010	2009	2010	2009	2010	2009	2010	2009
Residential mortgages								
Sub-prime borrowers	$ 2,347	$ 2,721	6.15%	6.34%	$ 2,390	$ 2,779	6.41%	5.66%
Other borrowers	8,140	7,030	3.01	2.91	8,025	7,045	3.19	2.55
Total	$ 10,487	$ 9,751	3.71%	3.87%	$ 10,415	$ 9,824	3.93%	3.43%
Home equity and second mortgages								
Sub-prime borrowers	$ 581	$ 687	10.36%	12.84%	$ 595	$ 700	10.85%	11.81%
Other borrowers	1,881	1,770	3.84	4.76	1,873	1,737	4.20	4.53
Total	$ 2,462	$ 2,457	5.38%	7.02%	$ 2,468	$ 2,437	5.80%	6.62%

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 includes certain amounts that do not represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the FDIC. Management evaluates the allowance each quarter to ensure it appropriately reserves for incurred losses. Several factors were taken into consideration in evaluating the allowance for credit losses at June 30, 2010, including the risk profile of the portfolios, loan net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in TDR 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.

Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Balance at beginning of period	$ 5,439	$ 4,105	$ 5,264	$ 3,639
Charge-offs				
Commercial				
Commercial	232	183	483	300
Lease financing	35	66	80	129
Total commercial	267	249	563	429
Commercial real estate				
Commercial mortgages	71	28	118	42
Construction and development	159	94	310	211
Total commercial real estate	230	122	428	253
Residential mortgages	141	116	287	209
Retail				
Credit card	333	279	661	504
Retail leasing	7	13	16	28
Home equity and second mortgages	83	85	177	157
Other retail	119	126	251	244
Total retail	542	503	1,105	933
Covered loans (a)	6	2	9	8
Total charge-offs	1,186	992	2,392	1,832
Recoveries				
Commercial				
Commercial	9	6	17	11
Lease financing	13	11	24	19
Total commercial	22	17	41	30
Commercial real estate				
Commercial mortgages			1	1
Construction and development	3	1	8	1
Total commercial real estate	3	1	9	2
Residential mortgages	3		4	2
Retail				
Credit card	16	16	32	29
Retail leasing	3	3	7	5
Home equity and second mortgages	4	2	8	4

Other retail	20	24	41	43
Total retail	43	45	88	81
Covered loans (a)	1		1	
Total recoveries	72	63	143	115
Net Charge-offs				
Commercial				
Commercial	223	177	466	289
Lease financing	22	55	56	110
Total commercial	245	232	522	399
Commercial real estate				
Commercial mortgages	71	28	117	41
Construction and development	156	93	302	210
Total commercial real estate	227	121	419	251
Residential mortgages	138	116	283	207
Retail				
Credit card	317	263	629	475
Retail leasing	4	10	9	23
Home equity and second mortgages	79	83	169	153
Other retail	99	102	210	201
Total retail	499	458	1,017	852
Covered loans (a)	5	2	8	8
Total net charge-offs	1,114	929	2,249	1,717
Provision for credit losses	1,139	1,395	2,449	2,713
Net change for credit losses to be reimbursed by the FDIC	72		72	
Acquisitions and other changes				(64)
Balance at end of period	$ 5,536	$ 4,571	$ 5,536	$ 4,571
Components				
Allowance for loan losses, excluding losses to be reimbursed by the FDIC	$ 5,248	$ 4,377		
Allowance for credit losses to be reimbursed by the FDIC	72			
Liability for unfunded credit commitments	216	194		
Total allowance for credit losses	$ 5,536	$ 4,571		
Allowance for credit losses as a percentage of				
Period-end loans, excluding covered loans	3.18%	2.66%		
Nonperforming loans, excluding covered loans	168	152		
Nonperforming assets, excluding covered assets	146	137		
Annualized net charge-offs, excluding covered loans	122	123		
Period-end loans	2.89	2.51		

Nonperforming loans	120	135
Nonperforming assets	94	114
Annualized net charge-offs	124	123

Note: At June 30, 2010, $2.4 billion of the total allowance for credit losses related to incurred losses on retail loans.
(a) Relates to covered loan charge-offs and recoveries not reimbursable by the FDIC.

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At June 30, 2010, the allowance for credit losses was $5.5 billion (2.89 percent of total loans and 3.18 percent of loans excluding covered loans), compared with an allowance of $5.3 billion (2.70 percent of total loans and 3.04 percent of loans excluding covered loans) at December 31, 2009. During the second quarter of 2010, the Company increased the allowance for credit losses by $72 million to reflect covered loan losses reimbursable by the FDIC. The ratio of the allowance for credit losses to nonperforming loans was 120 percent (168 percent excluding covered loans) at June 30, 2010, compared with 110 percent (153 percent excluding covered loans) at December 31, 2009. The ratio of the allowance for credit losses to annualized loan net charge-offs was 124 percent at June 30, 2010, compared with 136 percent of full year 2009 net charge-offs at December 31, 2009.

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, 2010, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2009. 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, 2009, for further discussion on residual value risk management.

Operational Risk Management
The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Risk Management Committee of the Company s Board of Directors provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Management Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. Refer to Management s Discussion and Analysis Operational Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, for further discussion on operational risk management.

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

Net Interest Income Simulation Analysis Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The following table summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALCO policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At June 30, 2010, and December 31, 2009, 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, 2009, 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. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts and flattening or steepening of the yield

Sensitivity of Net Interest Income

	June 30, 2010				December 31, 2009			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual*	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual*	Up 200 bps Gradual
Net interest income	*	1.00%	*	1.65%	*	.43%	*	1.00%

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

curve. The ALCO policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. A 200 bps increase would have resulted in a 3.4 percent decrease in the market value of equity at June 30, 2010, compared with a 4.3 percent decrease at December 31, 2009. A 200 bps decrease, where possible given current rates, would have resulted in a 6.7 percent decrease in the market value of equity at June 30, 2010, compared with a 2.8 percent decrease at December 31, 2009. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, 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 held for sale and 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, 2010, the Company had $10.3 billion of forward commitments to sell mortgage loans hedging $4.7 billion of mortgage loans held for sale and $10.6 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 related to its trading activities, which are principally customer-based, supporting their management of foreign currency, interest rate risks and funding activities. The ALCO established the Market Risk Committee (MRC), which oversees market risk management. The MRC monitors and reviews the Company s trading positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company also manages market risk of non-trading business activities, including its MSRs and loans held-for-sale. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the 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. The

Table 9 Regulatory Capital Ratios

(Dollars in Millions)	June 30, 2010	December 31, 2009
Tier 1 capital	$ 24,021	$ 22,610
As a percent of risk-weighted assets	10.1%	9.6%
As a percent of adjusted quarterly average assets (leverage ratio)	8.8%	8.5%
Total risk-based capital	$ 31,890	$ 30,458
As a percent of risk-weighted assets	13.4%	12.9%

Company s trading VaR did not exceed $5 million during the first six months of 2010 and $2 million during the first six months of 2009.

Liquidity Risk Management
The ALCO establishes policies and guidelines, as well as analyzes and manages liquidity, to ensure adequate funds are available to meet normal operating requirements, and unexpected customer demands for funds in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, including various stress scenarios, 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.

Since 2008, the financial markets have been challenging for many financial institutions. As a result of these financial market conditions, 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 capital position 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 maintain a strong liquidity position, as depositors and investors in the wholesale funding markets seek stable 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, 2009, for further discussion on liquidity risk management.
At June 30, 2010, parent company long-term debt outstanding was $11.9 billion, compared with $14.5 billion at December 31, 2009. The $2.6 billion decrease was primarily due to repayments and maturities of $3.9 billion of medium-term notes and the extinguishment of $.6 billion of junior subordinated debentures in connection with the ITS exchange, partially offset by $1.8 billion of medium-term note issuances. As of June 30, 2010, total parent company debt scheduled to mature in the remainder of 2010 was $.9 billion.
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 $4.1 billion at June 30, 2010.

Capital Management
The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Table 9 provides a summary of regulatory capital ratios as of June 30, 2010, and December 31, 2009. All regulatory ratios exceeded regulatory well-capitalized requirements. Total U.S. Bancorp shareholders equity was $28.2 billion at June 30, 2010, compared with $26.0 billion at December 31, 2009. The increase was primarily the result of corporate earnings, the issuance of $.4 billion of perpetual preferred stock in connection with the ITS exchange, and changes in unrealized gains and losses on available-for-sale investment

securities included in other comprehensive income, partially offset by dividends.
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, were 7.4 percent and 6.9 percent, respectively, at June 30, 2010, compared with 6.8 percent and 6.1 percent, respectively, at December 31, 2009. The Company s tangible common equity divided by tangible assets was 6.0 percent at June 30, 2010, compared with 5.3 percent at December 31, 2009. Refer to Non-Regulatory Capital Ratios for further information regarding the calculation of these measures.
On December 9, 2008, the Company announced its Board of Directors had approved an authorization to repurchase 20 million shares of common stock through December 31, 2010. All shares repurchased during the second quarter of 2010 were repurchased under this authorization in connection with the administration of

the Company s employee benefit plans in the ordinary course of business.
The following table provides a detailed analysis of all shares repurchased during the second quarter of 2010:

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	26,509	$ 27.55	19,049,008
May	3,415	24.16	19,045,593
June	1,855	24.21	19,043,738
Total	31,779	$ 26.99	19,043,738

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, 2009, 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 2010, certain organization and methodology changes were made and, accordingly, 2009 results were restated and presented on a comparable basis.

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 $82 million of the Company s net income in the second quarter and $84 million in the first six months of 2010, or increases of $14 million (20.6 percent) and $27 million (47.4 percent), respectively, compared with the same periods of 2009. The increases were primarily driven by higher net revenue, partially offset by higher noninterest expense.
Total net revenue increased $50 million (6.7 percent) in the second quarter and $86 million (5.9 percent) in the first six months of 2010, compared with the same periods of 2009. Net interest income, on a taxable-equivalent basis, increased $5 million (1.0 percent) in the second quarter and decreased $24 million (2.4 percent) in the first six months of 2010, compared with the same periods of 2009. The decrease in the first six months of 2010, compared with the same period of 2009, was driven by a reduction in average loans as a result of lower utilization of existing commitments and reduced demand for new loans, as well as the impact of declining rates on the margin benefit from deposits, which were partially offset by improved spreads on loans and higher average deposit balances. Total noninterest income increased $45 million (18.4 percent) in the second quarter and $110 million (24.2 percent) in the first six months of 2010, compared with the same periods of 2009, due to strong growth in commercial products

revenue, including standby letters of credit, syndication, commercial loan and capital markets fees and a favorable variance in income from equity investments relative to the prior year.

Total noninterest expense increased $38 million (13.4 percent) in the second quarter and $53 million (9.6 percent) in the first six months of 2010, compared with the same periods of 2009, primarily due to higher compensation and employee benefits expense and increased costs related to OREO. The provision for credit losses decreased $9 million (2.6 percent) in the second quarter and $5 million (.6 percent) in the first six months of 2010, compared with the same periods of 2009. The favorable changes were primarily due to decreases in the reserve allocation, partially offset by higher net charge-offs. Nonperforming assets were $2.2 billion at June 30, 2010, $2.5 billion at March 31, 2010, and $2.2 billion at June 30, 2009. Nonperforming assets as a percentage of period-end loans were 3.90 percent at June 30, 2010, 4.43 percent at March 31, 2010, and 3.60 percent at June 30, 2009. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Consumer Banking Consumer Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATM processing. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer Banking contributed $178 million of the Company s net income in the second quarter and $374 million in the first six months of 2010, or decreases of $33 million (15.6 percent) and $53 million (12.4 percent), respectively, compared with the same periods of 2009.

Within Consumer Banking, the retail banking division contributed $42 million of the total net income in the second quarter and $137 million in the first six months of 2010, or decreases of $9 million (17.6 percent) and $9 million (6.2 percent) over the same periods of 2009. Mortgage banking contributed $136 million of the business line s net income in the second quarter and $237 million in the first six months of 2010, or decreases of $24 million (15.0 percent) and $44 million (15.7 percent) from the same periods of 2009, reflecting lower mortgage loan production, including lower interest income on average mortgage loans held for sale.

Total net revenue decreased $60 million (3.4 percent) in the second quarter and $55 million (1.6 percent) in the first six months of 2010, compared with the same periods of 2009. Net interest income, on a taxable-equivalent basis, increased $34 million (3.4 percent) in the second quarter and $40 million (2.0 percent) in the first six months of 2010, compared with the same periods of 2009. The year-over-year increases in net interest income were due to increases in deposit balances and loan spreads, partially offset by a decline in the margin benefit of deposits. The year-over-year increases in average deposits primarily reflected increases in savings accounts. Total noninterest income decreased $94 million (12.0 percent) in the second quarter and $95 million (6.6 percent) in the first six months of 2010, compared with the same periods of 2009. The year-over-year decreases in noninterest income were driven by lower mortgage banking revenue, principally due to lower production, and lower deposit service charges due to the impact of Company-initiated revisions to overdraft fee policies and lower overdraft incidences, partially offset by improvement in retail lease residual valuation losses and higher ATM processing servicing fees.

Total noninterest expense increased $84 million (9.0 percent) in the second quarter and $160 million (8.8 percent) in the first six months of 2010, compared with the same periods of 2009. The increases reflected higher compensation and employee benefits expense, higher processing costs and net occupancy and equipment expenses related to business expansion, and higher servicing costs associated with OREO and foreclosures.

The provision for credit losses decreased $93 million (18.1 percent) in the second quarter and $133 million (14.4 percent) in the first six months of 2010, compared with the same periods of 2009, as stress within the residential mortgage, home equity, installment and other consumer loan portfolios moderated. As a percentage of average loans outstanding on an annualized basis, net charge-offs increased to 1.55 percent in the second quarter of 2010, compared with 1.46 percent in the second quarter of 2009. Nonperforming assets were $1.5 billion at June 30, 2010, $1.5 billion at March 31, 2010, and $1.2 billion at June 30, 2009. Nonperforming assets as a percentage of period-end loans were 1.51 percent at June 30, 2010, 1.52 percent at March 31, 2010, and 1.23 percent at June 30, 2009. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

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

In July 2010, the Company announced a strategic alliance with a third party under which it will receive an ownership interest in the third party in exchange for the long-term asset management business of FAF Advisors, primarily representing the equity and fixed income mutual funds. U.S. Bancorp Asset Management will retain the Company s money market fund business.

Wealth Management & Securities Services contributed $60 million of the Company s net income in the second quarter and $113 million in the first six months of 2010, or decreases of $25 million (29.4 percent) and $69 million (37.9 percent), respectively, compared with the same periods of 2009. The decreases were primarily attributable to lower net revenue and higher total noninterest expense.

Total net revenue decreased $10 million (2.7 percent) in the second quarter and $74 million (9.5 percent) in the first six months of 2010, compared with the same periods of 2009. Net interest income, on a taxable-equivalent basis, increased $11 million (15.5 percent) in the second quarter and decreased $13 million (8.0 percent) in the first six months of 2010, compared with the same periods of 2009. The increase in net interest income in the second quarter, compared with the same period of 2009, was primarily due to higher deposit volumes, partially offset by a decline in the related margin benefit. The decrease in net interest income in the first six months of 2010, compared with the same period of 2009, was primarily due to a decline in the margin benefit from deposits, partially offset by higher deposit volumes. Noninterest income decreased $21 million (6.9 percent) in the second quarter and $61 million (9.9 percent) in the first six months of 2010, compared with the same periods of 2009, as low interest rates negatively impacted money market investment fees and lower money market fund balances led to a decline in account-level fees.

Table 10 Line of Business Financial Performance

Three Months Ended June 30 (Dollars in Millions)	Wholesale Banking 2010	Wholesale Banking 2009	Percent Change	Consumer Banking 2010	Consumer Banking 2009	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 503	$ 498	1.0%	$ 1,028	$ 994	3.4%
Noninterest income	290	245	18.4	692	786	(12.0)
Securities gains (losses), net						
Total net revenue	793	743	6.7	1,720	1,780	(3.4)
Noninterest expense	317	277	14.4	1,002	911	10.0
Other intangibles	4	6	(33.3)	17	24	(29.2)
Total noninterest expense	321	283	13.4	1,019	935	9.0
Income before provision and income taxes	472	460	2.6	701	845	(17.0)
Provision for credit losses	343	352	(2.6)	420	513	(18.1)
Income before income taxes	129	108	19.4	281	332	(15.4)
Income taxes and taxable-equivalent adjustment	47	39	20.5	102	121	(15.7)
Net income	82	69	18.8	179	211	(15.2)
Net (income) loss attributable to noncontrolling interests		(1)	*	(1)		*
Net income attributable to U.S. Bancorp	$ 82	$ 68	20.6	$ 178	$ 211	(15.6)
Average Balance Sheet						
Commercial	$ 34,002	$ 41,080	(17.2)%	$ 5,987	$ 6,306	(5.1)%
Commercial real estate	21,561	21,499	.3	11,748	11,498	2.2
Residential mortgages	77	80	(3.8)	26,363	23,494	12.2
Retail	45	58	(22.4)	44,322	44,392	(.2)
Total loans, excluding covered loans	55,685	62,717	(11.2)	88,420	85,690	3.2
Covered loans				7,494	9,906	(24.3)
Total loans	55,685	62,717	(11.2)	95,914	95,596	.3
Goodwill	1,475	1,475		3,254	3,108	4.7
Other intangible assets	71	93	(23.7)	1,880	1,570	19.7

Assets	61,081	67,528	(9.5)	108,397	109,212	(.7)
Noninterest-bearing deposits	18,159	17,343	4.7	14,604	14,296	2.2
Interest checking	10,687	12,369	(13.6)	22,724	20,868	8.9
Savings products	10,036	7,076	41.8	32,073	25,672	24.9
Time deposits	10,890	12,630	(13.8)	19,233	26,576	(27.6)
Total deposits	49,772	49,418	.7	88,634	87,412	1.4
Total U.S. Bancorp shareholders equity	5,455	5,003	9.0	8,230	7,349	12.0

Six Months Ended June 30 (Dollars in Millions)	Wholesale Banking 2010	2009	Percent Change	Consumer Banking 2010	2009	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 985	$ 1,009	(2.4)%	$ 2,017	$ 1,977	2.0%
Noninterest income	564	457	23.4	1,345	1,440	(6.6)
Securities gains (losses), net		(3)	*			
Total net revenue	1,549	1,463	5.9	3,362	3,417	(1.6)
Noninterest expense	597	539	10.8	1,948	1,775	9.7
Other intangibles	8	13	(38.5)	34	47	(27.7)
Total noninterest expense	605	552	9.6	1,982	1,822	8.8
Income before provision and income taxes	944	911	3.6	1,380	1,595	(13.5)
Provision for credit losses	813	818	(.6)	791	924	(14.4)
Income before income taxes	131	93	40.9	589	671	(12.2)
Income taxes and taxable-equivalent adjustment	48	36	33.3	214	244	(12.3)
Net income	83	57	45.6	375	427	(12.2)
Net (income) loss attributable to noncontrolling interests	1		*	(1)		*
Net income attributable to U.S. Bancorp	$ 84	$ 57	47.4	$ 374	$ 427	(12.4)
Average Balance Sheet						
Commercial	$ 34,604	$ 42,021	(17.7)%	$ 6,006	$ 6,380	(5.9)%
Commercial real estate	21,584	21,352	1.1	11,711	11,542	1.5
Residential mortgages	77	84	(8.3)	26,156	23,461	11.5
Retail	45	65	(30.8)	44,440	44,519	(.2)
	56,310	63,522	(11.4)	88,313	85,902	2.8

Total loans, excluding covered loans						
Covered loans				7,702	9,970	(22.7)
Total loans	56,310	63,522	(11.4)	96,015	95,872	.1
Goodwill	1,474	1,475	(.1)	3,252	3,171	2.6
Other intangible assets	73	96	(24.0)	1,896	1,527	24.2
Assets	61,419	68,647	(10.5)	108,326	109,182	(.8)
Noninterest-bearing deposits	17,568	16,773	4.7	14,340	14,098	1.7
Interest checking	11,247	10,449	7.6	22,438	20,387	10.1
Savings products	10,746	7,362	46.0	31,303	24,931	25.6
Time deposits	10,991	14,047	(21.8)	19,645	26,714	(26.5)
Total deposits	50,552	48,631	4.0	87,726	86,130	1.9
Total U.S. Bancorp shareholders equity	5,493	4,982	10.3	8,250	7,438	10.9

* *Not meaningful*

n Management & urities Services		Payment Services			Treasury and Corporate Support			Consolidated Company		
2009	Percent Change	2010	2009	Percent Change	2010	2009	Percent Change	2010	2009	Per Ch
$ 71	15.5%	$ 332	$ 276	20.3%	$ 464	$ 265	75.1%	$ 2,409	$ 2,104	
304	(6.9)	788	723	9.0	78	16	*	2,131	2,074	
					(21)	(19)	(10.5)	(21)	(19)	(
375	(2.7)	1,120	999	12.1	521	262	98.9	4,519	4,159	
218	17.0	415	352	17.9	297	276	7.6	2,286	2,034	
17	(23.5)	49	46	6.5	8	2	*	91	95	
235	14.0	464	398	16.6	305	278	9.7	2,377	2,129	
140	(30.7)	656	601	9.2	216	(16)	*	2,142	2,030	
6	(66.7)	359	509	(29.5)	15	15		1,139	1,395	(
134	(29.1)	297	92	*	201	(31)	*	1,003	635	
49	(28.6)	108	33	*	(41)	(92)	55.4	251	150	
85	(29.4)	189	59	*	242	61	*	752	485	
		(9)	(5)	(80.0)	24	(8)	*	14	(14)	
$ 85	(29.4)	$ 180	$ 54	*	$ 266	$ 53	*	$ 766	$ 471	
$ 1,199	(9.0)%	$ 5,162	$ 4,500	14.7%	$ 98	$ 974	(89.9)%	$ 46,340	$ 54,059	(
569	1.9				275	161	70.8	34,164	33,727	
387	(3.9)				9	3	*	26,821	23,964	
1,560	6.5	17,338	15,414	12.5	16	3	*	63,382	61,427	
3,715	(.3)	22,500	19,914	13.0	398	1,141	(65.1)	170,707	173,177	
					12,960	795	*	20,454	10,701	
3,715	(.3)	22,500	19,914	13.0	13,358	1,936	*	191,161	183,878	
1,512	.7	2,335	2,348	(.6)	413		*	8,999	8,443	
265	(21.5)	971	873	11.2	132	8	*	3,262	2,809	
6,006	(2.0)	27,231	24,093	13.0	78,745	59,268	32.9	281,340	266,107	
4,925	16.5	611	491	24.4	803	333	*	39,917	37,388	
4,071	18.3	115	83	38.6	1,160	2	*	39,503	37,393	
6,623	*	23	18	27.8	3,613	139	*	60,291	39,528	
6,575	(10.6)	1	1		7,603	3,129	*	43,607	48,911	(
22,194	39.6	750	593	26.5	13,179	3,603	*	183,318	163,220	
2,067	2.6	5,286	4,717	12.1	6,327	9,066	(30.2)	27,419	28,202	

n Management & urities Services		Payment Services			Treasury and Corporate Support			Consolidated Company		
2009	Percent Change	2010	2009	Percent Change	2010	2009	Percent Change	2010	2009	Per Ch
$ 163	(8.0)%	$ 677	$ 546	24.0%	$ 983	$ 504	95.0%	$ 4,812	$ 4,199	
617	(9.9)	1,529	1,414	8.1	89	132	(32.6)	4,083	4,060	
					(55)	(214)	74.3	(55)	(217)	
780	(9.5)	2,206	1,960	12.6	1,017	422	*	8,840	8,042	
449	10.0	795	682	16.6	491	369	33.1	4,325	3,814	
33	(18.2)	101	91	11.0	18	2	*	188	186	
482	8.1	896	773	15.9	509	371	37.2	4,513	4,000	
298	(37.9)	1,310	1,187	10.4	508	51	*	4,327	4,042	
14	(57.1)	815	942	(13.5)	24	15	60.0	2,449	2,713	
284	(37.0)	495	245	*	484	36	*	1,878	1,329	
102	(35.3)	180	88	*	(45)	(171)	73.7	463	299	
182	(37.9)	315	157	*	529	207	*	1,415	1,030	
		(16)	(12)	(33.3)	36	(18)	*	20	(30)	
$ 182	(37.9)	$ 299	$ 145	*	$ 565	$ 189	*	$ 1,435	$ 1,000	
$ 1,289	(17.4)%	$ 5,023	$ 4,394	14.3%	$ 107	$ 1,007	(89.4)%	$ 46,805	$ 55,091	(
571	1.2				280	98	*	34,153	33,563	
392	(4.6)				9	3	*	26,616	23,940	
1,536	6.1	17,375	15,045	15.5	12	5	*	63,502	61,170	
3,788	(3.7)	22,398	19,439	15.2	408	1,113	(63.3)	171,076	173,764	
					13,237	1,052	*	20,939	11,022	
3,788	(3.7)	22,398	19,439	15.2	13,645	2,165	*	192,015	184,786	
1,512	.4	2,348	2,342	.3	413		*	9,005	8,500	
273	(21.6)	987	886	11.4	140	4	*	3,310	2,786	
6,106	(4.2)	27,113	23,724	14.3	78,822	58,512	34.7	281,530	266,171	
4,950	12.3	610	532	14.7	889	354	*	38,964	36,707	
3,812	26.6	110	80	37.5	1,127	2	*	39,747	34,730	
6,466	*	22	18	22.2	3,554	123	*	59,615	38,900	
6,496	(13.1)	1		*	8,322	4,286	94.2	44,601	51,543	(
21,724	38.2	743	630	17.9	13,892	4,765	*	182,927	161,880	
2,081	1.9	5,318	4,706	13.0	5,738	8,307	(30.9)	26,919	27,514	

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Total noninterest expense increased $33 million (14.0 percent) in the second quarter and $39 million (8.1 percent) in the first six months of 2010, compared with the same periods of 2009. The increases in noninterest expense were primarily due to higher compensation and employee benefits expense.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed $180 million of the Company s net income in the second quarter and $299 million in the first six months of 2010, or increases of $126 million and $154 million, respectively, compared with the same periods of 2009. The increases were primarily due to increases in total net revenue and decreases in the provision for credit losses, partially offset by higher noninterest expense.

Total net revenue increased $121 million (12.1 percent) in the second quarter and $246 million (12.6 percent) in the first six months of 2010, compared with the same periods of 2009. Net interest income, on a taxable-equivalent basis, increased $56 million (20.3 percent) in the second quarter and $131 million (24.0 percent) in the first six months of 2010, compared with the same periods of 2009, primarily due to strong growth in credit card loan balances and improved loan spreads, partially offset by the cost of rebates on the government card program. Noninterest income increased $65 million (9.0 percent) in the second quarter and $115 million (8.1 percent) in the first six months of 2010, compared with the same periods of 2009, driven by higher volumes across all products.

Total noninterest expense increased $66 million (16.6 percent) in the second quarter and $123 million (15.9 percent) in the first six months of 2010, compared with the same periods of 2009, due to higher compensation and employee benefits expense, higher technology and communications expense, the result of increased volume, and higher intangibles expense.

The provision for credit losses decreased $150 million (29.5 percent) in the second quarter and $127 million (13.5 percent) in the first six months of 2010, compared with the same periods of 2009, due to a favorable change in the reserve allocation due to lower delinquencies, partially offset by higher net charge-offs. As a percentage of average loans outstanding, net charge-offs were 6.72 percent in the second quarter of 2010, compared with 6.55 percent in the second quarter of 2009.

Treasury and Corporate Support Treasury and Corporate Support includes the Company s investment portfolios, funding, recently acquired assets and assumed liabilities prior to assignment to business lines, capital management, asset securitization, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of $266 million in the second quarter and $565 million in the first six months of 2010, compared with $53 million in the second quarter and $189 million in the first six months of 2009.

Total net revenue increased $259 million (98.9 percent) in the second quarter and $595 million in the first six months of 2010, compared with the same periods of 2009. Net interest income, on a taxable-equivalent basis, increased $199 million (75.1 percent) in the second quarter and $479 million (95.0 percent) in the first six months of 2010, compared with the same periods of 2009, reflecting the impact of the FBOP acquisition, the current interest rate environment, wholesale funding decisions and the Company s asset/liability position. Total noninterest income increased $60 million in the second quarter of 2010, compared with the second quarter of 2009, primarily due to the $28 million gain related to the Company s investment in Visa Inc. and higher syndication revenue on tax-advantaged transactions. Total noninterest income increased $116 million in the first six months of 2010, compared with the same period of 2009, primarily due to lower net securities losses in the current year and the $28 million gain on the Company s investment in Visa Inc., partially offset by a gain on a corporate real estate transaction recognized in the first quarter of 2009.

Total noninterest expense increased $27 million (9.7 percent) in the second quarter and $138 million (37.2 percent) in the first six months of 2010, compared with the same periods of 2009. The increases in noninterest expense were driven by the FBOP acquisition, debt extinguishment costs and higher costs related to affordable housing and other tax advantaged projects, partially offset by the FDIC special assessment recognized in the second quarter of 2009.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support. The consolidated effective tax rate of the Company was 20.9 percent in the second quarter and 20.3 percent in the first six months of 2010, compared with 17.1 percent in the second quarter and 16.3 percent in the first six months of 2009. The year-over-year increases in the effective tax rate reflected the marginal impact of higher pre-tax earnings.

NON-REGULATORY CAPITAL RATIOS

In addition to capital ratios defined by banking regulators, the Company considers various other

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measures when evaluating capital utilization and adequacy, including:

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

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

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

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

(Dollars in Millions)	June 30, 2010	December 31, 2009
Total equity	$ 28,940	$ 26,661
Preferred stock	(1,930)	(1,500)
Noncontrolling interests	(771)	(698)
Goodwill (net of deferred tax liability)	(8,425)	(8,482)
Intangible assets, other than mortgage servicing rights	(1,525)	(1,657)
Tangible common equity (a)	16,289	14,324
Tier 1 capital, determined in accordance with prescribed regulatory requirements	24,021	22,610
Trust preferred securities	(3,949)	(4,524)
Preferred stock	(1,930)	(1,500)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital	(694)	(692)
Tier 1 common equity (b)	17,448	15,894
Total assets	283,243	281,176
Goodwill (net of deferred tax liability)	(8,425)	(8,482)
Intangible assets, other than mortgage servicing rights	(1,525)	(1,657)
Tangible assets (c)	273,293	271,037
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (d)	237,145	235,233
Ratios		
Tangible common equity to tangible assets (a)/(c)	6.0%	5.3%
Tier 1 common equity to risk-weighted assets (b)/(d)	7.4	6.8

Tangible common equity to risk-weighted assets (a)/(d)	6.9	6.1

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The Company s financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company s financial statements. Critical accounting policies are those policies management believes are the most important to the portrayal of the Company s financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, purchased loans and related indemnification assets, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company s Audit Committee. These accounting policies are discussed in detail in Management s Discussion and Analysis Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

CONTROLS AND PROCEDURES

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

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

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U.S. Bancorp
Consolidated Balance Sheet

(Dollars in Millions)	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and due from banks	$ 5,033	$ 6,206
Investment securities		
Held-to-maturity (fair value $519 and $48, respectively)	590	47
Available-for-sale	47,777	44,721
Loans held for sale (included $4,650 and $4,327 of mortgage loans carried at fair value, respectively)	4,912	4,772
Loans		
Commercial	46,766	48,792
Commercial real estate	33,944	34,093
Residential mortgages	27,252	26,056
Retail	63,639	63,955
Total loans, excluding covered loans	171,601	172,896
Covered loans	19,983	21,859
Total loans	191,584	194,755
Less allowance for loan losses	(5,320)	(5,079)
Net loans	186,264	189,676
Premises and equipment	2,257	2,263
Goodwill	9,002	9,011
Other intangible assets	3,068	3,406
Other assets	24,340	21,074
Total assets	$ 283,243	$ 281,176
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	$ 41,673	$ 38,186
Interest-bearing	113,024	115,135
Time deposits greater than $100,000	28,426	29,921
Total deposits	183,123	183,242
Short-term borrowings	33,797	31,312
Long-term debt	29,137	32,580
Other liabilities	8,246	7,381
Total liabilities	254,303	254,515
Shareholders equity		
Preferred stock	1,930	1,500
	21	21

Common stock, par value $0.01 a share authorized: 4,000,000,000 shares; issued: 6/30/10 and 12/31/09 2,125,725,742 shares		
Capital surplus	8,292	8,319
Retained earnings	25,367	24,116
Less cost of common stock in treasury: 6/30/10 208,740,074 shares; 12/31/09 212,786,937 shares	(6,381)	(6,509)
Accumulated other comprehensive income (loss)	(1,060)	(1,484)
Total U.S. Bancorp shareholders equity	28,169	25,963
Noncontrolling interests	771	698
Total equity	28,940	26,661
Total liabilities and equity	$ 283,243	$ 281,176

See Notes to Consolidated Financial Statements.

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U.S. Bancorp
Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest Income				
Loans	$ 2,515	$ 2,345	$ 5,020	$ 4,695
Loans held for sale	47	71	91	134
Investment securities	394	402	804	836
Other interest income	39	22	73	42
Total interest income	2,995	2,840	5,988	5,707
Interest Expense				
Deposits	229	314	465	638
Short-term borrowings	137	131	265	274
Long-term debt	272	341	549	694
Total interest expense	638	786	1,279	1,606
Net interest income	2,357	2,054	4,709	4,101
Provision for credit losses	1,139	1,395	2,449	2,713
Net interest income after provision for credit losses	1,218	659	2,260	1,388
Noninterest Income				
Credit and debit card revenue	266	259	524	515
Corporate payment products revenue	178	168	346	322
Merchant processing services	320	278	612	536
ATM processing services	108	104	213	206
Trust and investment management fees	267	304	531	598
Deposit service charges	199	250	406	476
Treasury management fees	145	142	282	279
Commercial products revenue	205	144	366	273
Mortgage banking revenue	243	308	443	541
Investment products fees and commissions	30	27	55	55
Securities gains (losses), net				
Realized gains (losses), net		69	12	125
Total other-than-temporary impairment	(30)	(331)	(117)	(712)
Portion of other-than-temporary impairment recognized in other comprehensive income	9	243	50	370
Total securities gains (losses), net	(21)	(19)	(55)	(217)
Other	170	90	305	259
Total noninterest income	2,110	2,055	4,028	3,843
Noninterest Expense				
Compensation	946	764	1,807	1,550

Employee benefits	172	140	352	295
Net occupancy and equipment	226	208	453	419
Professional services	73	59	131	111
Marketing and business development	86	80	146	136
Technology and communications	186	157	371	312
Postage, printing and supplies	75	72	149	146
Other intangibles	91	95	188	186
Other	522	554	916	845
Total noninterest expense	2,377	2,129	4,513	4,000
Income before income taxes	951	585	1,775	1,231
Applicable income taxes	199	100	360	201
Net income	752	485	1,415	1,030
Net (income) loss attributable to noncontrolling interests	14	(14)	20	(30)
Net income attributable to U.S. Bancorp	$ 766	$ 471	$ 1,435	$ 1,000
Net income applicable to U.S. Bancorp common shareholders	$ 862	$ 221	$ 1,510	$ 640
Earnings per common share	$ .45	$ .12	$ .79	$ .36
Diluted earnings per common share	$ .45	$ .12	$ .79	$ .36
Dividends declared per common share	$ .05	$ .05	$ .10	$ .10
Average common shares outstanding	1,912	1,833	1,911	1,794
Average diluted common shares outstanding	1,921	1,840	1,920	1,801

See Notes to Consolidated Financial Statements.

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U.S. Bancorp
Consolidated Statement of Shareholders Equity

	U.S. Bancorp Shareholders									
and Shares in Millions) ted)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests	
December 31, 2008	1,755	$ 7,931	$ 20	$ 5,830	$ 22,541	$ (6,659)	$ (3,363)	$ 26,300	$ 733	$
in accounting principle					141		(141)			
me					1,000			1,000	30	
in unrealized gains and n securities e-for-sale							1,520	1,520		
an-temporary impairment gnized in earnings on s available-for-sale							(370)	(370)		
ed gain on derivatives							394	394		
currency translation							40	40		
fication for realized							222	222		
taxes							(686)	(686)		
mprehensive income								2,120	30	
tion of preferred stock		(6,599)						(6,599)		
d stock dividends and accretion		168			(358)			(190)		
n stock dividends					(184)			(184)		
of common and treasury	157		1	2,562		123		2,686		
e of treasury stock						(4)		(4)		
r changes in rolling interests									(18)	
tions to noncontrolling									(30)	
tion and restricted stock				42				42		
June 30, 2009	1,912	$ 1,500	$ 21	$ 8,434	$ 23,140	$ (6,540)	$ (2,384)	$ 24,171	$ 715	$
December 31, 2009	1,913	$ 1,500	$ 21	$ 8,319	$ 24,116	$ (6,509)	$ (1,484)	$ 25,963	$ 698	$
in accounting principle					(73)			(73)	(16)	
me					1,435			1,435	(20)	
in unrealized gains and n securities e-for-sale							855	855		
an-temporary impairment gnized in earnings on							(50)	(50)		

s available-for-sale										
ted loss on derivatives							(206)	(206)		
currency translation							30	30		
fication for realized										
							56	56		
taxes							(261)	(261)		
mprehensive income								1,859	(20)	
d stock dividends and										
accretion					(37)			(37)		
n stock dividends					(192)			(192)		
e of preferred stock		430		10	118			558		
e of common and treasury										
	5			(97)		143		46		
e of treasury stock	(1)					(15)		(15)		
r changes in										
rolling interests									145	
tions to noncontrolling										
									(36)	
tion and restricted stock										
				60				60		
June 30, 2010	1,917	$ 1,930	$ 21	$ 8,292	$ 25,367	$ (6,381)	$ (1,060)	$ 28,169	$ 771	$

See Notes to Consolidated Financial Statements.

U.S. Bancorp
Consolidated Statement of Cash Flows

(Dollars in Millions) (Unaudited)	Six Months Ended June 30, 2010	2009
Operating Activities		
Net cash provided by operating activities	$3,960	$774
Investing Activities		
Proceeds from sales of available-for-sale investment securities	1,060	3,810
Proceeds from maturities of investment securities	6,714	3,658
Purchases of investment securities	(9,968)	(6,727)
Net decrease in loans outstanding	507	366
Proceeds from sales of loans	1,030	1,881
Purchases of loans	(1,807)	(1,277)
Acquisitions, net of cash acquired	832	222
Other, net	(779)	838
Net cash provided by (used in) investing activities	(2,411)	2,771
Financing Activities		
Net increase (decrease) in deposits	(602)	4,307
Net increase (decrease) in short-term borrowings	1,832	(4,285)
Proceeds from issuance of long-term debt	2,923	4,682
Principal payments or redemption of long-term debt	(6,684)	(3,741)
Fees paid on exchange of income trust securities for perpetual preferred stock	(4)	
Proceeds from issuance of common stock	43	2,684
Redemption of preferred stock		(6,599)
Cash dividends paid on preferred stock	(38)	(237)
Cash dividends paid on common stock	(192)	(834)
Net cash used in financing activities	(2,722)	(4,023)
Change in cash and due from banks	(1,173)	(478)
Cash and due from banks at beginning of period	6,206	6,859
Cash and due from banks at end of period	$5,033	$6,381

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Certain amounts in prior periods have been reclassified to conform to the current presentation.
Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs, expenses and other financial elements to each line of business. Table 10 Line of Business Financial Performance included in Management s Discussion and Analysis provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Accounting for Transfers of Financial Assets Effective January 1, 2010, the Company adopted accounting guidance issued by the Financial Accounting Standards Board (FASB) related to transfers of financial assets. This guidance removes the concept of qualifying special-purpose entities and the exception for guaranteed mortgage securitizations when a transferor had not surrendered control over the transferred financial assets. In addition, the guidance provides clarification of the requirements for isolation and limitations on sale accounting for portions of financial assets. The guidance also requires additional disclosure about transfers of financial assets and a transferor s continuing involvement with transferred assets. The adoption of this guidance was not significant to the Company s financial statements.

Variable Interest Entities Effective January 1, 2010, the Company adopted accounting guidance issued by the FASB related to variable interest entities (VIEs). Generally, a VIE is an entity with insufficient equity at risk requiring additional subordinated financial support, or an entity in which equity investors as a group, either (i) lack the power through voting or other similar rights, to direct the activities of the entity that most significantly impact its performance, (ii) lack the obligation to absorb the expected losses of the entity or (iii) lack the right to receive the expected residual returns of the entity. The new guidance replaces the previous quantitative-based risks and rewards calculation for determining whether an entity must consolidate a VIE with an assessment of whether the entity has both (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This guidance requires reconsideration of whether an entity is a VIE upon occurrence of certain events, as well as ongoing assessments of whether a variable interest holder is the primary beneficiary of a VIE. The Company consolidated approximately $1.6 billion of assets of previously unconsolidated entities, and deconsolidated approximately $84 million of assets of previously consolidated entities upon adoption of this guidance. Additionally, the adoption of this guidance reduced total equity by $89 million.

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Note 3 Investment Securities

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

	June 30, 2010					December 31, 2009				
			Unrealized Losses					Unrealized Losses		
(Dollars in Millions)	Amortized Cost	Unrealized Gains	Other-than-Temporary	Other	Fair Value	Amortized Cost	Unrealized Gains	Other-than-Temporary	Other	Fair Value
Held-to-maturity (a)										
U.S. Treasury and agencies	$ 63	$	$	$	$ 63	$	$	$	$	$
Mortgage-backed securities										
Residential										
Agency	4				4	4				4
Non-agency										
Non-prime	4				4					
Commercial	10			(6)	4					
Asset-backed securities										
Collateralized debt obligations/Collaterized loan obligations	208	9		(29)	188					
Other	132		(2)	(7)	123					
Obligations of state and political subdivisions	30	2		(2)	30	32	2		(1)	33
Other debt securities	139			(36)	103	11				11