

US BANCORP \DE\  
Form 10-Q  
May 06, 2011

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

**Form 10-Q**

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

**For the quarterly period ended March 31, 2011**

**OR**

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

**For the transition period from (not applicable)**

**Commission file number 1-6880**

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-0255900**

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

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

(Address of principal executive offices, including zip code)

**651-466-3000**

(Registrant's telephone number, including area code)

**(not applicable)**

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

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

YES ☒ NO ☐

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

YES ☒ NO ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

YES ☐ NO ☒

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

| Class                         | Outstanding as of April 30, 2011 |
|-------------------------------|----------------------------------|
| Common Stock, \$.01 Par Value | 1,926,650,215 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. Continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp's business and financial performance is likely to be impacted by effects of recently enacted and future legislation and regulation. U.S. Bancorp's results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, and liquidity risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2010, on file with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Corporate Risk Profile" contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

**Table of Contents****Table 1** Selected Financial Data

|                                                            | Three Months Ended<br>March 31, |            | Percent<br>Change |
|------------------------------------------------------------|---------------------------------|------------|-------------------|
| (Dollars and Shares in Millions, Except Per Share Data)    | 2011                            | 2010       |                   |
| <b>Condensed Income Statement</b>                          |                                 |            |                   |
| Net interest income (taxable-equivalent basis) (a)         | \$ 2,507                        | \$ 2,403   | 4.3%              |
| Noninterest income                                         | 2,017                           | 1,952      | 3.3               |
| Securities gains (losses), net                             | (5)                             | (34)       | 85.3              |
| Total net revenue                                          | 4,519                           | 4,321      | 4.6               |
| Noninterest expense                                        | 2,314                           | 2,136      | 8.3               |
| Provision for credit losses                                | 755                             | 1,310      | (42.4)            |
| Income before taxes                                        | 1,450                           | 875        | 65.7              |
| Taxable-equivalent adjustment                              | 55                              | 51         | 7.8               |
| Applicable income taxes                                    | 366                             | 161        | *                 |
| Net income                                                 | 1,029                           | 663        | 55.2              |
| Net (income) loss attributable to noncontrolling interests | 17                              | 6          | *                 |
| Net income attributable to U.S. Bancorp                    | \$ 1,046                        | \$ 669     | 56.4              |
| Net income applicable to U.S. Bancorp common shareholders  | \$ 1,003                        | \$ 648     | 54.8              |
| <b>Per Common Share</b>                                    |                                 |            |                   |
| Earnings per share                                         | \$ .52                          | \$ .34     | 52.9%             |
| Diluted earnings per share                                 | .52                             | .34        | 52.9              |
| Dividends declared per share                               | .125                            | .050       | *                 |
| Book value per share                                       | 14.83                           | 13.16      | 12.7              |
| Market value per share                                     | 26.43                           | 25.88      | 2.1               |
| Average common shares outstanding                          | 1,918                           | 1,910      | .4                |
| Average diluted common shares outstanding                  | 1,928                           | 1,919      | .5                |
| <b>Financial Ratios</b>                                    |                                 |            |                   |
| Return on average assets                                   | 1.38%                           | .96%       |                   |
| Return on average common equity                            | 14.5                            | 10.5       |                   |
| Net interest margin (taxable-equivalent basis) (a)         | 3.69                            | 3.90       |                   |
| Efficiency ratio (b)                                       | 51.1                            | 49.0       |                   |
| <b>Average Balances</b>                                    |                                 |            |                   |
| Loans                                                      | \$ 197,570                      | \$ 192,878 | 2.4%              |
| Loans held for sale                                        | 6,104                           | 3,932      | 55.2              |
| Investment securities                                      | 56,405                          | 46,211     | 22.1              |
| Earning assets                                             | 273,940                         | 248,828    | 10.1              |
| Assets                                                     | 307,896                         | 281,722    | 9.3               |
| Noninterest-bearing deposits                               | 44,189                          | 38,000     | 16.3              |
| Deposits                                                   | 204,305                         | 182,531    | 11.9              |

|                                         |        |        |       |
|-----------------------------------------|--------|--------|-------|
| Short-term borrowings                   | 32,203 | 32,551 | (1.1) |
| Long-term debt                          | 31,567 | 32,456 | (2.7) |
| Total U.S. Bancorp shareholders' equity | 30,009 | 26,414 | 13.6  |

|                                                                                         | March 31,<br>2011 | December 31,<br>2010 |      |
|-----------------------------------------------------------------------------------------|-------------------|----------------------|------|
| <b>Period End Balances</b>                                                              |                   |                      |      |
| Loans                                                                                   | \$ 198,038        | \$ 197,061           | .5%  |
| Allowance for credit losses                                                             | 5,498             | 5,531                | (.6) |
| Investment securities                                                                   | 60,461            | 52,978               | 14.1 |
| Assets                                                                                  | 311,462           | 307,786              | 1.2  |
| Deposits                                                                                | 208,293           | 204,252              | 2.0  |
| Long-term debt                                                                          | 31,775            | 31,537               | .8   |
| Total U.S. Bancorp shareholders' equity                                                 | 30,507            | 29,519               | 3.3  |
| <b>Capital ratios</b>                                                                   |                   |                      |      |
| Tier 1 capital                                                                          | 10.8%             | 10.5%                |      |
| Total risk-based capital                                                                | 13.8              | 13.3                 |      |
| Leverage                                                                                | 9.0               | 9.1                  |      |
| Tier 1 common equity to risk-weighted assets using Basel I definition (c)               | 8.2               | 7.8                  |      |
| Tier 1 common equity to risk-weighted assets using anticipated Basel III definition (c) | 7.7               |                      |      |
| Tangible common equity to tangible assets (c)                                           | 6.3               | 6.0                  |      |
| Tangible common equity to risk-weighted assets (c)                                      | 7.6               | 7.2                  |      |

\* Not meaningful.

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

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

(c) See Non-Regulatory Capital Ratios beginning on page 24.

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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 \$1.0 billion for the first quarter of 2011, or \$.52 per diluted common share, compared with \$669 million, or \$.34 per diluted common share for the first quarter of 2010. Return on average assets and return on average common equity were 1.38 percent and 14.5 percent, respectively, for the first quarter of 2011, compared with .96 percent and 10.5 percent, respectively, for the first quarter of 2010. Included in the first quarter of 2011 was a \$46 million gain related to the acquisition of First Community Bank of New Mexico (FCB) in a transaction with the Federal Deposit Insurance Corporation (FDIC). The first quarter of 2010 results included net securities losses of \$34 million. The provision for credit losses for the first quarter of 2011 was \$50 million lower than net charge-offs, compared with \$175 million in excess of net charge-offs for the first quarter of 2010.

Total net revenue, on a taxable-equivalent basis, for the first quarter of 2011 was \$198 million (4.6 percent) higher than the first quarter of 2010, reflecting a 4.3 percent increase in net interest income and a 4.9 percent increase in total noninterest income. The increase in net interest income over a year ago was largely the result of an increase in average earning assets and continued growth in lower cost core deposit funding. Noninterest income increased over a year ago, primarily due to higher payments-related revenue, commercial products revenue and other income, as well as lower securities losses.

Total noninterest expense in the first quarter of 2011 was \$178 million (8.3 percent) higher than the first quarter of 2010, primarily due to higher total compensation and employee benefits expense, including higher pension costs. The provision for credit losses for the first quarter of 2011 was \$755 million, or \$555 million (42.4 percent) lower than the first quarter of 2010. Net charge-offs in the first quarter of 2011 were \$805 million, compared with \$1.1 billion in the first quarter of 2010. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**STATEMENT OF INCOME ANALYSIS**

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$2.5 billion in the first quarter of 2011, compared with \$2.4 billion in the first quarter of 2010. The \$104 million (4.3 percent) increase was primarily the result of growth in average earning assets and lower cost core deposit funding. Average earning assets were \$25.1 billion (10.1 percent) higher in the first quarter of 2011, compared with the first quarter of 2010, driven by increases of \$4.7 billion (2.4 percent) in average loans, \$10.2 billion (22.1 percent) in average investment securities and \$8.1 billion in average other earning assets, which included balances held at the Federal Reserve. The net interest margin in the first quarter of 2011 was 3.69 percent, compared with 3.90 percent in the first quarter of 2010. The decrease in the net interest margin reflected higher balances in lower yielding investment securities and growth in cash balances held at the Federal Reserve. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Total average loans for the first quarter of 2011 were \$4.7 billion (2.4 percent) higher than the first quarter of 2010, driven by growth in residential mortgages (20.3 percent), commercial loans (3.0 percent), commercial real estate loans (3.0 percent) and retail loans (1.0 percent), partially offset by a 17.6 percent decrease in loans covered by loss sharing agreements with the FDIC. The increases were driven by demand for loans and lines by new and existing credit-worthy borrowers and the impact of the FCB acquisition. Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) were \$17.6 billion in the first quarter of 2011, compared with \$21.4 billion in the same period of 2010.

Average investment securities in the first quarter of 2011 were \$10.2 billion (22.1 percent) higher than the first quarter of 2010, primarily due to purchases of U.S. Treasury and government agency-related securities, as the Company

increased its on-balance sheet liquidity in response to anticipated regulatory requirements.  
Average total deposits for the first quarter of 2011 were \$21.8 billion (11.9 percent) higher than the first

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|                                          | Three Months Ended<br>March 31, |          | Percent<br>Change |
|------------------------------------------|---------------------------------|----------|-------------------|
| (Dollars in Millions)                    | 2011                            | 2010     |                   |
| Credit and debit card revenue            | \$ 267                          | \$ 258   | 3.5%              |
| Corporate payment products revenue       | 175                             | 168      | 4.2               |
| Merchant processing services             | 301                             | 292      | 3.1               |
| ATM processing services                  | 112                             | 105      | 6.7               |
| Trust and investment management fees     | 256                             | 264      | (3.0)             |
| Deposit service charges                  | 143                             | 207      | (30.9)            |
| Treasury management fees                 | 137                             | 137      |                   |
| Commercial products revenue              | 191                             | 161      | 18.6              |
| Mortgage banking revenue                 | 199                             | 200      | (.5)              |
| Investment products fees and commissions | 32                              | 25       | 28.0              |
| Securities gains (losses), net           | (5)                             | (34)     | 85.3              |
| Other                                    | 204                             | 135      | 51.1              |
| Total noninterest income                 | \$ 2,012                        | \$ 1,918 | 4.9%              |

quarter of 2010. Excluding deposits from acquisitions, first quarter 2011 average total deposits increased \$13.2 billion (7.3 percent) over the first quarter of 2010. Average noninterest-bearing deposits for the first quarter of 2011 were \$6.2 billion (16.3 percent) higher than the same period of 2010, primarily due to growth in Wholesale Banking and Commercial Real Estate and Consumer and Small Business Banking balances. Average total savings deposits were \$14.7 billion (14.9 percent) higher in the first quarter of 2011, compared with the first quarter of 2010, primarily the result of growth in corporate trust balances, including the impact of the December 30, 2010 acquisition of the securitization trust administration business of Bank of America, N.A. ( securitization trust acquisition ), and Consumer and Small Business Banking balances. Average time certificates of deposit less than \$100,000 were lower in the first quarter of 2011 by \$3.1 billion (16.7 percent), compared with the first quarter of 2010, as a result of expected decreases in acquired certificates of deposit and decreases in Consumer and Small Business Banking balances. Average time deposits greater than \$100,000 were \$4.0 billion (14.5 percent) higher in the first quarter of 2011, compared with the first quarter of 2010, principally due to higher balances in Wholesale Banking and Commercial Real Estate and institutional and corporate trust, including the impact of the securitization trust acquisition, and the FCB acquisition.

**Provision for Credit Losses** The provision for credit losses for the first quarter of 2011 decreased \$555 million (42.4 percent) from the first quarter of 2010. Net charge-offs decreased \$330 million (29.1 percent) in the first quarter of 2011, compared with the first quarter of 2010, principally due to improvement in the commercial, commercial real estate, credit card and other retail loan portfolios. Delinquencies also decreased in most major loan categories in the first quarter of 2011, compared to the first quarter of 2010. The provision for credit losses was \$50 million lower than net charge-offs in the first quarter of 2011, but exceeded net charge-offs by \$175 million in the first quarter of 2010. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income in the first quarter of 2011 was \$2.0 billion, compared with \$1.9 billion in the first quarter of 2010. The \$94 million (4.9 percent) increase was due to higher payments-related revenues, principally due to increased transaction volumes and business expansion, and an increase in commercial products revenue attributable to higher standby letters of credit fees, commercial loan and syndication fees, foreign exchange income and other capital markets revenue. In addition, net securities losses decreased, primarily due to lower impairments in the current year, and other income increased principally due to the FCB gain and a gain related to the Company's investment in Visa Inc. recorded during the first quarter of 2011. Offsetting these positive variances was a decrease in deposit service charges from the prior year, primarily due to Company-initiated and regulatory revisions to overdraft fee policies, partially offset by core account growth. In addition, trust and investment management fees declined as a result of the transfer of the Company's long-term asset management business in the fourth quarter of 2010, partially offset by the positive impact of the securitization trust acquisition and improved market conditions.

**Noninterest Expense** Noninterest expense was \$2.3 billion in the first quarter of 2011, compared with \$2.1 billion in the first quarter of 2010, or an increase of \$178 million (8.3 percent). The increase in noninterest expense from a year ago was principally due

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

|                                    | Three Months Ended<br>March 31, |          | Percent<br>Change |
|------------------------------------|---------------------------------|----------|-------------------|
| (Dollars in Millions)              | 2011                            | 2010     |                   |
| Compensation                       | \$ 959                          | \$ 861   | 11.4%             |
| Employee benefits                  | 230                             | 180      | 27.8              |
| Net occupancy and equipment        | 249                             | 227      | 9.7               |
| Professional services              | 70                              | 58       | 20.7              |
| Marketing and business development | 65                              | 60       | 8.3               |
| Technology and communications      | 185                             | 185      |                   |
| Postage, printing and supplies     | 74                              | 74       |                   |
| Other intangibles                  | 75                              | 97       | (22.7)            |
| Other                              | 407                             | 394      | 3.3               |
| Total noninterest expense          | \$ 2,314                        | \$ 2,136 | 8.3%              |
| Efficiency ratio (a)               | 51.1%                           | 49.0%    |                   |

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

to increased total compensation and employee benefits expense. Total compensation increased primarily due to acquisitions, branch expansion and other business initiatives. Employee benefits expense increased due to higher pension and medical costs and the impact of additional staff. Net occupancy and equipment expense increased principally due to business expansion and technology initiatives. Professional services expense increased due to technology-related and other projects across multiple business lines. Other expense increased over the prior year primarily due to insurance and litigation matters. These increases were partially offset by a decrease in other intangibles expense due to the reduction or completion of the amortization of certain intangibles.

**Income Tax Expense** The provision for income taxes was \$366 million (an effective rate of 26.2 percent) for the first quarter of 2011, compared with \$161 million (an effective rate of 19.5 percent) for the first quarter of 2010. The increase in the effective tax rate for the first quarter of 2011, compared with the same period of the prior year, principally reflected the marginal impact of higher pretax earnings year-over-year. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

**BALANCE SHEET ANALYSIS**

**Loans** The Company's total loan portfolio was \$198.0 billion at March 31, 2011, compared with \$197.1 billion at December 31, 2010, an increase of \$977 million (.5 percent). The increase was driven primarily by increases in most major loan categories, partially offset by lower retail and covered loans. The \$874 million (1.8 percent) increase in commercial loans and \$742 million (2.1 percent) increase in commercial real estate loans were primarily driven by the FCB acquisition and higher loan demand from new and existing customers.

Residential mortgages held in the loan portfolio increased \$1.6 billion (5.2 percent) at March 31, 2011, compared with December 31, 2010. 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 \$1.4 billion (2.2 percent) at March 31, 2011, compared with December 31, 2010. The decrease was primarily driven by lower credit card and home equity balances.

**Loans Held for Sale** Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were \$4.1 billion at March 31, 2011, compared with \$8.4 billion at December 31, 2010. The decrease in loans held for sale was principally due to a decrease in mortgage loan origination and refinancing activity, primarily driven by an increase in interest rates during the first quarter of 2011.

**Investment Securities** Investment securities totaled \$60.5 billion at March 31, 2011, compared with \$53.0 billion at December 31, 2010. The \$7.5 billion (14.1 percent) increase primarily reflected \$7.0 billion of net investment purchases and \$.3 billion of securities acquired in the FCB acquisition, both primarily in the held-to-maturity investment portfolio. Held-to-maturity securities were \$8.2 billion at March 31, 2011, compared with \$1.5 billion at December 31, 2010, primarily reflecting increases in U.S. Treasury and agency mortgage-backed securities, as the Company increased its on-balance sheet liquidity in response to anticipated regulatory requirements. The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. At March 31, 2011, the Company's net unrealized loss on

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|                                                              | Available-for-Sale |            |                           |                   | Held-to-Maturity |            |                           |                   |
|--------------------------------------------------------------|--------------------|------------|---------------------------|-------------------|------------------|------------|---------------------------|-------------------|
|                                                              | Amortized          |            | Weighted-Average Maturity |                   | Amortized        |            | Weighted-Average Maturity |                   |
|                                                              | Cost               | Fair Value | in Years                  | Average Yield (e) | Cost             | Fair Value | in Years                  | Average Yield (e) |
| March 31, 2011 (Dollars in Millions)                         |                    |            |                           |                   |                  |            |                           |                   |
| <b>U.S. Treasury and Agencies</b>                            |                    |            |                           |                   |                  |            |                           |                   |
| Maturing in one year or less                                 | \$ 905             | \$ 907     | .3                        | 2.01%             | \$               | \$         |                           | %                 |
| Maturing after one year through five years                   | 1,605              | 1,579      | 2.6                       | 1.21              | 1,419            | 1,410      | 2.9                       | 1.04              |
| Maturing after five years through ten years                  | 33                 | 34         | 6.7                       | 4.87              |                  |            |                           |                   |
| Maturing after ten years                                     | 18                 | 17         | 12.0                      | 3.66              | 62               | 62         | 11.0                      | 1.76              |
| Total                                                        | \$ 2,561           | \$ 2,537   | 1.9                       | 1.56%             | \$ 1,481         | \$ 1,472   | 3.2                       | 1.07%             |
| <b>Mortgage-Backed Securities(a)</b>                         |                    |            |                           |                   |                  |            |                           |                   |
| Maturing in one year or less                                 | \$ 527             | \$ 528     | .7                        | 2.51%             | \$ 105           | \$ 105     | .8                        | 1.48%             |
| Maturing after one year through five years                   | 16,224             | 16,466     | 3.7                       | 3.09              | 3,126            | 3,130      | 3.7                       | 2.77              |
| Maturing after five years through ten years                  | 18,359             | 18,377     | 6.2                       | 3.01              | 2,573            | 2,569      | 6.1                       | 3.14              |
| Maturing after ten years                                     | 5,259              | 5,277      | 13.4                      | 1.55              | 530              | 532        | 14.0                      | 1.45              |
| Total                                                        | \$ 40,369          | \$ 40,648  | 6.1                       | 2.84%             | \$ 6,334         | \$ 6,336   | 5.5                       | 2.79%             |
| <b>Asset-Backed Securities(a)</b>                            |                    |            |                           |                   |                  |            |                           |                   |
| Maturing in one year or less                                 | \$ 3               | \$ 12      | .4                        | 15.16%            | \$ 103           | \$ 102     | .1                        | .59%              |
| Maturing after one year through five years                   | 173                | 191        | 2.8                       | 13.55             | 55               | 59         | 2.1                       | .94               |
| Maturing after five years through ten years                  | 481                | 501        | 7.6                       | 3.60              | 49               | 48         | 5.8                       | .90               |
| Maturing after ten years                                     | 250                | 247        | 10.4                      | 2.24              | 33               | 29         | 23.1                      | .80               |
| Total                                                        | \$ 907             | \$ 951     | 7.5                       | 5.16%             | \$ 240           | \$ 238     | 4.9                       | .76%              |
| <b>Obligations of State and Political Subdivisions(b)(c)</b> |                    |            |                           |                   |                  |            |                           |                   |
| Maturing in one year or less                                 | \$ 15              | \$ 14      | .7                        | 5.92%             | \$               | \$         | .5                        | 6.99%             |
| Maturing after one year through five years                   | 991                | 992        | 3.9                       | 6.03              | 6                | 6          | 3.6                       | 8.02              |
|                                                              | 856                | 845        | 6.4                       | 6.62              | 5                | 6          | 6.1                       | 6.56              |

Maturing after five years through ten years

|                          |          |          |      |       |       |       |      |       |
|--------------------------|----------|----------|------|-------|-------|-------|------|-------|
| Maturing after ten years | 4,966    | 4,561    | 21.2 | 6.86  | 15    | 14    | 15.8 | 5.53  |
| Total                    | \$ 6,828 | \$ 6,412 | 16.8 | 6.71% | \$ 26 | \$ 26 | 10.9 | 6.30% |

#### Other Debt Securities

|                                             |           |           |      |       |          |          |     |       |
|---------------------------------------------|-----------|-----------|------|-------|----------|----------|-----|-------|
| Maturing in one year or less                | \$ 10     | \$ 12     | .7   | 4.30% | \$       | \$       |     | %     |
| Maturing after one year through five years  | 63        | 55        | 1.1  | 6.20  | 14       | 12       | 2.3 | 1.27  |
| Maturing after five years through ten years | 31        | 30        | 6.5  | 6.33  | 118      | 95       | 7.5 | 1.15  |
| Maturing after ten years                    | 1,332     | 1,218     | 31.7 | 4.17  |          |          |     |       |
| Total                                       | \$ 1,436  | \$ 1,315  | 29.6 | 4.31% | \$ 132   | \$ 107   | 7.0 | 1.16% |
| Other Investments                           | \$ 341    | \$ 385    | 16.1 | 3.87% | \$       | \$       |     | %     |
| Total investment securities (d)             | \$ 52,442 | \$ 52,248 | 8.0  | 3.37% | \$ 8,213 | \$ 8,179 | 5.1 | 2.41% |

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

| (Dollars in Millions)                           | March 31, 2011 |                  | December 31, 2010 |                  |
|-------------------------------------------------|----------------|------------------|-------------------|------------------|
|                                                 | Amortized Cost | Percent of Total | Amortized Cost    | Percent of Total |
| U.S. Treasury and agencies                      | \$ 4,042       | 6.7%             | \$ 2,724          | 5.1%             |
| Mortgage-backed securities                      | 46,703         | 77.0             | 40,654            | 76.2             |
| Asset-backed securities                         | 1,147          | 1.9              | 1,197             | 2.3              |
| Obligations of state and political subdivisions | 6,854          | 11.3             | 6,862             | 12.9             |
| Other debt securities and investments           | 1,909          | 3.1              | 1,887             | 3.5              |
| Total investment securities                     | \$ 60,655      | 100.0%           | \$ 53,324         | 100.0%           |

available-for-sale securities was \$194 million, compared with \$346 million at December 31, 2010. The favorable change in net unrealized losses was primarily due to increases in the fair value of non-agency mortgage-backed securities and trust preferred securities. Unrealized losses on available-for-sale securities in an unrealized loss position



totaled \$1.1 billion at March 31, 2011, compared with \$1.2 billion at December 31, 2010. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying collateral or assets and market conditions. At March 31,

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2011, the Company had no plans to sell securities with unrealized losses and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

There is limited market activity for non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management's assessment of various other market factors, which are judgmental in nature. The Company recorded \$6 million of impairment charges in earnings during the first quarter of 2011, predominately on non-agency mortgage-backed securities. These impairment charges were due to changes in expected cash flows resulting from increases in defaults in the underlying mortgage pools. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 4 and 12 in the Notes to Consolidated Financial Statements for further information on investment securities.

**Deposits** Total deposits were \$208.3 billion at March 31, 2011, compared with \$204.3 billion at December 31, 2010, the result of increases in savings, noninterest-bearing and time deposits, partially offset by decreases in money market and interest checking deposits. Savings account balances increased \$2.1 billion (8.6 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking.

Noninterest-bearing deposits increased \$1.7 billion (3.8 percent), primarily due to increases in Wholesale Banking and Commercial Real Estate balances. Time certificates of deposit less than \$100,000 increased \$289 million (1.9 percent) primarily due to the FCB acquisition. Time deposits greater than \$100,000 increased \$2.4 billion (8.0 percent), principally due to higher Wholesale Banking and Commercial Real Estate and institutional trust balances and the FCB acquisition. Time deposits greater than \$100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing. Money market balances decreased \$1.6 billion (3.4 percent) primarily due to lower broker dealer balances. Interest checking balances decreased \$840 million (1.9 percent) primarily due to lower institutional trust balances.

**Borrowings** The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were \$31.0 billion at March 31, 2011, compared with \$32.6 billion at December 31, 2010. The \$1.6 billion (4.7 percent) decrease in short-term borrowings was primarily in repurchase agreements and reflected reduced borrowing needs as a result of increases in deposits. Long-term debt was \$31.8 billion at March 31, 2011, compared with \$31.5 billion at December 31, 2010. The \$.3 billion (.8 percent) increase was primarily due to an increase in long-term debt related to certain consolidated variable interest entities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

**CORPORATE RISK PROFILE****Overview**

Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, residual value, operational, interest rate, market and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Operational risk includes risks related to fraud, legal and compliance, processing errors, technology, breaches of internal controls and business continuation and disaster recovery. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the re-pricing of assets and liabilities differently. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage servicing rights (MSRs) and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. In addition, corporate strategic decisions, as well as the risks 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

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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, 2010, for a more detailed discussion on credit risk management processes.

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

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 March 31, 2011 (excluding covered loans):

| Residential mortgages<br>(Dollars in Millions) | Interest<br>Only | Amortizing | Total     | Percent<br>of Total |
|------------------------------------------------|------------------|------------|-----------|---------------------|
| <b>Consumer Finance</b>                        |                  |            |           |                     |
| Less than or equal to 80%                      | \$ 1,415         | \$ 5,162   | \$ 6,577  | 54.9%               |
| Over 80% through 90%                           | 463              | 2,573      | 3,036     | 25.3                |
| Over 90% through 100%                          | 425              | 1,789      | 2,214     | 18.5                |
| Over 100%                                      |                  | 162        | 162       | 1.3                 |
| <b>Total</b>                                   | \$ 2,303         | \$ 9,686   | \$ 11,989 | 100.0%              |
| <b>Other Retail</b>                            |                  |            |           |                     |
| Less than or equal to 80%                      | \$ 1,900         | \$ 17,010  | \$ 18,910 | 92.9%               |
| Over 80% through 90%                           | 53               | 686        | 739       | 3.6                 |
| Over 90% through 100%                          | 66               | 640        | 706       | 3.5                 |
| Over 100%                                      |                  |            |           |                     |
| <b>Total</b>                                   | \$ 2,019         | \$ 18,336  | \$ 20,355 | 100.0%              |
| <b>Total Company</b>                           |                  |            |           |                     |
| Less than or equal to 80%                      | \$ 3,315         | \$ 22,172  | \$ 25,487 | 78.8%               |
| Over 80% through 90%                           | 516              | 3,259      | 3,775     | 11.7                |
| Over 90% through 100%                          | 491              | 2,429      | 2,920     | 9.0                 |
| Over 100%                                      |                  | 162        | 162       | .5                  |
| <b>Total</b>                                   | \$ 4,322         | \$ 28,022  | \$ 32,344 | 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

Percent

| (Dollars in Millions)      | Lines     | Loans    | Total     | of Total |
|----------------------------|-----------|----------|-----------|----------|
| <b>Consumer Finance(a)</b> |           |          |           |          |
| Less than or equal to 80%  | \$ 1,067  | \$ 194   | \$ 1,261  | 50.6%    |
| Over 80% through 90%       | 446       | 139      | 585       | 23.5     |
| Over 90% through 100%      | 317       | 219      | 536       | 21.5     |
| Over 100%                  | 50        | 60       | 110       | 4.4      |
| <b>Total</b>               | \$ 1,880  | \$ 612   | \$ 2,492  | 100.0%   |
| <b>Other Retail</b>        |           |          |           |          |
| Less than or equal to 80%  | \$ 11,408 | \$ 1,176 | \$ 12,584 | 78.0%    |
| Over 80% through 90%       | 2,052     | 448      | 2,500     | 15.5     |
| Over 90% through 100%      | 641       | 345      | 986       | 6.1      |
| Over 100%                  | 41        | 25       | 66        | .4       |
| <b>Total</b>               | \$ 14,142 | \$ 1,994 | \$ 16,136 | 100.0%   |
| <b>Total Company</b>       |           |          |           |          |
| Less than or equal to 80%  | \$ 12,475 | \$ 1,370 | \$ 13,845 | 74.3%    |
| Over 80% through 90%       | 2,498     | 587      | 3,085     | 16.6     |
| Over 90% through 100%      | 958       | 564      | 1,522     | 8.2      |
| Over 100%                  | 91        | 85       | 176       | .9       |
| <b>Total</b>               | \$ 16,022 | \$ 2,606 | \$ 18,628 | 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.

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Within the consumer finance division, at March 31, 2011, approximately \$2.1 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, unchanged from December 31, 2010.

The following table provides further information on the loan-to-values of residential mortgages specifically for the consumer finance division at March 31, 2011:

| (Dollars in Millions)         | Interest<br>Only | Amortizing | Total     | Percent of<br>Division |
|-------------------------------|------------------|------------|-----------|------------------------|
| <b>Sub-Prime Borrowers</b>    |                  |            |           |                        |
| Less than or equal to 80%     | \$ 5             | \$ 946     | \$ 951    | 7.9%                   |
| Over 80% through 90%          | 2                | 474        | 476       | 4.0                    |
| Over 90% through 100%         | 13               | 574        | 587       | 4.9                    |
| Over 100%                     |                  | 44         | 44        | .4                     |
| <b>Total</b>                  | \$ 20            | \$ 2,038   | \$ 2,058  | 17.2%                  |
| <b>Other Borrowers</b>        |                  |            |           |                        |
| Less than or equal to 80%     | \$ 1,410         | \$ 4,216   | \$ 5,626  | 46.9%                  |
| Over 80% through 90%          | 461              | 2,099      | 2,560     | 21.3                   |
| Over 90% through 100%         | 412              | 1,215      | 1,627     | 13.6                   |
| Over 100%                     |                  | 118        | 118       | 1.0                    |
| <b>Total</b>                  | \$ 2,283         | \$ 7,648   | \$ 9,931  | 82.8%                  |
| <b>Total Consumer Finance</b> | \$ 2,303         | \$ 9,686   | \$ 11,989 | 100.0%                 |

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

The following table provides further information on the loan-to-values of home equity and second mortgages specifically for the consumer finance division at March 31, 2011:

| (Dollars in Millions)      | Lines    | Loans  | Total    | Percent<br>of Total |
|----------------------------|----------|--------|----------|---------------------|
| <b>Sub-Prime Borrowers</b> |          |        |          |                     |
| Less than or equal to 80%  | \$ 63    | \$ 115 | \$ 178   | 7.1%                |
| Over 80% through 90%       | 41       | 78     | 119      | 4.8                 |
| Over 90% through 100%      | 7        | 133    | 140      | 5.6                 |
| Over 100%                  | 33       | 48     | 81       | 3.3                 |
| <b>Total</b>               | \$ 144   | \$ 374 | \$ 518   | 20.8%               |
| <b>Other Borrowers</b>     |          |        |          |                     |
| Less than or equal to 80%  | \$ 1,004 | \$ 79  | \$ 1,083 | 43.4%               |
| Over 80% through 90%       | 405      | 61     | 466      | 18.7                |
| Over 90% through 100%      | 310      | 86     | 396      | 15.9                |

|                               |          |        |          |        |
|-------------------------------|----------|--------|----------|--------|
| Over 100%                     | 17       | 12     | 29       | 1.2    |
| <b>Total</b>                  | \$ 1,736 | \$ 238 | \$ 1,974 | 79.2%  |
| <b>Total Consumer Finance</b> | \$ 1,880 | \$ 612 | \$ 2,492 | 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 .8 percent of total assets at March 31, 2011, compared with .9 percent at December 31, 2010. Covered loans included \$1.5 billion in loans with negative-amortization payment options at March 31, 2011, compared with \$1.6 billion at December 31, 2010. Other than covered loans, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

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

|                                                               | March 31,<br>2011 | December 31,<br>2010 |
|---------------------------------------------------------------|-------------------|----------------------|
| 90 days or more past due <b>excluding</b> nonperforming loans |                   |                      |
| <b>Commercial</b>                                             |                   |                      |
| Commercial                                                    | .13%              | .15%                 |
| Lease financing                                               | .03               | .02                  |
| Total commercial                                              | .12               | .13                  |
| <b>Commercial Real Estate</b>                                 |                   |                      |
| Commercial mortgages                                          | .02               |                      |
| Construction and development                                  | .01               | .01                  |
| Total commercial real estate                                  | .02               |                      |
| <b>Residential Mortgages</b>                                  | 1.33              | 1.63                 |
| <b>Retail</b>                                                 |                   |                      |
| Credit card                                                   | 1.62              | 1.86                 |
| Retail leasing                                                | .04               | .05                  |
| Other retail                                                  | .45               | .49                  |
| Total retail                                                  | .71               | .81                  |
| Total loans, excluding covered loans                          | .52               | .61                  |
| <b>Covered Loans</b>                                          | 5.83              | 6.04                 |
| Total loans                                                   | .99%              | 1.11%                |
|                                                               |                   |                      |
|                                                               | March 31,<br>2011 | December 31,<br>2010 |
| 90 days or more past due including nonperforming loans        |                   |                      |
| Commercial                                                    | 1.12%             | 1.37%                |
| Commercial real estate                                        | 4.17              | 3.73                 |
| Residential mortgages (a)                                     | 3.45              | 3.70                 |

|                                      |       |       |
|--------------------------------------|-------|-------|
| Retail (b)                           | 1.23  | 1.26  |
| Total loans, excluding covered loans | 2.17  | 2.19  |
| Covered loans                        | 12.51 | 12.94 |
| Total loans                          | 3.07% | 3.17% |

- (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 11.42 percent at March 31, 2011, and 12.28 percent at December 31, 2010.*
- (b) *Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including the guaranteed amounts, the ratio of retail loans 90 days or more past due including nonperforming loans was 1.58 percent at March 31, 2011, and 1.60 percent at December 31, 2010.*



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**Loan Delinquencies** Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company's loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$2.0 billion (\$949 million excluding covered loans) at March 31, 2011, compared with \$2.2 billion (\$1.1 billion excluding covered loans) at December 31, 2010. The \$145 million (13.3 percent) decrease, excluding covered loans, reflected a moderation in the level of stress in economic conditions in the first quarter of 2011. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was .99 percent (.52 percent excluding covered loans) at March 31, 2011, compared with 1.11 percent (.61 percent excluding covered loans) at December 31, 2010.

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

| (Dollars in Millions)                   | Amount            |                      | As a Percent of Ending<br>Loan Balances |                      |
|-----------------------------------------|-------------------|----------------------|-----------------------------------------|----------------------|
|                                         | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2011                       | December 31,<br>2010 |
| <b>Residential mortgages</b>            |                   |                      |                                         |                      |
| 30-89 days                              | \$ 395            | \$ 456               | 1.22%                                   | 1.48%                |
| 90 days or more                         | 432               | 500                  | 1.33                                    | 1.63                 |
| Nonperforming                           | 685               | 636                  | 2.12                                    | 2.07                 |
| <b>Total</b>                            | <b>\$ 1,512</b>   | <b>\$ 1,592</b>      | <b>4.67%</b>                            | <b>5.18%</b>         |
| <b>Retail</b>                           |                   |                      |                                         |                      |
| <b>Credit card</b>                      |                   |                      |                                         |                      |
| 30-89 days                              | \$ 228            | \$ 269               | 1.44%                                   | 1.60%                |
| 90 days or more                         | 258               | 313                  | 1.62                                    | 1.86                 |
| Nonperforming                           | 255               | 228                  | 1.61                                    | 1.36                 |
| <b>Total</b>                            | <b>\$ 741</b>     | <b>\$ 810</b>        | <b>4.67%</b>                            | <b>4.82%</b>         |
| <b>Retail leasing</b>                   |                   |                      |                                         |                      |
| 30-89 days                              | \$ 12             | \$ 17                | .26%                                    | .37%                 |
| 90 days or more                         | 2                 | 2                    | .04                                     | .05                  |
| Nonperforming                           |                   |                      |                                         |                      |
| <b>Total</b>                            | <b>\$ 14</b>      | <b>\$ 19</b>         | <b>.30%</b>                             | <b>.42%</b>          |
| <b>Home equity and second mortgages</b> |                   |                      |                                         |                      |
| 30-89 days                              | \$ 151            | \$ 175               | .81%                                    | .93%                 |
| 90 days or more                         | 133               | 148                  | .71                                     | .78                  |
| Nonperforming                           | 42                | 36                   | .23                                     | .19                  |
| <b>Total</b>                            | <b>\$ 326</b>     | <b>\$ 359</b>        | <b>1.75%</b>                            | <b>1.90%</b>         |
| <b>Other retail</b>                     |                   |                      |                                         |                      |
| 30-89 days                              | \$ 154            | \$ 212               | .63%                                    | .85%                 |
| 90 days or more                         | 60                | 66                   | .25                                     | .26                  |

|               |               |               |              |              |
|---------------|---------------|---------------|--------------|--------------|
| Nonperforming | 33            | 29            | .13          | .12          |
| <b>Total</b>  | <b>\$ 247</b> | <b>\$ 307</b> | <b>1.01%</b> | <b>1.23%</b> |

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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      |                      |
|-----------------------------------------|----------------------|----------------------|-------------------|----------------------|
|                                         | March 31,<br>2011    | December 31,<br>2010 | March 31,<br>2011 | December 31,<br>2010 |
| <b>Residential mortgages</b>            |                      |                      |                   |                      |
| 30-89 days                              | 1.90%                | 2.38%                | .82%              | .95%                 |
| 90 days or more                         | 1.85                 | 2.26                 | 1.03              | 1.24                 |
| Nonperforming                           | 2.93                 | 2.99                 | 1.64              | 1.52                 |
| <b>Total</b>                            | 6.68%                | 7.63%                | 3.49%             | 3.71%                |
| <b>Retail</b>                           |                      |                      |                   |                      |
| <b>Credit card</b>                      |                      |                      |                   |                      |
| 30-89 days                              | %                    | %                    | 1.44%             | 1.60%                |
| 90 days or more                         |                      |                      | 1.62              | 1.86                 |
| Nonperforming                           |                      |                      | 1.61              | 1.36                 |
| <b>Total</b>                            | %                    | %                    | 4.67%             | 4.82%                |
| <b>Retail leasing</b>                   |                      |                      |                   |                      |
| 30-89 days                              | %                    | %                    | .26%              | .37%                 |
| 90 days or more                         |                      |                      | .04               | .05                  |
| Nonperforming                           |                      |                      |                   |                      |
| <b>Total</b>                            | %                    | %                    | .30%              | .42%                 |
| <b>Home equity and second mortgages</b> |                      |                      |                   |                      |
| 30-89 days                              | 1.61%                | 1.98%                | .69%              | .76%                 |
| 90 days or more                         | 1.40                 | 1.82                 | .60               | .62                  |
| Nonperforming                           | .20                  | .20                  | .23               | .19                  |
| <b>Total</b>                            | 3.21%                | 4.00%                | 1.52%             | 1.57%                |
| <b>Other retail</b>                     |                      |                      |                   |                      |
| 30-89 days                              | 3.16%                | 4.42%                | .57%              | .77%                 |
| 90 days or more                         | .66                  | .68                  | .23               | .25                  |
| Nonperforming                           |                      |                      | .14               | .12                  |
| <b>Total</b>                            | 3.82%                | 5.10%                | .94%              | 1.14%                |

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

Within the consumer finance division at March 31, 2011, approximately \$364 million and \$59 million of these delinquent and nonperforming residential mortgages and home equity and other retail loans, respectively, were to customers that may be defined as sub-prime borrowers, compared with \$412 million and \$75 million, respectively, at December 31, 2010.

The following table provides summary delinquency information for covered loans:

| (Dollars in Millions) | Amount            |                      | As a Percent of<br>Ending<br>Loan Balances |                      |
|-----------------------|-------------------|----------------------|--------------------------------------------|----------------------|
|                       | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2011                          | December 31,<br>2010 |
| 30-89 days            | \$ 743            | \$ 757               | 4.31%                                      | 4.19%                |
| 90 days or more       | 1,005             | 1,090                | 5.83                                       | 6.04                 |
| Nonperforming         | 1,151             | 1,244                | 6.68                                       | 6.90                 |
| <b>Total</b>          | <b>\$ 2,899</b>   | <b>\$ 3,091</b>      | <b>16.82%</b>                              | <b>17.13%</b>        |

**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 if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles.

**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 March 31, 2011, loans modified under these programs, excluding loans purchased from GNMA mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, represented less than 1.0 percent of total residential mortgage loan balances and 1.5 percent of credit card receivable balances, compared with less than 1.0 percent of total mortgage loan balances and 1.9 percent of credit card receivable balances at December 31, 2010. Because these changes have an insignificant impact on the economic return on the loan, the Company does not consider loans modified

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under these hardship programs to be TDRs. The Company determines applicable allowances for credit 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 1.3 percent of total commercial and commercial real estate loan balances at March 31, 2011, compared with approximately 1.1 percent at December 31, 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 credit losses 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 March 31, 2011 and December 31, 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 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):

| March 31, 2011            | Performing<br>TDRs | As a Percent of<br>Performing TDRs |                                | Nonperforming<br>TDRs | Total<br>TDRs |
|---------------------------|--------------------|------------------------------------|--------------------------------|-----------------------|---------------|
|                           |                    | 30-89<br>Days<br>Past<br>Due       | 90 Days<br>or more<br>Past Due |                       |               |
| (Dollars in Millions)     |                    |                                    |                                |                       |               |
| Commercial                | \$ 59              | 43.2%                              | 3.4%                           | \$ 66 (b)             | \$ 125        |
| Commercial real estate    | 184                |                                    |                                | 152 (b)               | 336           |
| Residential mortgages (a) | 1,890              | 4.9                                | 5.3                            | 156                   | 2,046         |
| Credit card               | 212                | 10.2                               | 7.0                            | 255 (c)               | 467           |
| Other retail              | 86                 | 7.8                                | 5.7                            | 31                    | 117           |
| Total                     | \$ 2,431           | 6.0%                               | 5.0%                           | \$ 660                | \$ 3,091      |

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

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The following table provides a summary of TDRs, excluding covered loans, that continue to accrue interest:

|                           | Amount            |                      | As a Percent of<br>Ending<br>Loan Balances |                      |
|---------------------------|-------------------|----------------------|--------------------------------------------|----------------------|
| (Dollars in Millions)     | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2011                          | December 31,<br>2010 |
| Commercial                | \$ 59             | \$ 77                | .12%                                       | .16%                 |
| Commercial real estate    | 184               | 15                   | .52                                        | .04                  |
| Residential mortgages (a) | 1,890             | 1,804                | 5.84                                       | 5.87                 |
| Credit card               | 212               | 224                  | 1.34                                       | 1.33                 |
| Other retail              | 86                | 87                   | .18                                        | .18                  |
| Total                     | \$ 2,431          | \$ 2,207             | 1.23%                                      | 1.12%                |

(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 continue to accrue interest were \$224 million higher at March 31, 2011, than at December 31, 2010, primarily reflecting loan modifications for certain commercial real estate and residential mortgage customers in light of current economic conditions. The Company continues to actively work with customers to modify loans for borrowers who are having financial difficulties, including those acquired through FDIC-assisted acquisitions.

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. Nonperforming assets include nonaccrual loans, restructured loans not performing in accordance with modified terms, other real estate and other nonperforming assets owned by the Company, and are generally either originated by the Company or acquired under FDIC loss sharing agreements that substantially reduce the risk of credit losses to the Company. Additionally, nonperforming assets at March 31, 2011 included \$287 million of loans and other real estate acquired through the recent acquisition of FCB from the FDIC, which were not covered by a loss sharing agreement. Assets associated with the FCB transaction were recorded at their estimated fair value, including any discount for expected losses, at the acquisition date and included in the related asset categories. At March 31, 2011, total nonperforming assets were \$5.0 billion, unchanged from December 31, 2010. Excluding covered assets, nonperforming assets were \$3.5 billion at March 31, 2011, compared with \$3.4 billion at December 31, 2010. Nonperforming assets, excluding covered assets and nonperforming assets from the FCB acquisition, at March 31, 2011, were \$3.2 billion, a \$159 million (4.7 percent) decrease from December 31, 2010. This decline was principally in the commercial real estate portfolios, as the Company continued to resolve and reduce the exposure to these assets. There was also an improvement in other commercial portfolios, reflecting the stabilizing economy. However, stress continued in the residential mortgage portfolio due to the overall duration of the economic slowdown. Nonperforming covered assets at March 31, 2011, were \$1.5 billion, compared with \$1.7 billion at December 31, 2010. 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 2.52 percent (1.92 percent excluding covered assets) at March 31, 2011, compared with 2.55 percent (1.87 percent excluding covered assets) at December 31, 2010.

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

| (Dollars in Millions)                                          | March 31,<br>2011 | December 31,<br>2010 |
|----------------------------------------------------------------|-------------------|----------------------|
| <b>Commercial</b>                                              |                   |                      |
| Commercial                                                     | \$ 439            | \$ 519               |
| Lease financing                                                | 54                | 78                   |
| Total commercial                                               | 493               | 597                  |
| <b>Commercial Real Estate</b>                                  |                   |                      |
| Commercial mortgages                                           | 635               | 545                  |
| Construction and development                                   | 835               | 748                  |
| Total commercial real estate                                   | 1,470             | 1,293                |
| <b>Residential Mortgages</b>                                   | 685               | 636                  |
| <b>Retail</b>                                                  |                   |                      |
| Credit card                                                    | 255               | 228                  |
| Retail leasing                                                 |                   |                      |
| Other retail                                                   | 75                | 65                   |
| Total retail                                                   | 330               | 293                  |
| Total nonperforming loans, excluding covered loans             | 2,978             | 2,819                |
| <b>Covered Loans</b>                                           | 1,151             | 1,244                |
| Total nonperforming loans                                      | 4,129             | 4,063                |
| <b>Other Real Estate (b)(c)</b>                                | 480               | 511                  |
| <b>Covered Other Real Estate (c)</b>                           | 390               | 453                  |
| <b>Other Assets</b>                                            | 21                | 21                   |
| Total nonperforming assets                                     | \$ 5,020          | \$ 5,048             |
| Total nonperforming assets, excluding covered assets           | \$ 3,479          | \$ 3,351             |
| <b>Excluding covered assets:</b>                               |                   |                      |
| Accruing loans 90 days or more past due                        | \$ 949            | \$ 1,094             |
| Nonperforming loans to total loans                             | 1.65%             | 1.57%                |
| Nonperforming assets to total loans plus other real estate (b) | 1.92%             | 1.87%                |
| <b>Including covered assets:</b>                               |                   |                      |
| Accruing loans 90 days or more past due                        | \$ 1,954          | \$ 2,184             |
| Nonperforming loans to total loans                             | 2.08%             | 2.06%                |
| Nonperforming assets to total loans plus other real estate (b) | 2.52%             | 2.55%                |

**Changes in Nonperforming Assets**

Retail and

|                                                       | Commercial<br>and<br>Commercial | Residential<br>Mortgages |          |
|-------------------------------------------------------|---------------------------------|--------------------------|----------|
| (Dollars in Millions)                                 | Real Estate                     | (e)                      | Total    |
| <b>Balance December 31, 2010</b>                      | \$ 3,596                        | \$ 1,452                 | \$ 5,048 |
| Additions to nonperforming assets                     |                                 |                          |          |
| New nonaccrual loans and foreclosed properties        | 780                             | 194                      | 974      |
| Advances on loans                                     | 13                              |                          | 13       |
| Total additions                                       | 793                             | 194                      | 987      |
| Reductions in nonperforming assets                    |                                 |                          |          |
| Paydowns, payoffs                                     | (330)                           | (39)                     | (369)    |
| Net sales                                             | (154)                           | (47)                     | (201)    |
| Return to performing status                           | (113)                           | (12)                     | (125)    |
| Charge-offs (d)                                       | (266)                           | (54)                     | (320)    |
| Total reductions                                      | (863)                           | (152)                    | (1,015)  |
| Net additions to (reductions in) nonperforming assets | (70)                            | 42                       | (28)     |
| <b>Balance March 31, 2011</b>                         | \$ 3,526                        | \$ 1,494                 | \$ 5,020 |

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$563 million and \$575 million at March 31, 2011, and December 31, 2010, respectively, of foreclosed GNMA loans which continue to accrue interest.
- (c) Includes equity investments in entities whose only assets are 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.

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The Company expects total nonperforming assets, excluding covered assets, to trend lower in the second quarter of 2011.

Other real estate, excluding covered assets, was \$480 million at March 31, 2011, compared with \$511 million at December 31, 2010, and was related to foreclosed properties that previously secured loan balances.

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

| (Dollars in Millions) | Amount            |                      | As a Percent of<br>Ending<br>Loan Balances |                      |
|-----------------------|-------------------|----------------------|--------------------------------------------|----------------------|
|                       | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2011                          | December 31,<br>2010 |
| <b>Residential</b>    |                   |                      |                                            |                      |
| Minnesota             | \$ 28             | \$ 28                | .52%                                       | .53%                 |
| California            | 19                | 21                   | .29                                        | .34                  |
| Illinois              | 16                | 16                   | .55                                        | .57                  |
| Nevada                | 11                | 11                   | 1.52                                       | 1.49                 |
| Washington            | 9                 | 9                    | .29                                        | .29                  |
| All other states      | 121               | 133                  | .37                                        | .42                  |
| Total residential     | 204               | 218                  | .40                                        | .44                  |
| <b>Commercial</b>     |                   |                      |                                            |                      |
| Nevada                | 52                | 58                   | 3.67                                       | 3.93                 |
| Oregon                | 30                | 26                   | .86                                        | .74                  |
| Ohio                  | 20                | 20                   | .48                                        | .48                  |
| Colorado              | 19                | 16                   | .52                                        | .44                  |
| California            | 19                | 23                   | .14                                        | .18                  |
| All other states      | 136               | 150                  | .23                                        | .26                  |
| Total commercial      | 276               | 293                  | .33                                        | .35                  |
| Total OREO            | \$ 480            | \$ 511               | .27%                                       | .29%                 |

**Analysis of Loan Net Charge-Offs** Total net charge-offs were \$805 million for the first quarter of 2011, compared with net charge-offs of \$1.1 billion for the first quarter of 2010. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the first quarter of 2011 was 1.65 percent, compared with 2.39 percent for the first quarter of 2010. The decrease in total net charge-offs for the first quarter 2011, compared with the first quarter of 2010, was due to improvement in all major loan portfolios. The Company expects the level of net charge-offs to continue to trend lower in the second quarter of 2011.

Commercial and commercial real estate loan net charge-offs for the first quarter of 2011 were \$264 million (1.28 percent of average loans outstanding on an annualized basis), compared with \$469 million (2.34 percent of average loans outstanding on an annualized basis) for the first quarter of 2010. The decrease reflected the impact of efforts to resolve and reduce exposure to problem assets in the Company's commercial real estate portfolios and improvement in the other commercial portfolios due to the stabilizing economy.

Residential mortgage loan net charge-offs for the first quarter of 2011 were \$129 million (1.65 percent of average loans outstanding on an annualized basis), compared with \$145 million (2.23 percent of average loans outstanding on an annualized basis) for the first quarter of 2010. Retail loan net charge-offs for the first quarter of 2011 were \$410 million (2.59 percent of average loans outstanding on an annualized basis), compared with \$518 million (3.30 percent of average loans outstanding on an annualized basis) for the first quarter of 2010. The decreases in residential mortgage and retail loan net charge-offs for the first quarter of

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

|                                      | Three Months Ended<br>March 31, |       |
|--------------------------------------|---------------------------------|-------|
|                                      | 2011                            | 2010  |
| <b>Commercial</b>                    |                                 |       |
| Commercial                           | 1.19%                           | 2.41% |
| Lease financing                      | .94                             | 2.14  |
| Total commercial                     | 1.16                            | 2.38  |
| <b>Commercial Real Estate</b>        |                                 |       |
| Commercial mortgages                 | .59                             | .73   |
| Construction and development         | 4.61                            | 6.80  |
| Total commercial real estate         | 1.44                            | 2.28  |
| <b>Residential Mortgages</b>         | 1.65                            | 2.23  |
| <b>Retail</b>                        |                                 |       |
| Credit card (a)                      | 6.21                            | 7.73  |
| Retail leasing                       | .09                             | .45   |
| Home equity and second mortgages     | 1.75                            | 1.88  |
| Other retail                         | 1.33                            | 1.93  |
| Total retail                         | 2.59                            | 3.30  |
| Total loans, excluding covered loans | 1.81                            | 2.68  |
| <b>Covered Loans</b>                 | .05                             | .06   |
| Total loans                          | 1.65%                           | 2.39% |

(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 6.45 and 8.42 percent for the three months ended March 31, 2011 and 2010, respectively.

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2011, compared with the first quarter of 2010, reflected the impact of more stable economic conditions.

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

| (Dollars in Millions)            | Three Months Ended March 31, |           | Percent of    |       |
|----------------------------------|------------------------------|-----------|---------------|-------|
|                                  | Average Loans                |           | Average Loans |       |
|                                  | 2011                         | 2010      | 2011          | 2010  |
| <b>Consumer Finance (a)</b>      |                              |           |               |       |
| Residential mortgages            | \$ 11,895                    | \$ 10,341 | 3.20%         | 4.16% |
| Home equity and second mortgages | 2,507                        | 2,474     | 5.01          | 6.23  |
| Other retail                     | 606                          | 602       | 4.68          | 4.72  |
| <b>Other Retail</b>              |                              |           |               |       |
| Residential mortgages            | \$ 19,882                    | \$ 16,067 | .71%          | .98%  |
| Home equity and second mortgages | 16,294                       | 16,928    | 1.24          | 1.25  |
| Other retail                     | 24,085                       | 22,741    | 1.25          | 1.85  |
| <b>Total Company</b>             |                              |           |               |       |
| Residential mortgages            | \$ 31,777                    | \$ 26,408 | 1.65%         | 2.23% |
| Home equity and second mortgages | 18,801                       | 19,402    | 1.75          | 1.88  |
| Other retail                     | 24,691                       | 23,343    | 1.33          | 1.93  |

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

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

| (Dollars in Millions)                   | Three Months Ended March 31, |           | Percent of    |        |
|-----------------------------------------|------------------------------|-----------|---------------|--------|
|                                         | Average Loans                |           | Average Loans |        |
|                                         | 2011                         | 2010      | 2011          | 2010   |
| <b>Residential mortgages</b>            |                              |           |               |        |
| Sub-prime borrowers                     | \$ 2,081                     | \$ 2,432  | 6.43%         | 6.67%  |
| Other borrowers                         | 9,814                        | 7,909     | 2.52          | 3.38   |
| Total                                   | \$ 11,895                    | \$ 10,341 | 3.20%         | 4.16%  |
| <b>Home equity and second mortgages</b> |                              |           |               |        |
| Sub-prime borrowers                     | \$ 527                       | \$ 609    | 10.77%        | 11.32% |
| Other borrowers                         | 1,980                        | 1,865     | 3.48          | 4.57   |
| Total                                   | \$ 2,507                     | \$ 2,474  | 5.01%         | 6.23%  |

**Analysis and Determination of the Allowance for Credit Losses** The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio and includes certain amounts that do not

represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the FDIC. 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 March 31, 2011, 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. Refer to Management's Discussion and Analysis Analysis and Determination of the Allowance for Credit Losses in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on the analysis and determination of the allowance for credit losses.

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

|                                  | Three Months Ended<br>March 31, |          |
|----------------------------------|---------------------------------|----------|
| (Dollars in Millions)            | 2011                            | 2010     |
| Balance at beginning of period   | \$ 5,531                        | \$ 5,264 |
| <b>Charge-offs</b>               |                                 |          |
| Commercial                       |                                 |          |
| Commercial                       | 137                             | 251      |
| Lease financing                  | 24                              | 45       |
| Total commercial                 | 161                             | 296      |
| Commercial real estate           |                                 |          |
| Commercial mortgages             | 45                              | 47       |
| Construction and development     | 95                              | 151      |
| Total commercial real estate     | 140                             | 198      |
| Residential mortgages            | 133                             | 146      |
| Retail                           |                                 |          |
| Credit card                      | 268                             | 328      |
| Retail leasing                   | 4                               | 9        |
| Home equity and second mortgages | 85                              | 94       |
| Other retail                     | 106                             | 132      |
| Total retail                     | 463                             | 563      |
| Covered loans (a)                | 2                               | 3        |
| Total charge-offs                | 899                             | 1,206    |
| <b>Recoveries</b>                |                                 |          |
| Commercial                       |                                 |          |
| Commercial                       | 12                              | 8        |
| Lease financing                  | 10                              | 11       |
| Total commercial                 | 22                              | 19       |
| Commercial real estate           |                                 |          |
| Commercial mortgages             | 5                               | 1        |
| Construction and development     | 10                              | 5        |
| Total commercial real estate     | 15                              | 6        |
| Residential mortgages            | 4                               | 1        |
| Retail                           |                                 |          |
| Credit card                      | 21                              | 16       |
| Retail leasing                   | 3                               | 4        |
| Home equity and second mortgages | 4                               | 4        |
| Other retail                     | 25                              | 21       |

|                                                                          |          |          |
|--------------------------------------------------------------------------|----------|----------|
| Total retail                                                             | 53       | 45       |
| Covered loans (a)                                                        |          |          |
| Total recoveries                                                         | 94       | 71       |
| <b>Net Charge-offs</b>                                                   |          |          |
| Commercial                                                               |          |          |
| Commercial                                                               | 125      | 243      |
| Lease financing                                                          | 14       | 34       |
| Total commercial                                                         | 139      | 277      |
| Commercial real estate                                                   |          |          |
| Commercial mortgages                                                     | 40       | 46       |
| Construction and development                                             | 85       | 146      |
| Total commercial real estate                                             | 125      | 192      |
| Residential mortgages                                                    | 129      | 145      |
| Retail                                                                   |          |          |
| Credit card                                                              | 247      | 312      |
| Retail leasing                                                           | 1        | 5        |
| Home equity and second mortgages                                         | 81       | 90       |
| Other retail                                                             | 81       | 111      |
| Total retail                                                             | 410      | 518      |
| Covered loans (a)                                                        | 2        | 3        |
| Total net charge-offs                                                    | 805      | 1,135    |
| Provision for credit losses                                              | 755      | 1,310    |
| Net change for credit losses to be reimbursed by the FDIC                | 17       |          |
| Acquisitions and other changes                                           |          |          |
| Balance at end of period                                                 | \$ 5,498 | \$ 5,439 |
| <b>Components</b>                                                        |          |          |
| Allowance for loan losses, excluding losses to be reimbursed by the FDIC | \$ 5,161 | \$ 5,235 |
| Allowance for credit losses to be reimbursed by the FDIC                 | 109      |          |
| Liability for unfunded credit commitments                                | 228      | 204      |
| Total allowance for credit losses                                        | \$ 5,498 | \$ 5,439 |
| Allowance for credit losses as a percentage of                           |          |          |
| Period-end loans, excluding covered loans                                | 2.97%    | 3.20%    |
| Nonperforming loans, excluding covered loans                             | 180      | 156      |
| Nonperforming assets, excluding covered assets                           | 154      | 136      |
| Annualized net charge-offs, excluding covered loans                      | 165      | 118      |
| Period-end loans                                                         | 2.78%    | 2.85%    |
| Nonperforming loans                                                      | 133      | 109      |
| Nonperforming assets                                                     | 110      | 85       |
| Annualized net charge-offs                                               | 168      | 118      |



*Note: At March 31, 2011, \$2.1 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 March 31, 2011, the allowance for credit losses was \$5.5 billion (2.78 percent of total loans and 2.97 percent of loans excluding covered loans), compared with an allowance of \$5.5 billion (2.81 percent of total loans and 3.03 percent of loans excluding covered loans) at December 31, 2010. During the first quarter of 2011, the Company increased the allowance for credit losses by \$17 million to reflect covered loan losses reimbursable by the FDIC. The ratio of the allowance for credit losses to nonperforming loans was 133 percent (180 percent excluding covered loans) at March 31, 2011, compared with 136 percent (192 percent excluding covered loans) at December 31, 2010. The ratio of the allowance for credit losses to annualized loan net charge-offs was 168 percent at March 31, 2011, compared with 132 percent of full year 2010 net charge-offs at December 31, 2010.

**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 March 31, 2011, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2010. Refer to Management's Discussion and Analysis - Residual Value Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on residual value risk management.

**Operational Risk Management** The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Risk Management Committee of the Company's Board of Directors provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Management Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. Refer to Management's Discussion and Analysis - Operational Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on operational risk management.

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

**Net Interest Income Simulation Analysis** Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The table below summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALCO policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At March 31, 2011, and December 31, 2010, the Company was within policy. Refer to Management's Discussion and Analysis - Net Interest Income Simulation Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on net interest income simulation analysis.

**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

|                     | March 31, 2011              |                           |                             |                          | December 31, 2010           |                           |                             |                          |
|---------------------|-----------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|---------------------------|-----------------------------|--------------------------|
|                     | Down<br>50 bps<br>Immediate | Up<br>50 bps<br>Immediate | Down<br>200 bps<br>Gradual* | Up<br>200 bps<br>Gradual | Down<br>50 bps<br>Immediate | Up<br>50 bps<br>Immediate | Down<br>200 bps<br>Gradual* | Up<br>200 bps<br>Gradual |
| Net interest income | *                           | 1.57%                     | *                           | 3.11%                    | *                           | 1.64%                     | *                           | 3.14%                    |

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

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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 5.0 percent decrease in the market value of equity at March 31, 2011, compared with a 3.6 percent decrease at December 31, 2010. A 200 bps decrease, where possible given current rates, would have resulted in a 4.9 percent decrease in the market value of equity at March 31, 2011, compared with a 5.2 percent decrease at December 31, 2010. Refer to Management's Discussion and Analysis Market Value of Equity Modeling in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on market value of equity modeling.

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

To convert fixed-rate debt from fixed-rate payments to floating-rate payments;

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

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

To manage these risks, the Company may enter into exchange-traded and over-the-counter derivative contracts, including interest rate swaps, swaptions, futures, forwards and options. In addition, the Company enters into interest rate and foreign exchange derivative contracts to support the business requirements of its customers ( customer-related positions ). The Company minimizes the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers. The Company does not utilize derivatives for speculative purposes. The Company does not designate all of the derivatives that it enters into for risk management purposes as accounting hedges because of the inefficiency of applying the accounting requirements and may instead elect fair value accounting for the related hedged items. In particular, the Company enters into U.S. Treasury futures, options on U.S. Treasury futures contracts, interest rate swaps and forward commitments to buy residential mortgage loans to mitigate fluctuations in the value of its MSR, 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 March 31, 2011, the Company had \$6.5 billion of forward commitments to sell mortgage loans hedging \$3.9 billion of mortgage loans held for sale and \$4.3 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedging activities, and the Company has elected the fair value option for the mortgage loans held for sale.

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

For additional information on derivatives and hedging activities, refer to Note 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, principally related to trading activities which support customers' strategies to manage their own 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 MSR 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 one-day 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 of Contents****Table 9** Regulatory Capital Ratios

| (Dollars in Millions)                                              | March 31,<br>2011 | December 31,<br>2010 |
|--------------------------------------------------------------------|-------------------|----------------------|
| Tier 1 capital                                                     | \$ 26,821         | \$ 25,947            |
| As a percent of risk-weighted assets                               | 10.8%             | 10.5%                |
| As a percent of adjusted quarterly average assets (leverage ratio) | 9.0%              | 9.1%                 |
| Total risk-based capital                                           | \$ 34,198         | \$ 33,033            |
| As a percent of risk-weighted assets                               | 13.8%             | 13.3%                |

Company's trading VaR did not exceed \$2 million during the first quarter of 2011 and \$5 million during the first quarter of 2010.

**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. Refer to Management's Discussion and Analysis—Liquidity Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on liquidity risk management.

At March 31, 2011, parent company long-term debt outstanding was \$13.0 billion, unchanged from December 31, 2010. As of March 31, 2011, there was no parent company debt scheduled to mature in the remainder of 2011. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately \$5.9 billion at March 31, 2011.

**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 March 31, 2011, and December 31, 2010. All regulatory ratios exceeded regulatory well-capitalized requirements. Total U.S. Bancorp shareholders' equity was \$30.5 billion at March 31, 2011, compared with \$29.5 billion at December 31, 2010. The increase was primarily the result of corporate earnings, and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income, partially offset by dividends. Refer to Management's Discussion and Analysis—Capital Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on capital management. The Company believes certain capital ratios in addition to regulatory capital ratios are useful in evaluating its capital adequacy. The Company's Tier 1 common (using Basel I definition) and tangible common equity, as a percent of risk-weighted assets, were 8.2 percent and 7.6 percent, respectively, at March 31, 2011, compared with 7.8 percent and 7.2 percent, respectively, at December 31, 2010. The Company's tangible common equity divided by tangible assets was 6.3 percent at March 31, 2011, compared with 6.0 percent at December 31, 2010. Additionally, the Company's Tier 1 common as a percent of risk-weighted assets, under anticipated Basel III guidelines, was 7.7 percent at March 31, 2011. Refer to Non-Regulatory Capital Ratios for further information regarding the calculation of these measures.

During the first quarter of 2011, the Company received regulatory approval to increase its quarterly common stock dividend, and on March 18, 2011, increased its dividend rate per common share by 150 percent, from \$.05 per quarter to \$.125 per quarter.

On December 13, 2010, the Company announced its Board of Directors had approved an authorization to repurchase 20 million shares of common stock through December 31, 2011. On March 18, 2011, the Company announced its Board of Directors had approved an authorization to repurchase 50 million shares of common stock through December 31, 2011. This new authorization replaced the December 13, 2010 authorization. All shares repurchased during the first quarter of 2011 were repurchased under the December 13, 2010 and March 18, 2011 repurchase programs in connection with the administration of the Company's employee benefit plans in the ordinary course of business.

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

| Time Period  | Total Number<br>of Shares<br>Purchased as<br>Part of the<br>Programs | Average<br>Price Paid<br>per Share | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the<br>Programs |
|--------------|----------------------------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------------|
| January (a)  | 43,657                                                               | \$ 27.45                           | 19,956,172                                                                        |
| February (a) | 741,149                                                              | 28.50                              | 19,215,023                                                                        |
| March (b)    | 80,417                                                               | 27.18                              | 49,998,820                                                                        |
| Total        | 865,223                                                              | \$ 28.32                           | 49,998,820                                                                        |

- (a) *All shares purchased during January and February of 2011 were purchased under the publicly announced December 13, 2010 authorization.*
- (b) *During March of 2011, 79,237 shares were purchased under the publicly announced December 13, 2010 authorization and 1,180 shares were purchased under the publicly announced March 18, 2011 authorization.*

**LINE OF BUSINESS FINANCIAL REVIEW**

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

**Basis for Financial Presentation** Business line results are derived from the Company's business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to Management's Discussion and Analysis Line of Business Financial Review in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for further discussion on the business lines' basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company's diverse customer base. During 2011, certain organization and methodology changes were made and, accordingly, 2010 results were restated and presented on a comparable basis.

**Wholesale Banking and Commercial Real Estate** Wholesale Banking and Commercial Real Estate offers lending, equipment finance and small-ticket leasing, depository, treasury management, capital markets, foreign exchange, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution and public sector clients. Wholesale Banking and Commercial Real Estate contributed \$206 million of the Company's net income in the first quarter of 2011, or an increase of \$197 million, compared with the first quarter of 2010. The increase was primarily driven by higher net revenue and lower provision for credit losses, partially offset by higher noninterest expense.

Total net revenue increased \$73 million (10.0 percent) in the first quarter of 2011, compared with the first quarter of 2010. Net interest income, on a taxable-equivalent basis, increased \$45 million (9.7 percent) in the first quarter of 2011, compared with the first quarter of 2010. The increase was primarily due to higher average loan and deposit balances, improved spreads on new loans and an increase in loan fees, partially offset by the impact of declining rates on the margin benefit from deposits. Total noninterest income increased \$28 million (10.5 percent) in the first quarter of 2011, compared with the first quarter of 2010, mainly due to strong growth in commercial products revenue, including syndication and other capital markets fees, foreign exchange and international trade revenue, and



commercial loan and standby letters of credit fees.

Total noninterest expense increased \$26 million (9.5 percent) in the first quarter of 2011, compared with the first quarter of 2010, primarily due to higher total compensation and employee benefits expense and increased shared services costs. The provision for credit losses decreased \$263 million (59.5 percent) in the first quarter of 2011, compared with the first quarter of 2010. The favorable change was primarily due to a decrease in the reserve allocation and lower net charge-offs for the first quarter of 2011, compared with the first quarter of 2010.

Nonperforming assets were \$1.4 billion at March 31, 2011, \$1.6 billion at December 31, 2010, and \$2.3 billion at March 31, 2010. Nonperforming assets as a percentage of period-end loans were 2.50 percent at March 31, 2011, 2.87 percent at December 31, 2010, and 4.20 percent at March 31, 2010. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

**Consumer and Small Business Banking** Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail 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 and Small Business Banking contributed \$132 million of the Company's net income in the first quarter of 2011, or a decrease of \$42 million (24.1 percent), compared with the first quarter of 2010. The decrease was due to higher total noninterest expense, partially offset by an increase in total net revenue.

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| Three Months Ended March 31<br>(Dollars in Millions)          | Wholesale Banking and<br>Commercial Real Estate |           |                   | Consumer and Small<br>Business Banking |          |                   |
|---------------------------------------------------------------|-------------------------------------------------|-----------|-------------------|----------------------------------------|----------|-------------------|
|                                                               | 2011                                            | 2010      | Percent<br>Change | 2011                                   | 2010     | Percent<br>Change |
| <b>Condensed Income Statement</b>                             |                                                 |           |                   |                                        |          |                   |
| Net interest income<br>(taxable-equivalent basis)             | \$ 508                                          | \$ 463    | 9.7%              | \$ 1,134                               | \$ 1,033 | 9.8%              |
| Noninterest income                                            | 294                                             | 266       | 10.5              | 607                                    | 669      | (9.3)             |
| Securities gains (losses), net                                |                                                 |           |                   |                                        |          |                   |
| Total net revenue                                             | 802                                             | 729       | 10.0              | 1,741                                  | 1,702    | 2.3               |
| Noninterest expense                                           | 296                                             | 270       | 9.6               | 1,118                                  | 1,004    | 11.4              |
| Other intangibles                                             | 4                                               | 4         |                   | 18                                     | 28       | (35.7)            |
| Total noninterest expense                                     | 300                                             | 274       | 9.5               | 1,136                                  | 1,032    | 10.1              |
| Income before provision and income<br>taxes                   | 502                                             | 455       | 10.3              | 605                                    | 670      | (9.7)             |
| Provision for credit losses                                   | 179                                             | 442       | (59.5)            | 398                                    | 396      | .5                |
| Income before income taxes                                    | 323                                             | 13        | *                 | 207                                    | 274      | (24.5)            |
| Income taxes and taxable-equivalent<br>adjustment             | 118                                             | 5         | *                 | 75                                     | 100      | (25.0)            |
| Net income                                                    | 205                                             | 8         | *                 | 132                                    | 174      | (24.1)            |
| Net (income) loss attributable to<br>noncontrolling interests | 1                                               | 1         |                   |                                        |          |                   |
| Net income attributable to U.S.<br>Bancorp                    | \$ 206                                          | \$ 9      | *                 | \$ 132                                 | \$ 174   | (24.1)            |
| <b>Average Balance Sheet</b>                                  |                                                 |           |                   |                                        |          |                   |
| Commercial                                                    | \$ 35,278                                       | \$ 33,822 | 4.3%              | \$ 7,097                               | \$ 7,203 | (1.5)%            |
| Commercial real estate                                        | 19,193                                          | 19,872    | (3.4)             | 15,147                                 | 13,219   | 14.6              |
| Residential mortgages                                         | 61                                              | 68        | (10.3)            | 31,330                                 | 25,957   | 20.7              |
| Retail                                                        | 7                                               | 45        | (84.4)            | 45,544                                 | 44,601   | 2.1               |
| Total loans, excluding covered loans                          | 54,539                                          | 53,807    | 1.4               | 99,118                                 | 90,980   | 8.9               |
| Covered loans                                                 | 1,862                                           | 2,152     | (13.5)            | 8,758                                  | 9,967    | (12.1)            |
| Total loans                                                   | 56,401                                          | 55,959    | .8                | 107,876                                | 100,947  | 6.9               |
| Goodwill                                                      | 1,604                                           | 1,608     | (.2)              | 3,535                                  | 3,531    | .1                |
| Other intangible assets                                       | 59                                              | 76        | (22.4)            | 2,228                                  | 2,049    | 8.7               |

|                                        |        |        |        |         |         |        |
|----------------------------------------|--------|--------|--------|---------|---------|--------|
| Assets                                 | 61,894 | 60,944 | 1.6    | 123,455 | 113,561 | 8.7    |
| Noninterest-bearing deposits           | 19,995 | 16,122 | 24.0   | 17,192  | 15,591  | 10.3   |
| Interest checking                      | 13,998 | 13,934 | .5     | 25,375  | 23,232  | 9.2    |
| Savings products                       | 9,803  | 11,158 | (12.1) | 39,611  | 34,036  | 16.4   |
| Time deposits                          | 12,663 | 11,080 | 14.3   | 24,280  | 28,321  | (14.3) |
| Total deposits                         | 56,459 | 52,294 | 8.0    | 106,458 | 101,180 | 5.2    |
| Total U.S. Bancorp shareholders equity | 5,508  | 5,410  | 1.8    | 9,262   | 8,430   | 9.9    |

\* *Not meaningful*

Within Consumer and Small Business Banking, the retail banking division contributed \$18 million of the total net income in the first quarter of 2011, or a decrease of \$56 million (75.7 percent) from the first quarter of 2010.

Mortgage banking contributed \$114 million of Consumer and Small Business Banking's net income in the first quarter of 2011, or an increase of \$14 million (14.0 percent) from the first quarter of 2010.

Total net revenue increased \$39 million (2.3 percent) in the first quarter of 2011, compared with the first quarter of 2010. Net interest income, on a taxable-equivalent basis, increased \$101 million (9.8 percent) in the first quarter of 2011, compared with the first quarter of 2010. The year-over-year increase in net interest income was due to improved loan spreads, and higher loan and deposit volumes, partially offset by a decline in the margin benefit from deposits. Total noninterest income decreased \$62 million (9.3 percent) in the first quarter of 2011, compared with the first quarter of 2010. The year-over-year decrease in noninterest income was driven by a reduction in deposit service charges, reflecting the impact of Company-initiated and regulatory revisions to overdraft fee policies, partially offset by core account growth.

Total noninterest expense increased \$104 million (10.1 percent) in the first quarter of 2011, compared with the first quarter of 2010. The increase reflected higher compensation and employee benefits expense, shared services costs and net occupancy and equipment expenses related to business expansion, partially offset by lower other intangibles expense.

The provision for credit losses increased \$2 million (.5 percent) in the first quarter of 2011, compared with the first quarter of 2010, as lower net charge-offs were offset by an increase in the reserve allocation. As a percentage of average loans outstanding on an annualized basis, net charge-offs decreased to 1.28 percent in the first quarter of 2011, compared with 1.64 percent in the first quarter of 2010. Nonperforming assets were \$1.8 billion at March 31, 2011, \$1.5 billion at December 31, 2010, and \$1.7 billion at March 31, 2010. The increase in nonperforming assets at March 31, 2011, compared with December 31, 2010, was due to the FCB acquisition. Nonperforming assets as a percentage of period-end loans were 1.66 percent at March 31, 2011, 1.44 percent at December 31, 2010, and 1.64 percent at March 31, 2010. Refer to the Corporate Risk Profile section for further information

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| Management and Securities Services |                |  | Payment Services |          |                | Treasury and Corporate Support |        |                | Consolidated Company |           | Per |
|------------------------------------|----------------|--|------------------|----------|----------------|--------------------------------|--------|----------------|----------------------|-----------|-----|
| 2010                               | Percent Change |  | 2011             | 2010     | Percent Change | 2011                           | 2010   | Percent Change | 2011                 | 2010      | CH  |
| \$ 65                              | 36.9%          |  | \$ 331           | \$ 346   | (4.3)%         | \$ 445                         | \$ 496 | (10.3)%        | \$ 2,507             | \$ 2,403  |     |
| 269                                |                |  | 761              | 741      | 2.7            | 86                             | 7      | *              | 2,017                | 1,952     |     |
|                                    |                |  |                  |          |                | (5)                            | (34)   | 85.3           | (5)                  | (34)      |     |
| 334                                | 7.2            |  | 1,092            | 1,087    | .5             | 526                            | 469    | 12.2           | 4,519                | 4,321     |     |
| 235                                | 12.3           |  | 421              | 386      | 9.1            | 140                            | 144    | (2.8)          | 2,239                | 2,039     |     |
| 13                                 | (23.1)         |  | 43               | 52       | (17.3)         |                                |        |                | 75                   | 97        |     |
| 248                                | 10.5           |  | 464              | 438      | 5.9            | 140                            | 144    | (2.8)          | 2,314                | 2,136     |     |
| 86                                 | (2.3)          |  | 628              | 649      | (3.2)          | 386                            | 325    | 18.8           | 2,205                | 2,185     |     |
| 2                                  | *              |  | 162              | 463      | (65.0)         | 11                             | 7      | 57.1           | 755                  | 1,310     |     |
| 84                                 | (6.0)          |  | 466              | 186      | *              | 375                            | 318    | 17.9           | 1,450                | 875       |     |
| 31                                 | (6.5)          |  | 170              | 68       | *              | 29                             | 8      | *              | 421                  | 212       |     |
| 53                                 | (5.7)          |  | 296              | 118      | *              | 346                            | 310    | 11.6           | 1,029                | 663       |     |
|                                    |                |  | (9)              | (7)      | (28.6)         | 25                             | 12     | *              | 17                   | 6         |     |
| \$ 53                              | (5.7)          |  | \$ 287           | \$ 111   | *              | \$ 371                         | \$ 322 | 15.2           | \$ 1,046             | \$ 669    |     |
| \$ 1,031                           | (1.2)%         |  | \$ 5,221         | \$ 4,883 | 6.9%           | \$ 98                          | \$ 343 | (71.4)%        | \$ 48,713            | \$ 47,282 |     |
| 562                                | 4.8            |  |                  |          |                | 250                            | 498    | (49.8)         | 35,179               | 34,151    |     |
| 375                                | 1.6            |  |                  |          |                | 5                              | 8      | (37.5)         | 31,777               | 26,408    |     |
| 1,532                              | 7.5            |  | 17,064           | 17,412   | (2.0)          | 1                              | 32     | (96.9)         | 64,263               | 63,622    |     |
| 3,500                              | 3.9            |  | 22,285           | 22,295   |                | 354                            | 881    | (59.8)         | 179,932              | 171,463   |     |
| 15                                 | (13.3)         |  |                  |          |                | 7,005                          | 9,281  | (24.5)         | 17,638               | 21,415    |     |
| 3,515                              | 3.8            |  | 22,285           | 22,295   |                | 7,359                          | 10,162 | (27.6)         | 197,570              | 192,878   |     |
| 1,515                              | (3.4)          |  | 2,357            | 2,356    |                |                                |        |                | 8,959                | 9,010     |     |
| 221                                | (10.9)         |  | 837              | 1,004    | (16.6)         | 6                              | 8      | (25.0)         | 3,327                | 3,358     |     |
| 5,732                              | 5.4            |  | 27,227           | 26,976   | .9             | 89,281                         | 74,509 | 19.8           | 307,896              | 281,722   |     |
| 5,369                              | 14.5           |  | 685              | 609      | 12.5           | 172                            | 309    | (44.3)         | 44,189               | 38,000    |     |
| 2,676                              | 16.1           |  | 164              | 105      | 56.2           | 1                              | 47     | (97.9)         | 42,645               | 39,994    |     |
| 13,397                             | 59.6           |  | 26               | 21       | 23.8           | 154                            | 319    | (51.7)         | 70,979               | 58,931    |     |
| 5,402                              | 68.1           |  |                  | 1        | *              | 466                            | 802    | (41.9)         | 46,492               | 45,606    |     |
| 26,844                             | 48.0           |  | 875              | 736      | 18.9           | 793                            | 1,477  | (46.3)         | 204,305              | 182,531   |     |
| 2,117                              | (1.9)          |  | 5,295            | 5,350    | (1.0)          | 7,868                          | 5,107  | 54.1           | 30,009               | 26,414    |     |

on factors impacting the credit quality of the loan portfolios.

On April 13, 2011, the Company's two primary banking subsidiaries, U.S. Bank National Association and U.S. Bank National Association ND, entered into a Consent Order with the Office of the Comptroller of the Currency regarding residential mortgage servicing and foreclosure processes. The Company also entered into a related Consent Order with the Board of Governors of the Federal Reserve System. The Consent Orders were the result of the recent interagency horizontal review of the foreclosure practices of the 14 largest mortgage servicers in the United States. The Company has long been committed to sound modification and foreclosure practices and is committed to revising these processes to meet the expectations of its regulators. The Company does not believe that the resolution of any outstanding issues will materially affect its financial position, results of operations, or ability to conduct normal business activities.

**Wealth Management and Securities Services** Wealth Management and Securities Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Securities Services contributed \$50 million of the Company's net income in the first quarter of 2011, or a decrease of \$3 million (5.7 percent), compared with the first quarter of 2010. The decrease was due to higher total noninterest expense, partially offset by an increase in total net revenue.

Total net revenue increased \$24 million (7.2 percent) in the first quarter of 2011, compared with the first quarter of 2010. Net interest income, on a taxable-equivalent basis, increased \$24 million (36.9 percent) in the first quarter of 2011, compared with the first quarter of 2010. The year over year increase in net interest income was primarily due to higher average deposit balances, including the impact of the securitization trust acquisition. Total noninterest income was flat compared with the first quarter of 2010. Trust and investment management fees declined, primarily due to the transfer of the long-term asset management business in the fourth quarter of 2010, partially offset by the impact of the fourth quarter securitization trust acquisition and improved market conditions during the first quarter of 2011.

Additionally, there was an increase in investment

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product fees due to increased sales volume. Total noninterest expense increased \$26 million (10.5 percent) in the first quarter of 2011, compared with the first quarter of 2010. The increase in noninterest expense was primarily due to higher compensation and employee benefits expense and the impact of the securitization trust acquisition, partially offset by a reduction in other intangibles 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 \$287 million of the Company's net income in the first quarter of 2011, or an increase of \$176 million, compared with the first quarter of 2010. The increase was primarily due to a decrease in the provision for credit losses. Total net revenue increased \$5 million (.5 percent) in the first quarter 2011, compared with the first quarter of 2010. Net interest income, on a taxable-equivalent basis, decreased \$15 million (4.3 percent) in the first quarter of 2011, compared with the first quarter of 2010, primarily due to lower retail credit card average loan balances and loan fees. Noninterest income increased \$20 million (2.7 percent) in the first quarter of 2011, compared with the first quarter of 2010, primarily due to increased transaction volumes, including business expansion. Total noninterest expense increased \$26 million (5.9 percent) in the first quarter of 2011, compared with the first quarter of 2010, driven by higher compensation and employee benefits expense and processing costs, partially offset by lower other intangibles expense. The provision for credit losses decreased \$301 million (65.0 percent) in the first quarter of 2011, compared with the first quarter of 2010, due to lower net charge-offs and a favorable change in the reserve allocation due to improved loss rates. As a percentage of average loans outstanding, net charge-offs were 5.40 percent in the first quarter of 2011, compared with 6.82 percent in the first quarter of 2010.

**Treasury and Corporate Support** Treasury and Corporate Support includes the Company's investment portfolios, most covered commercial and commercial real estate loans and related other real estate owned, funding, capital management, asset securitization, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of \$371 million in the first quarter of 2011, compared with \$322 million in the first quarter of 2010.

Total net revenue increased \$57 million (12.2 percent) in the first quarter of 2011, compared with the first quarter of 2010. Net interest income, on a taxable-equivalent basis, decreased \$51 million (10.3 percent) in the first quarter of 2011, compared with the first quarter of 2010, reflecting the impact of the current rate environment, lower average covered asset balances, wholesale funding decisions and the Company's asset/liability position. Total noninterest income increased \$108 million in the first quarter of 2011, compared with the first quarter of 2010, principally due to the FCB and Visa gains and lower net securities losses.

Total noninterest expense decreased \$4 million (2.8 percent) in the first quarter of 2011, compared with the first quarter of 2010, as a favorable variance in the shared services allocation was partially offset by higher pension costs. Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support.

**NON-REGULATORY CAPITAL RATIOS**

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

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

These non-regulatory capital ratios are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market conditions. Additionally, presentation of these ratios allows readers to compare the Company's capitalization to other financial services companies. These ratios differ from capital ratios

defined by banking regulators principally in that the numerator excludes preferred securities, the nature and extent of which varies among different financial services companies. These ratios are not defined in generally accepted accounting principles ( GAAP ) or federal banking regulations. As a result, these non-regulatory capital ratios disclosed by the Company may be considered non-GAAP financial measures.

Because there are no standardized definitions for these non-regulatory capital ratios, the Company's calculation methods may differ from those used by other financial services companies. Also, there may be limits in

U.S. Bancorp

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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:

|                                                                                                                             | March 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| (Dollars in Millions)                                                                                                       |                   |                      |
| Total equity                                                                                                                | \$ 31,335         | \$ 30,322            |
| Preferred stock                                                                                                             | (1,930)           | (1,930)              |
| Noncontrolling interests                                                                                                    | (828)             | (803)                |
| Goodwill (net of deferred tax liability)                                                                                    | (8,317)           | (8,337)              |
| Intangible assets, other than mortgage servicing rights                                                                     | (1,342)           | (1,376)              |
| <br>Tangible common equity (a)                                                                                              | <br>18,918        | <br>17,876           |
| Tier 1 capital, determined in accordance with prescribed regulatory requirements using Basel I definition                   | 26,821            | 25,947               |
| Trust preferred securities                                                                                                  | (3,949)           | (3,949)              |
| Preferred stock                                                                                                             | (1,930)           | (1,930)              |
| Noncontrolling interests, less preferred stock not eligible for Tier 1 capital                                              | (694)             | (692)                |
| <br>Tier 1 common equity using Basel I definition (b)                                                                       | <br>20,248        | <br>19,376           |
| <br>Tier 1 capital, determined in accordance with prescribed regulatory requirements using anticipated Basel III definition | <br>21,855        |                      |
| Preferred stock                                                                                                             | (1,930)           |                      |
| Noncontrolling interests of real estate investment trusts                                                                   | (667)             |                      |
| <br>Tier 1 common equity using anticipated Basel III definition (c)                                                         | <br>19,258        |                      |
| <br>Total assets                                                                                                            | <br>311,462       | <br>307,786          |
| Goodwill (net of deferred tax liability)                                                                                    | (8,317)           | (8,337)              |
| Intangible assets, other than mortgage servicing rights                                                                     | (1,342)           | (1,376)              |
| <br>Tangible assets (d)                                                                                                     | <br>301,803       | <br>298,073          |
| Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (e)         | 247,486           | 247,619              |
| Risk-weighted assets using anticipated Basel III definition (f)                                                             | 250,931           |                      |
| <b>Ratios</b>                                                                                                               |                   |                      |
| Tangible common equity to tangible assets (a)/(d)                                                                           | 6.3%              | 6.0%                 |
| Tier 1 common equity to risk-weighted assets using Basel I definition (b)/(e)                                               | 8.2               | 7.8                  |
| Tier 1 common equity to risk-weighted assets using anticipated Basel III definition (c)/(f)                                 | 7.7               |                      |
| Tangible common equity to risk-weighted assets (a)/(e)                                                                      | 7.6               | 7.2                  |



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

## **CRITICAL ACCOUNTING POLICIES**

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

## **CONTROLS AND PROCEDURES**

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

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

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

| (Dollars in Millions)                                                                                    | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|----------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>Assets</b>                                                                                            |                                  |                      |
| Cash and due from banks                                                                                  | \$ 13,800                        | \$ 14,487            |
| Investment securities                                                                                    |                                  |                      |
| Held-to-maturity (fair value \$8,179 and \$1,419, respectively)                                          | 8,213                            | 1,469                |
| Available-for-sale                                                                                       | 52,248                           | 51,509               |
| Loans held for sale (included \$3,910 and \$8,100 of mortgage loans carried at fair value, respectively) | 4,141                            | 8,371                |
| Loans                                                                                                    |                                  |                      |
| Commercial                                                                                               | 49,272                           | 48,398               |
| Commercial real estate                                                                                   | 35,437                           | 34,695               |
| Residential mortgages                                                                                    | 32,344                           | 30,732               |
| Retail                                                                                                   | 63,745                           | 65,194               |
| Total loans, excluding covered loans                                                                     | 180,798                          | 179,019              |
| Covered loans                                                                                            | 17,240                           | 18,042               |
| Total loans                                                                                              | 198,038                          | 197,061              |
| Less allowance for loan losses                                                                           | (5,270)                          | (5,310)              |
| Net loans                                                                                                | 192,768                          | 191,751              |
| Premises and equipment                                                                                   | 2,508                            | 2,487                |
| Goodwill                                                                                                 | 8,947                            | 8,954                |
| Other intangible assets                                                                                  | 3,415                            | 3,213                |
| Other assets                                                                                             | 25,422                           | 25,545               |
| Total assets                                                                                             | \$ 311,462                       | \$ 307,786           |
| <b>Liabilities and Shareholders' Equity</b>                                                              |                                  |                      |
| Deposits                                                                                                 |                                  |                      |
| Noninterest-bearing                                                                                      | \$ 47,039                        | \$ 45,314            |
| Interest-bearing                                                                                         | 129,344                          | 129,381              |
| Time deposits greater than \$100,000                                                                     | 31,910                           | 29,557               |
| Total deposits                                                                                           | 208,293                          | 204,252              |
| Short-term borrowings                                                                                    | 31,021                           | 32,557               |
| Long-term debt                                                                                           | 31,775                           | 31,537               |
| Other liabilities                                                                                        | 9,038                            | 9,118                |
| Total liabilities                                                                                        | 280,127                          | 277,464              |
| Shareholders' equity                                                                                     |                                  |                      |
| Preferred stock                                                                                          | 1,930                            | 1,930                |
|                                                                                                          | 21                               | 21                   |

|                                                                                                                                     |            |            |
|-------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Common stock, par value \$0.01 a share    authorized: 4,000,000,000 shares; issued:<br>3/31/11 and 12/31/10    2,125,725,742 shares |            |            |
| Capital surplus                                                                                                                     | 8,215      | 8,294      |
| Retained earnings                                                                                                                   | 27,769     | 27,005     |
| Less cost of common stock in treasury: 3/31/11    199,210,990 shares; 12/31/10<br>204,822,330 shares                                |            |            |
|                                                                                                                                     | (6,089)    | (6,262)    |
| Accumulated other comprehensive income (loss)                                                                                       | (1,339)    | (1,469)    |
|                                                                                                                                     |            |            |
| Total U.S. Bancorp shareholders' equity                                                                                             | 30,507     | 29,519     |
| Noncontrolling interests                                                                                                            | 828        | 803        |
|                                                                                                                                     |            |            |
| Total equity                                                                                                                        | 31,335     | 30,322     |
|                                                                                                                                     |            |            |
| Total liabilities and equity                                                                                                        | \$ 311,462 | \$ 307,786 |

*See Notes to Consolidated Financial Statements.*

U.S. Bancorp

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

| (Dollars and Shares in Millions, Except Per Share Data)<br>(Unaudited)              | Three Months Ended<br>March 31, |          |
|-------------------------------------------------------------------------------------|---------------------------------|----------|
|                                                                                     | 2011                            | 2010     |
| <b>Interest Income</b>                                                              |                                 |          |
| Loans                                                                               | \$ 2,552                        | \$ 2,505 |
| Loans held for sale                                                                 | 63                              | 44       |
| Investment securities                                                               | 428                             | 410      |
| Other interest income                                                               | 57                              | 34       |
| Total interest income                                                               | 3,100                           | 2,993    |
| <b>Interest Expense</b>                                                             |                                 |          |
| Deposits                                                                            | 234                             | 236      |
| Short-term borrowings                                                               | 133                             | 128      |
| Long-term debt                                                                      | 281                             | 277      |
| Total interest expense                                                              | 648                             | 641      |
| Net interest income                                                                 | 2,452                           | 2,352    |
| Provision for credit losses                                                         | 755                             | 1,310    |
| Net interest income after provision for credit losses                               | 1,697                           | 1,042    |
| <b>Noninterest Income</b>                                                           |                                 |          |
| Credit and debit card revenue                                                       | 267                             | 258      |
| Corporate payment products revenue                                                  | 175                             | 168      |
| Merchant processing services                                                        | 301                             | 292      |
| ATM processing services                                                             | 112                             | 105      |
| Trust and investment management fees                                                | 256                             | 264      |
| Deposit service charges                                                             | 143                             | 207      |
| Treasury management fees                                                            | 137                             | 137      |
| Commercial products revenue                                                         | 191                             | 161      |
| Mortgage banking revenue                                                            | 199                             | 200      |
| Investment products fees and commissions                                            | 32                              | 25       |
| Securities gains (losses), net                                                      |                                 |          |
| Realized gains (losses), net                                                        | 1                               | 12       |
| Total other-than-temporary impairment                                               | (11)                            | (87)     |
| Portion of other-than-temporary impairment recognized in other comprehensive income | 5                               | 41       |
| Total securities gains (losses), net                                                | (5)                             | (34)     |
| Other                                                                               | 204                             | 135      |
| Total noninterest income                                                            | 2,012                           | 1,918    |
| <b>Noninterest Expense</b>                                                          |                                 |          |
| Compensation                                                                        | 959                             | 861      |
| Employee benefits                                                                   | 230                             | 180      |
| Net occupancy and equipment                                                         | 249                             | 227      |

|                                                            |          |         |
|------------------------------------------------------------|----------|---------|
| Professional services                                      | 70       | 58      |
| Marketing and business development                         | 65       | 60      |
| Technology and communications                              | 185      | 185     |
| Postage, printing and supplies                             | 74       | 74      |
| Other intangibles                                          | 75       | 97      |
| Other                                                      | 407      | 394     |
| Total noninterest expense                                  | 2,314    | 2,136   |
| Income before income taxes                                 | 1,395    | 824     |
| Applicable income taxes                                    | 366      | 161     |
| Net income                                                 | 1,029    | 663     |
| Net (income) loss attributable to noncontrolling interests | 17       | 6       |
| Net income attributable to U.S. Bancorp                    | \$ 1,046 | \$ 669  |
| Net income applicable to U.S. Bancorp common shareholders  | \$ 1,003 | \$ 648  |
| Earnings per common share                                  | \$ .52   | \$ .34  |
| Diluted earnings per common share                          | \$ .52   | \$ .34  |
| Dividends declared per common share                        | \$ .125  | \$ .050 |
| Average common shares outstanding                          | 1,918    | 1,910   |
| Average diluted common shares outstanding                  | 1,928    | 1,919   |

*See Notes to Consolidated Financial Statements.*

U.S. Bancorp

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

| U.S. Bancorp Shareholders                                                                         |                  |                    |                 |                    |                      |                   |                                   |                                                     |                             |
|---------------------------------------------------------------------------------------------------|------------------|--------------------|-----------------|--------------------|----------------------|-------------------|-----------------------------------|-----------------------------------------------------|-----------------------------|
|                                                                                                   | Common<br>Shares | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Comprehensive<br>Income<br>(Loss) | Total<br>U.S.<br>Bancorp<br>Shareholders'<br>Equity | Noncontrolling<br>Interests |
| Shares and Shares in Millions)                                                                    | Outstanding      | Stock              | Stock           | Surplus            | Earnings             | Stock             | (Loss)                            | Equity                                              | Interests                   |
| As of December 31, 2009                                                                           | 1,913            | \$ 1,500           | \$ 21           | \$ 8,319           | \$ 24,116            | \$ (6,509)        | \$ (1,484)                        | \$ 25,963                                           | \$ 698                      |
| Change in accounting principle                                                                    |                  |                    |                 |                    | (73)                 |                   |                                   | (73)                                                | (16)                        |
| Change in net income (loss)                                                                       |                  |                    |                 |                    | 669                  |                   |                                   | 669                                                 | (6)                         |
| Change in unrealized gains and losses on securities available-for-sale                            |                  |                    |                 |                    |                      |                   | 386                               | 386                                                 |                             |
| Change in other-than-temporary impairment recognized in earnings on securities available-for-sale |                  |                    |                 |                    |                      |                   | (41)                              | (41)                                                |                             |
| Change in net loss on derivative instruments                                                      |                  |                    |                 |                    |                      |                   | (39)                              | (39)                                                |                             |
| Change in currency translation adjustment                                                         |                  |                    |                 |                    |                      |                   | 8                                 | 8                                                   |                             |
| Change in income tax provision                                                                    |                  |                    |                 |                    |                      |                   | 35                                | 35                                                  |                             |
| Change in income tax expense                                                                      |                  |                    |                 |                    |                      |                   | (132)                             | (132)                                               |                             |
| Comprehensive income                                                                              |                  |                    |                 |                    |                      |                   |                                   | 886                                                 | (6)                         |
| Dividend stock dividends                                                                          |                  |                    |                 |                    | (19)                 |                   |                                   | (19)                                                |                             |
| Dividend on stock dividends                                                                       |                  |                    |                 |                    | (96)                 |                   |                                   | (96)                                                |                             |
| Change in value of common and treasury stock                                                      | 4                |                    |                 | (87)               |                      | 115               |                                   | 28                                                  |                             |
| Change in value of treasury stock                                                                 | (1)              |                    |                 |                    |                      | (15)              |                                   | (15)                                                |                             |
| Change in value of noncontrolling interests                                                       |                  |                    |                 |                    |                      |                   |                                   |                                                     | (18)                        |
| Change in other changes in noncontrolling interests                                               |                  |                    |                 |                    |                      |                   |                                   |                                                     | 21                          |
| Change in value of option and restricted stock                                                    |                  |                    |                 | 35                 |                      |                   |                                   | 35                                                  |                             |
| As of March 31, 2010                                                                              | 1,916            | \$ 1,500           | \$ 21           | \$ 8,267           | \$ 24,597            | \$ (6,409)        | \$ (1,267)                        | \$ 26,709                                           | \$ 679                      |
| As of December 31, 2010                                                                           | 1,921            | \$ 1,930           | \$ 21           | \$ 8,294           | \$ 27,005            | \$ (6,262)        | \$ (1,469)                        | \$ 29,519                                           | \$ 803                      |
| Change in accounting principle                                                                    |                  |                    |                 |                    | (2)                  |                   |                                   | (2)                                                 |                             |
| Change in net income (loss)                                                                       |                  |                    |                 |                    | 1,046                |                   |                                   | 1,046                                               | (17)                        |
| Change in unrealized gains and losses on securities                                               |                  |                    |                 |                    |                      |                   | 161                               | 161                                                 |                             |

|                                   |              |                 |              |                 |                  |                   |                   |                  |               |             |
|-----------------------------------|--------------|-----------------|--------------|-----------------|------------------|-------------------|-------------------|------------------|---------------|-------------|
| Available-for-sale                |              |                 |              |                 |                  |                   |                   |                  |               |             |
| Non-temporary impairment          |              |                 |              |                 |                  |                   |                   |                  |               |             |
| Recognized in earnings on         |              |                 |              |                 |                  |                   |                   |                  |               |             |
| Assets available-for-sale         |              |                 |              |                 |                  |                   |                   | (5)              | (5)           |             |
| Realized gain on derivative       |              |                 |              |                 |                  |                   |                   | 62               | 62            |             |
| Currency translation              |              |                 |              |                 |                  |                   |                   | (3)              | (3)           |             |
| Adjustment for realized           |              |                 |              |                 |                  |                   |                   | (4)              | (4)           |             |
| Taxes                             |              |                 |              |                 |                  |                   |                   | (81)             | (81)          |             |
| Comprehensive income              |              |                 |              |                 |                  |                   |                   |                  |               |             |
|                                   |              |                 |              |                 |                  |                   |                   |                  | 1,176         | (17)        |
| Declared stock dividends          |              |                 |              |                 | (39)             |                   |                   |                  | (39)          |             |
| Common stock dividends            |              |                 |              |                 | (241)            |                   |                   |                  | (241)         |             |
| Repurchase of common and treasury |              |                 |              |                 |                  |                   |                   |                  |               |             |
|                                   | 7            |                 |              | (103)           |                  | 198               |                   |                  | 95            |             |
| Repurchase of treasury stock      | (1)          |                 |              |                 |                  | (25)              |                   |                  | (25)          |             |
| Contributions to noncontrolling   |              |                 |              |                 |                  |                   |                   |                  |               |             |
| Interests                         |              |                 |              |                 |                  |                   |                   |                  |               | (18)        |
| Other changes in                  |              |                 |              |                 |                  |                   |                   |                  |               |             |
| Controlling interests             |              |                 |              |                 |                  |                   |                   |                  |               | 60          |
| Option and restricted stock       |              |                 |              |                 |                  |                   |                   |                  |               |             |
|                                   |              |                 |              | 24              |                  |                   |                   |                  | 24            |             |
| <b>At March 31, 2011</b>          | <b>1,927</b> | <b>\$ 1,930</b> | <b>\$ 21</b> | <b>\$ 8,215</b> | <b>\$ 27,769</b> | <b>\$ (6,089)</b> | <b>\$ (1,339)</b> | <b>\$ 30,507</b> | <b>\$ 828</b> | <b>\$ 3</b> |

See Notes to Consolidated Financial Statements.

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

| (Dollars in Millions)<br>(Unaudited)                                 | Three Months Ended<br>March 31, |         |
|----------------------------------------------------------------------|---------------------------------|---------|
|                                                                      | 2011                            | 2010    |
| <b>Operating Activities</b>                                          |                                 |         |
| Net cash provided by operating activities                            | \$6,228                         | \$2,876 |
| <b>Investing Activities</b>                                          |                                 |         |
| Proceeds from sales of available-for-sale investment securities      | 141                             | 922     |
| Proceeds from maturities of held-to-maturity investment securities   | 102                             | 66      |
| Proceeds from maturities of available-for-sale investment securities | 3,189                           | 3,070   |
| Purchases of held-to-maturity investment securities                  | (6,524)                         | (64)    |
| Purchases of available-for-sale investment securities                | (3,896)                         | (5,205) |
| Net (increase) decrease in loans outstanding                         | (672)                           | 1,944   |
| Proceeds from sales of loans                                         | 234                             | 440     |
| Purchases of loans                                                   | (581)                           | (622)   |
| Acquisitions, net of cash acquired                                   | 650                             | 832     |
| Other, net                                                           | (131)                           | (302)   |
| Net cash provided by (used in) investing activities                  | (7,488)                         | 1,081   |
| <b>Financing Activities</b>                                          |                                 |         |
| Net increase in deposits                                             | 2,254                           | 314     |
| Net decrease in short-term borrowings                                | (1,652)                         | (769)   |
| Proceeds from issuance of long-term debt                             | 370                             | 902     |
| Principal payments or redemption of long-term debt                   | (378)                           | (2,143) |
| Proceeds from issuance of common stock                               | 94                              | 28      |
| Cash dividends paid on preferred stock                               | (19)                            | (19)    |
| Cash dividends paid on common stock                                  | (96)                            | (96)    |
| Net cash provided by (used in) financing activities                  | 573                             | (1,783) |
| Change in cash and due from banks                                    | (687)                           | 2,174   |
| Cash and due from banks at beginning of period                       | 14,487                          | 6,206   |
| Cash and due from banks at end of period                             | \$13,800                        | \$8,380 |

*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, 2010. Certain amounts in prior periods have been reclassified to conform to the current presentation.

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

#### **Note 2** Accounting Changes

**Troubled Debt Restructurings** In April 2011, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to identifying and disclosing troubled debt restructurings ("TDRs"), effective for the Company on July 1, 2011, to be applied retrospectively to restructurings occurring on or after January 1, 2011. This guidance provides clarification in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for the purpose of determining whether a restructuring constitutes a TDR. The Company is currently assessing the impact of this guidance on its financial statements.

#### **Note 3** Business Combinations

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

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

|                                       | March 31, 2011  |              |             |                |                 | December 31, 2010 |              |               |                |           |
|---------------------------------------|-----------------|--------------|-------------|----------------|-----------------|-------------------|--------------|---------------|----------------|-----------|
|                                       | Amortized       | Unrealized   | Other-than- | Other          | Fair            | Amortized         | Unrealized   | Other-than-   | Other          |           |
| (in Millions)                         | Cost            | Gains        | Temporary   |                | Value           | Cost              | Gains        | Temporary     |                |           |
| <b>Held-to-maturity (a)</b>           |                 |              |             |                |                 |                   |              |               |                |           |
| Treasury and agencies                 | \$ 1,481        | \$           | \$          | \$ (9)         | \$ 1,472        | \$ 165            | \$           | \$            | \$ (1)         | \$        |
| Mortgage-backed securities            |                 |              |             |                |                 |                   |              |               |                |           |
| Commercial                            | 6,325           | 21           |             | (16)           | 6,330           | 847               |              |               | (4)            |           |
| Municipal                             | 2               |              |             |                | 2               | 3                 |              |               |                |           |
| Corporate                             | 7               |              |             | (3)            | 4               | 10                |              |               | (5)            |           |
| Asset-backed securities               |                 |              |             |                |                 |                   |              |               |                |           |
| Securitized debt                      |                 |              |             |                |                 |                   |              |               |                |           |
| Other                                 |                 |              |             |                |                 |                   |              |               |                |           |
| Government securities                 | 114             | 14           |             | (9)            | 119             | 157               | 13           |               | (18)           |           |
| Other                                 | 126             | 1            |             | (8)            | 119             | 127               |              | (1)           | (7)            |           |
| State and local government securities | 26              | 1            |             | (1)            | 26              | 27                | 1            |               | (1)            |           |
| Foreign government securities         | 7               |              |             |                | 7               | 7                 |              |               |                |           |
| Other securities                      | 125             |              |             | (25)           | 100             | 126               |              |               | (27)           |           |
| <b>Total held-to-maturity</b>         | <b>\$ 8,213</b> | <b>\$ 37</b> | <b>\$</b>   | <b>\$ (71)</b> | <b>\$ 8,179</b> | <b>\$ 1,469</b>   | <b>\$ 14</b> | <b>\$ (1)</b> | <b>\$ (63)</b> | <b>\$</b> |
| <b>Available-for-sale (b)</b>         |                 |              |             |                |                 |                   |              |               |                |           |
| Treasury and agencies                 | \$ 2,561        | \$ 5         | \$          | \$ (29)        | \$ 2,537        | \$ 2,559          | \$ 6         | \$            | \$ (28)        | \$        |
| Mortgage-backed securities            |                 |              |             |                |                 |                   |              |               |                |           |
| Commercial                            | 37,983          | 681          |             | (146)          | 38,518          | 37,144            | 718          |               | (159)          |           |
| Municipal                             | 1,030           | 12           | (41)        | (38)           | 963             | 1,216             | 12           | (86)          | (39)           |           |
| Corporate                             | 1,141           | 21           | (183)       | (32)           | 947             | 1,193             | 15           | (243)         | (18)           |           |
| Asset-backed securities               | 168             | 4            |             | (2)            | 170             | 194               | 5            |               | (2)            |           |
| Securitized debt                      | 47              | 3            |             |                | 50              | 47                | 3            |               |                |           |
| Other                                 | 203             | 34           | (2)         | (2)            | 233             | 204               | 23           | (2)           | (1)            |           |

|                    |           |        |          |          |           |           |        |          |          |
|--------------------|-----------|--------|----------|----------|-----------|-----------|--------|----------|----------|
| alized debt        |           |        |          |          |           |           |        |          |          |
| ns/                |           |        |          |          |           |           |        |          |          |
| zed loan           |           |        |          |          |           |           |        |          |          |
| ns                 |           |        |          |          |           |           |        |          |          |
|                    | 704       | 25     | (2)      | (9)      | 718       | 709       | 23     | (3)      | (9)      |
| ns of state and    |           |        |          |          |           |           |        |          |          |
| subdivisions       | 6,828     | 9      |          | (425)    | 6,412     | 6,835     | 3      |          | (421)    |
| ns of foreign      |           |        |          |          |           |           |        |          |          |
| ents               | 6         |        |          |          | 6         | 6         |        |          |          |
| e debt securities  | 1,109     |        |          | (105)    | 1,004     | 1,109     |        |          | (151)    |
| preferred          |           |        |          |          |           |           |        |          |          |
|                    | 456       | 52     |          | (38)     | 470       | 456       | 41     |          | (49)     |
| estments           | 206       | 14     |          |          | 220       | 183       | 17     |          | (1)      |
| available-for-sale | \$ 52,442 | \$ 860 | \$ (228) | \$ (826) | \$ 52,248 | \$ 51,855 | \$ 866 | \$ (334) | \$ (878) |

- (a) *Held-to-maturity securities are carried at historical cost adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment.*
- (b) *Available-for-sale securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive income (loss) in shareholders' equity.*
- (c) *Prime securities are those designated as such by the issuer or those with underlying asset characteristics and/or credit enhancements consistent with securities designated as prime.*

The weighted-average maturity of the available-for-sale investment securities was 8.0 years at March 31, 2011, compared with 7.4 years at December 31, 2010. The corresponding weighted-average yields were 3.37 percent and 3.41 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 5.1 years at March 31, 2011, and 6.3 years at December 31, 2010. The corresponding weighted-average yields were 2.41 percent and 2.07 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale securities outstanding at March 31, 2011, refer to Table 4 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

Securities carried at \$24.5 billion at March 31, 2011, and \$28.0 billion at December 31, 2010, were pledged to secure public, private and trust deposits, repurchase agreements and for other purposes required by law. Included in these amounts were securities sold under agreements to repurchase where the buyer/lender has the right to sell or pledge the securities and which were collateralized by securities with a carrying amount of \$7.7 billion at March 31, 2011, and \$9.3 billion at December 31, 2010.

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

|                                                  |        |        |
|--------------------------------------------------|--------|--------|
| Three Months Ended March 31                      |        |        |
| (Dollars in Millions)                            | 2011   | 2010   |
| Taxable                                          | \$ 351 | \$ 333 |
| Non-taxable                                      | 77     | 77     |
| Total interest income from investment securities | \$ 428 | \$ 410 |

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

|                                                 |      |       |
|-------------------------------------------------|------|-------|
| Three Months Ended March 31                     |      |       |
| (Dollars in Millions)                           | 2011 | 2010  |
| Realized gains                                  | \$ 1 | \$ 12 |
| Realized losses                                 |      |       |
| Net realized gains (losses)                     | \$ 1 | \$ 12 |
| Income tax (benefit) on realized gains (losses) | \$   | \$ 4  |

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

Some of the SIV-related securities evidenced credit deterioration at the time of acquisition by the Company. Investment securities with evidence of credit deterioration at acquisition had an unpaid principal balance and fair value of \$449 million and \$170 million, respectively, at March 31, 2011, and \$485 million and \$173 million, respectively, at December 31, 2010. Changes in the accretable balance for these securities were as follows:

|                                |        |        |
|--------------------------------|--------|--------|
| Three Months Ended March 31    |        |        |
| (Dollars in Millions)          | 2011   | 2010   |
| Balance at beginning of period | \$ 139 | \$ 292 |
| Accretion                      | (5)    | (7)    |
| Other (a)                      | (8)    | 34     |
| Balance at end of period       | \$ 126 | \$ 319 |

(a) Primarily represents changes in projected future cash flows on certain investment securities.

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

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

| Three Months Ended March 31<br>(Dollars in Millions)            | 2011                                 |                            |         | 2010                                 |                            |         |
|-----------------------------------------------------------------|--------------------------------------|----------------------------|---------|--------------------------------------|----------------------------|---------|
|                                                                 | Losses<br>Recorded<br>in<br>Earnings | Other<br>Gains<br>(Losses) | Total   | Losses<br>Recorded<br>in<br>Earnings | Other<br>Gains<br>(Losses) | Total   |
| <b>Held-to-maturity</b>                                         |                                      |                            |         |                                      |                            |         |
| Asset-backed securities                                         |                                      |                            |         |                                      |                            |         |
| Other                                                           | \$                                   | \$                         | \$      | \$ (2)                               | \$                         | \$ (2)  |
| Total held-to-maturity                                          | \$                                   | \$                         | \$      | \$ (2)                               | \$                         | \$ (2)  |
| <b>Available-for-sale</b>                                       |                                      |                            |         |                                      |                            |         |
| Mortgage-backed securities                                      |                                      |                            |         |                                      |                            |         |
| Non-agency residential                                          |                                      |                            |         |                                      |                            |         |
| Prime (a)                                                       | \$ (1)                               | \$ 1                       | \$      | \$ (2)                               | \$ (9)                     | \$ (11) |
| Non-prime                                                       | (5)                                  | (6)                        | (11)    | (35)                                 | (32)                       | (67)    |
| Asset-backed securities                                         |                                      |                            |         |                                      |                            |         |
| Collateralized debt obligations/Collateralized loan obligations |                                      |                            |         | (1)                                  |                            | (1)     |
| Other                                                           |                                      |                            |         | (5)                                  | (1)                        | (6)     |
| Other debt securities                                           |                                      |                            |         | (1)                                  | 1                          |         |
| Total available-for-sale                                        | \$ (6)                               | \$ (5)                     | \$ (11) | \$ (44)                              | \$ (41)                    | \$ (85) |

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

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The Company determined the other-than-temporary impairment recorded in earnings for securities other than perpetual preferred securities by estimating the future cash flows of each individual security, using market information where available, and discounting the cash flows at the original effective rate of the security. Other-than-temporary impairment recorded in other comprehensive income (loss) was measured as the difference between that discounted amount and the fair value of each security. The following table includes the ranges for principal assumptions used at March 31, 2011, for those available-for-sale non-agency mortgage-backed securities determined to be other-than-temporarily impaired:

|                                       | Minimum | Prime<br>Maximum | Average | Minimum | Non-Prime<br>Maximum | Average |
|---------------------------------------|---------|------------------|---------|---------|----------------------|---------|
| Estimated lifetime prepayment rates   | 14%     | 14%              | 14%     | 1%      | 12%                  | 6%      |
| Lifetime probability of default rates | 3       | 3                | 3       | 1       | 19                   | 8       |
| Lifetime loss severity rates          | 40      | 40               | 40      | 37      | 70                   | 55      |

Changes in the credit losses on non-agency mortgage-backed securities, including SIV-related securities, and other debt securities are summarized as follows:

## Three Months Ended March 31

(Dollars in Millions)

|                                                                                                                    | 2011   | 2010   |
|--------------------------------------------------------------------------------------------------------------------|--------|--------|
| Balance at beginning of period                                                                                     | \$ 358 | \$ 335 |
| Credit losses on securities not previously considered other-than-temporarily impaired                              | 1      | 13     |
| Decreases in expected cash flows on securities for which other-than-temporary impairment was previously recognized | 5      | 33     |
| Increases in expected cash flows                                                                                   | (7)    | (1)    |
| Realized losses                                                                                                    | (17)   | (7)    |
| Credit losses on security sales and securities expected to be sold                                                 | (1)    |        |
| Other                                                                                                              |        | 18     |
| Balance at end of period                                                                                           | \$ 339 | \$ 391 |

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At March 31, 2011, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time the individual securities have been in continuous unrealized loss positions, at March 31, 2011:

| (Dollars in Millions)                                           | Less Than 12 Months |                   | 12 Months or Greater |                   | Total      |                   |
|-----------------------------------------------------------------|---------------------|-------------------|----------------------|-------------------|------------|-------------------|
|                                                                 | Fair Value          | Unrealized Losses | Fair Value           | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>Held-to-maturity</b>                                         |                     |                   |                      |                   |            |                   |
| U.S. Treasury and agencies                                      | \$ 1,361            | \$ (9)            | \$                   | \$                | \$ 1,361   | \$ (9)            |
| Mortgage-backed securities                                      |                     |                   |                      |                   |            |                   |
| Residential                                                     |                     |                   |                      |                   |            |                   |
| Agency                                                          | 3,317               | (16)              |                      |                   | 3,317      | (16)              |
| Non-agency                                                      |                     |                   |                      |                   |            |                   |
| Non-prime                                                       |                     |                   | 2                    |                   | 2          |                   |
| Commercial                                                      |                     |                   |                      |                   |            |                   |
| Non-agency                                                      |                     |                   | 4                    | (3)               | 4          | (3)               |
| Asset-backed securities                                         |                     |                   |                      |                   |            |                   |
| Collateralized debt obligations/Collateralized loan obligations |                     |                   | 52                   | (9)               | 52         | (9)               |
| Other                                                           | 100                 |                   | 16                   | (8)               | 116        | (8)               |
| Obligations of state and political subdivisions                 | 1                   |                   | 9                    | (1)               | 10         | (1)               |
| Other debt securities                                           |                     |                   | 100                  | (25)              | 100        | (25)              |
| Total held-to-maturity                                          | \$ 4,779            | \$ (25)           | \$ 183               | \$ (46)           | \$ 4,962   | \$ (71)           |
| <b>Available-for-sale</b>                                       |                     |                   |                      |                   |            |                   |
| U.S. Treasury and agencies                                      | \$ 1,546            | \$ (29)           | \$                   | \$                | \$ 1,546   | \$ (29)           |
| Mortgage-backed securities                                      |                     |                   |                      |                   |            |                   |
| Residential                                                     |                     |                   |                      |                   |            |                   |
| Agency                                                          | 11,437              | (146)             | 6                    |                   | 11,443     | (146)             |
| Non-agency                                                      |                     |                   |                      |                   |            |                   |
| Prime (a)                                                       | 43                  |                   | 779                  | (79)              | 822        | (79)              |
| Non-prime                                                       | 38                  | (3)               | 757                  | (212)             | 795        | (215)             |
| Commercial                                                      |                     |                   |                      |                   |            |                   |
| Agency                                                          | 91                  | (2)               |                      |                   | 91         | (2)               |
| Non-agency                                                      | 3                   |                   | 1                    |                   | 4          |                   |
| Asset-backed securities                                         |                     |                   |                      |                   |            |                   |
| Collateralized debt obligations/Collateralized loan obligations | 9                   | (2)               | 8                    | (2)               | 17         | (4)               |
| Other                                                           | 116                 | (1)               | 23                   | (10)              | 139        | (11)              |
| Obligations of state and political subdivisions                 | 4,545               | (257)             | 1,115                | (168)             | 5,660      | (425)             |

|                                |           |          |          |           |            |
|--------------------------------|-----------|----------|----------|-----------|------------|
| Corporate debt securities      | 15        | 908      | (105)    | 923       | (105)      |
| Perpetual preferred securities |           | 260      | (38)     | 260       | (38)       |
| Other investments              |           | 4        |          | 4         |            |
| Total available-for-sale       | \$ 17,843 | \$ (440) | \$ 3,861 | \$ (614)  | \$ 21,704  |
|                                |           |          |          | \$ 21,704 | \$ (1,054) |

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

The Company does not consider these unrealized losses to be credit-related. These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of securities that have unrealized losses are either corporate debt, obligations of state and political subdivisions or mortgage-backed securities issued with high investment grade credit ratings. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these securities. At March 31, 2011, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not it would not be required to sell such securities before recovery of their amortized cost.

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

The composition of the loan portfolio was as follows:

| (Dollars in Millions)                | March 31, 2011 |                  | December 31, 2010 |                  |
|--------------------------------------|----------------|------------------|-------------------|------------------|
|                                      | Amount         | Percent of Total | Amount            | Percent of Total |
| <b>Commercial</b>                    |                |                  |                   |                  |
| Commercial                           | \$ 43,249      | 21.8%            | \$ 42,272         | 21.5%            |
| Lease financing                      | 6,023          | 3.1              | 6,126             | 3.1              |
| Total commercial                     | 49,272         | 24.9             | 48,398            | 24.6             |
| <b>Commercial real estate</b>        |                |                  |                   |                  |
| Commercial mortgages                 | 28,236         | 14.3             | 27,254            | 13.8             |
| Construction and development         | 7,201          | 3.6              | 7,441             | 3.8              |
| Total commercial real estate         | 35,437         | 17.9             | 34,695            | 17.6             |
| <b>Residential mortgages</b>         |                |                  |                   |                  |
| Residential mortgages                | 25,671         | 13.0             | 24,315            | 12.3             |
| Home equity loans, first liens       | 6,673          | 3.3              | 6,417             | 3.3              |
| Total residential mortgages          | 32,344         | 16.3             | 30,732            | 15.6             |
| <b>Retail</b>                        |                |                  |                   |                  |
| Credit card                          | 15,874         | 8.0              | 16,803            | 8.5              |
| Retail leasing                       | 4,727          | 2.4              | 4,569             | 2.3              |
| Home equity and second mortgages     | 18,628         | 9.4              | 18,940            | 9.6              |
| Other retail                         |                |                  |                   |                  |
| Revolving credit                     | 3,339          | 1.7              | 3,472             | 1.8              |
| Installment                          | 5,290          | 2.7              | 5,459             | 2.8              |
| Automobile                           | 10,936         | 5.5              | 10,897            | 5.5              |
| Student                              | 4,951          | 2.5              | 5,054             | 2.5              |
| Total other retail                   | 24,516         | 12.4             | 24,882            | 12.6             |
| Total retail                         | 63,745         | 32.2             | 65,194            | 33.0             |
| Total loans, excluding covered loans | 180,798        | 91.3             | 179,019           | 90.8             |
| <b>Covered loans</b>                 | 17,240         | 8.7              | 18,042            | 9.2              |
| Total loans                          | \$ 198,038     | 100.0%           | \$ 197,061        | 100.0%           |

The Company had loans of \$61.3 billion at March 31, 2011, and \$62.8 billion at December 31, 2010, pledged at the Federal Home Loan Bank ( FHLB ), and loans of \$44.5 billion at March 31, 2011, and \$44.6 billion at December 31, 2010, pledged at the Federal Reserve Bank.

Originated loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.2 billion at March 31, 2011, and \$1.3 billion at December 31, 2010. In accordance with applicable authoritative accounting

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

Covered assets represent loans and other assets acquired from the FDIC subject to loss sharing agreements in the Downey Savings and Loan Association, F.A.; PFF Bank and Trust; and First Bank of Oak Park Corporation transactions and included expected reimbursements from the FDIC of approximately \$2.9 billion at March 31, 2011

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and \$3.1 billion at December 31, 2010. The carrying amount of the covered assets consisted of purchased impaired loans, purchased nonimpaired loans, and other assets as shown in the following table:

| (Dollars in Millions)           | March 31, 2011                 |                                   |                 |           | December 31, 2010              |                                   |                 |           |
|---------------------------------|--------------------------------|-----------------------------------|-----------------|-----------|--------------------------------|-----------------------------------|-----------------|-----------|
|                                 | Purchased<br>impaired<br>loans | Purchased<br>nonimpaired<br>loans | Other<br>assets | Total     | Purchased<br>impaired<br>loans | Purchased<br>nonimpaired<br>loans | Other<br>assets | Total     |
| Commercial loans                | \$ 74                          | \$ 215                            | \$              | \$ 289    | \$ 70                          | \$ 260                            | \$              | \$ 330    |
| Commercial real estate loans    | 2,286                          | 5,499                             |                 | 7,785     | 2,254                          | 5,952                             |                 | 8,206     |
| Residential mortgage loans      | 3,775                          | 1,550                             |                 | 5,325     | 3,819                          | 1,620                             |                 | 5,439     |
| Retail loans                    |                                | 918                               |                 | 918       |                                | 930                               |                 | 930       |
| Losses reimbursable by the FDIC |                                |                                   | 2,923           | 2,923     |                                |                                   | 3,137           | 3,137     |
| Covered loans                   | 6,135                          | 8,182                             | 2,923           | 17,240    | 6,143                          | 8,762                             | 3,137           | 18,042    |
| Foreclosed real estate          |                                |                                   | 390             | 390       |                                |                                   | 453             | 453       |
| Total covered assets            | \$ 6,135                       | \$ 8,182                          | \$ 3,313        | \$ 17,630 | \$ 6,143                       | \$ 8,762                          | \$ 3,590        | \$ 18,495 |

At March 31, 2011, \$4 billion of the purchased impaired loans included in covered loans were classified as nonperforming assets, compared with \$5 billion at December 31, 2010, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. Interest income is recognized on other purchased impaired loans through accretion of the difference between the carrying amount of those loans and their expected cash flows. The initial determination of the fair value of the purchased loans includes the impact of expected credit losses and, therefore, no allowance for credit losses is recorded at the purchase date. To the extent credit deterioration occurs after the date of acquisition, the Company records an allowance for credit losses.

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

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

| (Dollars in Millions)          | Three Months Ended<br>March 31, |          |
|--------------------------------|---------------------------------|----------|
|                                | 2011                            | 2010     |
| Balance at beginning of period | \$ 2,890                        | \$ 2,845 |
| Purchases                      | 100                             |          |
| Accretion                      | (112)                           | (101)    |

|                                                          |          |          |
|----------------------------------------------------------|----------|----------|
| Disposals                                                | (1)      | (7)      |
| Reclassifications (to)/from nonaccretable difference (a) | (48)     | 92       |
| Other                                                    | (28)     | (4)      |
| Balance at end of period                                 | \$ 2,801 | \$ 2,825 |

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

The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio and includes certain amounts that do not represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the FDIC. Management evaluates the allowance each quarter to ensure it appropriately reserves for incurred losses. Several factors are taken into consideration in evaluating the allowance for credit losses, 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 loan balances classified as TDRs. Management also considers 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, are evaluated. Finally, the Company considers current economic conditions that might impact the portfolio. This evaluation is inherently subjective as it requires estimates,

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including amounts of future cash collections expected on nonaccrual loans, which may be susceptible to significant change. The allowance for credit losses relating to originated loans that have become impaired is based on expected cash flows discounted using the original effective interest rate, the observable market price, or the fair value of the collateral for certain collateral-dependent loans. To the extent credit deterioration occurs on purchased loans after the date of acquisition, the Company records an allowance for credit losses.

The Company determines the amount of the allowance required for certain sectors based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is generally based on quarterly reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous commercial and consumer loans is based on an analysis of product mix, risk characteristics of the portfolio, bankruptcy experiences, and historical losses, adjusted for current trends, for each homogenous category or group of loans. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

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

Activity in the allowance for credit losses, by portfolio type, for the three months ended March 31, 2011, was as follows:

|                                                                 |            | Commercial | Residential |                |                 | Total<br>Loans,<br>Excluding<br>Covered<br>Loans | Covered<br>Loans | Total<br>Loans |
|-----------------------------------------------------------------|------------|------------|-------------|----------------|-----------------|--------------------------------------------------|------------------|----------------|
| (Dollars in Millions)                                           | Commercial | Estate     | Mortgages   | Credit<br>Card | Other<br>Retail |                                                  |                  |                |
| Balance at beginning<br>of period                               | \$ 1,104   | \$ 1,291   | \$ 820      | \$ 1,395       | \$ 807          | \$ 5,417                                         | \$ 114           | \$ 5,531       |
| Add                                                             |            |            |             |                |                 |                                                  |                  |                |
| Provision for credit<br>losses                                  | 174        | 109        | 128         | 128            | 210             | 749                                              | 6                | 755            |
| Deduct                                                          |            |            |             |                |                 |                                                  |                  |                |
| Loans charged off                                               | 161        | 140        | 133         | 268            | 195             | 897                                              | 2                | 899            |
| Less recoveries of<br>loans charged off                         | (22)       | (15)       | (4)         | (21)           | (32)            | (94)                                             |                  | (94)           |
| Net loans charged off                                           | 139        | 125        | 129         | 247            | 163             | 803                                              | 2                | 805            |
| Net change for credit<br>losses to be reimbursed<br>by the FDIC |            |            |             |                |                 |                                                  | 17               | 17             |
| Balance at end of<br>period                                     | \$ 1,139   | \$ 1,275   | \$ 819      | \$ 1,276       | \$ 854          | \$ 5,363                                         | \$ 135           | \$ 5,498       |

Additional detail of the allowance for credit losses by portfolio type, at March 31, 2011 and December 31, 2010, was as follows:

|                                                           | Commercial |                |           | Residential | Credit | Other    | Total<br>Loans,<br>Excluding<br>Covered<br>Loans | Covered<br>Loans | Total<br>Loans |
|-----------------------------------------------------------|------------|----------------|-----------|-------------|--------|----------|--------------------------------------------------|------------------|----------------|
| (Dollars in Millions)                                     | Commercial | Real<br>Estate | Mortgages | Card        | Retail |          |                                                  |                  |                |
| <b>Allowance balance at March 31, 2011 related to:</b>    |            |                |           |             |        |          |                                                  |                  |                |
| Loans individually evaluated for impairment (a)           | \$ 14      | \$ 65          | \$        | \$          | \$     | \$ 79    | \$                                               | \$ 79            |                |
| TDRs collectively evaluated for impairment                | 24         |                | 333       | 207         | 47     | 611      |                                                  | 611              |                |
| Other loans collectively evaluated for impairment         | 1,101      | 1,209          | 486       | 1,069       | 807    | 4,672    | 28                                               | 4,700            |                |
| Loans acquired with deteriorated credit quality           |            | 1              |           |             |        | 1        | 107                                              | 108              |                |
| Total allowance for credit losses                         | \$ 1,139   | \$ 1,275       | \$ 819    | \$ 1,276    | \$ 854 | \$ 5,363 | \$ 135                                           | \$ 5,498         |                |
| <b>Allowance balance at December 31, 2010 related to:</b> |            |                |           |             |        |          |                                                  |                  |                |
| Loans individually evaluated for impairment (a)           | \$ 38      | \$ 55          | \$        | \$          | \$     | \$ 93    | \$                                               | \$ 93            |                |
| TDRs collectively evaluated for impairment                |            |                | 320       | 223         | 30     | 573      |                                                  | 573              |                |
| Other loans collectively evaluated for impairment         | 1,066      | 1,235          | 500       | 1,172       | 777    | 4,750    | 28                                               | 4,778            |                |
| Loans acquired with deteriorated credit quality           |            | 1              |           |             |        | 1        | 86                                               | 87               |                |
| Total allowance for credit losses                         | \$ 1,104   | \$ 1,291       | \$ 820    | \$ 1,395    | \$ 807 | \$ 5,417 | \$ 114                                           | \$ 5,531         |                |

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

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Additional detail of loan balances, by portfolio type, at March 31, 2011 and December 31, 2010, was as follows:

|                                                         | Commercial | Commercial<br>Real<br>Estate | Residential<br>Mortgages | Credit<br>Card | Other<br>Retail | Total<br>Loans,<br>Excluding<br>Covered<br>Loans | Covered<br>Loans | Total<br>Loans |
|---------------------------------------------------------|------------|------------------------------|--------------------------|----------------|-----------------|--------------------------------------------------|------------------|----------------|
| (Dollars in Millions)                                   |            |                              |                          |                |                 |                                                  |                  |                |
| <b>March 31, 2011:</b>                                  |            |                              |                          |                |                 |                                                  |                  |                |
| Loans individually<br>evaluated for<br>impairment (a)   | \$ 182     | \$ 932                       | \$                       | \$             | \$              | \$ 1,114                                         | \$               | \$ 1,114       |
| TDRs collectively<br>evaluated for<br>impairment        | 56         |                              | 2,046                    | 467            | 117             | 2,686                                            |                  | 2,686          |
| Other loans<br>collectively evaluated<br>for impairment | 49,017     | 34,243                       | 30,283                   | 15,407         | 47,754          | 176,704                                          | 11,105           | 187,809        |
| Loans acquired with<br>deteriorated credit<br>quality   | 17         | 262                          | 15                       |                |                 | 294                                              | 6,135            | 6,429          |
| Total loans                                             | \$ 49,272  | \$ 35,437                    | \$ 32,344                | \$ 15,874      | \$ 47,871       | \$ 180,798                                       | \$ 17,240 (b)    | \$ 198,038     |
| <b>December 31, 2010:</b>                               |            |                              |                          |                |                 |                                                  |                  |                |
| Loans individually<br>evaluated for<br>impairment (a)   | \$ 295     | \$ 801                       | \$                       | \$             | \$              | \$ 1,096                                         | \$               | \$ 1,096       |
| TDRs collectively<br>evaluated for<br>impairment        |            |                              | 1,957                    | 452            | 114             | 2,523                                            |                  | 2,523          |
| Other loans<br>collectively evaluated<br>for impairment | 48,103     | 33,834                       | 28,775                   | 16,351         | 48,277          | 175,340                                          | 11,899           | 187,239        |
| Loans acquired with<br>deteriorated credit<br>quality   |            | 60                           |                          |                |                 | 60                                               | 6,143            | 6,203          |
| Total loans                                             | \$ 48,398  | \$ 34,695                    | \$ 30,732                | \$ 16,803      | \$ 48,391       | \$ 179,019                                       | \$ 18,042 (b)    | \$ 197,061     |

(a) Represents commercial and commercial real estate loans that are greater than \$5 million and are classified as nonperforming or TDRs.

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

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

for credit losses.

Generally, commercial loans (including impaired loans) are placed on nonaccrual status when the collection of interest or principal has become 90 days past due or is otherwise considered doubtful. When a loan is placed on nonaccrual status, unpaid accrued interest is reversed. Future interest payments are generally applied against principal.

Commercial loans are generally fully or partially charged down to the fair value of collateral securing the loan, less costs to sell, when the loan is deemed to be uncollectible, repayment is deemed beyond reasonable time frames, the borrower has filed for bankruptcy, or the loan is unsecured and greater than six months past due. Loans secured by 1-4 family properties are generally charged down to fair value, less costs to sell, at 180 days past due, and placed on nonaccrual status in instances where a partial charge-off occurs. Revolving consumer lines and credit cards are charged off at 180 days past due and closed-end consumer loans, other than loans secured by 1-4 family properties, are charged off at 120 days past due and are, therefore, generally not placed on nonaccrual status. Certain retail customers having financial difficulties may have the terms of their credit card and other loan agreements modified to require only principal payments and, as such, these loans are reported as nonaccrual.

Generally, purchased impaired loans are considered accruing loans. However, the timing and amount of future cash flows for some loans is not reasonably estimable. Those loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of the future cash flows can be reasonably estimated.

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

| (Dollars in Millions)                | Accruing<br>30-89<br>Days |          | 90 Days or<br>More Past<br>Due Nonperforming |          | Total      |
|--------------------------------------|---------------------------|----------|----------------------------------------------|----------|------------|
|                                      | Current                   | Past Due |                                              |          |            |
| <b>March 31, 2011:</b>               |                           |          |                                              |          |            |
| Commercial                           | \$ 48,399                 | \$ 322   | \$ 58                                        | \$ 493   | \$ 49,272  |
| Commercial real estate               | 33,700                    | 261      | 6                                            | 1,470    | 35,437     |
| Residential mortgages                | 30,832                    | 395      | 432                                          | 685      | 32,344     |
| Credit card                          | 15,133                    | 228      | 258                                          | 255      | 15,874     |
| Other retail                         | 47,284                    | 317      | 195                                          | 75       | 47,871     |
| Total loans, excluding covered loans | 175,348                   | 1,523    | 949                                          | 2,978    | 180,798    |
| Covered loans                        | 14,341                    | 743      | 1,005                                        | 1,151    | 17,240     |
| Total loans                          | \$ 189,689                | \$ 2,266 | \$ 1,954                                     | \$ 4,129 | \$ 198,038 |
| <b>December 31, 2010:</b>            |                           |          |                                              |          |            |
| Commercial                           | \$ 47,412                 | \$ 325   | \$ 64                                        | \$ 597   | \$ 48,398  |
| Commercial real estate               | 32,986                    | 415      | 1                                            | 1,293    | 34,695     |
| Residential mortgages                | 29,140                    | 456      | 500                                          | 636      | 30,732     |
| Credit card                          | 15,993                    | 269      | 313                                          | 228      | 16,803     |
| Other retail                         | 47,706                    | 404      | 216                                          | 65       | 48,391     |
| Total loans, excluding covered loans | 173,237                   | 1,869    | 1,094                                        | 2,819    | 179,019    |
| Covered loans                        | 14,951                    | 757      | 1,090                                        | 1,244    | 18,042     |
| Total loans                          | \$ 188,188                | \$ 2,626 | \$ 2,184                                     | \$ 4,063 | \$ 197,061 |

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

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

| (Dollars in Millions) | Criticized |                    | Total<br>Criticized | Total |
|-----------------------|------------|--------------------|---------------------|-------|
|                       | Pass       | Special<br>Mention |                     |       |

|                                      |            |          | Classified<br>(a) |           |            |
|--------------------------------------|------------|----------|-------------------|-----------|------------|
| <b>March 31, 2011:</b>               |            |          |                   |           |            |
| Commercial                           | \$ 45,164  | \$ 1,659 | \$ 2,449          | \$ 4,108  | \$ 49,272  |
| Commercial real estate               | 29,043     | 1,623    | 4,771             | 6,394     | 35,437     |
| Residential mortgages                | 30,991     | 25       | 1,328             | 1,353     | 32,344     |
| Credit card                          | 15,361     |          | 513               | 513       | 15,874     |
| Other retail                         | 47,404     | 75       | 392               | 467       | 47,871     |
| Total loans, excluding covered loans | 167,963    | 3,382    | 9,453             | 12,835    | 180,798    |
| Covered loans                        | 16,315     | 215      | 710               | 925       | 17,240     |
| Total loans                          | \$ 184,278 | \$ 3,597 | \$ 10,163         | \$ 13,760 | \$ 198,038 |
| Total outstanding commitments        | \$ 373,648 | \$ 5,192 | \$ 11,529         | \$ 16,721 | \$ 390,369 |
| <b>December 31, 2010:</b>            |            |          |                   |           |            |
| Commercial                           | \$ 44,595  | \$ 1,545 | \$ 2,258          | \$ 3,803  | \$ 48,398  |
| Commercial real estate               | 28,155     | 1,540    | 5,000             | 6,540     | 34,695     |
| Residential mortgages                | 29,355     | 29       | 1,348             | 1,377     | 30,732     |
| Credit card                          | 16,262     |          | 541               | 541       | 16,803     |
| Other retail                         | 47,906     | 70       | 415               | 485       | 48,391     |
| Total loans, excluding covered loans | 166,273    | 3,184    | 9,562             | 12,746    | 179,019    |
| Covered loans                        | 17,073     | 283      | 686               | 969       | 18,042     |
| Total loans                          | \$ 183,346 | \$ 3,467 | \$ 10,248         | \$ 13,715 | \$ 197,061 |
| Total outstanding commitments        | \$ 370,031 | \$ 4,923 | \$ 11,576         | \$ 16,499 | \$ 386,530 |

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

A loan is considered to be impaired when, based on current events or information, it is probable the Company will be unable to collect all amounts due per the contractual terms of the loan agreement. Impaired loans include certain nonaccrual commercial loans, loans for which a charge-off has been recorded based upon the fair value of the underlying collateral and loans modified as TDRs. Interest income is recognized on impaired loans under the modified terms and conditions if the borrower has demonstrated repayment performance at a level commensurate with the

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modified terms over several payment cycles. Purchased credit impaired loans are not reported as impaired loans as long as they continue to perform at least as well as expected at acquisition. Nonaccrual commercial lease financing loans of \$54 million and \$78 million at March 31, 2011 and December 31, 2010, respectively, were excluded from impaired loans as commercial lease financing loans are accounted for under authoritative accounting guidance for leases, and are excluded from the definition of an impaired loan under loan impairment guidance.

A summary of impaired loans, excluding covered loans, was as follows:

| (Dollars in Millions)     | Period-end<br>Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Valuation<br>Allowance | Commitments<br>to Lend<br>Additional<br>Funds |
|---------------------------|--------------------------------------|--------------------------------|------------------------|-----------------------------------------------|
| <b>March 31, 2011:</b>    |                                      |                                |                        |                                               |
| Commercial                | \$ 498                               | \$ 1,594                       | \$ 67                  | \$ 49                                         |
| Commercial real estate    | 1,654                                | 3,262                          | 126                    | 19                                            |
| Residential mortgages     | 2,575                                | 3,015                          | 343                    |                                               |
| Credit card               | 467                                  | 467                            | 207                    |                                               |
| Other retail              | 161                                  | 197                            | 48                     |                                               |
| <b>Total</b>              | <b>\$ 5,355</b>                      | <b>\$ 8,535</b>                | <b>\$ 791</b>          | <b>\$ 68</b>                                  |
| <b>December 31, 2010:</b> |                                      |                                |                        |                                               |
| Commercial                | \$ 596                               | \$ 1,631                       | \$ 59                  | \$ 80                                         |
| Commercial real estate    | 1,308                                | 2,659                          | 118                    | 17                                            |
| Residential mortgages     | 2,440                                | 2,877                          | 334                    |                                               |
| Credit card               | 452                                  | 452                            | 218                    |                                               |
| Other retail              | 152                                  | 189                            | 32                     |                                               |
| <b>Total</b>              | <b>\$ 4,948</b>                      | <b>\$ 7,808</b>                | <b>\$ 761</b>          | <b>\$ 97</b>                                  |

Additional information on impaired loans for the three months ended March 31, 2011 follows:

| (Dollars in Millions)  | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|------------------------|-----------------------------------|----------------------------------|
| Commercial             | \$ 547                            | \$ 1                             |
| Commercial real estate | 1,481                             | 2                                |
| Residential mortgages  | 2,507                             | 25                               |
| Credit card            | 459                               | 3                                |
| Other retail           | 157                               | 1                                |
| <b>Total</b>           | <b>\$ 5,151</b>                   | <b>\$ 32</b>                     |

Net gains on the sale of loans of \$215 million and \$111 million for the three months ended March 31, 2011 and 2010, respectively, and were included in noninterest income, primarily in mortgage banking revenue.

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

The Company sells financial assets in the normal course of business. The majority of the Company's financial asset sales are residential mortgage loan sales primarily to government-sponsored enterprises through established programs, the sale or syndication of tax-advantaged investments, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest and thus qualify for derecognition. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. The guarantees provided to certain third-parties in connection with the sale or syndication of certain assets, primarily loan portfolios and tax-advantaged investments, are further discussed in Note 13. When the Company sells financial assets, it may retain servicing rights and/or other interests in the transferred financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by the Company are initially recognized at fair value. For further information on mortgage servicing rights (MSRs), refer to Note 7. The Company has no asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

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The Company is involved in various entities that are considered to be variable interest entities ( VIEs ). The Company's investments in VIEs primarily represent private investment funds or partnerships that make equity investments, provide debt financing or support community-based investments in affordable housing development entities that provide capital for communities located in low-income districts and for historic rehabilitation projects that may enable the Company to ensure regulatory compliance with the Community Reinvestment Act. In addition, the Company sponsors entities to which it transfers tax-advantaged investments. The Company's investments in these entities are designed to generate a return primarily through the realization of federal and state income tax credits over specified time periods. The Company realized federal and state income tax credits related to these investments of \$153 million and \$148 million for the three months ended March 31, 2011 and 2010, respectively. The Company amortizes its investments in these entities as the tax credits are realized. Tax credit amortization expense is recorded in tax expense for investments meeting certain characteristics, and in other noninterest expense for other investments. Amortization expense recorded in tax expense was \$58 million and \$44 million, and in other noninterest expense was \$113 million and \$117 million for the three months ended March 31, 2011 and 2010, respectively.

At March 31, 2011, approximately \$4.2 billion of the Company's assets and \$3.0 billion of its liabilities included on the consolidated balance sheet related to community development and tax-advantaged investment VIEs, compared with \$3.8 billion and \$2.6 billion, respectively, at December 31, 2010. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIEs is generally limited to the carrying value of its variable interests plus any related tax credits previously recognized.

In addition, the Company sponsors a conduit to which it previously transferred high-grade investment securities. The Company consolidates the conduit because of its ability to manage the activities of the conduit. At March 31, 2011, \$374 million of the held-to-maturity investment securities on the Company's consolidated balance sheet related to the conduit, compared with \$400 million at December 31, 2010.

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

The Company is not required to consolidate other VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIEs. The Company's investments in unconsolidated VIEs ranged from less than \$1 million to \$48 million, with an aggregate amount of approximately \$1.9 billion at March 31, 2011, and from less than \$1 million to \$41 million, with an aggregate amount of approximately \$2.0 billion at December 31, 2010. The Company's investments in these unconsolidated VIEs generally are carried in other assets on the balance sheet. While the Company believes potential losses from these investments are remote, the Company's maximum exposure to these unconsolidated VIEs, including any tax implications, was approximately \$4.7 billion at March 31, 2011, compared with \$5.0 billion at December 31, 2010. This maximum exposure is determined by assuming a scenario where the separate investments within the individual private funds were to become worthless, and the community-based business and housing projects and related tax credits completely failed and did not meet certain government compliance requirements.

**Table of Contents****Note 7 Mortgage Servicing Rights**

The Company serviced \$182.7 billion of residential mortgage loans for others at March 31, 2011, and \$173.9 billion at December 31, 2010. The net impact included in mortgage banking revenue of assumption changes on the fair value of MSRs and fair value changes of derivatives used to economically hedge MSR value changes was a net gain of \$62 million and \$42 million for the three months ended March 31, 2011 and 2010, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue, were \$157 million and \$142 million for the three months ended March 31, 2011, and 2010, respectively.

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

| (Dollars in Millions)                      | Three Months Ended<br>March 31, |          |
|--------------------------------------------|---------------------------------|----------|
|                                            | 2011                            | 2010     |
| Balance at beginning of period             | \$ 1,837                        | \$ 1,749 |
| Rights purchased                           | 7                               | 5        |
| Rights capitalized                         | 213                             | 132      |
| Changes in fair value of MSRs              |                                 |          |
| Due to change in valuation assumptions (a) | 102                             | (36)     |
| Other changes in fair value (b)            | (86)                            | (72)     |
| Balance at end of period                   | \$ 2,073                        | \$ 1,778 |

(a) *Primarily reflects changes in discount rates and prepayment speed assumptions, primarily arising from interest rate changes.*

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

The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments at March 31, 2011, was as follows:

| (Dollars in Millions) | Down Scenario |        | Up Scenario |        |
|-----------------------|---------------|--------|-------------|--------|
|                       | 50 bps        | 25 bps | 25 bps      | 50 bps |
| Net fair value        | \$ 6          | \$ (6) | \$          | \$     |

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

A summary of the Company's MSRs and related characteristics by portfolio as of March 31, 2011 was as follows:

| (Dollars in Millions) | MRBP | Government | Conventional | Total |
|-----------------------|------|------------|--------------|-------|
|-----------------------|------|------------|--------------|-------|

|                                                |           |           |            |            |
|------------------------------------------------|-----------|-----------|------------|------------|
| Servicing portfolio                            | \$ 12,707 | \$ 30,654 | \$ 139,304 | \$ 182,665 |
| Fair market value                              | \$ 168    | \$ 388    | \$ 1,517   | \$ 2,073   |
| Value (bps) (a)                                | 132       | 127       | 109        | 113        |
| Weighted-average servicing fees (bps)          | 40        | 37        | 30         | 32         |
| Multiple (value/servicing fees)                | 3.30      | 3.43      | 3.63       | 3.53       |
| Weighted-average note rate                     | 5.69%     | 5.24%     | 5.13%      | 5.19%      |
| Age (in years)                                 | 4.2       | 2.2       | 2.6        | 2.6        |
| Expected prepayment (constant prepayment rate) | 12.6%     | 15.7%     | 14.3%      | 14.4%      |
| Expected life (in years)                       | 6.5       | 5.6       | 5.9        | 5.9        |
| Discount rate                                  | 11.9%     | 11.3%     | 10.2%      | 10.5%      |

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

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**Table of Contents****Note 8 Earnings Per Share**

The components of earnings per share were:

| (Dollars and Shares in Millions, Except Per Share Data)                                                         | Three Months Ended<br>March 31, |        |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                                                                 | 2011                            | 2010   |
| Net income attributable to U.S. Bancorp                                                                         | \$ 1,046                        | \$ 669 |
| Preferred dividends                                                                                             | (39)                            | (19)   |
| Earnings allocated to participating stock awards                                                                | (4)                             | (2)    |
| Net income applicable to U.S. Bancorp common shareholders                                                       | \$ 1,003                        | \$ 648 |
| Average common shares outstanding                                                                               | 1,918                           | 1,910  |
| Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes | 10                              | 9      |
| Average diluted common shares outstanding                                                                       | 1,928                           | 1,919  |
| Earnings per common share                                                                                       | \$ .52                          | \$ .34 |
| Diluted earnings per common share                                                                               | \$ .52                          | \$ .34 |

Options and warrants outstanding at March 31, 2011 and 2010 to purchase 55 million and 56 million common shares, respectively, were not included in the computation of diluted earnings per share for the three months ended March 31, 2011 and 2010, respectively, because they were antidilutive. Convertible senior debentures that could potentially be converted into shares of the Company's common stock pursuant to specified formulas, were not included in the computation of dilutive earnings per share because they were antidilutive.

**Note 9 Employee Benefits**

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

| (Dollars in Millions)                                                      | Three Months Ended March 31, |       |                                |      |
|----------------------------------------------------------------------------|------------------------------|-------|--------------------------------|------|
|                                                                            | Pension Plans                |       | Postretirement<br>Welfare Plan |      |
|                                                                            | 2011                         | 2010  | 2011                           | 2010 |
| Service cost                                                               | \$ 30                        | \$ 23 | \$ 1                           | \$ 2 |
| Interest cost                                                              | 42                           | 39    | 2                              | 2    |
| Expected return on plan assets                                             | (52)                         | (54)  | (1)                            | (1)  |
| Prior service (credit) cost and transition (asset) obligation amortization | (2)                          | (3)   |                                |      |
| Actuarial (gain) loss amortization                                         | 31                           | 16    | (1)                            | (1)  |
| Net periodic benefit cost                                                  | \$ 49                        | \$ 21 | \$ 1                           | \$ 2 |



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**Table of Contents****Note 10** Income Taxes

The components of income tax expense were:

| (Dollars in Millions)      | Three Months Ended<br>March 31, |        |
|----------------------------|---------------------------------|--------|
|                            | 2011                            | 2010   |
| <b>Federal</b>             |                                 |        |
| Current                    | \$ 406                          | \$ 154 |
| Deferred                   | (44)                            | (20)   |
| Federal income tax         | 362                             | 134    |
| <b>State</b>               |                                 |        |
| Current                    | 10                              | 29     |
| Deferred                   | (6)                             | (2)    |
| State income tax           | 4                               | 27     |
| Total income tax provision | \$ 366                          | \$ 161 |

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

| (Dollars in Millions)                                            | Three Months Ended<br>March 31, |        |
|------------------------------------------------------------------|---------------------------------|--------|
|                                                                  | 2011                            | 2010   |
| Tax at statutory rate                                            | \$ 488                          | \$ 289 |
| State income tax, at statutory rates, net of federal tax benefit | 3                               | 17     |
| Tax effect of                                                    |                                 |        |
| Tax credits, net of related expenses                             | (87)                            | (100)  |
| Tax-exempt income                                                | (56)                            | (52)   |
| Noncontrolling interests                                         | 6                               | 2      |
| Other items                                                      | 12                              | 5      |
| Applicable income taxes                                          | \$ 366                          | \$ 161 |

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

The Company's net deferred tax position was a \$135 million liability at March 31, 2011, and a \$424 million asset at December 31, 2010.



**Table of Contents****Note 11** Derivative Instruments

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

Of the Company's \$33.9 billion of total notional amount of asset and liability management positions at March 31, 2011, \$8.6 billion was designated as a fair value, cash flow or net investment hedge. When a derivative is designated as a fair value, cash flow or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s).

**Fair Value Hedges** These derivatives are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and junior subordinated debentures. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. All fair value hedges were highly effective for the three months ended March 31, 2011, and the change in fair value attributed to hedge ineffectiveness was not material.

**Cash Flow Hedges** These derivatives are interest rate swaps that are hedges of the forecasted cash flows from the underlying variable-rate debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until expense from the cash flows of the hedged items is realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately. At March 31, 2011, the Company had \$375 million (net-of-tax) of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with \$414 million (net-of-tax) at December 31, 2010. The estimated amount to be reclassified from other comprehensive income (loss) into earnings during the remainder of 2011 and the next 12 months is a loss of \$101 million (net-of-tax) and \$133 million (net-of-tax), respectively. This includes gains and losses related to hedges that were terminated early for which the forecasted transactions are still probable. All cash flow hedges were highly effective for the three months ended March 31, 2011, and the change in fair value attributed to hedge ineffectiveness was not material.

**Net Investment Hedges** The Company uses forward commitments to sell specified amounts of certain foreign currencies to hedge the volatility of its investment in foreign operations driven by fluctuations in foreign currency exchange rates. The net amount of related gains or losses included in the cumulative translation adjustment for the three months ended March 31, 2011 was not material.

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

foreign exchange contracts for its customers. To mitigate the market and liquidity risk associated with these customer derivatives, the Company enters into similar offsetting positions. The Company also has derivative contracts that are created through its operations, including commitments to originate mortgage loans held for sale and certain derivative financial guarantee contracts.

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

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

| (Dollars in Millions)                    | March 31, 2011       |                          | December 31, 2010    |                          |
|------------------------------------------|----------------------|--------------------------|----------------------|--------------------------|
|                                          | Asset<br>Derivatives | Liability<br>Derivatives | Asset<br>Derivatives | Liability<br>Derivatives |
| Total fair value of derivative positions | \$ 1,494             | \$ 1,904                 | \$ 1,799             | \$ 2,174                 |
| Netting (a)                              | (327)                | (944)                    | (280)                | (1,163)                  |
| Total                                    | \$ 1,167             | \$ 960                   | \$ 1,519             | \$ 1,011                 |

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

(a) Represents netting of derivative asset and liability balances, and related collateral, with the same counterparty subject to master netting agreements. Authoritative accounting guidance permits the netting of derivative receivables and payables when a legally enforceable master netting agreement exists between the Company and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. At March 31, 2011, the amount of cash and money market investments collateral posted by counterparties that was netted against derivative assets was \$66 million and the amount of cash collateral posted by the Company that was netted against derivative liabilities was \$680 million. At December 31, 2010, the amount of cash and money market investments collateral posted by counterparties that was netted against derivative assets was \$55 million and the amount of cash collateral posted by the Company that was netted against derivative liabilities was \$936 million.

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

| (Dollars in Millions)                 | Asset Derivatives |               |                                                           | Liability Derivatives |               |                                                           |
|---------------------------------------|-------------------|---------------|-----------------------------------------------------------|-----------------------|---------------|-----------------------------------------------------------|
|                                       | Notional<br>Value | Fair<br>Value | Weighted-<br>Average<br>Remaining<br>Maturity<br>In Years | Notional<br>Value     | Fair<br>Value | Weighted-<br>Average<br>Remaining<br>Maturity<br>In Years |
| <b>March 31, 2011</b>                 |                   |               |                                                           |                       |               |                                                           |
| Fair value hedges                     |                   |               |                                                           |                       |               |                                                           |
| Interest rate contracts               |                   |               |                                                           |                       |               |                                                           |
| Receive fixed/pay floating swaps      | \$ 1,300          | \$ 48         | 56.44                                                     | \$ 500                | \$ 2          | 4.91                                                      |
| Foreign exchange cross-currency swaps | 1,420             | 105           | 6.00                                                      |                       |               |                                                           |
| Cash flow hedges                      |                   |               |                                                           |                       |               |                                                           |
| Interest rate contracts               |                   |               |                                                           |                       |               |                                                           |
| Pay fixed/receive floating swaps      |                   |               |                                                           | 4,788                 | 625           | 4.85                                                      |
| Net investment hedges                 |                   |               |                                                           |                       |               |                                                           |
| Foreign exchange forward contracts    |                   |               |                                                           | 542                   | 8             | .08                                                       |
| Other economic hedges                 |                   |               |                                                           |                       |               |                                                           |
| Interest rate contracts               |                   |               |                                                           |                       |               |                                                           |
| Futures and forwards                  |                   |               |                                                           |                       |               |                                                           |

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|                                       |       |     |       |       |     |       |
|---------------------------------------|-------|-----|-------|-------|-----|-------|
| Buy                                   | 4,079 | 24  | .08   | 1,111 | 6   | .07   |
| Sell                                  | 2,033 | 9   | .16   | 4,446 | 25  | .06   |
| Options                               |       |     |       |       |     |       |
| Purchased                             | 4,615 |     | .06   |       |     |       |
| Written                               | 3,387 | 19  | .07   | 92    |     | .09   |
| Receive fixed/pay floating swaps      | 2,475 | 10  | 10.36 | 400   | 6   | 10.36 |
| Foreign exchange forward contracts    | 300   | 1   | .10   | 588   | 4   | .08   |
| Equity contracts                      | 27    | 1   | .33   | 39    | 1   | 2.06  |
| Credit contracts                      | 573   | 1   | 2.56  | 1,199 | 7   | 2.90  |
| <b>December 31, 2010</b>              |       |     |       |       |     |       |
| Fair value hedges                     |       |     |       |       |     |       |
| Interest rate contracts               |       |     |       |       |     |       |
| Receive fixed/pay floating swaps      | 1,800 | 72  | 55.75 |       |     |       |
| Foreign exchange cross-currency swaps | 891   | 70  | 6.17  | 445   |     | 6.17  |
| Cash flow hedges                      |       |     |       |       |     |       |
| Interest rate contracts               |       |     |       |       |     |       |
| Pay fixed/receive floating swaps      |       |     |       | 4,788 | 688 | 5.03  |
| Net investment hedges                 |       |     |       |       |     |       |
| Foreign exchange forward contracts    | 512   | 3   | .08   |       |     |       |
| Other economic hedges                 |       |     |       |       |     |       |
| Interest rate contracts               |       |     |       |       |     |       |
| Futures and forwards                  |       |     |       |       |     |       |
| Buy                                   | 2,879 | 20  | .10   | 6,312 | 79  | .05   |
| Sell                                  | 9,082 | 207 | .07   | 6,002 | 51  | .09   |
| Options                               |       |     |       |       |     |       |
| Purchased                             | 1,600 |     | .06   |       |     |       |
| Written                               | 6,321 | 23  | .07   | 1,348 | 9   | .07   |
| Receive fixed/pay floating swaps      | 2,250 | 3   | 10.22 |       |     |       |
| Foreign exchange forward contracts    | 158   | 1   | .09   | 694   | 6   | .09   |
| Equity contracts                      | 61    | 3   | 1.60  |       |     |       |
| Credit contracts                      | 650   | 2   | 3.22  | 1,183 | 7   | 2.71  |

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

| (Dollars in Millions)            | Asset Derivatives |            |                                              | Liability Derivatives |            |                                              |
|----------------------------------|-------------------|------------|----------------------------------------------|-----------------------|------------|----------------------------------------------|
|                                  | Notional Value    | Fair Value | Weighted-Average Remaining Maturity In Years | Notional Value        | Fair Value | Weighted-Average Remaining Maturity In Years |
| <b>March 31, 2011</b>            |                   |            |                                              |                       |            |                                              |
| Interest rate contracts          |                   |            |                                              |                       |            |                                              |
| Receive fixed/pay floating swaps | \$ 15,502         | \$ 821     | 4.59                                         | \$ 1,807              | \$ 30      | 5.90                                         |
| Pay fixed/receive floating swaps | 2,103             | 32         | 5.78                                         | 14,767                | 788        | 4.78                                         |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 1,910             | 13         | 2.06                                         | 95                    | 9          | .10                                          |
| Written                          | 348               | 10         | .18                                          | 1,695                 | 13         | 2.31                                         |
| Foreign exchange rate contracts  |                   |            |                                              |                       |            |                                              |
| Forwards, spots and swaps (a)    | 8,764             | 394        | .67                                          | 8,681                 | 374        | .67                                          |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 324               | 6          | .20                                          |                       |            |                                              |
| Written                          |                   |            |                                              | 324                   | 6          | .20                                          |
| <b>December 31, 2010</b>         |                   |            |                                              |                       |            |                                              |
| Interest rate contracts          |                   |            |                                              |                       |            |                                              |
| Receive fixed/pay floating swaps | 15,730            | 956        | 4.64                                         | 1,294                 | 21         | 6.01                                         |
| Pay fixed/receive floating swaps | 1,315             | 24         | 6.12                                         | 15,769                | 922        | 4.68                                         |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 2,024             | 13         | 1.98                                         | 115                   | 12         | .36                                          |
| Written                          | 472               | 12         | .26                                          | 1,667                 | 13         | 2.35                                         |
| Foreign exchange rate contracts  |                   |            |                                              |                       |            |                                              |
| Forwards, spots and swaps (a)    | 7,772             | 384        | .74                                          | 7,694                 | 360        | .75                                          |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 224               | 6          | .40                                          |                       |            |                                              |
| Written                          |                   |            |                                              | 224                   | 6          | .40                                          |

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

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

| Gains (Losses) Recognized in Other Comprehensive Income (Loss) | Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings |
|----------------------------------------------------------------|----------------------------------------------------------------------------------|
|----------------------------------------------------------------|----------------------------------------------------------------------------------|



| Three Months Ended March 31 (Dollars in Millions) | 2011 | 2010    | 2011    | 2010    |
|---------------------------------------------------|------|---------|---------|---------|
| <b>Asset and Liability Management Positions</b>   |      |         |         |         |
| Cash flow hedges                                  |      |         |         |         |
| Interest rate contracts                           |      |         |         |         |
| Pay fixed/receive floating swaps (a)              | \$ 5 | \$ (67) | \$ (34) | \$ (43) |
| Net investment hedges                             |      |         |         |         |
| Foreign exchange forward contracts                | (32) | (31)    |         |         |

*Note: Ineffectiveness on cash flow and net investment hedges was not material for the three months ended March 31, 2011 and 2010.*

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

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

| Three Months Ended March 31<br>(Dollars in Millions) | Location of<br>Gains (Losses)<br>Recognized in Earnings | Gains (Losses)<br>Recognized in<br>Earnings |         |
|------------------------------------------------------|---------------------------------------------------------|---------------------------------------------|---------|
|                                                      |                                                         | 2011                                        | 2010    |
| <b>Asset and Liability Management Positions</b>      |                                                         |                                             |         |
| Fair value hedges (a)                                |                                                         |                                             |         |
| Interest rate contracts                              | Other noninterest income                                | \$ 14                                       | \$ (96) |
| Foreign exchange cross-currency swaps                | Other noninterest income                                | 73                                          | (70)    |
| Other economic hedges                                |                                                         |                                             |         |
| Interest rate contracts                              |                                                         |                                             |         |
| Futures and forwards                                 | Mortgage banking revenue                                | (14)                                        | 20      |
| Purchased and written options                        | Mortgage banking revenue                                | 49                                          | 70      |
| Foreign exchange forward contracts                   | Commercial products revenue                             | (14)                                        | (11)    |
| Equity contracts                                     | Compensation expense                                    | 1                                           |         |
| Credit contracts                                     | Other noninterest income/expense                        | (1)                                         |         |
| <b>Customer-Related Positions</b>                    |                                                         |                                             |         |
| Interest rate contracts                              |                                                         |                                             |         |
| Receive fixed/pay floating swaps                     | Other noninterest income                                | (147)                                       | 69      |
| Pay fixed/receive floating swaps                     | Other noninterest income                                | 140                                         | (67)    |
| Foreign exchange rate contracts                      |                                                         |                                             |         |
| Forwards, spots and swaps                            | Commercial products revenue                             | 14                                          | 10      |

(a) Gains (Losses) on items hedged by interest rate contracts and foreign exchange forward contracts, included in noninterest income (expense), were \$(14) million and \$(72) million for the three months ended March 31, 2011, respectively, and \$94 million and \$69 million for the three months ended March 31, 2010, respectively. The ineffective portion was immaterial for the three months ended March 31, 2011 and 2010.

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

The Company's collateral agreements are bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral agreements, the counterparties to the derivatives could request immediate full collateral coverage for derivatives in net liability positions. The aggregate fair value of all derivatives under collateral agreements that were in a net liability position at March 31, 2011, was \$1.2 billion. At March 31, 2011, the Company had \$680 million of cash posted as collateral against this net liability position.



**Table of Contents****Note 12 Fair Values of Assets and Liabilities**

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

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

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

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

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

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

When the Company changes its valuation inputs for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the three months ended March 31, 2011 and 2010, there were no significant transfers of financial assets or financial liabilities between the hierarchy levels.

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

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

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

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

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

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

The following table shows the valuation assumption ranges for Level 3 available-for-sale non-agency mortgage-backed securities at March 31, 2011:

|                                       | Prime (a) |         |         | Non-prime |         |         |
|---------------------------------------|-----------|---------|---------|-----------|---------|---------|
|                                       | Minimum   | Maximum | Average | Minimum   | Maximum | Average |
| Estimated lifetime prepayment rates   | 4%        | 28%     | 13%     | 1%        | 13%     | 6%      |
| Lifetime probability of default rates |           | 14      | 2       |           | 20      | 8       |
| Lifetime loss severity rates          | 16        | 87      | 40      | 10        | 88      | 55      |
| Discount margin                       | 3         | 33      | 5       | 3         | 40      | 10      |

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

**Certain mortgage loans held for sale** MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. MLHFS are classified within Level 2. Included in mortgage banking revenue was a \$125 million net loss and a \$42 million net gain, for the three months ended March 31, 2011 and 2010, respectively, from the changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. The fair value of MLHFS was \$3.9 billion as of March 31, 2011, which exceeded the unpaid principal balance by \$82 million as of that date. Interest income for MLHFS is measured based on contractual interest rates and reported as interest income in the Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

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

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

MSRs valuation include higher than expected prepayment rates and/or delayed receipt of cash flows.

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

The majority of derivatives held by the Company are executed over-the-counter and are valued using standard cash flow, Black-Scholes and Monte Carlo valuation techniques. The models incorporate inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. In addition, all derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk as well as external assessments of credit risk, where available. In its assessment of nonperformance risk, the Company considers its ability to net derivative positions under master netting agreements, as well as collateral received or provided under collateral support agreements. The majority of these derivatives are classified within

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Level 2 of the fair value hierarchy as the significant inputs to the models are observable. An exception to the Level 2 classification is certain derivative transactions for which the risk of nonperformance cannot be observed in the market. These derivatives are classified within Level 3 of the fair value hierarchy. In addition, commitments to sell, purchase and originate mortgage loans that meet the requirements of a derivative, are valued by pricing models that include market observable and unobservable inputs. Due to the significant unobservable inputs, these commitments are classified within Level 3 of the fair value hierarchy.

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

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

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

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



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

| (Dollars in Millions)                                           | Level 1      | Level 2       | Level 3      | Netting      | Total         |
|-----------------------------------------------------------------|--------------|---------------|--------------|--------------|---------------|
| <b>March 31, 2011</b>                                           |              |               |              |              |               |
| Available-for-sale securities                                   |              |               |              |              |               |
| U.S. Treasury and agencies                                      | \$ 870       | \$ 1,667      | \$           | \$           | \$ 2,537      |
| Mortgage-backed securities                                      |              |               |              |              |               |
| Residential                                                     |              |               |              |              |               |
| Agency                                                          |              | 38,518        |              |              | 38,518        |
| Non-agency                                                      |              |               |              |              |               |
| Prime                                                           |              |               | 963          |              | 963           |
| Non-prime                                                       |              |               | 947          |              | 947           |
| Commercial                                                      |              |               |              |              |               |
| Agency                                                          |              | 170           |              |              | 170           |
| Non-agency                                                      |              |               | 50           |              | 50            |
| Asset-backed securities                                         |              |               |              |              |               |
| Collateralized debt obligations/Collateralized loan obligations |              | 91            | 142          |              | 233           |
| Other                                                           |              | 585           | 133          |              | 718           |
| Obligations of state and political subdivisions                 |              | 6,412         |              |              | 6,412         |
| Obligations of foreign governments                              |              | 6             |              |              | 6             |
| Corporate debt securities                                       |              | 995           | 9            |              | 1,004         |
| Perpetual preferred securities                                  |              | 470           |              |              | 470           |
| Other investments                                               | 213          | 7             |              |              | 220           |
| <br>Total available-for-sale                                    | <br>1,083    | <br>48,921    | <br>2,244    |              | <br>52,248    |
| Mortgage loans held for sale                                    |              | 3,910         |              |              | 3,910         |
| Mortgage servicing rights                                       |              |               | 2,073        |              | 2,073         |
| Derivative assets                                               |              | 685           | 809          | (327)        | 1,167         |
| Other assets                                                    |              | 581           |              |              | 581           |
| <br>Total                                                       | <br>\$ 1,083 | <br>\$ 54,097 | <br>\$ 5,126 | <br>\$ (327) | <br>\$ 59,979 |
| <br>Derivative liabilities                                      | <br>\$       | <br>\$ 1,842  | <br>\$ 62    | <br>\$ (944) | <br>\$ 960    |
| Other liabilities                                               |              | 565           |              |              | 565           |
| <br>Total                                                       | <br>\$       | <br>\$ 2,407  | <br>\$ 62    | <br>\$ (944) | <br>\$ 1,525  |
| <b>December 31, 2010</b>                                        |              |               |              |              |               |
| Available-for-sale securities                                   |              |               |              |              |               |
| U.S. Treasury and agencies                                      | \$ 873       | \$ 1,664      | \$           | \$           | \$ 2,537      |
| Mortgage-backed securities                                      |              |               |              |              |               |
| Residential                                                     |              |               |              |              |               |
| Agency                                                          |              | 37,703        |              |              | 37,703        |
| Non-agency                                                      |              |               |              |              |               |
| Prime                                                           |              |               | 1,103        |              | 1,103         |
| Non-prime                                                       |              |               | 947          |              | 947           |

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

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

| Three Months Ended March 31,                                    | Beginning of Period | Net Gains (Losses) Included in Comprehensive Income | Net Gains (Losses) Included in Other Comprehensive Income (Loss) | Net Total Purchases, Sales, Principal Payments, Issuances and Transfers into Level 3 | End of Period | Net Change in Unrealized Gains (Losses) Relating to Assets Still Held at End of Period |
|-----------------------------------------------------------------|---------------------|-----------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|----------------------------------------------------------------------------------------|
| (Dollars in Millions)                                           | Balance             | Income                                              | (Loss)                                                           | Settlements                                                                          | Balance       | Period                                                                                 |
| <b>2011</b>                                                     |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Available-for-sale securities                                   |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Mortgage-backed securities                                      |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Residential non-agency                                          |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Prime                                                           | \$ 1,103            | \$ 2                                                | \$ 46                                                            | \$ (188)                                                                             | \$ 963        | \$ 38                                                                                  |
| Non-prime                                                       | 947                 |                                                     | 51                                                               | (51)                                                                                 | 947           | 51                                                                                     |
| Commercial non-agency                                           | 50                  |                                                     | 1                                                                | (1)                                                                                  | 50            |                                                                                        |
| Asset-backed securities                                         |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Collateralized debt obligations/Collateralized loan obligations | 135                 | 4                                                   | 9                                                                | (6)                                                                                  | 142           | 9                                                                                      |
| Other                                                           | 133                 | 4                                                   | 3                                                                | (7)                                                                                  | 133           | 3                                                                                      |
| Corporate debt securities                                       | 9                   |                                                     |                                                                  |                                                                                      | 9             |                                                                                        |
| Total available-for-sale                                        | 2,377               | 10 (a)                                              | 110                                                              | (253)                                                                                | 2,244         | 101                                                                                    |
| Mortgage servicing rights                                       | 1,837               | 16 (b)                                              |                                                                  | 220                                                                                  | 2,073         | 16 (b)                                                                                 |
| Net derivative assets and liabilities                           | 851                 | 43 (c)                                              |                                                                  | (147)                                                                                | 747           | (139) (d)                                                                              |
| <b>2010</b>                                                     |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Available-for-sale securities                                   |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Mortgage-backed securities                                      |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Residential non-agency                                          |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Prime                                                           | \$ 1,429            | \$                                                  | \$ 29                                                            | \$ (154)                                                                             | \$ 1,304      | \$ 27                                                                                  |
| Non-prime                                                       | 968                 | (31)                                                | 16                                                               | (53)                                                                                 | 900           | 16                                                                                     |
| Commercial non-agency                                           | 13                  |                                                     | 1                                                                |                                                                                      | 14            | 1                                                                                      |
| Asset-backed securities                                         |                     |                                                     |                                                                  |                                                                                      |               |                                                                                        |
| Collateralized debt obligations/Collateralized loan obligations | 98                  | 2                                                   |                                                                  | (21)                                                                                 | 79            |                                                                                        |

|                                       |       |           |     |       |       |           |
|---------------------------------------|-------|-----------|-----|-------|-------|-----------|
| Other                                 | 357   | (2)       | (6) | (14)  | 335   | (6)       |
| Corporate debt securities             | 10    |           |     |       | 10    |           |
| Other investments                     | 231   | (2)       | 13  | (5)   | 237   | 13        |
| Total available-for-sale              | 3,106 | (33) (e)  | 53  | (247) | 2,879 | 51        |
| Mortgage servicing rights             | 1,749 | (108) (b) |     | 137   | 1,778 | (108) (b) |
| Net derivative assets and liabilities | 815   | 372 (f)   |     | (282) | 905   | (27) (g)  |

(a) Approximately \$(6) million included in securities gains (losses) and \$16 million included in interest income.

(b) Included in mortgage banking revenue.

(c) Approximately \$(5) million included in other noninterest income and \$48 million included in mortgage banking revenue.

(d) Approximately \$(129) million included in other noninterest income and \$(10) million included in mortgage banking revenue.

(e) Approximately \$(46) million included in securities gains (losses) and \$13 million included in interest income.

(f) Approximately \$241 million included in other noninterest income and \$131 million included in mortgage banking revenue.

(g) Approximately \$79 million included in other noninterest income and \$(106) million included in mortgage banking revenue.

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Additional detail of purchases, sales, principal payments, issuances and settlements for assets and liabilities classified within Level 3 for the three months ended March 31, 2011, was as follows:

| (Dollars in Millions)                       | Principal |          |          |           |             | Net      |
|---------------------------------------------|-----------|----------|----------|-----------|-------------|----------|
|                                             | Purchases | Sales    | Payments | Issuances | Settlements | Total    |
| Available-for-sale securities               |           |          |          |           |             |          |
| Mortgage-backed securities                  |           |          |          |           |             |          |
| Residential non-agency                      |           |          |          |           |             |          |
| Prime                                       | \$        | \$ (115) | \$ (73)  | \$        | \$          | \$ (188) |
| Non-prime                                   |           | (12)     | (39)     |           |             | (51)     |
| Commercial non-agency                       |           |          | (1)      |           |             | (1)      |
| Asset-backed securities                     |           |          |          |           |             |          |
| Collateralized debt                         |           |          |          |           |             |          |
| obligations/Collateralized loan obligations |           |          | (6)      |           |             | (6)      |
| Other                                       |           |          | (7)      |           |             | (7)      |
| Total available-for-sale                    |           | (127)    | (126)    |           |             | (253)    |
| Mortgage servicing rights                   | 7         |          |          | 213 (a)   |             | 220      |
| Net derivative assets and liabilities       |           | (1)      |          |           | (146)       | (147)    |

(a) Represents MSR's capitalized during the period.

The Company is also required periodically to measure certain other financial assets at fair value on a nonrecurring basis.

These measurements of fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets. The following table summarizes the adjusted carrying values and the level of valuation assumptions for assets measured at fair value on a nonrecurring basis:

| (Dollars in Millions)       | March 31, 2011 |         |         |       | December 31, 2010 |         |         |        |
|-----------------------------|----------------|---------|---------|-------|-------------------|---------|---------|--------|
|                             | Level 1        | Level 2 | Level 3 | Total | Level 1           | Level 2 | Level 3 | Total  |
| Loans (a)                   | \$             | \$ 64   | \$      | \$ 64 | \$                | \$ 404  | \$ 1    | \$ 405 |
| Other real estate owned (b) |                | 291     |         | 291   |                   | 812     |         | 812    |
| Other intangible assets     |                |         |         |       |                   |         | 1       | 1      |
| Other assets                |                |         |         |       |                   | 4       | 9       | 13     |

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

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

The following table summarizes losses recognized related to nonrecurring fair value measurements of individual assets or portfolios for the three months ended March 31:

|                             |       |        |
|-----------------------------|-------|--------|
| (Dollars in Millions)       | 2011  | 2010   |
| Loans (a)                   | \$ 15 | \$ 121 |
| Other real estate owned (b) | 87    | 50     |
| Other intangible assets     |       |        |
| Other assets                |       |        |

- (a) Represents write-downs of loans which are based on the appraised value of the collateral, excluding loans fully charged-off.
- (b) Represents related losses of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

### Fair Value Option

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

|                                | March 31, 2011  |                  |                                               | December 31, 2010 |                  |                                               |
|--------------------------------|-----------------|------------------|-----------------------------------------------|-------------------|------------------|-----------------------------------------------|
|                                | Fair Value      | Aggregate        | Carrying Amount Over (Under) Unpaid Principal | Fair Value        | Aggregate        | Carrying Amount Over (Under) Unpaid Principal |
| (Dollars in Millions)          | Carrying Amount | Unpaid Principal | Unpaid Principal                              | Carrying Amount   | Unpaid Principal | Unpaid Principal                              |
| Total loans                    | \$ 3,910        | \$ 3,828         | \$ 82                                         | \$ 8,100          | \$ 8,034         | \$ 66                                         |
| Nonaccrual loans               | 11              | 17               | (6)                                           | 11                | 18               | (7)                                           |
| Loans 90 days or more past due | 5               | 6                | (1)                                           | 6                 | 6                |                                               |

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

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

| (Dollars in Millions)                  | March 31, 2011  |            | December 31, 2010 |            |
|----------------------------------------|-----------------|------------|-------------------|------------|
|                                        | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial Assets</b>                |                 |            |                   |            |
| Cash and due from banks                | \$ 13,800       | \$ 13,800  | \$ 14,487         | \$ 14,487  |
| Investment securities held-to-maturity | 8,213           | 8,179      | 1,469             | 1,419      |
| Mortgages held for sale (a)            | 4               | 4          | 4                 | 4          |
| Other loans held for sale              | 227             | 228        | 267               | 267        |
| Loans                                  | 192,768         | 192,996    | 191,751           | 192,058    |
| <b>Financial Liabilities</b>           |                 |            |                   |            |
| Deposits                               | 208,293         | 208,722    | 204,252           | 204,799    |
| Short-term borrowings                  | 31,021          | 31,245     | 32,557            | 32,839     |
| Long-term debt                         | 31,775          | 32,174     | 31,537            | 31,981     |

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

The fair value of unfunded commitments, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments and standby letters of credit was \$360 million and \$353 million at March 31, 2011 and December 31, 2010, respectively. The carrying value of other guarantees was \$334 million and \$330 million at March 31, 2011 and December 31, 2010, respectively.

**Note 13** Guarantees and Contingent Liabilities

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

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

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At March 31, 2011, the carrying amount of the Company's liability related to the remaining Visa Litigation matters, was \$27 million. Class B shares are non-transferable, except for transfers to other Visa U.S.A. member banks. The remaining Class B shares held by the Company will be eligible for conversion to Class A shares upon settlement of the Visa Litigation.

The following table is a summary of other guarantees and contingent liabilities of the Company at March 31, 2011:

| (Dollars in Millions)                 | Carrying<br>Amount | Maximum<br>Potential<br>Future<br>Payments |
|---------------------------------------|--------------------|--------------------------------------------|
| Standby letters of credit             | \$ 106             | \$ 19,581                                  |
| Third-party borrowing arrangements    |                    | 130                                        |
| Securities lending indemnifications   |                    | 7,962                                      |
| Asset sales (a)                       | 181                | 1,670                                      |
| Merchant processing                   | 72                 | 73,080                                     |
| Contingent consideration arrangements | 5                  | 5                                          |
| Minimum revenue guarantees            | 24                 | 38                                         |
| Other guarantees                      | 25                 | 8,035                                      |

(a) *The maximum potential future payments does not include loan sales where the Company provides standard representations and warranties to the buyer against losses related to loan underwriting documentation. For these types of loan sales, the maximum potential future payments are not readily determinable because the Company's obligation under these agreements depends upon the occurrence of future events.*

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

The Company currently processes card transactions in the United States, Canada and Europe for airline companies. In the event of liquidation of these merchants, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At March 31, 2011, the value of airline tickets purchased to be delivered at a future date was \$7.0 billion. The Company held collateral of \$596 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

**Asset Sales** The Company regularly sells loans to government-sponsored entities ( GSEs ) as part of its mortgage banking activities. The Company provides customary representations and warranties to the GSEs in conjunction with these sales. These representations and warranties generally require the Company to repurchase assets if it is subsequently determined that a loan did not meet specified criteria, such as a documentation deficiency or rescission of mortgage insurance. If the Company is unable to cure or refute a repurchase request, the Company is generally obligated to repurchase the loan or otherwise reimburse the counterparty for losses. At March 31, 2011, the Company had reserved \$181 million for potential losses from representations and warranty obligations. The reserve is based on the Company's repurchase and loss trends, and quantitative and qualitative factors that may result in anticipated losses

different from historical loss trends, including loan vintage, underwriting characteristics and macroeconomic trends.

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

**Other** On April 13, 2011, the Company and its two primary banking subsidiaries entered into Consent Orders with U.S. federal banking regulators regarding the Company's residential mortgage servicing and foreclosure processes. The Company has not been notified of any monetary penalty related to the Consent Orders, however the Consent Orders could result in fines, penalties, restitutions or other alterations to the Company's business practices. Other

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governmental authorities are reported to be discussing various actions with certain mortgage servicers, although the Company has not been notified of any pending regulatory actions or penalties beyond the Consent Orders. Such actions could also lead to fines, settlements or alterations in business practices.

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

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

**Note 14** Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to March 31, 2011 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.

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

For the Three Months Ended March 31,  
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| (Dollars in Millions)<br>(Unaudited)                           | Average<br>Balances | Interest | Yields<br>and<br>Rates | Average<br>Balances | Interest | Yields<br>and<br>Rates | %<br>Change<br>Average<br>Balances |
|----------------------------------------------------------------|---------------------|----------|------------------------|---------------------|----------|------------------------|------------------------------------|
| <b>Assets</b>                                                  |                     |          |                        |                     |          |                        |                                    |
| Investment securities                                          | \$ 56,405           | \$ 468   | 3.32%                  | \$ 46,211           | \$ 451   | 3.90%                  | 22.1%                              |
| Loans held for sale                                            | 6,104               | 63       | 4.16                   | 3,932               | 44       | 4.50                   | 55.2                               |
| <b>Loans (b)</b>                                               |                     |          |                        |                     |          |                        |                                    |
| Commercial                                                     | 48,713              | 501      | 4.16                   | 47,282              | 483      | 4.13                   | 3.0                                |
| Commercial real estate                                         | 35,179              | 396      | 4.56                   | 34,151              | 370      | 4.39                   | 3.0                                |
| Residential mortgages                                          | 31,777              | 393      | 4.97                   | 26,408              | 347      | 5.27                   | 20.3                               |
| Retail                                                         | 64,263              | 1,044    | 6.59                   | 63,622              | 1,064    | 6.78                   | 1.0                                |
| <b>Total loans, excluding covered loans</b>                    |                     |          |                        |                     |          |                        |                                    |
|                                                                | 179,932             | 2,334    | 5.25                   | 171,463             | 2,264    | 5.34                   | 4.9                                |
| <b>Covered loans</b>                                           | 17,638              | 235      | 5.37                   | 21,415              | 253      | 4.77                   | (17.6)                             |
| <b>Total loans</b>                                             |                     |          |                        |                     |          |                        |                                    |
|                                                                | 197,570             | 2,569    | 5.26                   | 192,878             | 2,517    | 5.28                   | 2.4                                |
| <b>Other earning assets</b>                                    | 13,861              | 57       | 1.67                   | 5,807               | 34       | 2.39                   | *                                  |
| <b>Total earning assets</b>                                    |                     |          |                        |                     |          |                        |                                    |
|                                                                | 273,940             | 3,157    | 4.65                   | 248,828             | 3,046    | 4.94                   | 10.1                               |
| <b>Allowance for loan losses</b>                               | (5,418)             |          |                        | (5,312)             |          |                        | (2.0)                              |
| <b>Unrealized gain (loss) on available-for-sale securities</b> | (320)               |          |                        | (407)               |          |                        | 21.4                               |
| <b>Other assets</b>                                            | 39,694              |          |                        | 38,613              |          |                        | 2.8                                |
| <b>Total assets</b>                                            |                     |          |                        |                     |          |                        |                                    |
|                                                                | \$ 307,896          |          |                        | \$ 281,722          |          |                        | 9.3                                |
| <b>Liabilities and Shareholders' Equity</b>                    |                     |          |                        |                     |          |                        |                                    |
| <b>Noninterest-bearing deposits</b>                            | \$ 44,189           |          |                        | \$ 38,000           |          |                        | 16.3                               |
| <b>Interest-bearing deposits</b>                               |                     |          |                        |                     |          |                        |                                    |
| Interest checking                                              | 42,645              | 19       | .18                    | 39,994              | 19       | .19                    | 6.6                                |
| Money market savings                                           | 45,649              | 28       | .25                    | 40,902              | 37       | .36                    | 11.6                               |
| Savings accounts                                               | 25,330              | 35       | .57                    | 18,029              | 25       | .57                    | 40.5                               |
| Time certificates of deposit less than \$100,000               | 15,264              | 72       | 1.91                   | 18,335              | 80       | 1.77                   | (16.7)                             |
| Time deposits greater than \$100,000                           | 31,228              | 80       | 1.04                   | 27,271              | 75       | 1.12                   | 14.5                               |
| <b>Total interest-bearing deposits</b>                         |                     |          |                        |                     |          |                        |                                    |
|                                                                | 160,116             | 234      | .59                    | 144,531             | 236      | .66                    | 10.8                               |
| <b>Short-term borrowings</b>                                   | 32,203              | 135      | 1.70                   | 32,551              | 130      | 1.62                   | (1.1)                              |

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|                                                             |            |          |       |            |          |       |       |
|-------------------------------------------------------------|------------|----------|-------|------------|----------|-------|-------|
| Long-term debt                                              | 31,567     | 281      | 3.60  | 32,456     | 277      | 3.45  | (2.7) |
| Total interest-bearing liabilities                          | 223,886    | 650      | 1.18  | 209,538    | 643      | 1.24  | 6.8   |
| Other liabilities                                           | 9,003      |          |       | 7,092      |          |       | 26.9  |
| Shareholders' equity                                        |            |          |       |            |          |       |       |
| Preferred equity                                            | 1,930      |          |       | 1,500      |          |       | 28.7  |
| Common equity                                               | 28,079     |          |       | 24,914     |          |       | 12.7  |
| Total U.S. Bancorp shareholders' equity                     | 30,009     |          |       | 26,414     |          |       | 13.6  |
| Noncontrolling interests                                    | 809        |          |       | 678        |          |       | 19.3  |
| Total equity                                                | 30,818     |          |       | 27,092     |          |       | 13.8  |
| Total liabilities and equity                                | \$ 307,896 |          |       | \$ 281,722 |          |       | 9.3%  |
| Net interest income                                         |            | \$ 2,507 |       |            | \$ 2,403 |       |       |
| Gross interest margin                                       |            |          | 3.47% |            |          | 3.70% |       |
| Gross interest margin without taxable-equivalent increments |            |          | 3.39  |            |          | 3.62  |       |
| <b>Percent of Earning Assets</b>                            |            |          |       |            |          |       |       |
| Interest income                                             |            |          | 4.65% |            |          | 4.94% |       |
| Interest expense                                            |            |          | .96   |            |          | 1.04  |       |
| Net interest margin                                         |            |          | 3.69% |            |          | 3.90% |       |
| Net interest margin without taxable-equivalent increments   |            |          | 3.61% |            |          | 3.82% |       |

\* Not meaningful

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

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

U.S. Bancorp

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Part II Other Information

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

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

**Item 6. Exhibits**

|      |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12   | Computation of Ratio of Earnings to Fixed Charges                                                                                                                                                                                                                                                                                                                                                                    |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934                                                                                                                                                                                                                                                                                                        |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934                                                                                                                                                                                                                                                                                                        |
| 32   | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                         |
| 101  | Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2011, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Income, (iii) the Consolidated Statement of Shareholders' Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to Consolidated Financial Statements. |

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**SIGNATURE**

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

U.S. BANCORP

By: /s/ Craig E. Gifford

Craig E. Gifford

Controller

(Principal Accounting Officer and Duly Authorized Officer)

DATE: May 6, 2011

U.S. Bancorp

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

|                                                                                     | Three Months<br>Ended<br>March 31, 2011 |
|-------------------------------------------------------------------------------------|-----------------------------------------|
| (Dollars in Millions)                                                               |                                         |
| <b>Earnings</b>                                                                     |                                         |
| 1. Net income attributable to U.S. Bancorp                                          | \$ 1,046                                |
| 2. Applicable income taxes, including expense related to unrecognized tax positions | 366                                     |
| 3. Net income attributable to U.S. Bancorp before income taxes (1 + 2)              | \$ 1,412                                |
| 4. Fixed charges:                                                                   |                                         |
| a. Interest expense excluding interest on deposits*                                 | \$ 414                                  |
| b. Portion of rents representative of interest and amortization of debt expense     | 26                                      |
| c. Fixed charges excluding interest on deposits (4a + 4b)                           | 440                                     |
| d. Interest on deposits                                                             | 234                                     |
| e. Fixed charges including interest on deposits (4c + 4d)                           | \$ 674                                  |
| 5. Amortization of interest capitalized                                             | \$                                      |
| 6. Earnings excluding interest on deposits (3 + 4c + 5)                             | 1,852                                   |
| 7. Earnings including interest on deposits (3 + 4e + 5)                             | 2,086                                   |
| 8. Fixed charges excluding interest on deposits (4c)                                | 440                                     |
| 9. Fixed charges including interest on deposits (4e)                                | 674                                     |
| <b>Ratio of Earnings to Fixed Charges</b>                                           |                                         |
| 10. Excluding interest on deposits (line 6/line 8)                                  | 4.21                                    |
| 11. Including interest on deposits (line 7/line 9)                                  | 3.09                                    |

\* Excludes interest expense related to unrecognized tax positions



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**EXHIBIT 31.1**

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

I, Richard K. Davis, certify that:

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

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

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

Dated: May 6, 2011

U.S. Bancorp

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**EXHIBIT 31.2**

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

I, Andrew Cecere, certify that:

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

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

/s/ Andrew Cecere  
Andrew Cecere  
*Chief Financial Officer*

Dated: May 6, 2011

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U.S. Bancorp

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**EXHIBIT 32**

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

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the Form 10-Q ) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard K. Davis

/s/ Andrew Cecere

Richard K. Davis  
*Chief Executive Officer*

Andrew Cecere  
*Chief Financial Officer*

Dated: May 6, 2011

U.S. Bancorp

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Corporate Information

**Executive Offices**

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

**Common Stock Transfer Agent and Registrar**

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

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

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

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

**Independent Auditor**

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

**Common Stock Listing and Trading**

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

**Dividends and Reinvestment Plan**

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

**Investor Relations Contacts**

Judith T. Murphy

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

### **Financial Information**

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

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

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

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

### **Media Requests**

Steven W. Dale  
Senior Vice President, Media Relations  
[steve.dale@usbank.com](mailto:steve.dale@usbank.com)  
Phone: 612-303-0784

### **Privacy**

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

### **Code of Ethics**

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

### **Diversity**

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

### **Equal Employment Opportunity/Affirmative Action**

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

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

U.S. Bancorp  
Member FDIC

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