# U.S. Bancorp

## 2Q11 Earnings Conference Call

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July 20, 2011

All of us serving you™

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The following information appears in accordance with the Private Securities Litigation Reform Act of 1995:

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This presentation includes non-GAAP financial measures to describe U.S. Bancorp's performance. The reconciliations of those measures to GAAP measures are provided within or in the appendix of the presentation. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

# 2Q11 Highlights



- ✓ Net income of $1.2 billion; $0.60 per diluted common share
- ✓ Total net revenue of $4.7 billion, up 3.8% vs. 2Q10
  - Net interest income growth of 5.6% vs. 2Q10
  - Noninterest income growth of 1.7% vs. 2Q10
- ✓ Average loan growth of 4.0% (3.5% excluding acquisitions) vs. 2Q10 and average loan growth of 0.6% (0.5% excluding acquisitions) vs. 1Q11
- ✓ Strong average low cost deposit[1] growth of 17.1% (12.3% excluding acquisitions) vs. 2Q10 and average low cost deposit growth of 3.7% vs. 1Q11 (3.5% excluding acquisitions)
- ✓ Net charge-offs declined 7.2% vs. 1Q11 and nonperforming assets (excluding covered assets) declined 6.2% vs. 1Q11
- ✓ Capital generation continues to strengthen capital position
  - Tier 1 common equity ratio of 8.4% (8.1% under anticipated Basel III guidelines)
  - Tier 1 capital ratio of 11.0%

[1] Low cost deposits include noninterest-bearing, interest checking, money market and savings deposits

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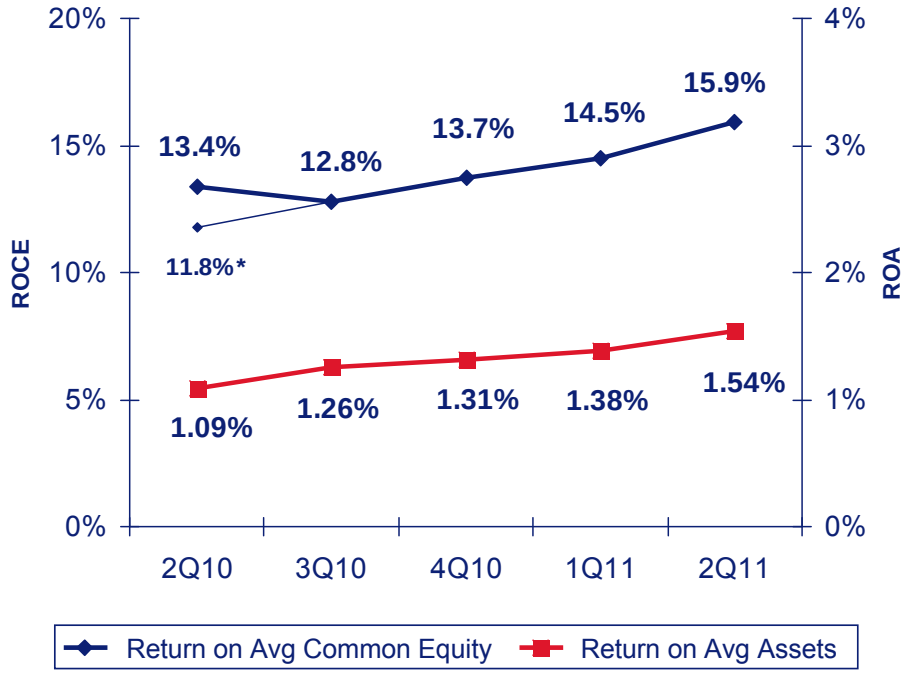
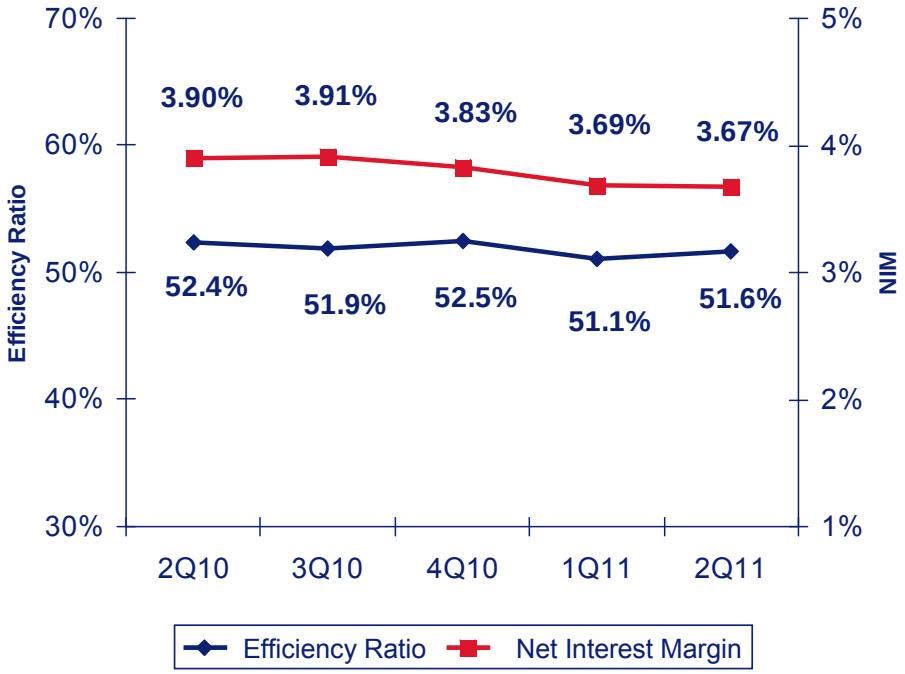
# Performance Ratios



## ROCE and ROA




## Efficiency Ratio and Net Interest Margin




Efficiency ratio 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

* Adjusted for ITS transaction (reported net income $862 million - $118 million ITS transaction equity impact + $13 million debt extinguishment costs (net of tax) = adjusted net income of $757 million)

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# Capital Position



$ in billions

| | 2Q11 | 1Q11 | 4Q10 | 3Q10 | 2Q10 |
|---|---|---|---|---|---|
| Shareholders' equity | $ 32.5 | $ 30.5 | $ 29.5 | $ 29.2 | $ 28.2 |
| Tier 1 capital | 27.8 | 26.8 | 25.9 | 24.9 | 24.0 |
| Total risk-based capital | 35.1 | 34.2 | 33.0 | 32.3 | 31.9 |
| Tier 1 common equity ratio | 8.4% | 8.2% | 7.8% | 7.6% | 7.4% |
| Tier 1 capital ratio | 11.0% | 10.8% | 10.5% | 10.3% | 10.1% |
| Total risk-based capital ratio | 13.9% | 13.8% | 13.3% | 13.3% | 13.4% |
| Leverage ratio | 9.2% | 9.0% | 9.1% | 9.0% | 8.8% |
| Tangible common equity ratio | 6.5% | 6.3% | 6.0% | 6.2% | 6.0% |
| Tangible common equity as a percent of risk-weighted assets | 8.0% | 7.6% | 7.2% | 7.2% | 6.9% |

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# Loan and Deposit Growth

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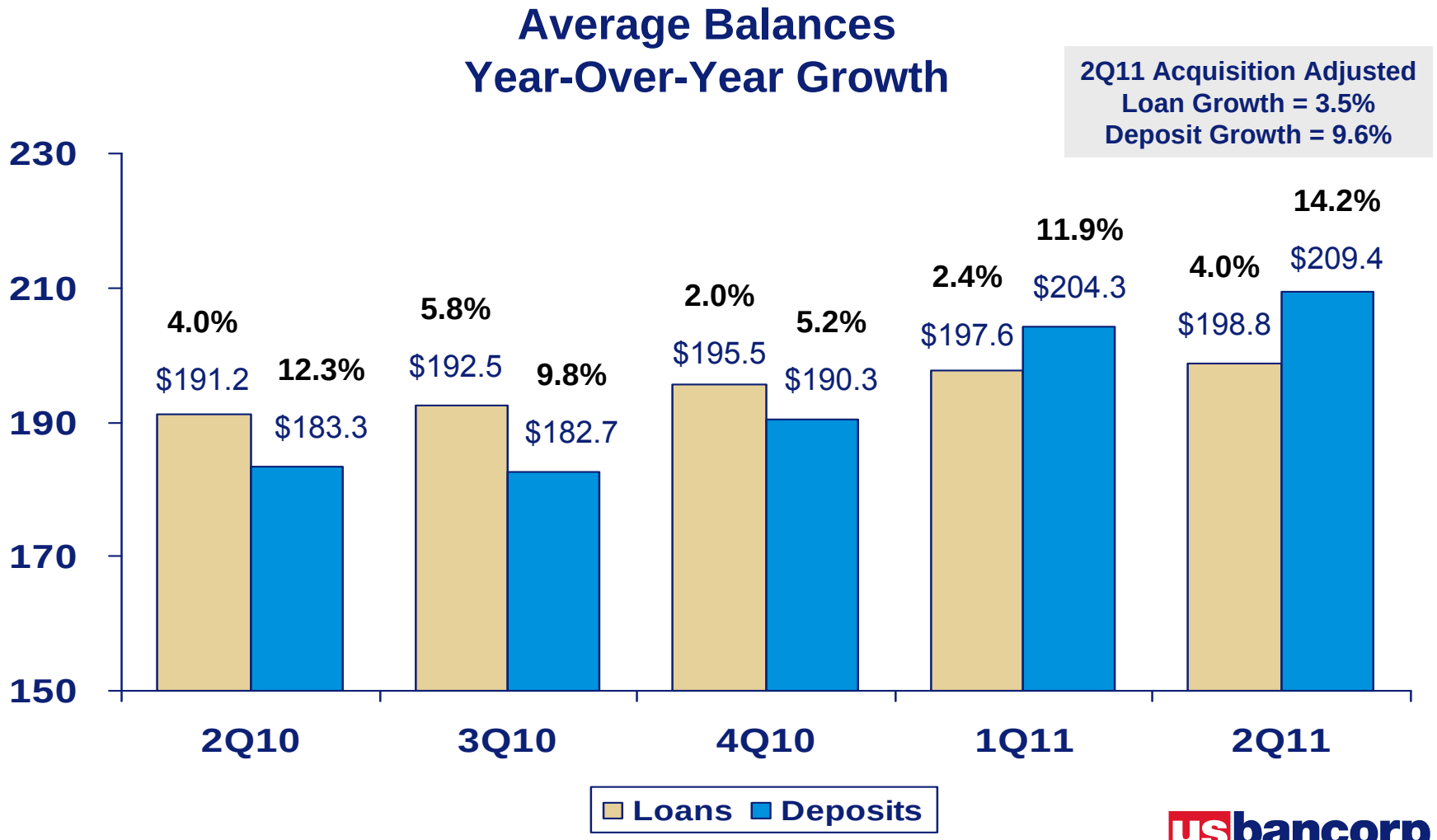
$ in billions

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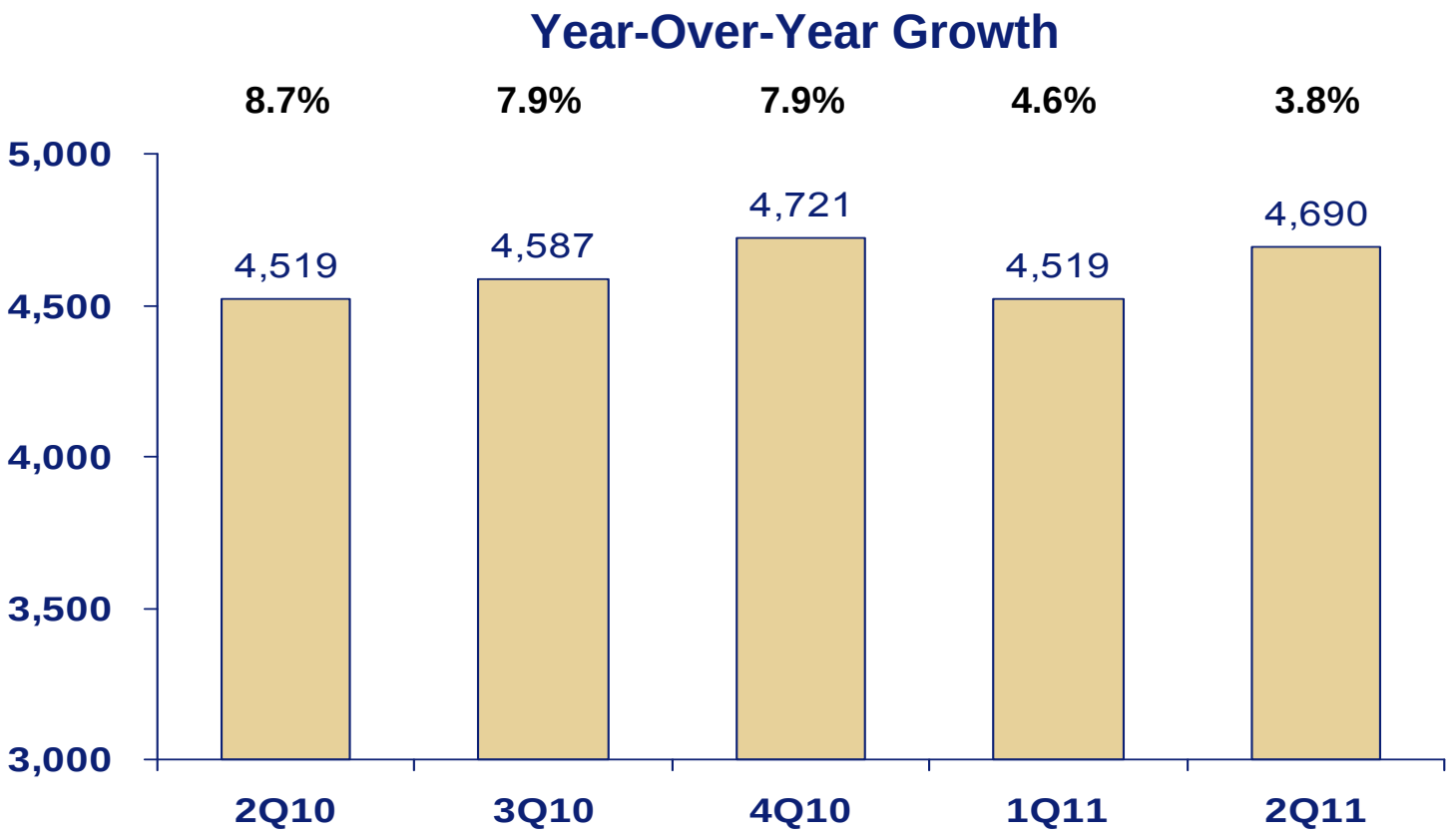
# Revenue Growth



$ in millions

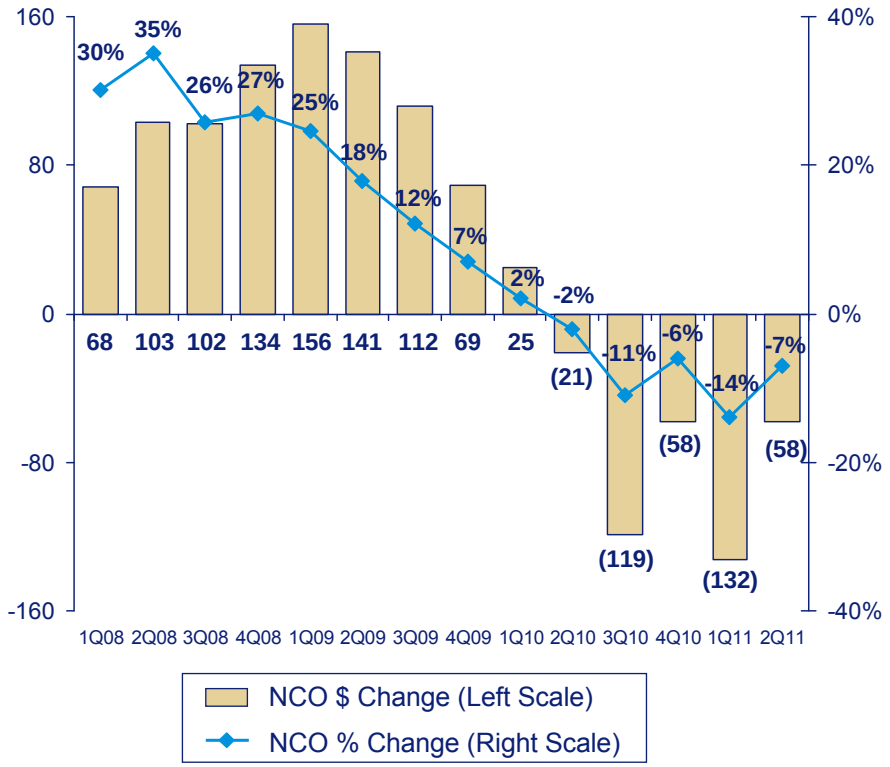



Taxable-equivalent basis

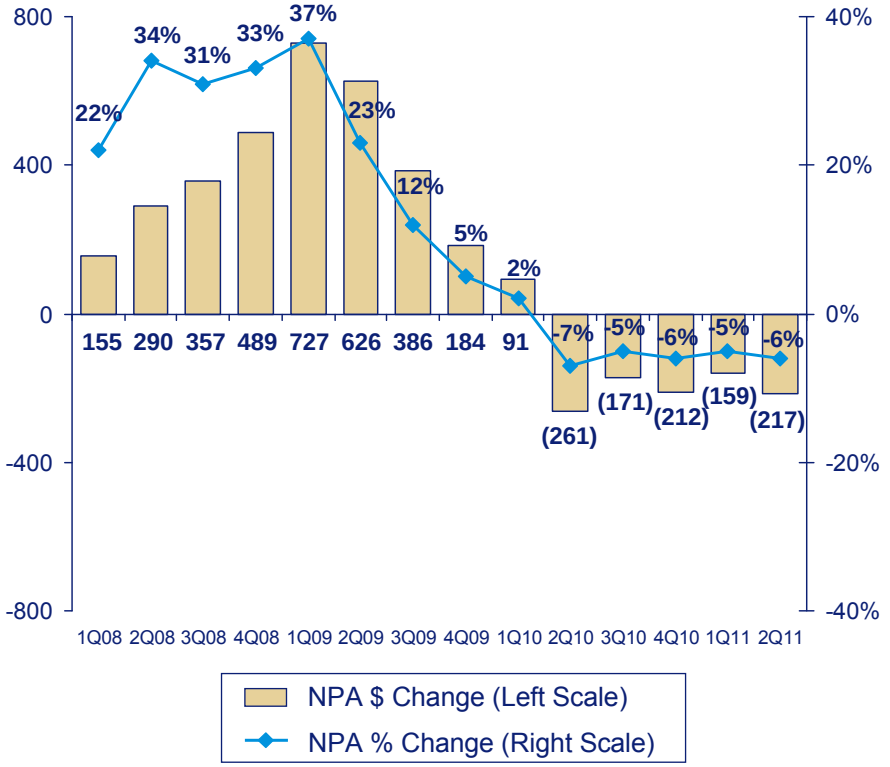
# Credit Quality



## Change in Net Charge-offs




## Change in Nonperforming Assets*



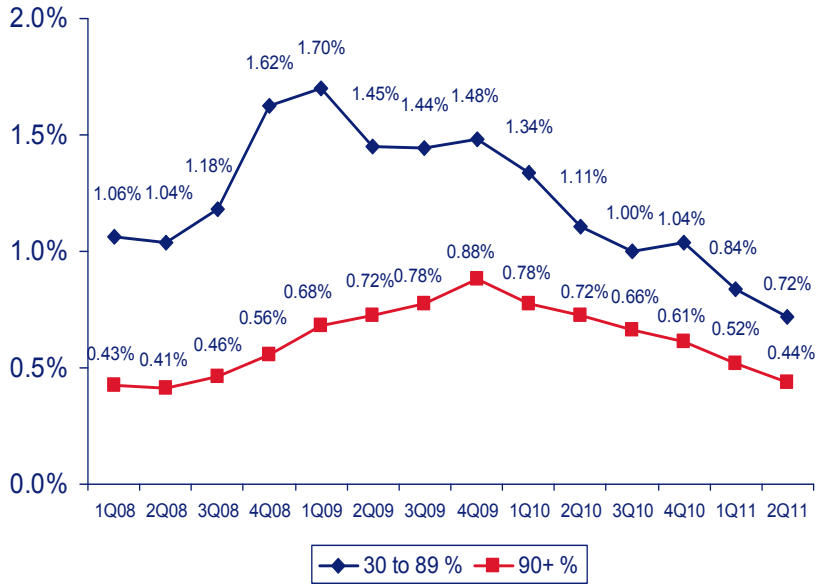

$ in millions, linked quarter change
* Excluding Covered Assets (assets subject to loss sharing agreements with FDIC), 1Q11 change in NPAs excludes FCB acquisition ($287 million)

# Credit Quality - Outlook

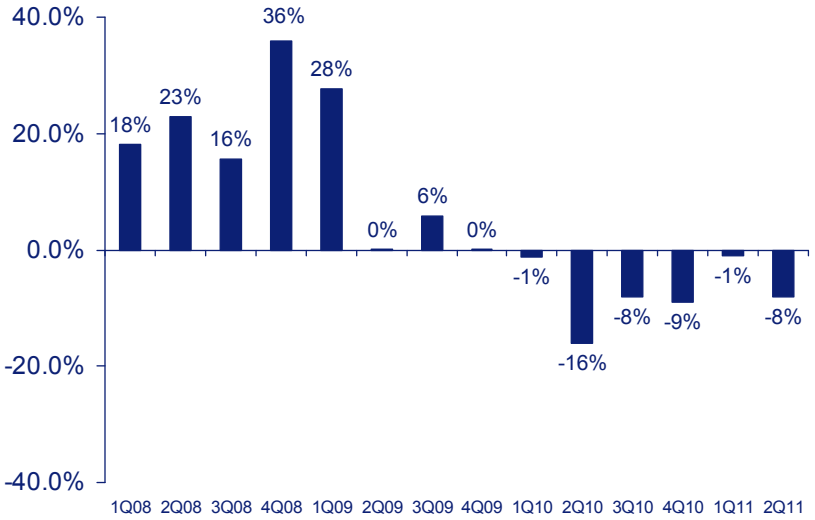


- ✓ The Company expects the level of Net Charge-offs and Nonperforming Assets to trend lower during 3Q11

Delinquencies*




Changes in Criticized Assets*




* Excluding Covered Assets (assets subject to loss sharing agreements with FDIC)
1Q11 change in criticized assets excludes FCB acquisition

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# Credit Quality - Reserves

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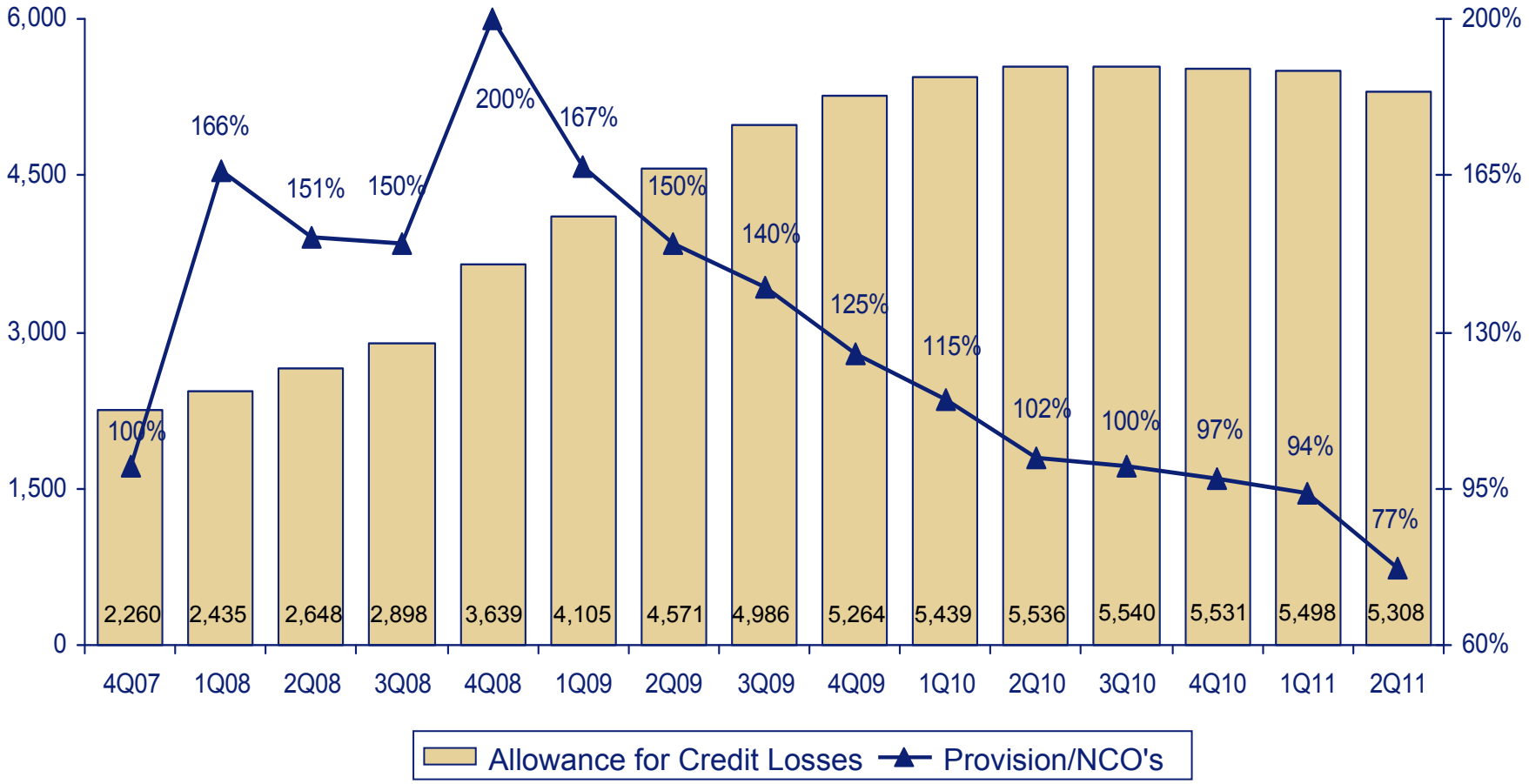
$ in millions

## Allowance for Credit Losses

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# Earnings Summary

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$ in millions, except per-share data

| | 2Q11 | 1Q11 | 2Q10 | % B/(W) vs 1Q11 | % B/(W) vs 2Q10 | YTD 2011 | YTD 2010 | % B/(W) |
|---|---|---|---|---|---|---|---|---|
| Net Interest Income | $ 2,544 | $ 2,507 | $ 2,409 | 1.5 | 5.6 | $ 5,051 | $ 4,812 | 5.0 |
| Noninterest Income | 2,146 | 2,012 | 2,110 | 6.7 | 1.7 | 4,158 | 4,028 | 3.2 |
| **Total Revenue** | **4,690** | **4,519** | **4,519** | **3.8** | **3.8** | **9,209** | **8,840** | **4.2** |
| Noninterest Expense | 2,425 | 2,314 | 2,377 | (4.8) | (2.0) | 4,739 | 4,513 | (5.0) |
| **Operating Income** | **2,265** | **2,205** | **2,142** | **2.7** | **5.7** | **4,470** | **4,327** | **3.3** |
| Net Charge-offs | 747 | 805 | 1,114 | 7.2 | 32.9 | 1,552 | 2,249 | 31.0 |
| Excess Provision | (175) | (50) | 25 | -- | -- | (225) | 200 | -- |
| **Income before Taxes** | **1,693** | **1,450** | **1,003** | **16.8** | **68.8** | **3,143** | **1,878** | **67.4** |
| Applicable Income Taxes | 514 | 421 | 251 | (22.1) | (104.8) | 935 | 463 | (101.9) |
| Noncontrolling Interests | 24 | 17 | 14 | 41.2 | 71.4 | 41 | 20 | 105.0 |
| **Net Income** | **1,203** | **1,046** | **766** | **15.0** | **57.0** | **2,249** | **1,435** | **56.7** |
| Preferred Dividends/Other | 36 | 43 | (96) | 16.3 | -- | 79 | (75) | -- |
| **NI to Common** | **$ 1,167** | **$ 1,003** | **$ 862** | **16.4** | **35.4** | **$ 2,170** | **$ 1,510** | **43.7** |
| | | | | | | | | |
| Diluted EPS | $ 0.60 | $ 0.52 | $ 0.45 | 15.4 | 33.3 | $ 1.12 | $ 0.79 | 41.8 |
| Average Diluted Shares | 1,929 | 1,928 | 1,921 | (0.1) | (0.4) | 1,929 | 1,920 | (0.5) |

Taxable-equivalent basis

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# 2Q11 Results - Key Drivers



**vs. 2Q10**

- ✓ Net Revenue growth of 3.8%
  - Net interest income growth of 5.6%; net interest margin of 3.67% vs. 3.90%
  - Noninterest income growth of 1.7%
- ✓ Noninterest expense growth of 2.0%
- ✓ Provision for credit losses lower by $567 million
  - Net charge-offs lower by $367 million
  - Provision lower than NCOs by $175 million vs. provision in excess of NCOs of $25 million in 2Q10

**vs. 1Q11**

- ✓ Net Revenue growth of 3.8% (4.9% excluding securities losses and 1Q11 gain related to FCB acquisition)
  - Net interest income growth of 1.5%; net interest margin of 3.67% vs. 3.69%
  - Noninterest income growth of 6.7% (9.3% excluding securities losses and 1Q11 gain related to FCB acquisition)
- ✓ Noninterest expense growth of 4.8%
- ✓ Provision for credit losses lower by $183 million
  - Net charge-offs lower by $58 million
  - Provision lower than NCOs by $175 million vs. provision lower than NCOs by $50 million in 1Q11

# Notable Items



$ in millions

| | 2Q11 | 1Q11 | 2Q10 | YTD 2011 | YTD 2010 |
|---|---|---|---|---|---|
| **Revenue Items** | | | | | |
| Securities gains (losses), net | $ (8) | $ (5) | $ (21) | $ (13) | $ (55) |
| Gain related to FCB acquisition | - | 46 | - | 46 | - |
| **Expense Items** | | | | | |
| ITS transaction debt extinguishment and expense | - | - | 18 | - | 18 |
| **Incremental Provision** | (175) | (50) | 25 | (225) | 200 |
| **ITS transaction equity impact (net of tax)*** | - | - | 118 | - | 118 |

* Not a component of net income, but does impact net income applicable to U.S. Bancorp common shareholders and earnings per diluted common share

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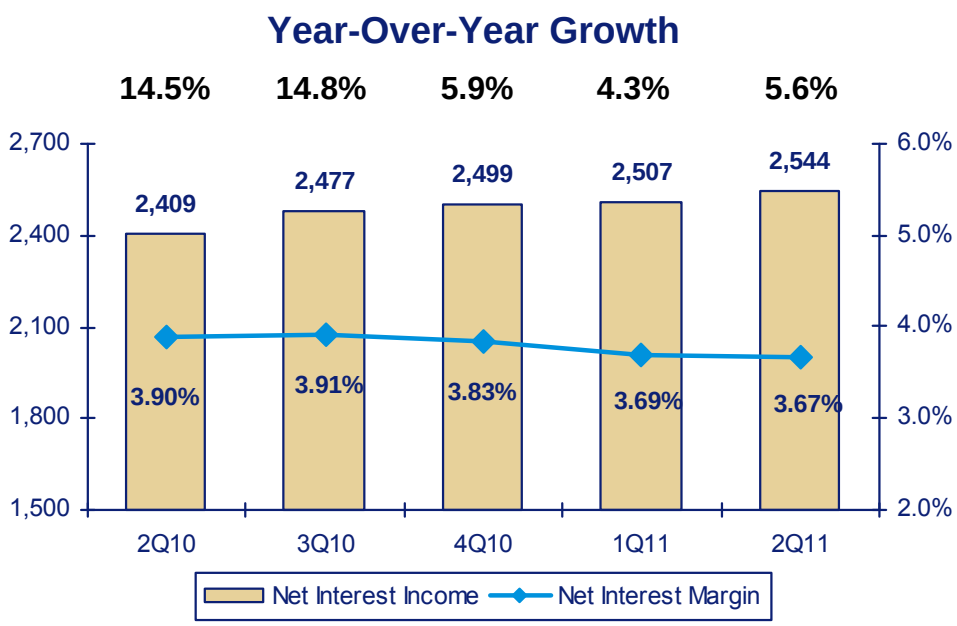
# Net Interest Income



$ in millions

## Net Interest Income




## Key Points

### vs. 2Q10

- ✓ Average earning assets grew by $30.1 billion, or 12.2% (11.6% excluding acquisitions)
- ✓ Net interest margin lower by 23 bp (3.67% vs. 3.90%) driven by:
  - Higher balances in lower yielding investment securities
  - Higher cash position at the Federal Reserve

### vs. 1Q11

- ✓ Average earning assets grew by $3.6 billion, or 1.3% (1.2% excluding acquisitions)
- ✓ Net interest margin lower by 2 bp (3.67% vs. 3.69%) driven by:
  - Higher balances in lower yielding investment securities, offset by lower cash position at the Federal Reserve

Taxable-equivalent basis

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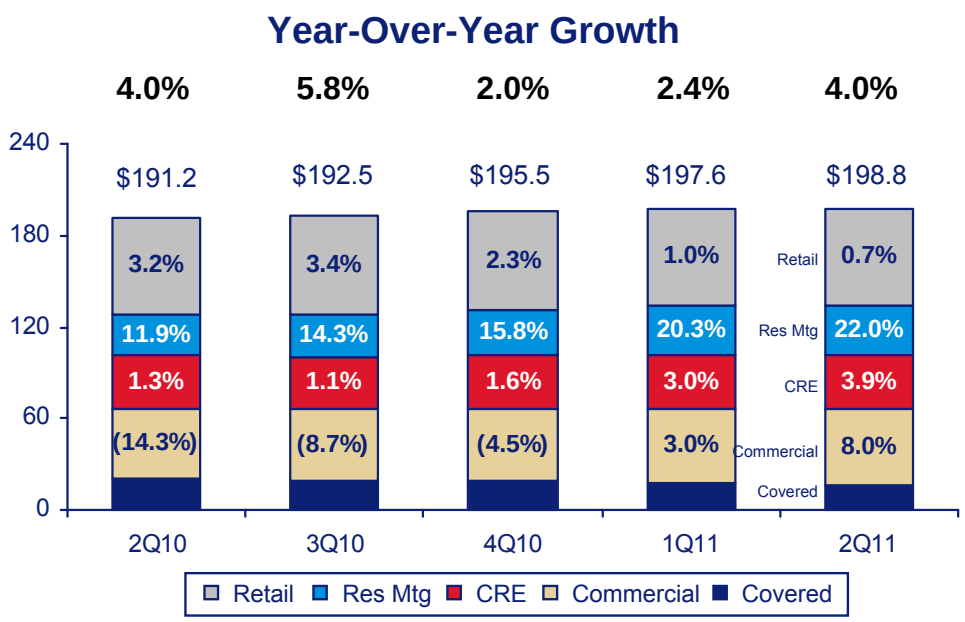
# Average Loans



$ in billions

## Average Loans




## Key Points

### vs. 2Q10

- ✓ Average total loans grew by $7.6 billion, or 4.0% (3.5% excluding acquisitions)
- ✓ Average total loans, excluding covered loans, were higher by 6.7%
- ✓ Average commercial loans increased $3.7 billion, or 8.0% (7.8% excluding acquisitions)

### vs. 1Q11

- ✓ Average total loans grew by $1.2 billion, or 0.6% (0.5% excluding acquisitions)
- ✓ Average total loans, excluding covered loans, were higher by 1.2%
- ✓ Average commercial loans grew by $1.3 billion, or 2.8%

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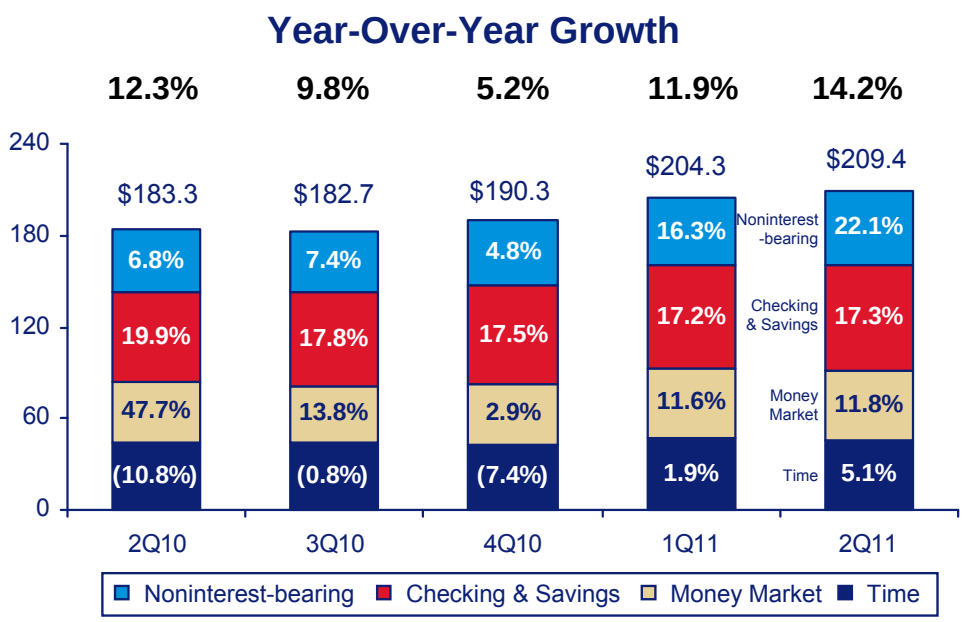
# Average Deposits



$ in billions

## Average Deposits




## Key Points

### vs. 2Q10

- ✓ Average total deposits increased by $26.1 billion, or 14.2% (9.6% excluding acquisitions)
- ✓ Average low cost deposits (NIB, interest checking, money market and savings), increased by $23.9 billion, or 17.1% (12.3% excluding acquisitions)

### vs. 1Q11

- ✓ Average total deposits increased by $5.1 billion, or 2.5% (2.3% excluding acquisitions)
- ✓ Average low cost deposits increased by $5.8 billion, or 3.7% (3.5% excluding acquisitions)

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# Noninterest Income

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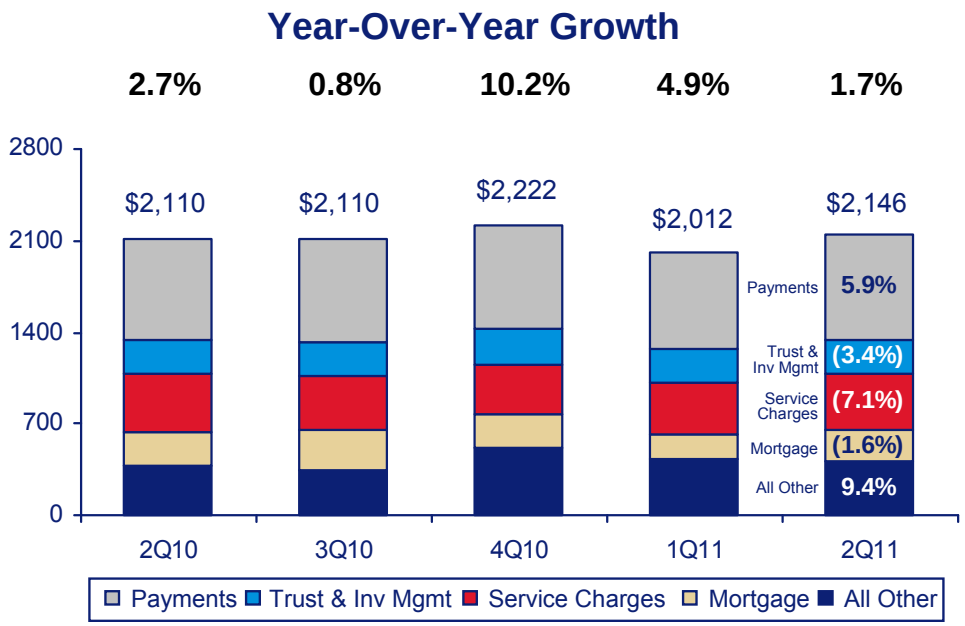
$ in millions

## Noninterest Income




**Notable Noninterest Income Items**

| | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 |
|---|---|---|---|---|---|
| Valuation losses | $ (21) | $ (9) | $ (14) | $ (5) | $ (8) |
| Other non-operating gains | - | - | 103 | 46 | - |
| Total | $ (21) | $ (9) | $ 89 | $ 41 | $ (8) |

Payments = credit and debit card revenue, corporate payment products revenue and merchant processing services; Service charges = deposit service charges, treasury management fees and ATM processing services

## Key Points

### vs. 2Q10

- ✓ Noninterest income grew by $36 million, or 1.7%, driven by:
  - Payments revenue (5.9% growth)
  - Commercial products revenue (6.3% growth)
  - Lower deposit service charges due to Reg E and fee policy changes
  - Mortgage banking revenue decrease of $4 million
    - 24% decrease in production volume
    - Favorable net change in MSR valuation and related hedging (hedge $81 2Q11 vs. $55 2Q10)

### vs. 1Q11

- ✓ Noninterest income grew by $134 million, or 6.7%, driven by:
  - Payments revenue (8.9% growth) and deposit service charges (13.3% growth) both seasonally higher
  - Commercial products revenue (14.1% growth)
  - Mortgage banking revenue increase of $40 million
    - 33% decrease in production volume, higher application volume
    - Favorable net change in MSR valuation and related hedging (hedge $81 2Q11 vs. $62 1Q11)
- ✓ Notable items, including net securities losses, unfavorable by $49 million

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# Noninterest Expense

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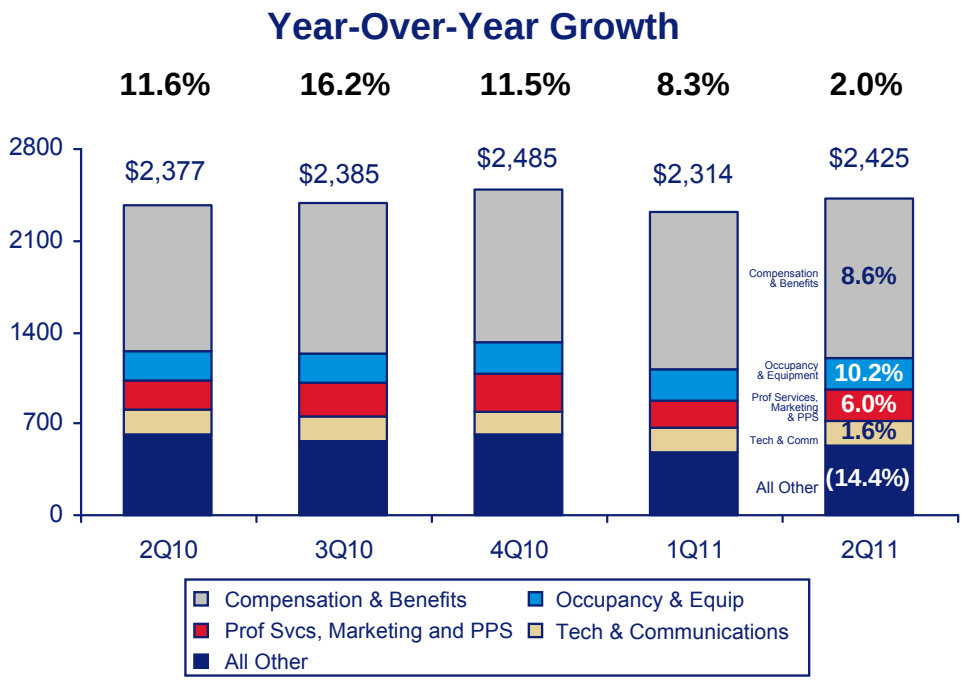
$ in millions

## Noninterest Expense




**Notable Noninterest Expense Items**

| | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 |
|---|---|---|---|---|---|
| ITS transaction | $ 18 | $ - | $ - | $ - | $ - |
| Total | $ 18 | $ - | $ - | $ - | $ - |

## Key Points

### vs. 2Q10

✓ Noninterest expense was higher by $48 million, or 2.0%, majority of variance driven by:

- Increased compensation (6.1%) and employee benefits (22.1%)
- Increase in net occupancy & equipment (10.2%) related to business expansion initiatives and technology-related projects
- Other expense lower primarily due to favorable changes in other loan expense, integration expenses, and costs related to insurance and litigation matters, partially offset by an increase in FDIC deposit insurance

### vs. 1Q11

✓ Noninterest expense was higher by $111 million, or 4.8%, majority of variance driven by:

- Higher compensation (4.7%) due to higher incentives and commissions
- Professional services and marketing and business development expenses higher primarily due to timing of initiatives and seasonally lower 1Q11
- Other expense higher mainly due to FDIC deposit insurance expense and seasonally higher investments in affordable housing and other tax-advantaged projects

# Mortgage Repurchase



## Mortgages Repurchased and Make-whole Payments

- ✓ Repurchase activity lower than peers due to:
  - Conservative credit and underwriting culture
  - Disciplined origination process - primarily conforming loans (≈ 95% sold to GSEs)
- ✓ Do not participate in private placement securitization market
- ✓ Outstanding repurchase and make-whole requests balance = $123 million
- ✓ Repurchase requests expected to decline over the next few quarters

**Mortgage Representation and Warranties Reserve**

| $ in millions | 2Q11 | 1Q11 | 4Q10 | 3Q10 | 2Q10 |
|---|---|---|---|---|---|
| Beginning Reserve | $181 | $180 | $147 | $101 | $73 |
| Net Realized Losses | (43) | (32) | (27) | (24) | (20) |
| Additions to Reserve | 35 | 33 | 60 | 70 | 48 |
| Ending Reserve | $173 | $181 | $180 | $147 | $101 |
| Mortgages repurchased and make-whole payments | $72 | $90 | $69 | $53 | $27 |

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# Regulatory Environment



- ✓ Existing regulatory oversight actions

| | FY 2010 Actual | Annual Run Rate |
|---|---|---|
| Overdraft Legislation<br>Pricing and Policy Changes | ≈ $255 | ≈ $440 - $480 |
| Card Act<br>Net Interest Margin and Fee Income | ≈ $160 | ≈ $250 |
| Durbin Amendment | -- | ≈ $300* |

- ✓ Future regulatory oversight actions
  - Dodd-Frank Wall Street Reform and Consumer Protection Act
    - Consumer Financial Protection Bureau
  - Residential mortgage foreclosure policy and procedures

$ in millions, estimated reduction to revenue
* 4Q11 impact approximately $75 million ($0.24 per average transaction starting 4Q11)

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# Positioned to Win



Proven performance

**Building momentum**

Positioned to Win!

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# Appendix

# Credit Quality - Commercial Loans

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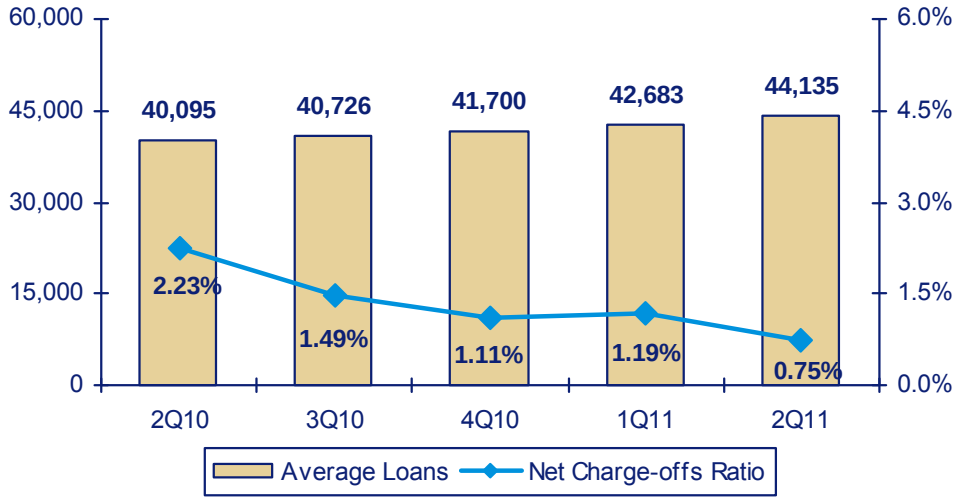
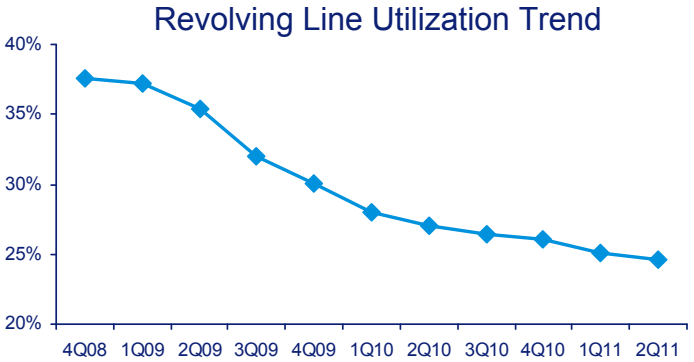
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 40,095 | 42,683 | 44,135 |
| 30-89 Delinquencies | 0.73% | 0.58% | 0.46% |
| 90+ Delinquencies | 0.24% | 0.13% | 0.09% |
| Nonperforming Loans | 1.65% | 1.02% | 0.78% |




## Comments

- ✓ Delinquencies and nonperforming loans continue to improve
- ✓ Utilization rates remain historically low although loan balances grew

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# Credit Quality - Commercial Leases

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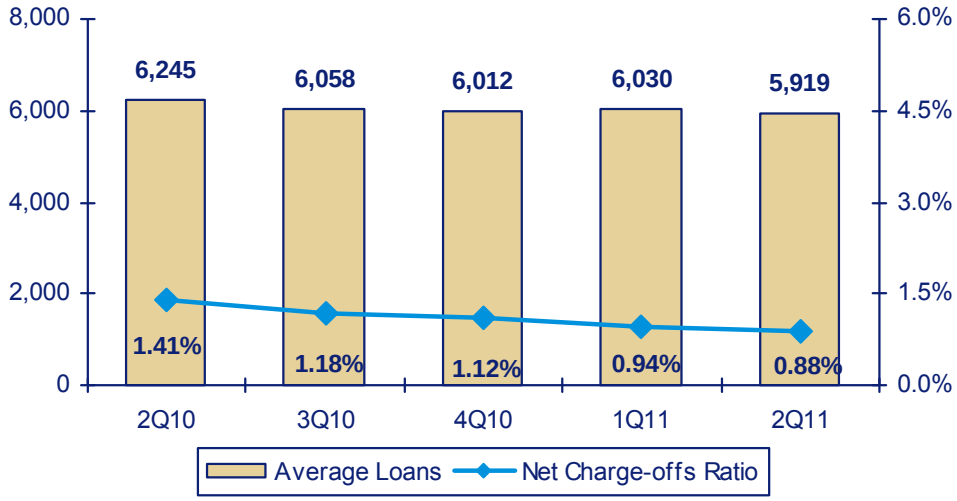
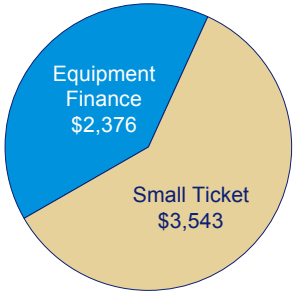
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 6,245 | 6,030 | 5,919 |
| 30-89 Delinquencies | 1.55% | 1.18% | 1.00% |
| 90+ Delinquencies | 0.03% | 0.03% | 0.02% |
| Nonperforming Loans | 1.87% | 0.90% | 0.73% |




## Comments

- ✓ Net charge-offs improved, declining to 0.88% for the quarter
- ✓ Credit quality continues to improve as delinquencies and nonperforming loans declined

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# Credit Quality - Commercial Real Estate

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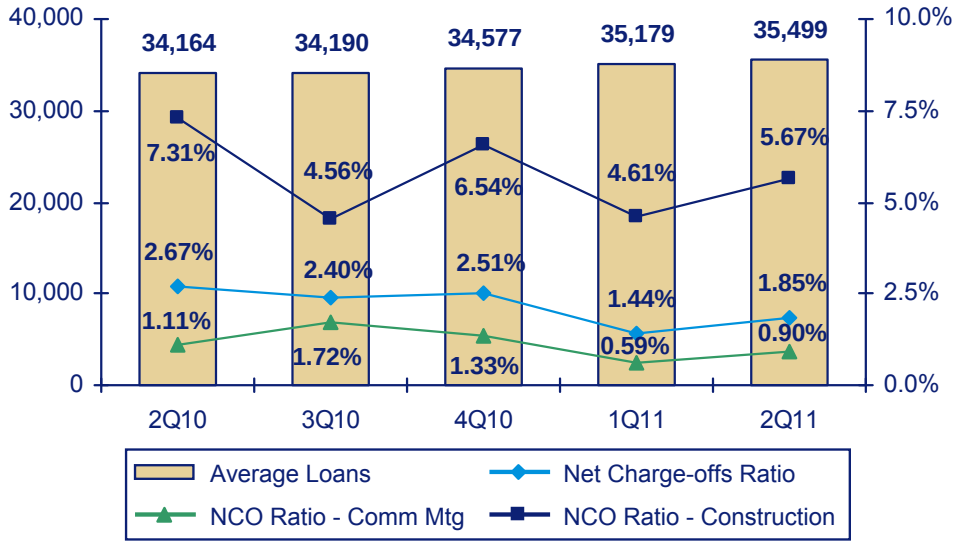
$ in millions

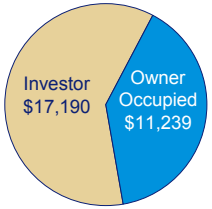
## Average Loans and Net Charge-offs Ratios



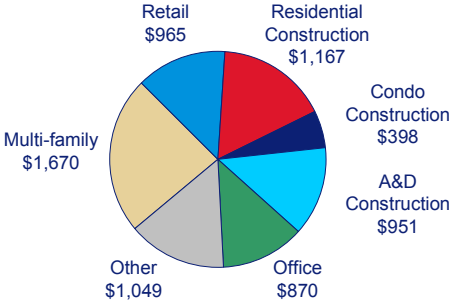

## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 34,164 | 35,179 | 35,499 |
| 30-89 Delinquencies | 0.98% | 0.74% | 0.45% |
| 90+ Delinquencies | 0.09% | 0.02% | 0.01% |
| Nonperforming Loans | 4.75% | 4.15% | 3.84% |
| Performing TDRs | 69 | 184 | 225 |

CRE Mortgage




CRE Construction




## Comments

- ✓ Early and late stage delinquencies, as well as nonperforming loans, all decreased on a linked quarter basis
- ✓ Net charge-offs increased on a linked quarter basis, but have decreased 28% on a year-over-year basis

TDR = troubled debt restructuring

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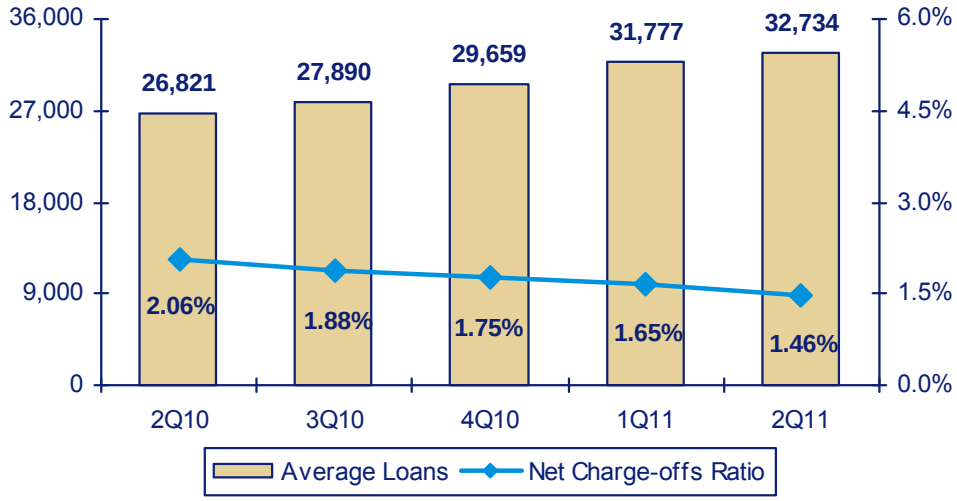
# Credit Quality - Residential Mortgage

2Q11 Earnings Conference Call

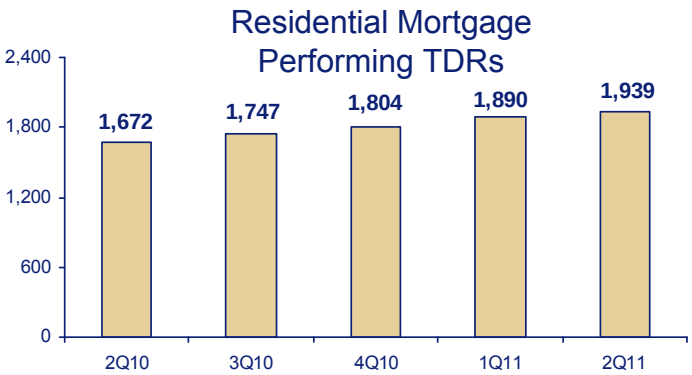
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 26,821 | 31,777 | 32,734 |
| 30-89 Delinquencies | 1.75% | 1.22% | 1.11% |
| 90+ Delinquencies | 1.85% | 1.33% | 1.13% |
| Nonperforming Loans | 2.23% | 2.12% | 2.03% |




## Comments

- ✓ Strong growth in high quality originations (weighted average FICO 753, weighted average LTV 71%) as average loans increased 3.0% over 1Q11 driven by demand for refinancing
- ✓ Continue to help home owners by successfully modifying 5,111 loans (owned and serviced) in 2Q11, representing $955 million in balances
- ✓ Nonperforming loans declined as delinquency and foreclosure inventory improved

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# Credit Quality - Home Equity

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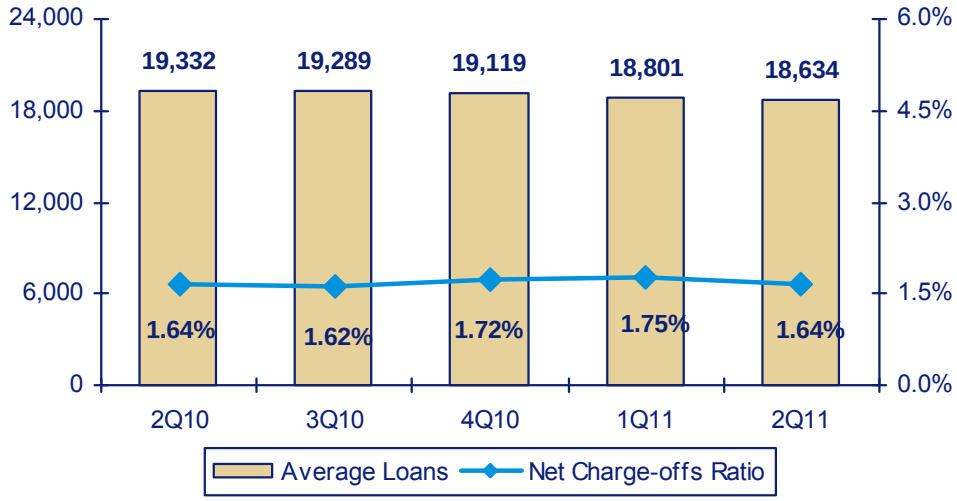
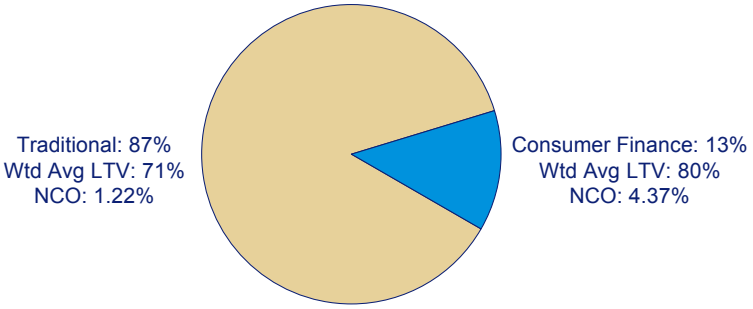
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 19,332 | 18,801 | 18,634 |
| 30-89 Delinquencies | 0.89% | 0.81% | 0.78% |
| 90+ Delinquencies | 0.68% | 0.71% | 0.65% |
| Nonperforming Loans | 0.16% | 0.23% | 0.22% |




## Comments

- ✓ Strong credit quality portfolio (weighted average FICO 747, weighted average CLTV 72%) originated primarily through the retail branch network to existing bank customers on their primary residence
- ✓ Loan demand remains soft for home equity products
- ✓ Early and late stage delinquencies continue to improve

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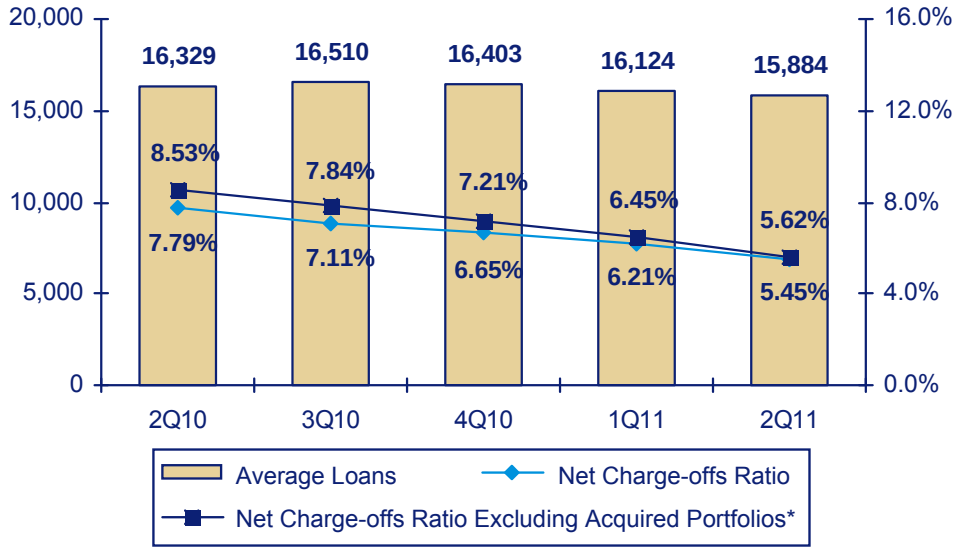
# Credit Quality - Credit Card



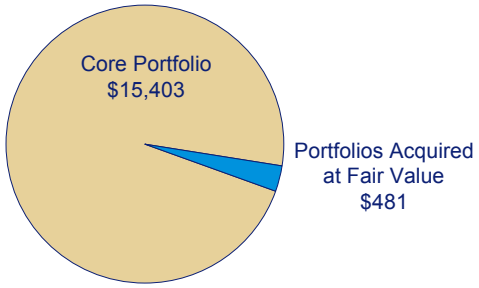
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 16,329 | 16,124 | 15,884 |
| 30-89 Delinquencies | 1.86% | 1.44% | 1.34% |
| 90+ Delinquencies | 2.38% | 1.62% | 1.32% |
| Nonperforming Loans | 1.04% | 1.61% | 1.59% |




## Comments

- ✓ Both early and late stage delinquencies continue to improve
- ✓ Net charge-offs declined for the fourth consecutive quarter
- ✓ Nonperforming loans were stable in the second quarter

* Excluding portfolio purchases where the acquired loans were recorded at fair value at the purchase date

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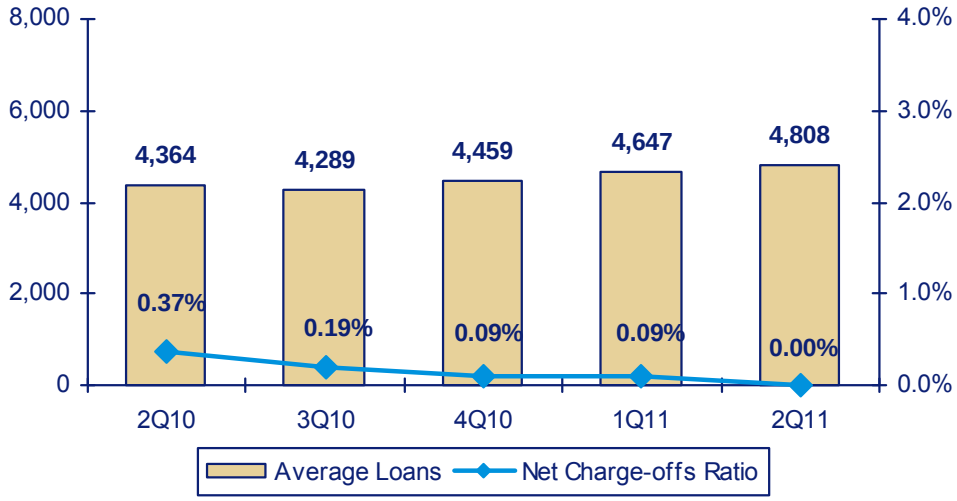
# Credit Quality - Retail Leasing

2Q11 Earnings Conference Call

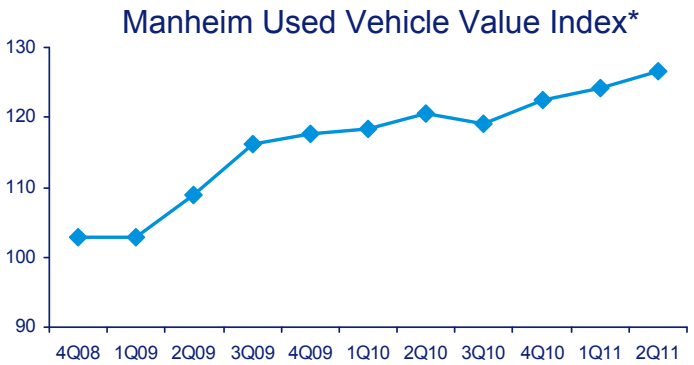
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 4,364 | 4,647 | 4,808 |
| 30-89 Delinquencies | 0.46% | 0.26% | 0.20% |
| 90+ Delinquencies | 0.05% | 0.04% | 0.02% |
| Nonperforming Loans | --% | --% | --% |




## Comments

- ✓ Average loans continue to increase as demand for new auto leases remains strong
- ✓ Retail leasing delinquencies continue to improve, reaching pre-recession levels
- ✓ Strong used auto values continue to reduce end of term risk and net charge-offs

* Manheim Used Vehicle Value Index source: www.manheimconsulting.com, January 1995 = 100, quarter value = average monthly ending value

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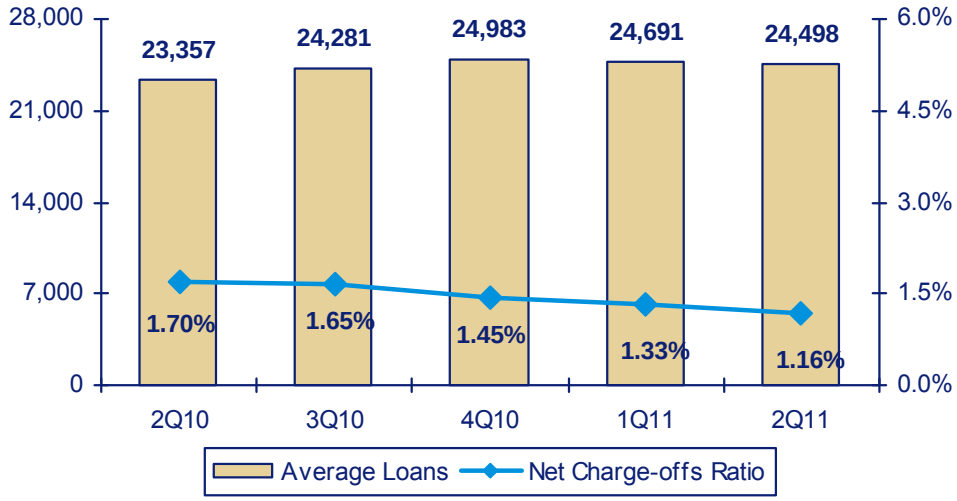
# Credit Quality - Other Retail

2Q11 Earnings Conference Call

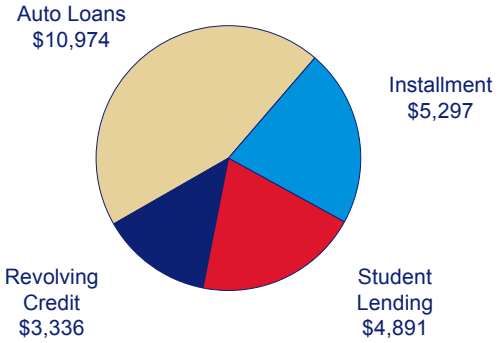
$ in millions

## Average Loans and Net Charge-offs Ratios




## Key Statistics

| | 2Q10 | 1Q11 | 2Q11 |
|---|---|---|---|
| Average Loans | 23,357 | 24,691 | 24,498 |
| 30-89 Delinquencies | 0.85% | 0.63% | 0.62% |
| 90+ Delinquencies | 0.32% | 0.25% | 0.20% |
| Nonperforming Loans | 0.13% | 0.13% | 0.13% |




## Comments

- ✓ Average balances increased 4.9% over 2Q10 as demand for auto loans remains strong
- ✓ Net charge-offs and delinquencies continue to decline while nonperforming loans remain stable

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# Non-Regulatory Capital Ratios



| $ in millions | 2Q11 | 1Q11 | 4Q10 | 3Q10 | 2Q10 |
|---|---|---|---|---|---|
| Total equity | $ 33,341 | $ 31,335 | $ 30,322 | $ 29,943 | $ 28,940 |
| Preferred stock | (2,606) | (1,930) | (1,930) | (1,930) | (1,930) |
| Noncontrolling interests | (889) | (828) | (803) | (792) | (771) |
| Goodwill (net of deferred tax liability) | (8,300) | (8,317) | (8,337) | (8,429) | (8,425) |
| Intangible assets (exclude mortgage servicing rights) | (1,277) | (1,342) | (1,376) | (1,434) | (1,525) |
| Tangible common equity (a) | 20,269 | 18,918 | 17,876 | 17,358 | 16,289 |
| Tier 1 Capital, determined in accordance with prescribed regulatory requirements using Basel I definition | 27,795 | 26,821 | 25,947 | 24,908 | 24,021 |
| Trust preferred securities | (3,267) | (3,949) | (3,949) | (3,949) | (3,949) |
| Preferred stock | (2,606) | (1,930) | (1,930) | (1,930) | (1,930) |
| Noncontrolling interests, less preferred stock not eligible for Tier I capital | (695) | (694) | (692) | (694) | (694) |
| Tier 1 common equity using Basel I definition (b) | 21,227 | 20,248 | 19,376 | 18,335 | 17,448 |
| Tier 1 capital, determined in accordance with prescribed regulatory requirements using anticipated Basel III definition | 23,931 | 21,855 | | | |
| Preferred stock | (2,606) | (1,930) | | | |
| Noncontrolling interests of real estate investment trusts | (667) | (667) | | | |
| Tier 1 common equity using anticipated Basel III definition (c) | 20,658 | 19,258 | | | |
| Total assets | 320,874 | 311,462 | 307,786 | 290,654 | 283,243 |
| Goodwill (net of deferred tax liability) | (8,300) | (8,317) | (8,337) | (8,429) | (8,425) |
| Intangible assets (exclude mortgage servicing rights) | (1,277) | (1,342) | (1,376) | (1,434) | (1,525) |
| Tangible assets (d) | 311,297 | 301,803 | 298,073 | 280,791 | 273,293 |
| Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (e) | 252,882 | 247,486 | 247,619 | 242,490 | 237,145 |
| Risk-weighted assets using anticipated Basel III definitions (f) | 256,205 | 250,931 | | | |
| **Ratios** | | | | | |
| Tangible common equity to tangible assets (a)/(d) | 6.5% | 6.3% | 6.0% | 6.2% | 6.0% |
| Tier 1 common equity to risk-weighted assets using Basel I definition (b)/(e) | 8.4% | 8.2% | 7.8% | 7.6% | 7.4% |
| Tier 1 common equity to risk-weighted assets using anticipated Basel III definition (c)/(f) | 8.1% | 7.7% | | | |
| Tangible common equity to risk-weighted assets (a)/(e) | 8.0% | 7.6% | 7.2% | 7.2% | 6.9% |

2Q11 risk-weighted assets are preliminary data, subject to change prior to filings with applicable regulatory agencies
Anticipated Basel III definitions reflect adjustments for changes to the related elements as proposed in December 2010 by regulatory agencies

# U.S. Bancorp

## 2Q11 Earnings Conference Call

July 20, 2011

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