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Lee R. Mitau  
Executive Vice President and  
General Counsel

# 265

**(b) (6)**

February 25, 2009

Mr. Neil M. Barofsky  
Special Inspector General  
Office of the Special Inspector General  
Troubled Asset Relief Program  
1500 Pennsylvania Ave., N.W., Suite 1064  
Washington, D.C. 20220

Dear Mr. Barofsky:

I have attached a number of documents for your review in response to your letter dated February 6, 2009, requesting information regarding U.S. Bancorp's use of TARP funds and compliance with EESA's executive compensation requirements.

I certify the accuracy of all statements, representations and supporting information provided in the attachments. Please contact me if you have any questions or require additional information.

Very truly yours,

Lee R. Mitau  
Executive Vice President and  
General Counsel

Enclosures

## 1.) Narrative Response

1a.) In a press release dated November 3, 2008 (see Attachment 2), U.S. Bancorp announced that it had received preliminary approval from the U.S. Treasury Department for the sale of \$6.6 billion of preferred stock and warrants to the U.S. Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. The decision by U.S. Bancorp to participate in the program was made after a thoughtful and detailed evaluation of the impact that the program would have on the Company's ability to serve its customers, support the communities in which it operates, create long-term value for its shareholders and assist the U.S. Treasury in its quest to stimulate the United States economy. U.S. Bancorp's capital position was strong, exemplified by the Company's Tier 1 and total risk-based capital ratios at September 30, 2008, of 8.5% and 12.3%, respectively. After reviewing the Capital Purchase Program with the Board of Directors (see Attachment 3 & 4), it was determined that the sale of preferred stock and warrants to the U.S. Treasury, although not necessary from a capital adequacy perspective, would be beneficial both from a financial perspective for U.S. Bancorp and with respect to meeting the objectives of the United States government. At the time of participating in the program, the Company anticipated using the proceeds to provide U.S. Bancorp with the on-going capacity for additional loan growth and for funding investments,

(b) (4)

The specific benefits of the sale of preferred stock and warrants to the Treasury were summarized in the press release and the presentations to the Board of Directors (as noted above), memos to all employees posted on the Company Intranet and presentations to investors in November of 2008 (see Attachment 5, 6 & 7), and included:

- The ability to increase lending to new and existing customers.
- The rating agencies favorable view of the transaction.
- The access to Tier 1 capital at a cost that was equal to or more favorable to preferred capital available in the direct market.
- The ability for U.S. Bancorp to compete more effectively with other banks that had already announced their participation in the program, as well as the greater potential for U.S. Bancorp to play a part in the then-anticipated consolidation of the banking industry over the next year.
- It solidified U.S. Bancorp's already strong capital position.

Other supporting documentation is provided in Attachment 11.

1b.) On November 14<sup>th</sup>, U.S. Bancorp received the proceeds from the sale of the preferred stock and warrants to the U.S. Treasury. The transaction initially resulted in an increase in preferred stock outstanding, i.e. capital, and a decrease in short-term borrowings. At that point the preferred stock issued/sold to the U.S. Treasury became part of U.S. Bancorp's capital base. It is not the Company's practice to specifically

segregate its capital accounts, nor is it practical or an efficient use of funds to assign designated transactions to each component of equity. Rather, the Company manages its total capital, including preferred stock, at a level that exceeds the regulators' definition of "well-capitalized" and that supports both balance sheet growth and re-investment in the franchise.

We have attached several documents for your reference that reflect the accounting for the taxpayer funds received under TARP, including a draft Statement of Cash Flows and certain additional pages from the current draft of our Annual Report on Form 10-K that reflect the accounting for the TARP funds. These pages are from a draft of the 10-K that is substantially completed, and we anticipate filing it with the Securities and Exchange Commission by March 2, 2009. In addition, we have included the TARP Warrant Allocation Worksheet and memo, dated November 26, 2008 (see Attachment 8).

1c.) Because participating in the program increased Tier 1 regulatory capital ratios, the \$6.6 billion of new capital immediately increased the Company's overall capacity to lend to both new and existing customers, and to otherwise invest in our franchise. Total average loans in the fourth quarter of 2008 were 14.7% higher (12.7% excluding acquisitions) than the fourth quarter of 2007 and 6.4% higher (3.1% excluding acquisitions, or 12.4% annualized) than the third quarter of 2008 (see Attachment 9). Attached is a copy of the *TARP Monthly Intermediation Snapshot* report (Attachment 10) that U.S. Bancorp submitted to the U.S. Treasury in January. The report provides further details about the Company's lending activity for the months of October, November and December. Because of U.S. Bancorp's financial condition, these increased lending activities could have been supported without the additional TARP capital, as could the Company's acquisition of two failed California financial institutions from the FDIC, announced in November. Absent the TARP capital, the Company's current Tier I capital would still be well above the prescribed regulatory level for determining whether a financial institution is "well capitalized."

1d.) Going forward, U.S. Bancorp will continue to use the capital provided through the sale of preferred stock and warrants to the U.S. Treasury to maintain and increase the flow of credit to qualified borrowers, including consumers, small businesses, corporations, institutions and governments. In addition, the U.S. Treasury's investment in U.S. Bancorp will allow the Company to invest in future growth opportunities that further enhance the Company's ability to continue to provide customers with the products and services they need, help sustain the communities in which we operate and assist the government in its efforts to stimulate the economy. As has been our practice, credit and investment decisions will be based on underwriting and other risk management processes and are dependent upon achieving reasonable returns based on an acceptable level of risk. The Company will continue to report its lending activity via the *TARP Monthly Intermediation Snapshot* each month going forward.

## 2.) Executive Compensation Matters

- Plans and status of implementation of plans for addressing executive compensation requirements

The following chronological description of actions taken with respect to the compensation requirements associated with TARP reflects the plans and status of implementation of those plans for compliance with those restrictions.

As U.S. Bank was initially evaluating whether or not to participate in the TARP program, the Compensation Committee of the Board of Directors of U.S. Bancorp met in November, 2008, to discuss the potential implications on compensation as a result of such participation.

The Compensation Committee reviewed a brief overview of the then current TARP provisions, presented by the Director of Human Resources as outlined in Attachment A. The Committee decided to evaluate its compensation programs to determine if they encourage executives to take unnecessary and excessive risks. The Committee discussed its programs generally, and management discussed the programs in more detail with the independent compensation consultant who reports to the Committee and determined that, in management's view, and in the view of the independent consultant, the current programs of U.S. Bancorp do not encourage unnecessary and excessive risk taking. The Committee, along with its independent consultant and management, had already been refining several of the components of the overall compensation program for executives, and determined that the recommended changes were consistent with the reduction of risk.

The Committee, management, and the independent compensation consultant determined that there was no need to recoup any incentive pay, and that all earnings or other criteria on which incentives were paid had been based on accurate information.

The Committee also determined that it did not intend to make any prohibited severance or change in control payments, and none have been made.

The Committee, through the Director of Human Resources, asked the top six executives to sign letters and waivers in order to allow the Committee to revise the compensation plans, if necessary, to comply with the executive compensation restrictions. See Attachment B.

At its December meeting, the Committee discussed with management the need to review the compensation programs with the chief risk officers of the Company in order for the Committee to independently evaluate if such programs encourage excessive and unnecessary risk taking. The Committee identified three primary risk officers: the CFO, for market risk, the Chief Credit Officer, for credit risk, and the Chief Risk Officer, for operational risk. The Director of Human Resources met with



each of the three, and also met with the Executive Risk Committee, which consists of the three primary risk officers, the CEO and the general counsel, in order to describe and demonstrate how the current and proposed incentive programs are designed and work in practice. An excerpt of the minutes of that meeting is contained in Attachment C.

The three principal executive risk managers then delivered a certification to the Compensation Committee at the December meeting to the effect that the Company's compensation programs "do not encourage excessive risk taking by the U.S. Bancorp CEO's." See Attachment D. The memorandum mentioned the meetings and documents reviewed to provide a basis for this certification, including a presentation on current compensation practices at U.S. Bancorp prepared by the independent compensation consultant. The representatives from Frederic W. Cook also advised the Committee that in their view the U.S. Bancorp incentive plans do not encourage excessive risk.

The Committee discussed the enhanced clawback provisions of the restrictions, which apply to incentive compensation in the event it is based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria. The Committee discussed the limitations on golden parachutes, and concluded that for 2007, and as reported in the proxy statement, all of the top five executives fit within the safe harbor and would not have been subject to a golden parachute reduction in the event of a trigger of the agreements.

The Committee agreed to certify its evaluation in the Compensation Discussion and Analysis (CD&A) of the proxy statement.

Excerpts from the Compensation Committee meetings of November and December, 2008 are included. See Attachment E. As will be reported in the U.S. Bancorp 2009 proxy statement, the Committee made revisions to its overall compensation program in order to reduce the likelihood of excessive risk taking behavior.

- Loan risks and their relationship to executive compensation

In considering awarding 2008 incentives, our Compensation Committee considered earnings per share and other metrics (such as return on assets and return on investments), all of which reflect credit losses and provisioning expense. (b) (4)

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- Off-set of compensation limitations

The limitations in existence as of the date of your letter, February 6, did not constrain us in any way that would motivate us to attempt to off-set them. We do not have compensation programs that unduly incent risk taking, we are happy to limit golden parachutes and we have no issue with the clawback provisions. As you know, since

the date of your letter, the American Recovery and Reinvestment Act of 2009 was enacted into law, and signed by the President. That statute contained new and severe compensation restrictions that apply retroactively to all TARP recipients. These restrictions will cause great difficulty for the Company in managing its compensation programs, and management is currently investigating what mitigating or off-setting measures will be available. Because implementing rules have not yet been adopted by the Treasury Secretary and many provisions of the statute are confusing and problematic, we have not yet determined how we will ultimately respond.



800 Nicollet Mall  
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# News Release

Contact:

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## **U.S. BANCORP TO PARTICIPATE IN U.S. TREASURY CAPITAL PURCHASE PROGRAM**

MINNEAPOLIS (November 3, 2008) -- U.S. Bancorp (NYSE: USB) announced today that it has received preliminary approval from the U.S. Treasury Department for the sale of \$6.6 billion of preferred stock and related warrants to the U.S. Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008.

Under the agreement, U.S. Bancorp will issue preferred stock to the U.S. Treasury at a rate of 5 percent per annum for five years. The rate will increase to 9 percent per annum thereafter if the preferred shares are not redeemed by the company. In addition to the preferred stock, the U.S. Treasury will receive 10-year warrants entitling the Treasury to purchase common stock of U.S. Bancorp with a value equal to 15 percent of the amount of the preferred stock issuance. The terms and conditions of the transaction will conform to those provided by the U.S. Treasury. Details of the terms, including certain restrictions on dividends and share repurchases, can be found on their website at <http://treas.gov/initiatives/eesa>.

“We fully support the efforts of the U.S. Treasury Department to stabilize the financial markets and increase the flow of credit to both consumers and businesses across the country. Over the past few weeks, we have been evaluating the U.S. Treasury’s Capital Purchase Program and the impact that the company’s participation in the program might have on our ability to serve our customers, support our communities and create long-term value for our shareholders,” said Richard K. Davis, chairman, president and CEO of U.S. Bancorp. “U.S. Bancorp is operating from a position of strength. During these uncertain times, the company has benefited from both a prudent approach to risk management and a diverse mix of businesses. Our capital position is solid. After careful consideration, we have concluded that the capital available through the Capital Purchase Program will augment our capacity to engage in increased lending activity and invest for future growth, and will enhance the company’s capability to assist in stimulating the United States economy.”

U.S. Bancorp’s Tier 1 capital ratio at September 30, 2008, was 8.5 percent, significantly above the well-capitalized regulatory requirement of 6 percent. Using risk-weighted assets as of September 30, 2008, the company’s Tier 1 capital ratio after the issuance of the \$6.6 billion of preferred stock to the U.S. Treasury will be approximately 11.4 percent.

Minneapolis-based U.S. Bancorp (“USB”), with \$247 billion in assets, is the parent company of U.S. Bank, the 6th largest commercial bank in the United States as of September 30, 2008. The company operates 2,556 banking offices and 4,903 ATMs in 24 states, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. Visit U.S. Bancorp on the web at [usbank.com](http://usbank.com).

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## U.S. Bancorp Consolidated Statement of Cash Flows

Year Ended December 31 (Dollars in Millions)	2008	2007	2006
<b>Operating Activities</b>			
Net income	\$2,946	\$4,324	\$4,751
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	3,096	792	544
Depreciation and amortization of premises and equipment	218	243	233
Amortization of intangibles	355	376	355
Provision for deferred income taxes	(1,045)	(97)	(3)
Gain on sales of securities and other assets, net	(804)	(570)	(575)
Loans originated for sale in the secondary market, net of repayments	(32,563)	(27,395)	(22,231)
Proceeds from sales of loans held for sale	32,440	25,389	22,035
Other, net	664	(158)	282
Net cash provided by operating activities	5,307	2,904	5,391
<b>Investing Activities</b>			
Proceeds from sales of available-for-sale investment securities	2,134	2,135	1,441
Proceeds from maturities of investment securities	5,722	4,211	5,012
Purchases of investment securities	(6,075)	(9,816)	(7,080)
Net increase in loans outstanding	(14,776)	(8,015)	(5,003)
Proceeds from sales of loans	123	421	616
Purchases of loans	(3,577)	(2,599)	(2,922)
Acquisitions, net of cash acquired	1,483	(111)	(600)
Other, net	(1,353)	(1,367)	(281)
Net cash used in investing activities	(16,319)	(15,141)	(8,817)
<b>Financing Activities</b>			
Net increase (decrease) in deposits	13,139	6,255	(392)
Net increase (decrease) in short-term borrowings	(891)	5,069	6,650
Proceeds from issuance of long-term debt	8,534	22,395	14,255
Principal payments or redemption of long-term debt	(16,546)	(16,836)	(13,120)
Proceeds from issuance of preferred stock	7,090 *	--	948
Proceeds from issuance of common stock	688	427	910
Repurchase of common stock	--	(1,983)	(2,798)
Cash dividends paid on preferred stock	(68)	(60)	(33)
Cash dividends paid on common stock	(2,959)	(2,785)	(2,359)
Net cash provided by financing activities	8,987	12,482	4,061
Change in cash and due from banks	(2,025)	245	635
Cash and due from banks at beginning of year	8,884	8,639	8,004
Cash and due from banks at end of year	\$6,859	\$8,884	\$8,639

\* Includes \$6.6 billion of TARP capital from the U.S. Treasury and other issuances of preferred stock to other investors.

**Table 21 REGULATORY CAPITAL RATIOS**

At December 31 (Dollars in Millions)	2008	2007
<b>U.S. Bancorp</b>		
Tier 1 capital . . . . .	\$24,426	\$17,539
As a percent of risk-weighted assets . . . . .	10.6%	8.3%
As a percent of adjusted quarterly average assets (leverage ratio) . . . . .	9.8%	7.9%
Total risk-based capital . . . . .	\$32,897	\$25,925
As a percent of risk-weighted assets . . . . .	14.3%	12.2%
<b>Bank Subsidiaries</b>		
<b>U.S. Bank National Association</b>		
Tier 1 capital . . . . .	6.6%	6.5%
Total risk-based capital . . . . .	10.5	10.4
Leverage . . . . .	6.1	6.2
<b>U.S. Bank National Association ND</b>		
Tier 1 capital . . . . .	14.3%	13.3%
Total risk-based capital . . . . .	17.8	16.8
Leverage . . . . .	12.6	11.7
<b>Bank Regulatory Capital Requirements</b>		
	Minimum	Well-Capitalized
Tier 1 capital . . . . .	4.0%	6.0%
Total risk-based capital . . . . .	8.0	10.0
Leverage . . . . .	4.0	5.0

balance sheet structure in an effort to minimize these risks and ensure compliance with the requirements of the structures. The Company uses its credit risk management processes to evaluate the credit quality of underlying assets and regularly forecasts cash flows to evaluate any potential impairment of retained interests. Also, regulatory guidelines require consideration of asset securitizations in the determination of risk-based capital ratios. The Company does not rely significantly on off-balance sheet arrangements for liquidity or capital resources.

The Company sponsors an off-balance sheet conduit to which it transferred high-grade investment securities, initially funded by the issuance of commercial paper. These investment securities include primarily (i) private label asset-backed securities, which are guaranteed by third-party insurers, and (ii) collateralized mortgage obligations. The conduit held assets of \$.8 billion at December 31, 2008, and \$1.2 billion at December 31, 2007. In March 2008, the conduit ceased issuing commercial paper and began to draw upon a Company-provided liquidity facility to replace outstanding commercial paper as it matured. The draws upon the liquidity facility resulted in the conduit becoming a non-qualifying special purpose entity. However, the Company is not the primary beneficiary and, therefore, does not consolidate the conduit. At December 31, 2008, the amount advanced to the conduit under the liquidity facility was \$.9 billion, which is recorded on the Company's balance sheet in commercial loans. Proceeds from the conduit's investment securities, including any guarantee payments, will be used to repay draws on the liquidity facility. The

Company believes there is sufficient collateral to repay all of the liquidity facility advances.

**Capital Management** The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. The Company continually assesses its business risks and capital position. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. To achieve these capital goals, the Company employs a variety of capital management tools, including dividends, common share repurchases, and the issuance of subordinated debt and other capital instruments.

At December 31, 2008, the Company's tangible common equity divided by tangible assets was 3.2 percent (4.5 percent excluding accumulated other comprehensive income (loss)).

On November 14, 2008, the Company issued 6.6 million shares of cumulative perpetual preferred stock and related warrants to the United States Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008, for which it received total proceeds of \$6.6 billion in cash. Under the program, the cumulative perpetual preferred stock's dividend rate is 5 percent per annum for five years, increasing to 9 percent per annum, thereafter, if the cumulative perpetual preferred shares are not redeemed by the Company. In addition to the cumulative perpetual preferred stock, the United States Treasury received warrants entitling it to purchase, during the next ten years, approximately 33 million shares of common stock of the Company, at a price per common share of \$30.29. Participation in this program restricts the

Company's ability to increase its quarterly dividend and repurchase its common stock for up to three years or for as long as the preferred stock issued under the program remains outstanding, if shorter. Refer to Note 15 in the Notes to Consolidated Financial Statements for further information.

During 2008 and 2007, the Company repurchased 2 million and 58 million shares, respectively, of its common stock under various authorizations approved by its Board of Directors. The average price paid for the shares repurchased in 2008 was \$33.59 per share, compared with \$34.84 per share in 2007. As of December 31, 2008, the Company had approximately 20 million shares that may yet be purchased under the current Board of Director approved authorization, in connection with the administration of its employee benefit plans in the ordinary course of business, to the extent permitted under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. For a complete analysis of activities impacting shareholders' equity and capital management programs, refer to Note 15 of the Notes to Consolidated Financial Statements.

Banking regulators define minimum capital requirements for banks and financial services holding companies. These requirements are expressed in the form of a minimum Tier 1 capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio. The minimum required level

for these ratios is 4.0 percent, 8.0 percent, and 4.0 percent, respectively. The Company targets its regulatory capital levels, at both the bank and bank holding company level, to exceed the "well-capitalized" threshold for these ratios of 6.0 percent, 10.0 percent, and 5.0 percent, respectively. The most recent notification from the Office of the Comptroller of the Currency categorized each of the covered banks as "well-capitalized", under the FDIC Improvement Act prompt corrective action provisions applicable to all banks. There are no conditions or events since that notification that management believes have changed the risk-based category of any covered subsidiary banks.

As an approved mortgage seller and servicer, U.S. Bank National Association, through its mortgage banking division, is required to maintain various levels of shareholders' equity, as specified by various agencies, including the United States Department of Housing and Urban Development, Government National Mortgage Association, Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. At December 31, 2008, U.S. Bank National Association met these requirements.

Table 21 provides a summary of capital ratios as of December 31, 2008 and 2007, including Tier 1 and total risk-based capital ratios, as defined by the regulatory agencies.

**Table 22** FOURTH QUARTER RESULTS

	Three Months Ended December 31,	
	2008	2007
(Dollars and Shares in Millions, Except Per Share Data)		
<b>Condensed Income Statement</b>		
Net interest income (taxable-equivalent basis) (a)	\$2,161	\$1,763
Noninterest income	1,716	1,807
Securities gains (losses), net	(253)	4
Total net revenue	3,624	3,574
Noninterest expense	1,960	1,968
Provision for credit losses	1,267	225
Income before taxes	397	1,381
Taxable-equivalent adjustment	40	22
Applicable income taxes	27	417
Net income	\$ 330	\$ 942
Net income applicable to common equity	\$ 260	\$ 927
<b>Per Common Share</b>		
Earnings per share	\$ .15	\$ .54
Diluted earnings per share	.15	.53
Dividends declared per share	.425	.425
Average common shares outstanding	1,754	1,726
Average diluted common shares outstanding	1,764	1,746
<b>Financial Ratios</b>		
Return on average assets	.51%	1.63%
Return on average common equity	5.3	18.3
Net interest margin (taxable-equivalent basis) (a)	3.81	3.51
Efficiency ratio	50.6	55.1

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

## U.S. Bancorp Consolidated Balance Sheet

At December 31 (Dollars in Millions)	2008	2007
<b>Assets</b>		
Cash and due from banks	\$ 6,859	\$ 8,884
Investment securities		
Held-to-maturity (fair value \$54 and \$78, respectively)	53	74
Available-for-sale	39,468	43,042
Loans held for sale (2008 included \$2,728 of mortgage loans carried at fair value)	3,210	4,819
Loans		
Commercial	56,618	51,074
Commercial real estate	33,213	29,207
Residential mortgages	23,580	22,782
Retail	60,368	50,764
Total loans, excluding covered assets	173,779	153,827
Covered assets	11,450	-
Total loans	185,229	153,827
Less allowance for loan losses	(3,514)	(2,058)
Net loans	181,715	151,769
Premises and equipment	1,790	1,779
Goodwill	8,571	7,647
Other intangible assets	2,834	3,043
Other assets	21,412	16,558
Total assets	\$265,912	\$237,615
<b>Liabilities and Shareholders' Equity</b>		
Deposits		
Noninterest-bearing	\$ 37,494	\$ 33,334
Interest-bearing	85,886	72,458
Time deposits greater than \$100,000	35,970	25,653
Total deposits	159,350	131,445
Short-term borrowings	33,983	32,370
Long-term debt	38,359	43,440
Other liabilities	7,920	9,314
Total liabilities	239,612	216,569
Shareholders' equity		
Preferred stock	7,931	1,000
Common stock, par value \$0.01 a share — authorized: 4,000,000,000 shares; issued: 2008 and 2007 — 1,972,643,007 shares	20	20
Capital surplus	5,830	5,749
Retained earnings	22,541	22,693
Less cost of common stock in treasury: 2008 — 217,610,679 shares; 2007 — 244,786,039 shares	(6,659)	(7,480)
Accumulated other comprehensive income (loss)	(3,363)	(936)
Total shareholders' equity	26,300	21,046
Total liabilities and shareholders' equity	\$265,912	\$237,615

See Notes to Consolidated Financial Statements.



## U.S. Bancorp

### Consolidated Statement of Shareholders' Equity

(Dollars and Shares in Millions)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<b>Balance December 31, 2005</b>	1,815	\$ -	\$20	\$5,907	\$19,001	\$(4,413)	\$ (429)	\$20,086
Change in accounting principle					4		(237)	(233)
Net income					4,751			4,751
Unrealized gain on securities available-for-sale							67	67
Unrealized gain on derivative hedges							35	35
Realized loss on derivatives							(199)	(199)
Foreign currency translation							(30)	(30)
Reclassification for realized losses							33	33
Change in retirement obligation							(18)	(18)
Income taxes							42	42
Total comprehensive income (loss)					(48)			(48)
Preferred stock dividends					(2,466)			(2,466)
Common stock dividends								948
Issuance of preferred stock		1,000		(52)				1,045
Issuance of common and treasury stock	40			(99)		1,144		(2,817)
Purchase of treasury stock	(90)					(2,817)		4
Stock option and restricted stock grants				4				
Shares reserved to meet deferred compensation obligations				2		(5)		(3)
<b>Balance December 31, 2006</b>	1,765	\$1,000	\$20	\$5,762	\$21,242	\$(6,091)	\$ (736)	\$21,197
Net income					4,324			4,324
Unrealized loss on securities available-for-sale							(482)	(482)
Unrealized loss on derivative hedges							(299)	(299)
Foreign currency translation							8	8
Reclassification for realized losses							96	96
Change in retirement obligation							352	352
Income taxes							125	125
Total comprehensive income (loss)					(60)			(60)
Preferred stock dividends					(2,813)			(2,813)
Common stock dividends								582
Issuance of common and treasury stock	21			(45)		627		(2,011)
Purchase of treasury stock	(58)					(2,011)		32
Stock option and restricted stock grants				32				
Shares reserved to meet deferred compensation obligations						(5)		(5)
<b>Balance December 31, 2007</b>	1,728	\$1,000	\$20	\$5,749	\$22,693	\$(7,480)	\$ (936)	\$21,046
Change in accounting principle					(4)		3	(1)
Net income					2,946			2,946
Unrealized loss on securities available-for-sale							(2,729)	(2,729)
Unrealized loss on derivative hedges							(722)	(722)
Realized loss on derivatives							(15)	(15)
Foreign currency translation							(117)	(117)
Reclassification for realized losses							1,020	1,020
Change in retirement obligation							(1,362)	(1,362)
Income taxes							1,495	1,495
Total comprehensive income (loss)								516
Preferred stock dividends and discount accretion		4			(123)			(119)
Common stock dividends					(2,971)			(2,971)
Issuance of preferred stock and related warrants		6,927		163				7,090
Issuance of common and treasury stock	29			(83)		917		834
Purchase of treasury stock	(2)					(91)		(91)
Stock option and restricted stock grants				1				1
Shares reserved to meet deferred compensation obligations						(5)		(5)
<b>Balance December 31, 2008</b>	1,755	\$7,931	\$20	\$5,830	\$22,541	\$(6,659)	\$ (3,363)	\$26,300

See Notes to Consolidated Financial Statements.

## U.S. Bancorp Consolidated Statement of Cash Flows

Year Ended December 31 (Dollars in Millions)	2008	2007	2006
<b>Operating Activities</b>			
Net income . . . . .	\$ 2,946	\$ 4,324	\$ 4,751
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses . . . . .	3,096	792	544
Depreciation and amortization of premises and equipment . . . . .	218	243	233
Amortization of intangibles . . . . .	355	376	355
Provision for deferred income taxes . . . . .	(1,045)	(97)	(3)
Gain on sales of securities and other assets, net . . . . .	(804)	(570)	(575)
Loans originated for sale in the secondary market, net of repayments . . . . .	(32,563)	(27,395)	(22,231)
Proceeds from sales of loans held for sale . . . . .	32,440	25,389	22,035
Other, net . . . . .	664	(158)	282
Net cash provided by operating activities . . . . .	5,307	2,904	5,391
<b>Investing Activities</b>			
Proceeds from sales of available-for-sale investment securities . . . . .	2,134	2,135	1,441
Proceeds from maturities of investment securities . . . . .	5,722	4,211	5,012
Purchases of investment securities . . . . .	(6,075)	(9,816)	(7,080)
Net increase in loans outstanding . . . . .	(14,776)	(8,015)	(5,003)
Proceeds from sales of loans . . . . .	123	421	616
Purchases of loans . . . . .	(3,577)	(2,599)	(2,922)
Acquisitions, net of cash acquired . . . . .	1,483	(111)	(600)
Other, net . . . . .	(1,353)	(1,367)	(281)
Net cash used in investing activities . . . . .	(16,319)	(15,141)	(8,817)
<b>Financing Activities</b>			
Net increase (decrease) in deposits . . . . .	13,139	6,255	(392)
Net increase (decrease) in short-term borrowings . . . . .	(891)	5,069	6,650
Proceeds from issuance of long-term debt . . . . .	8,534	22,395	14,255
Principal payments or redemption of long-term debt . . . . .	(16,546)	(16,836)	(13,120)
Proceeds from issuance of preferred stock . . . . .	7,090	—	948
Proceeds from issuance of common stock . . . . .	688	427	910
Repurchase of common stock . . . . .	—	(1,983)	(2,798)
Cash dividends paid on preferred stock . . . . .	(68)	(60)	(33)
Cash dividends paid on common stock . . . . .	(2,959)	(2,785)	(2,359)
Net cash provided by financing activities . . . . .	8,987	12,482	4,061
Change in cash and due from banks . . . . .	(2,025)	245	635
Cash and due from banks at beginning of year . . . . .	8,884	8,639	8,004
Cash and due from banks at end of year . . . . .	\$ 6,859	\$ 8,884	\$ 8,639
<b>Supplemental Cash Flow Disclosures</b>			
Cash paid for income taxes . . . . .	\$ 1,965	\$ 1,878	\$ 2,263
Cash paid for interest . . . . .	4,891	6,360	5,339
Net noncash transfers to foreclosed property . . . . .	307	180	145
Acquisitions			
Assets acquired . . . . .	\$ 19,474	\$ 635	\$ 1,603
Liabilities assumed . . . . .	(18,824)	(393)	(899)
Net . . . . .	\$ 650	\$ 242	\$ 704

See Notes to Consolidated Financial Statements.

annum equal to the greater of three-month LIBOR plus .60 percent, or 3.50 percent on the Series B Preferred Stock, and 7.875 percent per annum on the Series D Preferred Stock. Both series are redeemable at the Company's option, subject to the prior approval of the Federal Reserve Board, at a redemption price equal to \$25,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends, with the redemption option beginning April 15, 2011 for the Series B Preferred Stock and April 15, 2013 for the Series D Preferred Stock. In connection with the issuance of each series, the Company also entered into replacement capital covenants, which restrict the Company's rights to redeem or repurchase each series. Except in certain limited circumstances, neither series will have any voting rights.

On November 14, 2008, the Company issued 6.6 million shares of cumulative perpetual preferred stock to the United States Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008 (the "Series E Preferred Stock") for proceeds of \$6.6 billion. Dividends on the Series E Preferred Stock will accrue and be payable quarterly at a rate of 5 percent per annum for five years. The rate will increase to 9 percent per annum, thereafter, if shares of the Series E Preferred Stock are not redeemed by the Company. The Series E Preferred Stock may not be redeemed for a period of three years from the date of issuance, except with the proceeds received from the sale of Tier 1 capital qualifying perpetual preferred stock or common stock. After November 14, 2011, the Series E Preferred Stock may be redeemed, in whole or in part, at any time and from time to time, at the option of the Company. All redemptions of the Series E Preferred Stock shall be at 100 percent of the issue price, plus any accrued and unpaid dividends. The Series E Preferred Stock is non-voting, other than for class voting rights on any authorization or issuance of senior ranking shares, any amendment to its rights, or any merger, exchange or similar transaction which would adversely affect its rights.

For as long as the Series E Preferred Stock is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking equal to the Series E Preferred Stock, or common shares, nor may the Company repurchase or redeem any such shares, unless all accrued and unpaid dividends for all past dividend periods on the Series E Preferred Stock are fully paid. The consent of the United States Treasury is required for any increase in the quarterly dividends per share of the Company's common stock or for any share repurchases of junior preferred or common shares, until the shorter of the third anniversary date of the Series E Preferred Stock issuance or the date the Series E Preferred Stock is redeemed in whole. Participation in this program also subjects the Company to certain restrictions with respect to the compensation of certain executives.

In conjunction with the Series E Preferred Stock issuance, the United States Treasury received warrants entitling it to purchase 33 million shares of the Company's common stock at a price of \$30.29 per common share. The warrants were exercisable at issuance and expire on November 13, 2018. The Company allocated \$172 million of the proceeds from the Series E Preferred Stock issuance to the warrants. The resulting discount on the Series E Preferred Stock is being accreted over five years and reported as a reduction of income applicable to common equity over that period.

During 2008, 2007 and 2006, the Company repurchased shares of its common stock under various authorizations approved by its Board of Directors. As of December 31, 2008, the Company had approximately 20 million shares that may yet be purchased under the current Board of Director approved authorization, in connection with the administration of its employee benefit plans in the ordinary course of business solely to the extent permitted under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008.

The following table summarizes the Company's common stock repurchased in each of the last three years:

(Dollars and Shares in Millions)	Shares	Value
2008 .....	2	\$ 91
2007 .....	58	2,011
2006 .....	90	2,817

The following table provides the components of the Company's regulatory capital:

(Dollars in Millions)	December 31	
	2008	2007
<b>Tier 1 Capital</b>		
Common shareholders' equity . . . . .	\$ 18,369	\$ 20,046
Qualifying preferred stock . . . . .	7,931	1,000
Qualifying trust preferred securities . .	4,024	4,024
Minority interests . . . . .	693	695
Less intangible assets		
Goodwill . . . . .	(8,153)	(7,534)
Other disallowed intangible assets . . . . .	(1,479)	(1,421)
Other (a) . . . . .	3,041	729
Total Tier 1 Capital . . . . .	24,426	17,539
<b>Tier 2 Capital</b>		
Allowance for credit losses . . . . .	2,892	2,260
Eligible subordinated debt . . . . .	5,579	6,126
Other . . . . .	-	-
Total Tier 2 capital . . . . .	8,471	8,386
Total Risk Based Capital . . . . .	\$ 32,897	\$ 25,925
<b>Risk-Weighted Assets</b> . . . . .	\$230,627	\$212,592

(a) Includes the impact of items included in other comprehensive income (loss), such as unrealized gains (losses) on available-for-sale securities, accumulated net gains on cash flow hedges, pension liability adjustments, etc.

Minority interests principally represent preferred stock of consolidated subsidiaries. During 2006, the Company's primary banking subsidiary formed USB Realty Corp., a real estate investment trust, for the purpose of issuing

#### Note 16 EARNINGS PER SHARE

The components of earnings per share were:

(Dollars and Shares in Millions, Except Per Share Data)	2008	2007	2006
Net Income . . . . .	\$2,946	\$4,324	\$4,751
Preferred dividends . . . . .	(119)	(60)	(48)
Accretion of preferred stock discount . . . . .	(4)	-	-
Net income applicable to common equity . . . . .	\$2,823	\$4,264	\$4,703
Average common shares outstanding . . . . .	1,742	1,735	1,778
Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes . . . . .	15	23	26
Average diluted common shares outstanding . . . . .	1,757	1,758	1,804
Earnings per common share . . . . .	\$ 1.62	\$ 2.46	\$ 2.64
Diluted earnings per common share . . . . .	\$ 1.61	\$ 2.43	\$ 2.61

For the years ended December 31, 2008, 2007 and 2006, options and warrants to purchase 68 million, 13 million and 1 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive. Convertible senior debentures that could potentially be converted into shares of the Company's common stock pursuant to specified formulas, were not included in the computation of diluted earnings per share to the extent the conversions were antidilutive.

5,000 shares of Fixed-to-Floating Rate Exchangeable Non-cumulative Perpetual Series A Preferred Stock with a liquidation preference of \$100,000 per share ("Series A Preferred Securities") to third party investors, and investing the proceeds in certain assets, consisting predominately of mortgage-backed securities from the Company. Dividends on the Series A Preferred Securities, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum of 6.091 percent from December 22, 2006 to, but excluding, January 15, 2012. After January 15, 2012, the rate will be equal to three-month LIBOR for the related dividend period plus 1.147 percent. If USB Realty Corp. has not declared a dividend on the Series A Preferred Securities before the dividend payment date for any dividend period, such dividend shall not be cumulative and shall cease to accrue and be payable, and USB Realty Corp. will have no obligation to pay dividends accrued for such dividend period, whether or not dividends on the Series A Preferred Securities are declared for any future dividend period.

The Series A Preferred Securities will be redeemable, in whole or in part, at the option of USB Realty Corp. on the dividend payment date occurring in January 2012 and each fifth anniversary thereafter, or in whole but not in part, at the option of USB Realty Corp. on any dividend date before or after January 2012 that is not a five-year date. Any redemption will be subject to the approval of the Office of the Comptroller of the Currency.

#### NOTE 17 EMPLOYEE BENEFITS

**Employee Investment Plan** The Company has a defined contribution retirement savings plan which allows qualified employees to make contributions up to 75 percent of their annual compensation, subject to Internal Revenue Service limits, through salary deductions under Section 401(k) of the Internal Revenue Code. Employee contributions are invested,

(b) (4)



## EARNINGS PER SHARE

The components of earnings per share were:

	2008	
Net Income	\$	2,946
Dividends declared on non-TARP preferred stock		(77)
TARP dividend accrual		(42)
TARP discount accretion		(4)
Preferred dividends		(123)
Net income applicable to common equity	\$	2,823
Average common shares outstanding		1,742
Net effect of the exercise and assumed purchase of stock awards and conversion of outstanding convertible notes		15
Average diluted common shares outstanding		1,757
Earnings per common share	\$	1.62
Diluted earnings per common share	\$	1.61

issued 11/14  
 47 days  
 6,427 initial PS b.v.  
 5.6% effective rate  
 361 /yr charge to common earnings  
 12.9% 47/365  
 46

From: Corporate Treasury  
To: Corporate Accounting  
Re: Discount Rate to be used for the Capital Purchase Program  
Date: 11/26/08

Market data, as of November 3, 2008 for select perpetual preferred bonds including U.S. Bancorp (source – Morgan Stanley syndicate desk):

**Retail Perpetual Preferred Issuances  
(pricing as of November 3, 2008)**

Ticker	Coupon	Call Date	Rating	Bid Px	Ask Px	Bid YTW	Ask YTW
USB	7.875%	4/15/13	A1/A+	\$25.10	\$25.15	7.91%	7.89%
BAC	8.200%	5/1/13	A1/A	\$22.94	\$22.95	8.98%	8.97%
C	8.500%	6/15/13	A2/A	\$18.80	\$19.00	11.52%	11.40%
JPM	8.625%	9/1/13	A1/A	\$24.80	\$24.89	8.70%	8.67%

**Discount Note Summary**

Current U.S. Bancorp's mid-yield on perpetual preferred 7.90%

Adjustments to the market rate

- 1) Liquidity Adjustment
- 2) New Issue Premium
- 3) Cumulative Payment Adjustment
- 4) Seniority Adjustment
- 5) Dividend and Executive Compensation Restriction
- 6) Ability to Restructure Terms

(b) (4)

**At-market all-in Discount Rate for CPP**

**Explanation**

Because the terms of the CPP are different from any other security currently trading in the marketplace, adjustments must be made to the yield on U.S. Bancorp's perpetual preferred stock. The adjustments are as follows:

- 1) Liquidity Adjustment – Given the mid-market yield of 7.90% where the bond is currently pricing, it is apparent that it is well through were other bank's preferred stock are pricing. However, part of this can be explained in part because U.S.

(b) (4)

2)

- 3) Cumulative Payment Adjustment – U.S. Bancorp’s current preferred stock requires non-cumulative interest payments whereas the CPP is cumulative. This

(b) (4)

- 4) Seniority Adjustment – The CPP security ranks ahead of U.S. Bancorp’s current preferred stock in the seniority scale in connection with a bankruptcy of liquidation event.

(b) (4)

(b) (4)

- 5) Dividend and Executive Compensation Restriction – The CPP security has a clause in it that restricts the increase in dividend payment of U.S. Bancorp’s common dividend unless approval from U.S. Bancorp’s regulator is granted. Also, executive compensation is restricted in many areas.

(b) (4)

(b) (4)

- 6) Ability to Restructure Terms - The CPP security has a clause in it that allows for the U.S. Treasury to change terms of the transaction throughout the life of the security.

(b) (4)

(b) (4)



TREASURY MONTHLY INTERMEDIATION SNAPSHOT				
Name of Institution: U.S. Bancorp		Submission date: 1/30/09		
Person to be contacted regarding this report: Anthony D. Kelley		Comments:		
PART I. QUANTITATIVE OVERVIEW				
SCHEDULE A: CONSUMER LENDING (Millions \$)	DEC	NOV	DEC	Comments
a. First Mortgage	\$2,337	\$29,480	\$35,069	Residential Real Estate Loans held for sale and all 1-4 family secured by closed end first liens. Average balances include the acquisition of Downey and PFF. 90% of originations are held for sale.
b. Average Loan Balance (Daily Average Total Outstanding)	\$2,473	\$2,532	\$2,805	Includes both loans originated for the balance sheet as well as loans originated for sale.
c. Total Originations	\$1,358	\$990	\$1,360	Of the originations during the month, the amount that was for the refinancing of current mortgage.
(1) Refinancings	\$1,745	\$1,543	\$1,618	Of the originations during the month, the amount that was for new home purchases.
(2) New Home Purchases				
2. Home Equity				
a. Average Total Loan Balance	\$3,527	\$3,640	\$3,105	Home equity includes all 1-4 family open end revolving and closed end junior liens.
b. Originations (New Lines+Line Increases)	\$176	\$418	\$418	Originations include the loan amount for closed end junior liens and the line amount for open end revolving.
c. Total Used and Unused Commitments	\$4,125	\$4,769	\$4,438	Ending balance for Total Used and Ending unfunded for Unused Commitments.
3. US Card - Managed				
a. Average Total Loan Balance - Managed	\$7,674	\$12,849	\$13,998	Credit card includes consumer credit cards only.
b. New Account Originations (Initial Line Amt)	\$542	\$829	\$1,115	Originations include initial line amounts for new cards but not line increases for existing customers.
c. Total Used and Unused Commitments	\$4,674	\$70,105	\$71,118	Ending balance for Total Used and Ending unfunded for Unused Commitments.
4. Other Consumer				
a. Average Total Loan Balance	\$2,375	\$28,439	\$29,671	Other consumer includes consumer installment loans, other revolving (i.e. overdraft lines and unsecured lines of credit), consumer leases, student loans, and consumer loans secured by securities.
b. Originations	\$93	\$769	\$1,000	Originations during the month of the above mentioned products.

SCHEDULE B: COMMERCIAL LENDING (Millions \$)		QCT			NDV			DEC			KQ			Comments		
1. C&I		QCT			NDV			DEC			KQ			Comments		
a. Average Total Loan and Lease Balance		\$52,997	\$54,057	\$54,873	\$54,057	\$54,057	\$54,873	\$54,057	\$54,057	\$54,873	\$54,057	\$54,057	\$54,873	\$54,057	\$54,057	Many borrowers are increasing line usage to offset reductions in operating cash flow. Demand to finance expansion or growth initiatives is weak.
b. Renewal of Existing Accounts		\$3,822	\$3,050	\$4,803	\$3,050	\$3,050	\$4,803	\$3,050	\$3,050	\$4,803	\$3,050	\$3,050	\$4,803	\$3,050	\$3,050	Commercial loans include loans to depository institutions, agricultural loans to others than farmers, commercial and industrial loans, leases, loans to finance RE not secured by RE, and all other loans (i.e. State and Political and tax exempt). Renewal of existing accounts represents the commitment balance.
c. New Commitments		\$2,791	\$2,087	\$4,222	\$2,087	\$2,087	\$4,222	\$2,087	\$2,087	\$4,222	\$2,087	\$2,087	\$4,222	\$2,087	\$2,087	New commitments issued during the month for either new or existing customers
2. Commercial Real Estate		\$35,181	\$35,649	\$36,300	\$35,649	\$35,649	\$36,300	\$35,649	\$35,649	\$36,300	\$35,649	\$35,649	\$36,300	\$35,649	\$35,649	Commercial RE loans include construction loans, land development loans, secured by farmland, secured by multifamily, and other commercial RE loans. Renewal of existing accounts represents the commitment balance.
a. Average Total Loan and Lease Balance		\$35,181	\$35,649	\$36,300	\$35,649	\$35,649	\$36,300	\$35,649	\$35,649	\$36,300	\$35,649	\$35,649	\$36,300	\$35,649	\$35,649	Increased activity due to the lack of a CMBS market for short term bridge financing to complete projects. New loan demand on construction lending is down due to current market conditions and the decrease in construction activity.
b. Renewal of Existing Accounts		\$558	\$991	\$1,706	\$991	\$991	\$1,706	\$991	\$991	\$1,706	\$991	\$991	\$1,706	\$991	\$991	Renewal of existing accounts represents the commitment balance.
c. New Commitments		\$669	\$568	\$693	\$568	\$568	\$693	\$568	\$568	\$693	\$568	\$568	\$693	\$568	\$568	New commitments issued during the month for either new or existing customers
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions \$)																
1. MBS/ABS Net Purchases Volume																
a. Mortgage Backed Securities		\$1	\$1	\$0	\$1	\$1	\$0	\$1	\$1	\$0	\$1	\$1	\$0	\$1	\$1	MBS/ABS includes net securities acquired during the quarter. Activity in the fourth quarter was all MBS.
b. Asset Backed Securities		\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
2. Secured Lending (Repo, PP, Margin Lending)																
a. Average Total Matched Book (Repo/Reverse Repo)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Not applicable
b. Average Total Debit Balances		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
3. Underwriting																
a. Total Equity Underwriting		\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Not applicable
b. Total Debt Underwriting		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	

Notes:  
1. Applicable only for institutions offering prime brokerage or other margin lending services to clients.  
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

## TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: U.S. Bancorp

Reporting month(s): Oct-Nov-Dec 2008

Submission date: 1/30/09

Person to be contacted regarding this report: Anthony D. Kelley

### **PART II. QUALITATIVE OVERVIEW**

*Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.*

*Company Description:* Minneapolis-based U.S. Bancorp ("USB"), with \$266 billion in assets, is the parent company of U.S. Bank. The Company operates 2,791 banking offices and 4,897 ATMs in 24 states, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions.

*Total Average Loans and Leases:* In the fourth quarter of 2008, U.S. Bancorp's average loans and leases increased 6.4 percent (3.1 percent excluding acquisitions, 12.4 percent annualized) over the third quarter of 2008. Total commercial loans grew 4.3 percent, driven primarily by new account originations and the utilization of credit lines. Total commercial real estate grew 2.9 percent. Consumer Loans increased 3.6 percent as credit card balances and home equity and second mortgages increased during the quarter.

*C&I:* Loan demand related to business investment and growth initiatives (e.g. expansion capex and/or acquisitions) is weak, but many customers have increased borrowing in order to offset reduced operating cash flow and/or to finance operating activities that would have normally been executed in the public markets or the private non-bank markets. Generally, the Bank's underwriting standards have not changed, however, new transactions are being underwritten with financing structures and leverage levels that consider risks that reflect the current state of market conditions. We are benefiting from a flight-to-quality, as we continue to see new lending opportunities and actively work with existing customers on new money requests, extensions, amendments and waivers.

Demand for Small Business credit is still relatively strong, evidenced by new application volume. This application volume reflects the flight-to-quality effect to banks with liquidity and strong capital levels. Approval rates are generally lower than prior year, due to weakening performance of borrowers in higher risk segments (e.g., contractors). Common metrics of origination quality, such as booked credit scores and proportion of high risk industries, are similar or better than they were a year ago.

*CRE:* Overall new loan demand for commercial real estate is down due to the lack of new construction activity and the condition of the real estate markets. Our investor and developer portfolio has historically focused on construction lending, so new deal requests have decreased, but bridge or short term financing is experiencing demand. The lack of a permanent or CMBS market has brought many clients to the Bank to seek short term financing of completed projects. In general, our underwriting standards tightened somewhat to reflect the uncertainties in the market.

## TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: U.S. Bancorp

Reporting month(s): Oct-Nov-Dec 2008

Submission date: 1/30/09

Person to be contacted regarding this report: Anthony D. Kelley

*First Mortgage:* Overall demand for residential mortgages continues to remain high. With the current turmoil in the industry, U.S. Bank continues to experience strong levels of mortgage applications driven by customer concern regarding with whom they conduct business and the Bank's ability to fund qualifying customers. Over ninety percent of the originations are approved under government agency programs and are underwritten based on standards for approval under those programs. For mortgage loans retained in the Bank's portfolio, loan-to-value standards have changed to reflect the current real estate market conditions and continued decline in home prices, however, several program enhancements were implemented in an effort to offer credit to more qualified customers based on regional market conditions.

*Credit Card:* Overall demand for credit card balances remains strong. The Bank's portfolio is primarily a prime portfolio and lending criteria for new accounts has remained consistent with that standard. Payment rates (payments/balances) have decreased, revolve rates (percent of accounts revolving) have increased, and average balances have increased. This is partially offset by a reduction in the average transaction volume per account which is a reflection of the slowing economy and lower consumer spending. During the fourth quarter of 2008, the Bank experienced seasonally higher application volume and origination of new accounts.

*Consumer Loans:* Overall demand for new loans remains high in the consumer loan portfolio as competitors continue to exit some of these lending programs. Specifically, within the auto loan and lease portfolio, demand remains strong as other lenders have either reduced their programs or eliminated them entirely. Over the last twelve months, changes in underwriting standards have been made to respond to the changing market conditions for new and used auto values and changing residual values for auto leases. Also, demand for revolving credit and student loans remains strong, while home equity demand has declined.

October 31, 2008

To Whom It May Concern:

U.S. Bancorp (the "Company") has determined that I am a Senior Executive Officer ("SEO") of the Company, as defined in the regulations under the Troubled Assets Relief Program Capital Purchase Program ("TARP CPP"). I understand that the Board of Directors of the Company (the "Board") has authorized the Company to participate in the TARP CPP with the United States Department of the Treasury (the "Treasury") under the authority granted by the Emergency Economic Stabilization Act of 2008. I further understand that, in connection with the Company's participation in the TARP CPP, the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) of the Company (collectively, "Benefit Plans") have been amended in order for such Benefit Plans to be in compliance with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008 (the "CPP Regulation"), during the period that the Treasury or its designee owns any debt or equity securities of the Company acquired pursuant to the securities purchase agreement between the Company and the Treasury, (the "Securities Purchase Agreement").

To the extent that Benefit Plans have been or will be amended to comply with the CPP Regulation, I hereby consent to any and all such amendments, as required by the Securities Purchase Agreement. If the making of any payment or provision of any benefit under any Benefit Plan would be in violation of the CPP Regulation, or if the making of such payment or provision of such benefit may in the judgment of the Company limit or adversely impact the ability of the Company to participate in, or the terms of the Company's participation in, the TARP CPP, I hereby waive my right to such payment or such benefit under such Benefit Plan. Pursuant to the Securities Purchase Agreement, I have executed a written waiver in the form attached to the Securities Purchase Agreement, on or prior to the closing date of the Securities Purchase Agreement.

Respectfully,

By: 

Name: Richard K. Davis


Title: Chairman, President and CEO

**FORM OF WAIVER**

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

By:   
Name: Richard K. Davis  
Title: Chairman, President and CEO

October 31, 2008

To Whom It May Concern:

U.S. Bancorp (the "Company") has determined that I am a Senior Executive Officer ("SEO") of the Company, as defined in the regulations under the Troubled Assets Relief Program Capital Purchase Program ("TARP CPP"). I understand that the Board of Directors of the Company (the "Board") has authorized the Company to participate in the TARP CPP with the United States Department of the Treasury (the "Treasury") under the authority granted by the Emergency Economic Stabilization Act of 2008. I further understand that, in connection with the Company's participation in the TARP CPP, the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) of the Company (collectively, "Benefit Plans") have been amended in order for such Benefit Plans to be in compliance with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008 (the "CPP Regulation"), during the period that the Treasury or its designee owns any debt or equity securities of the Company acquired pursuant to the securities purchase agreement between the Company and the Treasury, (the "Securities Purchase Agreement").

To the extent that Benefit Plans have been or will be amended to comply with the CPP Regulation, I hereby consent to any and all such amendments, as required by the Securities Purchase Agreement. If the making of any payment or provision of any benefit under any Benefit Plan would be in violation of the CPP Regulation, or if the making of such payment or provision of such benefit may in the judgment of the Company limit or adversely impact the ability of the Company to participate in, or the terms of the Company's participation in, the TARP CPP, I hereby waive my right to such payment or such benefit under such Benefit Plan. Pursuant to the Securities Purchase Agreement, I have executed a written waiver in the form attached to the Securities Purchase Agreement, on or prior to the closing date of the Securities Purchase Agreement.

Respectfully,

By:   
Name:  
Title:

**FORM OF WAIVER**

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

By:  \_\_\_\_\_

Name:

Title:



October 31, 2008

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Respectfully,

By: William L. Chenevich  
William L. Chenevich  
Vice Chairman, Technology & Operations

**FORM OF WAIVER**

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By: William L. Chenevich  
William L. Chenevich  
Vice Chairman, Technology & Operations

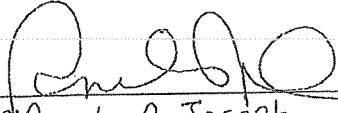
October 20, 2008

To Whom It May Concern:

U.S. Bancorp (the "Company") has determined that I am a Senior Executive Officer ("SEO") of the Company, as defined in the regulations under the Troubled Assets Relief Program Capital Purchase Program ("TARP CPP"). I understand that the Board of Directors of the Company (the "Board") has authorized the Company to participate in the TARP CPP with the United States Department of the Treasury (the "Treasury") under the authority granted by the Emergency Economic Stabilization Act of 2008. I further understand that, in connection with the Company's participation in the TARP CPP, the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) of the Company (collectively, "Benefit Plans") have been amended in order for such Benefit Plans to be in compliance with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008 (the "CPP Regulation"), during the period that the Treasury or its designee owns any debt or equity securities of the Company acquired pursuant to the securities purchase agreement between the Company and the Treasury, (the "Securities Purchase Agreement").

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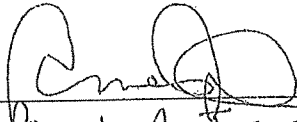
By:   
Name: Pamela A. Joseph  
Title: Vice Chairman

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

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By:   
Name: Kamela A. Joseph  
Title: Vice Chairman

October 30, 2008

To Whom It May Concern:

U.S. Bancorp (the "Company") has determined that I am a Senior Executive Officer ("SEO") of the Company, as defined in the regulations under the Troubled Assets Relief Program Capital Purchase Program ("TARP CPP"). I understand that the Board of Directors of the Company (the "Board") has authorized the Company to participate in the TARP CPP with the United States Department of the Treasury (the "Treasury") under the authority granted by the Emergency Economic Stabilization Act of 2008. I further understand that, in connection with the Company's participation in the TARP CPP, the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) of the Company (collectively, "Benefit Plans") have been amended in order for such Benefit Plans to be in compliance with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008 (the "CPP Regulation"), during the period that the Treasury or its designee owns any debt or equity securities of the Company acquired pursuant to the securities purchase agreement between the Company and the Treasury, (the "Securities Purchase Agreement").

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Respectfully,

By: 

Name: Lee R. Mitau

Title: Executive Vice President and General Counsel

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

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By: 

Name: Lee R. Mitau

Title: Executive Vice President and General  
Counsel

February 12, 2008

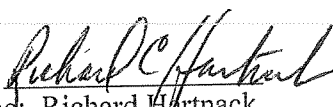
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Respectfully,

---


By:   
Name: Richard Hartnack  
Title: Vice Chairman

**FORM OF WAIVER**

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

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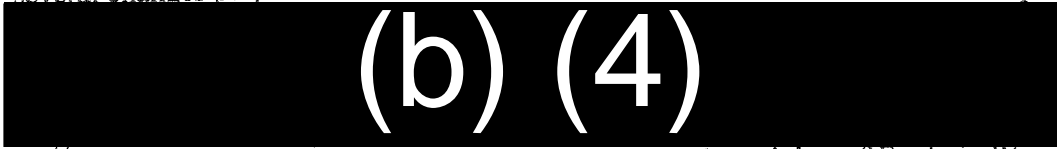
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By:   
Name: Richard Hartnack  
Vice Chairman



**Minutes of December 3, 2008 Risk Committee Meeting**

**Excerpt**  
**TARP Program Compensation Arrangement Review**

- Jennie Carlson joined the meeting, and reviewed provisions of the Emergency Economic Stabilization Act of 2008 (EESA) relevant to incentive compensation programs for senior executive officers (“Officers”) of the Company.
- The Committee then reviewed materials prepared internally, and by a qualified third party compensation expert, related to the Company’s compensation of these Officers, including the overall philosophy, specific compensation arrangements and incentives, past practices and behaviors, relevant peer group data, and, finally, several changes proposed for 2009 to further help to mitigate risk.
- 
- Based on the information provided, and in reliance on the opinion of Frederic W. Cook & Co., Inc., the Committee agreed that the Company’s compensation programs do not encourage excessive risk taking by these Officers.
- In accordance with the provisions of EESA, relevant Committee members would be available to discuss these findings with the Compensation Committee of the Board of Directors at the upcoming December, 2008 Committee meeting.

**To:** The Compensation Committee of the Board of Directors of U.S. Bancorp

**From:** Andrew Cecere, Vice Chairman and Chief Financial Officer, Richard J. Hidy, Executive Vice President and Chief Risk Officer, and Bill Parker, Executive Vice President and Chief Credit Officer

**Date:** December 8, 2008

**Re:** The Emergency Economic Stabilization Act of 2008 (EESA) and its prohibition on providing incentive compensation that involves excessive risk taking to the five senior executive officers of institutions that participate in the Capital Purchase Program (CPP) of EESA.

As a result of the participation in the EESA program by U.S. Bancorp, the Compensation Committee is required to take three steps with respect to the EESA prohibition on providing incentive compensation that involves excessive risk taking.

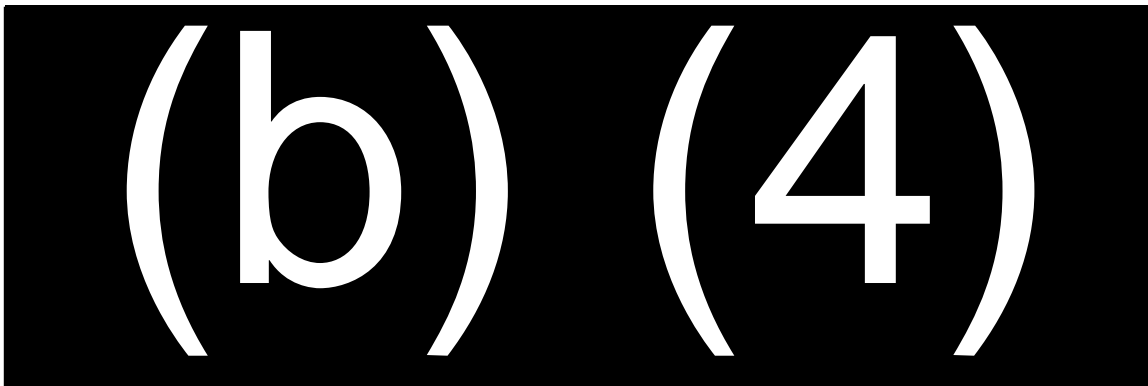
First, the Committee must review the compensation arrangements of the five senior executive officers (the SEO's) with the senior risk officers of U.S. Bank. The review is to evaluate and ensure that the arrangements do not encourage SEO's to take unnecessary or excessive risks that threaten the value of U.S. Bancorp.

Next, after the initial review, the Committee must meet annually with the chief risk officers to discuss and review the relationship between U.S. Bancorp's risk management policies and practices and SEO incentive compensation arrangements.

Finally, the Committee must certify that it has completed these reviews and has made reasonable efforts to ensure that SEO incentive compensation arrangements are appropriately designed to avoid unnecessary and excessive risk taking. This certification will be included in the Compensation Discussion and Analysis (CD&A) of the annual U.S. Bancorp proxy statement.

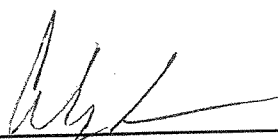
**Based on the information supplied to us about incentive practices at U.S. Bancorp for the SEO's, and on the past behavior of the SEO's who were paid consistent with these two incentive plans, we believe that the programs encourage appropriate behavior and do not encourage excessive risk taking by the U.S. Bancorp SEO's.**

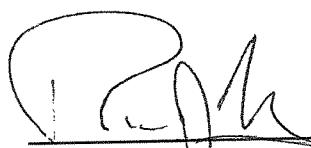
**(b) (4)**




U.S. Bancorp faces unique risks, including market risk, credit risk, and operational risks. Some level of risk taking is an inherent part of U.S. Bancorp's business and it would be detrimental to us to avoid all risk taking. Management in general is responsible for evaluating and determining reasonable levels of risk in various areas. In addition to incentive compensation practices, U.S. Bancorp has a number of mitigating controls in place to manage risk across the enterprise, including board and managing committee approvals and business line risk management protocols.

As senior risk managers of U.S. Bancorp, we reviewed the incentive compensation arrangements of the CEO's and actual past behavior of the CEO's who were paid consistent with these arrangements with Jennie Carlson, Executive Vice President and Director of Human Resources, including proposed changes for 2008 and 2009, and relied on her representations. We also used and relied on a presentation prepared by representatives of Frederic W. Cook, detailing the current state of executive management compensation at U.S. Bancorp as of the end of 2007.

  
\_\_\_\_\_  
Andrew Cecere  
Vice Chairman and Chief Financial Officer

  
\_\_\_\_\_  
Richard J. Hidy  
Executive Vice President and Chief  
Risk Officer

  
\_\_\_\_\_  
P.W. Bill Parker  
Executive Vice President and Chief  
Credit Officer

cc: Richard K. Davis, Chairman, Chief Executive Officer and President  
Jennie Carlson, Executive Vice President and Director of Human Resources

## Minutes

### Meeting of the U.S. Bancorp Compensation Committee

November 4, 2008, at 2:30 p.m. central time

(Excerpt)

The Committee next discussed the compensation restrictions of the Emergency Economic Stabilization Act (Exhibit 4). Four primary restrictions are included. Tax deductible compensation for the top five executives is limited to \$500,000 annually. (b) (4)

(b) (4)

(b) (4) The Committee discussed the need to review the compensation programs with the chief risk officers of the Company to evaluate if such programs encourage excessive and unnecessary risk taking, and, if so, to revise them. The Committee must then certify its evaluation in the Compensation Discussion and Analysis (CD&A) of the proxy statement. The Committee discussed the enhanced claw back provisions of the restrictions, which apply to incentive compensation in the event it is based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria. The Committee discussed the limitations on golden parachutes, and concluded that for 2007, and as reported in the proxy statement, all of the top five executives fit within the safe harbor and would not have been subject to a golden parachute reduction in the event of a trigger of the agreements.

The Committee discussed the fact that the top five executives have signed letters and waivers in order to revise the compensation plans, if necessary, to comply with the executive compensation restrictions.

## Minutes

### Meeting of the U.S. Bancorp Compensation Committee

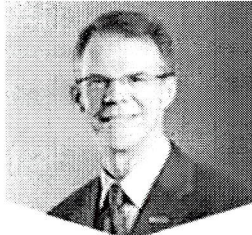
December 8, 2007 at 4:00 p.m. central time

(Excerpt)

Rich Hidy and Bill Parker joined the meeting and discussed with the Committee their review of the presentation on current status of compensation prepared for 2007 by the representatives of Frederic W. Cook, their meetings with Ms. Carlson and with Mr. Davis, Mr. Cecere and Ms. Carlson to discuss current incentive compensation plans, past behavior of executives under those plans, and changes being considered for 2009. They gave the Committee their view of the incentive plans as free of encouraging excessive risk (Exhibit 5). The representatives from Frederic W. Cook also advised the Committee that in their view the U.S. Bancorp incentive plans do not encourage excessive risk.



## USB Today ASK OUR CEO



Richard Davis,  
Chairman, president  
and CEO

**I understand that U.S. Bank is taking advantage of the U.S. Treasury Department Capital Purchase Program (TARP), why are we participating?**

Over the past month, I have received hundreds of questions from employees asking about the current economic environment and the impact that it is having on our Company, and the banking industry as a whole. We released our third quarter results on Oct. 21. Although our earnings were lower than the previous year because of higher credit costs and a number of losses related to current market conditions, our core operating earnings were strong. Year-to-date, our company's overall financial performance as measured by return on average assets, return on average common equity and efficiency, was the *best* among our peer banks. Our capital position is solid. Our Tier 1 capital ratio of 8.5 percent exceeds the well-capitalized ratio of 6.0 percent defined by the regulators. I begin my answer to the question with this information, because I want to assure you that the decision to participate in the U.S. Treasury's Capital Purchase Program was not made because we had to participate. The decision was made because it made sense financially for our Company and our shareholders. While we were debating the merits of the plan, all of our peer banks announced their participation in the program, and we were the last large bank to announce participation.

The bottom line is, at the initial rate of 5 percent, the government is offering capital at very attractive financial terms. In other words, we could not borrow money, or raise capital, this inexpensively from any other source during the next three years. With the additional capital we can enhance our ability to increase lending activity and invest in growth opportunities. It also puts us back "in the lead" as compared with our peer banks, all of which had announced their participation in the program prior to our decision. That is important to us, as a number of those peer banks compete directly with us for customers and/or business expansion opportunities. As a company, we use capital to grow, we recognize that it is a prudent financial decision to participate in this program, and we strongly believe it is in the best interests of our shareholders, customers and communities.

As we announced on Nov. 3, we have received preliminary approval for the sale of \$6.6 billion of preferred stock and related warrants to the U.S. Treasury. In return, we agree that we cannot

increase our dividends or repurchase stock for three years without consent from the Treasury. It is important to remember, however, that we currently pay a dividend of \$1.70 per share, and we are one of only four banks in our peer group (of 13) which raised our dividend during the past twelve months. The remaining banks in our peer group have reduced their dividends between 30 percent and 95 percent. Our strong dividend will be a "point of strength" during these coming years.

We continue to fare very well, despite the challenges we face as an industry, because of the dedication and commitment of our employees. I know that with your commitment and our Company's ability to continue to take advantage of growth opportunities, the future really is brighter with U.S. Bank.

[▶ BACK TO TOP](#)



## USB*Today* ASK OUR CEO



Richard Davis,  
Chairman, president  
and CEO

### **How has U.S. Bank used the TARP funds? Are we planning to be transparent and accountable about our use of funds?**

We announced our decision to participate in the Treasury's Capital Purchase Program (TARP) in early November and issued the preferred stocks and warrants in mid-November, 2008. At this date we have not utilized this additional capital. If necessary, we may choose to use it in the future in order to expand our already growing commercial and consumer lending practices. The TARP program presented us with a low cost source of capital and you may recall that we were the last large bank to accept the TARP funds offer. This was really because it was not essential from a capitalization perspective for U.S. Bank to obtain additional capital...but from a competitive position it made sense to pursue.

In terms of accountability, we are very prudent in terms of use of any of our capital, and this would of course apply to any use of the TARP funds. We will also fulfill any reporting requirements on the use of TARP funding, however it is yet to be determined by the government as to how that information will be disclosed.

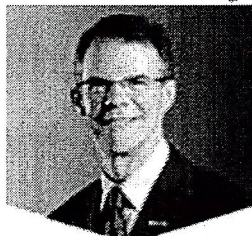
As many of you have heard me say before, the current economic situation is unprecedented. As a result, conditions are changing at a rapid pace and I appreciate your patience as we continue to make the most fiscally responsible decisions we can for you, our shareholders and customers.

[▶ BACK TO TOP](#)





## USB*Today* ASK OUR CEO



Richard Davis,  
Chairman, president  
and CEO

### What is happening with U.S. Bank and the TARP program?

In my tenure at the bank, there are very few issues that have generated more questions from employees, and frankly media and taxpayer interest, than the TARP program. As many of you have heard me say before, the current economic situation is unprecedented. As result, conditions are changing at a rapid pace, and the stock market remains volatile. I appreciate your patience as we continue to make the most fiscally responsible decisions we can for you, our shareholders and customers. Just last week the Treasury Department made changes to the TARP program and we are still assessing those implications internally and also with members of the Treasury and Office of Comptroller of the Currency (OCC). Therefore it's simply too soon to provide detailed answers to the questions we are receiving regarding the TARP program.

We announced our decision to participate in the Treasury's Capital Purchase Program (TARP) in early November and issued the preferred stocks and warrants in mid-November, 2008. Because participating in the program increased our Tier 1 capital ratio, the \$6.6 billion of new capital that we received immediately increased our Company's overall capacity to lend to both new and existing customers, and otherwise invest in our franchise. We reported growth in average loans in the fourth quarter of 2008 of 14.7% (12.7% excluding acquisitions) and 6.4% (3.1% excluding acquisitions) on a year-over-year and linked quarter basis, respectively. In fact, we originated over \$16 billion in new loans to businesses and consumers during the fourth quarter. Given the financial strength of our Company, this fourth quarter lending activity could have been supported without the additional TARP capital, but the new capital will allow us to continue to increase the flow of credit to qualified borrowers and invest in growth opportunities going forward. We have fulfilled all reporting requirements on the use of TARP funding to-date. Lastly, announcements were made in the last week regarding "stress tests" for banks who are participating in the program. While we do not have the full details, we are confident that any assessment of our capital and financial strength will validate that we are among the very strongest financial institutions in the US.

As more information becomes available about our participation in the TARP program, we will share that with employees. Know that



this management team and our Board of Directors will thoughtfully evaluate the TARP program as it evolves over time and make decisions that are right for our Company. Thanks for your interest and patience and once again I ask you to remain focused on customers and their needs. We continue to see the flight to quality and growth in both our lending and deposit activities. This is what will help us and our nation move through this economic cycle.

[▶ BACK TO TOP](#)

# TARP Program Analysis

October 30, 2008



## Table of Contents

- |  |              |
|--|--------------|
| ▪ TARP – Capital Purchase Program (“CPP”)      | Page 3 – 16  |
| ▪ TARP – Transaction Account Guarantee Program | Page 17 - 19 |
| ▪ TARP – Debt Guarantee Program                | Page 20 - 23 |

# TARP - CPP Program Overview

- ✓ **Treasury will purchase up to \$250bn of senior preferred shares of participating financial institutions**
  - Size:
    - Minimum: 1% of risk-weighted assets
    - Maximum: lesser of \$25bn or 3% of risk-weighted assets. For USB, this is \$6.6bn
  - Preferred Shares:
    - Tier-1 qualifying perpetual senior preferred stock
    - Dividend: cumulative 5% per annum for 5 years, 9% thereafter (paid quarterly)
    - Redemption: Callable at par after 3 years or sooner with the proceeds from a Tier 1 qualifying perpetual preferred stock or common stock issuance
    - Voting rights: Generally none; no board seats as long as dividend payments are made
    - Dividends: Treasury consent required for any increase in common equity dividends prior to the third anniversary of investment
    - Share Repurchases: Treasury consent required for any share repurchases until third anniversary
    - SEC Registration: Required for the preferred stock and other securities issued or issuable to the Treasury. Anticipated that USB can use current shelf registration statement
    - Deadline for institutions to elect participation is November 14, 2008



3

# TARP - CPP Program Overview

- ✓ **In conjunction with the preferred stock issuance, participating institutions will also issue common stock warrants to the Treasury**
  - Treasury will receive warrants to purchase a number of common shares having an aggregate market value equal to 15% of the preferred stock on date of investment
  - Initial exercise price of warrants is market price for common stock, calculated based on 20-trading day trailing average price
  - Warrants have a term of 10 years and are immediately exercisable
  - If USB were to participate at the maximum, would be \$990 million in face value (at an approximate \$31 share price), or warrants to purchase 1.8% of our outstanding shares
- ✓ **Rating agencies view participation in program favorably**
  - S&P believes that TARP should “improve confidence in the financial system” and will provide “intermediate-strong” equity content, allowing 100% equity credit up to a limit of 33% of the participating institution’s Adjusted Common Equity
  - Fitch and Moody’s have indicated that they will provide 100% and 25% equity credit, respectively



4



# TARP - CPP Program Overview

- ✓ **Financial institutions participating in the TARP must comply with certain compensation standards while the preferred shares and warrants are outstanding**
  - These standards apply to the CEO, CFO and three next highest paid executive officers, determined generally by the proxy disclosure rules
  - Participating financial institutions must alter existing compensation arrangements to the extent necessary to comply
    - Our initial review leads us to believe we will not have significant revisions.
    - Participating financial institutions and relevant executive officers must give the Treasury and the company a waiver of any claims arising from required modifications to benefit arrangements.
  - Ban on golden parachutes
    - Severance benefits are limited to 2.99 times the executive's 5-year average compensation (incl. option vesting) in the event of involuntary termination (does not include vested amounts)
    - Only applies where there is a change of control of the company and the executive's employment is terminated.
    - May not actually limit payments, depending on whether the executive has exercised options during the prior five years.

# TARP - CPP Program Overview

- ✓ **Additional compensation standards and limitations**
  - Compensation clawback
    - Bonuses and incentive compensation may be recouped if payments were made based on materially inaccurate financial statements or other performance metric criteria
  - Limited deductible compensation
    - For these executives, no tax deduction for compensation above \$500,000 (currently \$1,000,000) for any year during the holding period of the preferred shares
    - No exception for "performance-based" compensation (e.g. option gains are included); currently deductible
  - No unnecessary and excessive risk
    - Within 90 days after the purchase, Compensation Committee must review the executives' compensation arrangements with senior risk officers to ensure that the arrangements do not encourage unnecessary and excessive risk taking (and if so, to limit its provisions)
    - Annually, the Committee must discuss and review relationships between risk management policies and incentive compensation arrangements with senior risk officers
    - The committee must provide certifications of these reviews in the proxy statement

# TARP – CPP Considerations

- ✓ Given the need to exhibit robust health / capital strength in an uncertain market environment, U.S. Bancorp should consider taking advantage of the TARP

Merits
➤ Below market cost Tier 1 capital with limited restrictions
➤ Helps solidify USB's ability to participate as a leading consolidator in the next 12 months
➤ No market execution risk
➤ 3 year commitment; shorter if USB issues perpetual preferred or common to repay
➤ Adds to capital at a time when some financial institutions are deemed to need more capital to remain viable

Considerations
➤ (b) (4)
➤ Treasury consent required for increasing common dividends and repurchasing shares during first 3 years (next page)
➤ Executive compensation features are broadly defined but untested
➤ Uncertainty remains around additional regulatory oversight
➤ (b) (4)



7

# Peer Bank Dividend Metrics

Peer Banks	2008 Payout Ratio	2009 Payout Ratio	Dividend Yield	Dividend Growth	2009 Payout Ratio Prior to Dividend Cut	Date of Last Change
KeyCorp	na	88%	7.4%	-50.0%	176%	6/12/08
U.S. Bancorp	84%	76%	5.8%	6.2%	76%	12/11/07
BB&T	70%	72%	5.8%	2.2%	72%	6/24/08
SunTrust	63%	67%	6.2%	-29.9%	95%	10/27/08
Wells Fargo	66%	64%	4.4%	9.7%	64%	7/16/08
Comerica	78%	61%	5.4%	-50.0%	122%	9/18/08
FifthThird	128%	60%	7.4%	-65.9%	176%	6/18/08
PNC Financial	60%	54%	4.5%	4.8%	54%	4/4/08
Bank of America	82%	50%	6.1%	-50.0%	99%	10/6/08
Regions	31%	29%	4.5%	-73.7%	112%	7/22/08
Wachovia	na	14%	3.4%	-86.7%	104%	7/22/08
National City	na	na	1.9%	-95.2%	na	4/21/08
Median	70%	61%	5.6%	-50.0%	99%	
Mean	74%	58%	5.2%	-39.9%	105%	

Source: FactSet as of 10/24/08  
 Payout ratio = (current dividend \* 4) / (EPS estimate)



8



# TARP – CPP Participants

- ✓ The following banks have announced their participation in the program (as of October 28, 2008):

U.S. Treasury Capital Purchase Program		
Original Eight	Utilization (\$MM)	as % of Capacity
Citigroup	\$25,000	68%
JPMorgan Chase	\$25,000	77%
Bank of America / Merrill Lynch	\$25,000	68%
Wells Fargo / Wachovia	\$25,000	73%
Goldman Sachs	\$10,000	NA
Morgan Stanley	\$10,000	NA
Bank of New York Mellon	\$3,000	82%
State Street	\$2,000	100%
	<b>\$125,000</b>	<b>72%</b>
Peer Banks		
PNC Financial / National City	\$7,700	100%
SunTrust	\$3,500	70%
Regions Financial	\$3,500	100%
Fifth Third	\$3,450	100%
BB&T	\$3,100	100%
KeyCorp	\$2,500	75%
Comerica	\$2,250	100%
	<b>\$26,000</b>	<b>91%</b>

US

# TARP – CPP Program Value Estimate

- ✓ The value of the TARP program relates to the ability to issue capital below current market rates:

	TARP - Government Preferred	Warren Buffett Investment*
Preferred Coupon	5% with Step-up	10%
Market Rate	~10%	~10%
Call Protection	Non Call 3 (or sooner)	Non Call 5
Call Price	100%	110%
Warrant Coverage	15%	100%
Strike Price	Market	Below Market
Cost of Preferred	81.5%	100% - 105%
Cost of Warrant	3.5%	30% - 35%
Total Cost	85%	130% - 140%
(Value Lost) / Subsidy vs. Market	15%	(30% - 40%)
TARP vs. Buffet Investment	45%-55%	

\*estimates are based on UBS TARP analysis, dated October 14 and October 27, 2008

US

# TARP – CPP Capital Utilization

✓ The TARP capital could be used for:

(b) (4)

US

(b) (4)

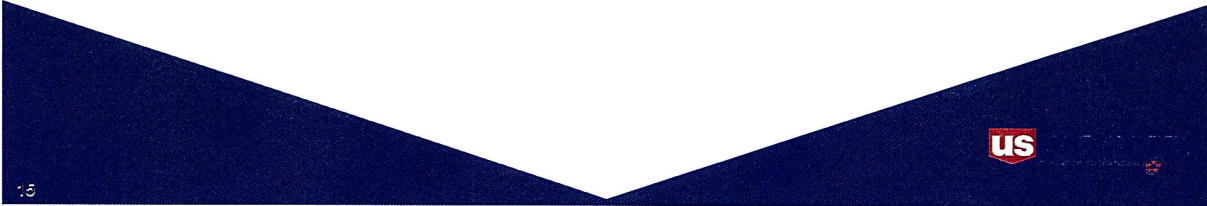
(b) (4)

(b) (4)



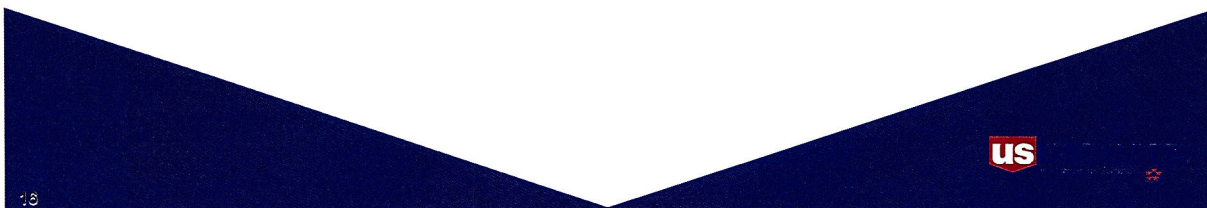
# Total Shareholder Return Analysis

- ✓ **USB shareholders should benefit from our participation in the TARP capital purchase program offsetting the dividend increase and buyback restrictions, by**
  - An overall lower cost of capital
  - Accelerated earnings growth due to higher retained earnings
  - Certainty of capital availability and higher accretion for acquisition opportunities



# Recommendation of Capital Purchase Program

- ✓ **We recommend requesting \$6.6bn in preferred equity from the Treasury based on:**
  - Terms of TARP program allow for raising capital at a significant discount to current market rates
  - **(b) (4)**
  - Opportunity to fund accelerated loan growth across U.S. Bancorp
  - Consistency of utilization compared to peer banks



## TARP - Transaction Account Guarantee Program

Eligible Entities:	1) FDIC-insured depository institutions. 2) U.S. bank holding companies, or financial holding companies.
What is Covered:	FDIC will provide a full guarantee for funds held in non-interest bearing transaction accounts above the existing deposit insurance limit of \$250,000. Includes traditional non-interest bearing demand deposit accounts, payroll accounts and official checks issued by the bank (does not include NOW or MMDA).
Amount Covered:	As of September 30, 2008, U.S. Bank held approximately \$15 billion of uninsured non-interest bearing deposits.
Length of Guarantee:	Assuming the institution does not opt-out, the FDIC will provide the guarantee coverage until December 31, 2009.

17



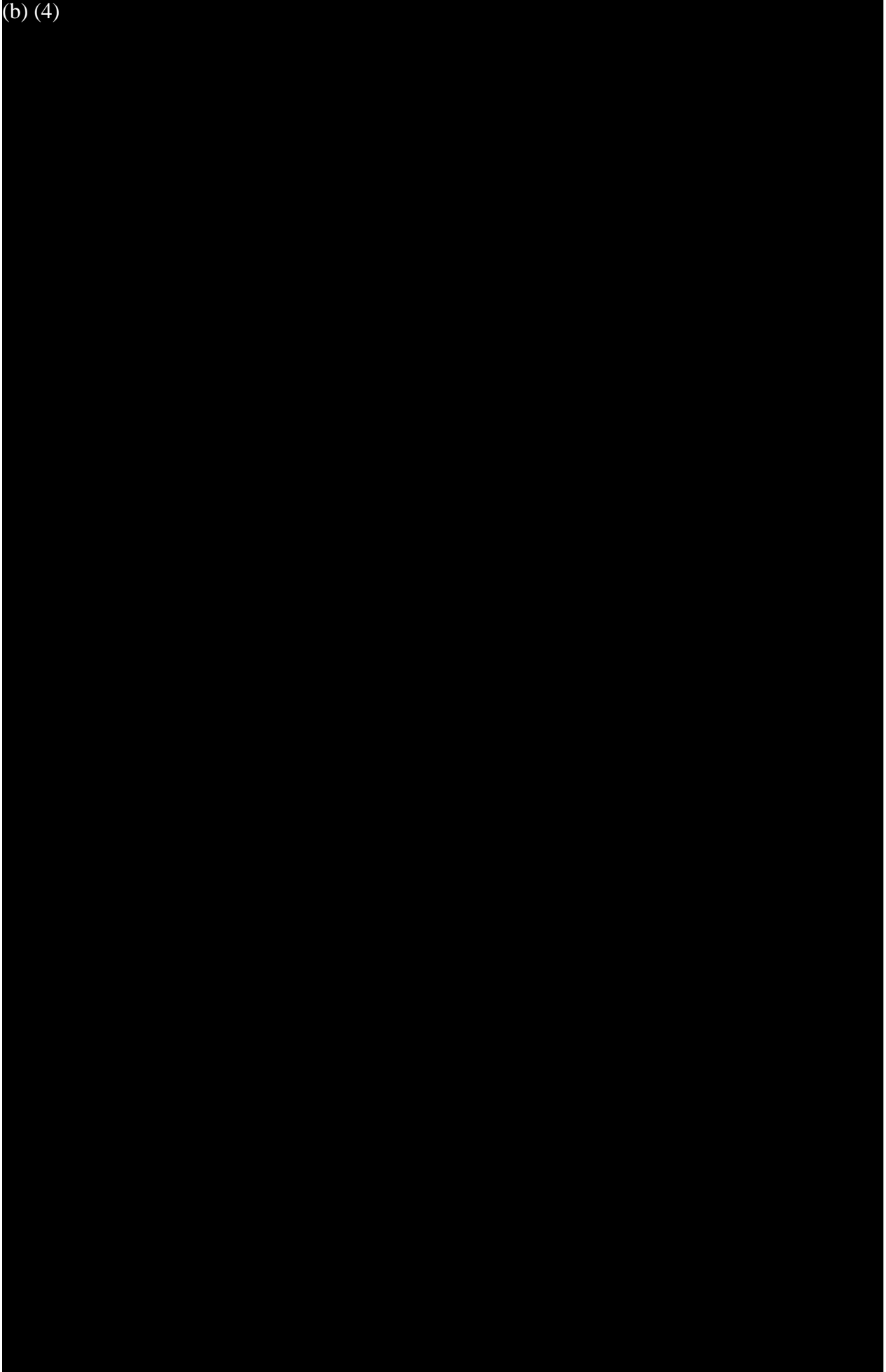
## TARP - Transaction Account Guarantee Program

Fees:	The FDIC will assess a 10 basis point fee on balances above the existing deposit insurance limit of \$250,000 which will be assessed and paid quarterly. 2008 estimated additional expense: <b>\$1,875,000</b> 2009 estimated additional expense: <b>\$15,000,000</b>
Breakeven Deposit Attrition:	\$400 million (2.7% of uninsured non-interest bearing deposits).
Recommendation:	Do not opt out.

18



(b) (4)



## TARP - Debt Guarantee Program Overview

### Limited Flexibility:

All eligible debt issued must be guaranteed and the bank does not have the option to guarantee some debt (i.e. bank notes) and not guarantee other debt (i.e. federal funds). This increases the cost of the program significantly.

21



## TARP - Debt Guarantee Program Coverage and Cost

### Covered debt includes all senior unsecured debt including

- Federal funds purchased (\$5 billion)
- Commercial paper (\$5 billion)
- Bank notes/MTNs (\$11 billion)
- Certificates of deposit standing to the credit of the bank (n/a)
- Eurodollar deposits standing to the credit of a bank (\$10 billion)
- Senior unsecured debt denominated in foreign currency (n/a)
- Non-USD denominated eligible securities (n/a)

### Fees of the program

- No Fees charged during the first 30 days of the program.
- Starting November 12, 2008, the FDIC will assess a 75 basis points annualized fee on all eligible debt issued from October 14, 2008 through June 30, 2009. The timing of when the fee is collected is unclear at this time.
- Estimate additional cost to U.S. Bank:

Period	Est. Fee (mm)
Q4 2008	\$20
Q1 2009	\$43
Q2 2009	\$52
Q3 2009	(b) (4)
Q4 2009	
Total	

22





# TARP - Debt Guarantee Program Status

## Recommendation

- Due to a number of unanswered questions in the interim rule and market reception uncertainty, U.S. Bank will make a participating decision prior to November 12, 2008 and after these open issues have been addressed
- Delegate to Chair of Credit and Finance Committee, CEO and CFO authority to approve company's decision

# TARP Update

Credit & Finance Committee  
December 8, 2008  
Andy Cecere

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1



## TARP – Capital Purchase Program

### Program Summary

On October 3rd, 2008, Congress signed into law the Troubled Asset Relief Program (“TARP”). The TARP authorizes the Treasury Department to purchase, and to fund purchases of, up to \$700 billion in trouble assets. Funding is provided in 3 stages: \$250 billion available immediately, \$100 billion available upon the President’s update on the program, and \$350 billion available with Congressional approval.

<b>TARP Timeline</b>		
<u>Date</u>	<u>Event</u>	<u>Unallocated TARP Funds</u>
9/20/2008	Treasury seeks authority to purchase \$700B in troubled assets	TARP authorization pending
9/29/2008	U.S. House rejects original \$700B rescue plan	TARP authorization pending
10/1/2008	U.S. Senate approves revised \$700B rescue plan	TARP authorization pending
10/3/2008	U.S. House approves revised \$700B rescue plan; TARP signed into law	\$700 billion
10/13/2008	Treasury Department announces plan to invest \$250B in banks - \$125B for investment in 9 banks - \$125B for investment in additional banks	\$450 billion
11/10/2008	AIG receives \$40B from TARP in restructured bailout	\$410 billion
11/12/2008	Treasury Department acknowledges that TARP will not purchase troubled assets	\$410 billion
11/24/2008	Citigroup receives additional \$20B from TARP in bailout	\$390 billion
11/24/2008	\$5B from TARP allocated to cover Citigroup losses	\$385 billion
11/25/2008	\$20B from TARP allocated to ABS Lending Facility (TALF)	\$365 billion

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2

## TARP Preferred Securities Participation

- On October 30, 2008 the Credit and Finance Committee approved the issuance of up to \$6.6 billion TARP preferred securities to the U.S. Treasury
- On November 14, 2008 U.S. Bancorp issued \$6.6 billion TARP preferred securities to the U.S. Treasury

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3

## Capital Impact of TARP Preferred Securities Issuance

- Issuance of the TARP preferred securities increased U.S. Bancorp's consolidated Tier 1 and Total Capital by \$6.6 billion
- Benefit to U.S. Bancorp's regulatory capital ratios:

	Forecast 12/31/08			
	Min Well-Capitalized	Base Case	including TARP securities	TARP securities plus Downey and PFF
Tier 1 Capital Ratio	6.0%	8.4%	11.3%	10.7%
Total Capital Ratio	10.0%	12.1%	14.9%	14.4%

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4

## TARP Preferred Securities Utilization

The TARP preferred securities may be employed as follows:

- Additional loan growth (b) (4)
- (b) (4)
- Avoid term funding issuance
- Purchase investment portfolio securities
- Repay Federal Home Loan Bank advances

## FDIC Debt Guarantee Program Overview

On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program which guarantees certain newly issued senior unsecured debt issued on or before June 30, 2009 by the full faith and credit of the United States. The purpose of the plan is to improve liquidity for FDIC-insured banks and U.S. bank holding companies in the short-term markets.

**What is Covered:** Assuming an institution does not opt-out, the FDIC will guarantee the payment of certain newly issued senior unsecured debt (i.e. Commercial Paper, Bank Notes and MTNs) until the earlier of the maturity date of the debt or until June 30, 2012.

**Amount Covered:**

(b) (4)

**Fees for the Program:**

Days	Annualized Fee (bps)
30 days or less	0 (Not guaranteed)
31 to 180 days	50
181 to 364 days	75
365 days or greater	100

**Estimated additional cost:**

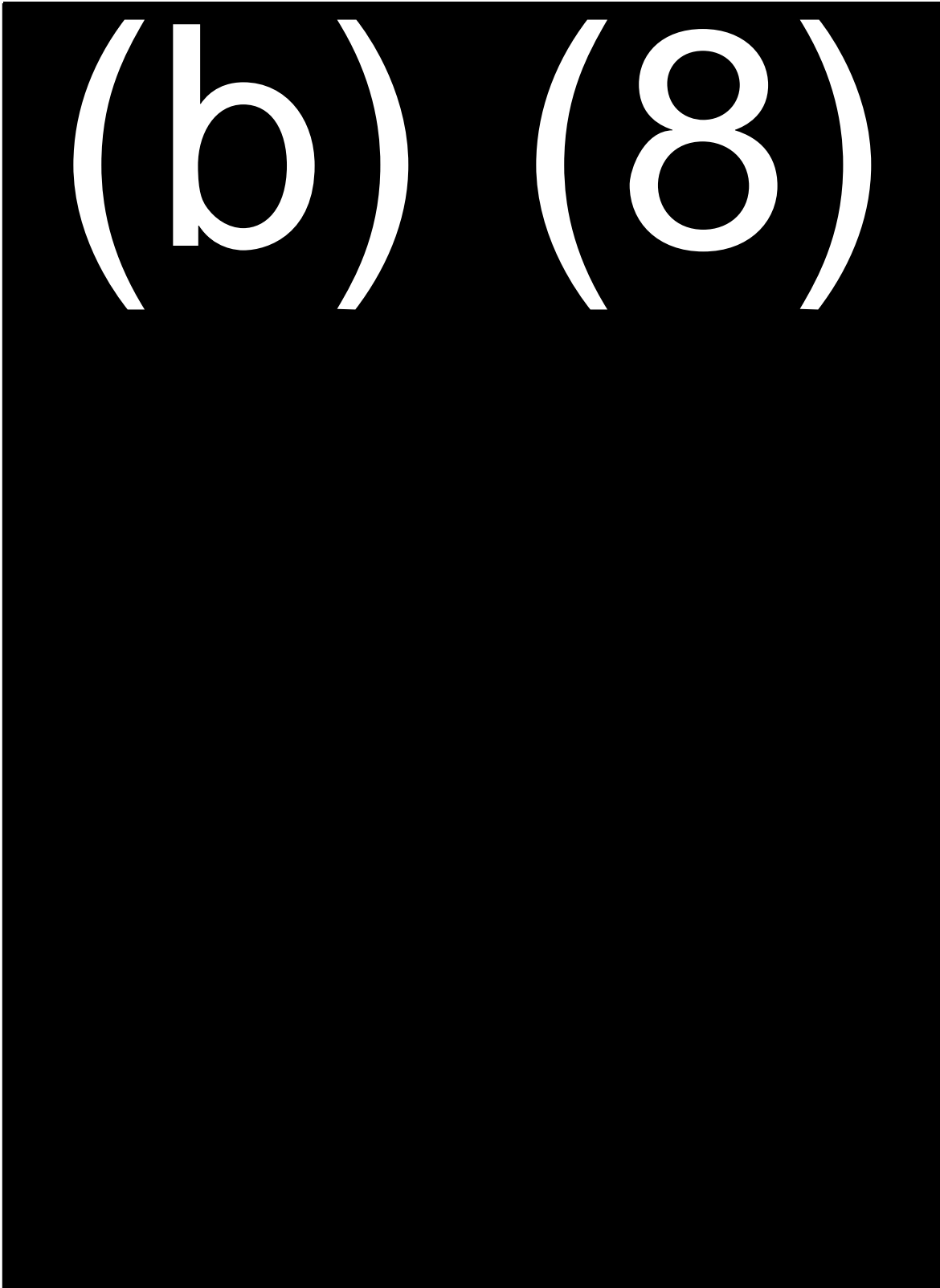
(b) (4)

**Recommendation:** Opt-in.





Application for TARP Capital Purchase Program (CPP)



(b) (8)

(b) (8)



# **FORM 8-K**

**US BANCORP \DE\ - USB**

**Filed: November 04, 2008 (period: November 03, 2008)**

Report of unscheduled material events or corporate changes.

# Table of Contents

8-K - LIVE FILING

Item 8.01      Other Events.

Item 9.01      Financial Statements and Exhibits.

SIGNATURES

Exhibit Index

EX-99.1 (EX-99.1)



## **Top of the Form**

### **Item 8.01 Other Events.**

On November 3, 2008, U.S. Bancorp announced that it has received preliminary approval from the U.S. Department of the Treasury to participate in the Treasury's Capital Purchase Program. Upon execution of definitive agreements, the Treasury will purchase from U.S. Bancorp \$6.6 billion of senior preferred stock and warrants to purchase common stock.

A press release announcing the preliminary approval for participation in the Capital Purchase Program is attached to this report as Exhibit 99.1 and is incorporated herein by reference.

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

This Current Report on Form 8-K contains forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words "may," "could," "would," "should," "believes," "expects," "anticipates," "estimates," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including continued deterioration in general business and economic conditions and in the financial markets; changes in interest rates; deterioration in the credit quality of our loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in our investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, market risk, operational risk, legal risk, and regulatory and compliance risk. A continuation of the recent turbulence in significant portions of the global financial markets, particularly if it worsens, could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities, and indirectly by affecting our counterparties and the economy generally. Dramatic declines in the housing market in the past year have resulted in significant write-downs of asset values by financial institutions. Concerns about the stability of the financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity, and increased market volatility. There can be no assurance that the Emergency Economic Stabilization Act of 2008, the actions taken by the U.S. Treasury Department thereunder, or any other governmental program will help to stabilize the U.S. financial system or alleviate the industry or economic factors that may adversely impact our business. In addition, our business and financial performance could be impacted as the financial industry restructures in the current environment, by changes in the creditworthiness and performance of our counterparties, by changes in the competitive landscape, and by increased regulation or other adverse effects of recently enacted legislation and FDIC actions.

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, 2007, on file with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Corporate Risk Profile," and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

### **Item 9.01 Financial Statements and Exhibits.**

Exhibit 99.1 Press Release dated November 3, 2008



**Top of the Form**

**SIGNATURES**

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 hereunto duly authorized.

November 4, 2008

U.S. Bancorp

By: *Lee R. Mitau*

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*Name: Lee R. Mitau*

*Title: Executive Vice President, General Counsel and Corporate Secretary*

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Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release dated November 3, 2008.

# News Release

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Contact:

Judith T. Murphy  
Investor Relations  
(612) 303-0783

Steve Dale  
Media Relations  
(612) 303-0784

## **U.S. BANCORP TO PARTICIPATE IN U.S. TREASURY CAPITAL PURCHASE PROGRAM**

MINNEAPOLIS (November 3, 2008) — U.S. Bancorp (NYSE: USB) announced today that it has received preliminary approval from the U.S. Treasury Department for the sale of \$6.6 billion of preferred stock and related warrants to the U.S. Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008.

Under the agreement, U.S. Bancorp will issue preferred stock to the U.S. Treasury at a rate of 5 percent per annum for five years. The rate will increase to 9 percent per annum thereafter if the preferred shares are not redeemed by the company. In addition to the preferred stock, the U.S. Treasury will receive 10-year warrants entitling the Treasury to purchase common stock of U.S. Bancorp with a value equal to 15 percent of the amount of the preferred stock issuance. The terms and conditions of the transaction will conform to those provided by the U.S. Treasury. Details of the terms, including certain restrictions on dividends and share repurchases, can be found on their website at <http://treas.gov/initiatives/eesa>.

“We fully support the efforts of the U.S. Treasury Department to stabilize the financial markets and increase the flow of credit to both consumers and businesses across the country. Over the past few weeks, we have been evaluating the U.S. Treasury’s Capital Purchase Program and the impact that the company’s participation in the program might have on our ability to serve our customers, support our communities and create long-term value for our shareholders,” said Richard K. Davis, chairman, president and CEO of U.S. Bancorp. “U.S. Bancorp is operating from a position of strength. During these uncertain times, the company has benefited from both a prudent approach to risk management and a diverse mix of businesses. Our capital position is solid. After careful consideration, we have concluded that the capital available through the Capital Purchase Program will augment our capacity to engage in increased lending activity and invest for future growth, and will enhance the company’s capability to assist in stimulating the United States economy.”

U.S. Bancorp’s Tier 1 capital ratio at September 30, 2008, was 8.5 percent, significantly above the well-capitalized regulatory requirement of 6 percent. Using risk-weighted assets as of September 30, 2008, the company’s Tier 1 capital ratio after the issuance of the \$6.6 billion of preferred stock to the U.S. Treasury will be approximately 11.4 percent.

Minneapolis-based U.S. Bancorp (“USB”), with \$247 billion in assets, is the parent company of U.S. Bank, the 6th largest commercial bank in the United States as of September 30, 2008. The company operates 2,556 banking offices and 4,903 ATMs in 24 states, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. Visit U.S. Bancorp on the web at [usbank.com](http://usbank.com).

###



# Executive Compensation Restrictions

\$700 Billion Emergency Economic  
Stabilization ACT (EESA)



# Executive Compensation Restrictions

- \$700 billion Emergency Economic Stabilization Act ( EESA)
- Any financial institution receiving a capital investment under the new program will be subject to executive compensation standards and limitations.

- The Treasury Secretary is required to promulgate compensation standards for financial services companies in which the Federal government takes a direct ownership stake, including:
  - prohibiting incentives that encourage executives to “take unnecessary and excessive risks;”
  - requiring covered companies to recoup incentive pay based on earnings or other criteria later proven to be materially inaccurate; and
  - prohibiting covered companies from making certain severance or change-in-control payments to senior executives.



- For financial services companies selling more than \$300 million in assets to the Federal government, the legislation:
  - prohibits new executive contracts from including certain severance or change-in-control provisions;
  - limits tax deductible compensation, including nonqualified deferred compensation, to \$500,000 annually for current or retired “top five” executives; and
  - applies to 20 percent “golden parachute” excise tax under section 280G of the tax code to certain severance payments