

US BANCORP \DE\  
Form 10-Q  
May 07, 2012  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2012**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from (not applicable)**

**Commission file number 1-6880**

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**41-0255900**  
(I.R.S. Employer  
Identification No.)

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

(Address of principal executive offices, including zip code)

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651-466-3000

(Registrant's telephone number, including area code)

(not applicable)

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

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

YES  NO

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

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES  NO

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

Class	Outstanding as of April 30, 2012
Common Stock, \$.01 Par Value	1,894,190,134 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. 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 deterioration in general business and economic conditions; a recurrence of turbulence in the financial markets; continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets; changes in interest rates; deterioration in the credit quality of U.S. Bancorp's loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in U.S. Bancorp's investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, and liquidity risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, on file with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Corporate Risk Profile" contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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

	Three Months Ended		
	March 31,		Percent
(Dollars and Shares in Millions, Except Per Share Data)	2012	2011	Change
<b>Condensed Income Statement</b>			
Net interest income (taxable-equivalent basis) (a)	\$ 2,690	\$ 2,507	7.3%
Noninterest income	2,239	2,017	11.0
Securities gains (losses), net		(5)	*
Total net revenue	4,929	4,519	9.1
Noninterest expense	2,560	2,314	10.6
Provision for credit losses	481	755	(36.3)
Income before taxes	1,888	1,450	30.2
Taxable-equivalent adjustment	56	55	1.8
Applicable income taxes	527	366	44.0
Net income	1,305	1,029	26.8
Net (income) loss attributable to noncontrolling interests	33	17	94.1
Net income attributable to U.S. Bancorp	\$ 1,338	\$ 1,046	27.9
Net income applicable to U.S. Bancorp common shareholders	\$ 1,285	\$ 1,003	28.1
<b>Per Common Share</b>			
Earnings per share	\$ .68	\$ .52	30.8%
Diluted earnings per share	.67	.52	28.8
Dividends declared per share	.195	.125	56.0
Book value per share	16.94	14.83	14.2
Market value per share	31.68	26.43	19.9
Average common shares outstanding	1,901	1,918	(.9)
Average diluted common shares outstanding	1,910	1,928	(.9)
<b>Financial Ratios</b>			
Return on average assets	1.60%	1.38%	
Return on average common equity	16.2	14.5	
Net interest margin (taxable-equivalent basis) (a)	3.60	3.69	
Efficiency ratio (b)	51.9	51.1	
Net charge-offs as a percent of average loans outstanding	1.09	1.65	
<b>Average Balances</b>			
Loans	\$ 210,161	\$ 197,570	6.4%
Loans held for sale	6,879	6,104	12.7
Investment securities (c)	71,476	56,405	26.7
Earning assets	300,044	273,940	9.5
Assets	336,287	307,896	9.2
Noninterest-bearing deposits	63,583	44,189	43.9
Deposits	228,284	204,305	11.7
Short-term borrowings	29,062	32,203	(9.8)
Long-term debt	31,551	31,567	(.1)
Total U.S. Bancorp shareholders' equity	35,415	30,009	18.0
	March 31,	December 31,	
	2012	2011	
<b>Period End Balances</b>			
Loans	\$ 211,919	\$ 209,835	1.0%
Investment securities	74,254	70,814	4.9
Assets	340,762	340,122	.2
Deposits	233,553	230,885	1.2
Long-term debt	30,395	31,953	(4.9)
Total U.S. Bancorp shareholders' equity	35,900	33,978	5.7
<b>Asset Quality</b>			
Nonperforming assets	\$ 3,454	\$ 3,774	(8.5)
Allowance for credit losses	4,919	5,014	(1.9)
Allowance for credit losses as a percentage of period-end loans	2.32%	2.39%	

**Capital Ratios**

Tier 1 capital	10.9%	10.8%
Total risk-based capital	13.3	13.3
Leverage	9.2	9.1
Tangible common equity to tangible assets (d)	6.9	6.6
Tangible common equity to risk-weighted assets (d)	8.3	8.1
Tier 1 common equity to risk-weighted assets using Basel I definition (d)	8.7	8.6
Tier 1 common equity to risk-weighted assets using anticipated Basel III definition (d)	8.4	8.2

\* *Not meaningful.*

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

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

(c) *Excludes unrealized gains and losses*

(d) *See Non-GAAP Financial Measures beginning on page 29.*

**Table of Contents****Management's Discussion and Analysis****OVERVIEW**

**Earnings Summary** U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of \$1.3 billion for the first quarter of 2012, or \$.67 per diluted common share, compared with \$1.0 billion, or \$.52 per diluted common share for the first quarter of 2011. Return on average assets and return on average common equity were 1.60 percent and 16.2 percent, respectively, for the first quarter of 2012, compared with 1.38 percent and 14.5 percent, respectively, for the first quarter of 2011. Included in the first quarter of 2011 was a \$46 million gain related to the acquisition of First Community Bank of New Mexico (FCB) in a transaction with the Federal Deposit Insurance Corporation (FDIC). The provision for credit losses was \$90 million lower than net charge-offs for the first quarter of 2012, compared with \$50 million lower than net charge-offs for the first quarter of 2011.

Total net revenue, on a taxable-equivalent basis, for the first quarter of 2012 was \$410 million (9.1 percent) higher than the first quarter of 2011, reflecting a 7.3 percent increase in net interest income and an 11.3 percent increase in noninterest income. The increase in net interest income over a year ago was largely the result of an increase in average earning assets and continued growth in lower cost core deposit funding. Noninterest income increased over a year ago, primarily due to higher mortgage banking revenue, merchant processing services revenue, commercial products revenue and deposit service charges, partially offset by a reduction in credit and debit card revenue and ATM processing services revenue.

Noninterest expense in the first quarter of 2012 was \$246 million (10.6 percent) higher than the first quarter of 2011, primarily due to higher compensation expense, employee benefits costs, marketing and business development expense and regulatory and insurance-related costs.

The provision for credit losses for the first quarter of 2012 of \$481 million was \$274 million (36.3 percent) lower than the first quarter of 2011. Net charge-offs in the first quarter of 2012 were \$571 million, compared with \$805 million in the first quarter of 2011. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the

Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**STATEMENT OF INCOME ANALYSIS**

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$2.7 billion in the first quarter of 2012, compared with \$2.5 billion in the first quarter of 2011. The \$183 million (7.3 percent) increase was primarily the result of growth in average earning assets and lower cost core deposit funding. Average earning assets were \$26.1 billion (9.5 percent) higher in the first quarter of 2012, compared with the first quarter of 2011, driven by increases of \$15.1 billion (26.7 percent) in investment securities and \$12.6 billion (6.4 percent) in loans, partially offset by a reduction in cash balances held at the Federal Reserve. The net interest margin in the first quarter of 2012 was 3.60 percent, compared with 3.69 percent in the first quarter of 2011. The decrease in the net interest margin from the first quarter of 2011 reflected increased investment securities held for liquidity purposes and lower loan yields, partially offset by a reduction in cash balances held at the Federal Reserve and inclusion of credit card balance transfer fees in interest income beginning in the first quarter of 2012. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates table for further information on net interest income.

Total average loans for the first quarter of 2012 were \$12.6 billion (6.4 percent) higher than the first quarter of 2011, driven by growth in residential mortgages (19.1 percent), commercial loans (17.3 percent), credit card loans (4.1 percent) and commercial real estate loans (2.3 percent). These increases were driven by higher demand for loans from new and existing customers. Also, in late December of 2011, the Company purchased approximately \$700 million of consumer credit cards. The purchase increased first quarter of 2012 average credit card balances by approximately \$623 million. The increases were partially offset by declines in other retail loans (.4 percent) and loans covered by loss sharing agreements with the FDIC (17.8 percent). Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) were \$14.5 billion in the first quarter of 2012, compared with \$17.6 billion in the same period of 2011.



**Table of Contents****Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended March 31,		Percent Change
	2012	2011	
Credit and debit card revenue	\$ 202	\$ 267	(24.3)%
Corporate payment products revenue	175	175	
Merchant processing services	337	301	12.0
ATM processing services	87	112	(22.3)
Trust and investment management fees	252	256	(1.6)
Deposit service charges	153	143	7.0
Treasury management fees	134	137	(2.2)
Commercial products revenue	211	191	10.5
Mortgage banking revenue	452	199	*
Investment products fees and commissions	35	32	9.4
Securities gains (losses), net		(5)	*
Other	201	204	(1.5)
<b>Total noninterest income</b>	<b>\$ 2,239</b>	<b>\$ 2,012</b>	<b>11.3%</b>

\* *Not meaningful.*

Average investment securities in the first quarter of 2012 were \$15.1 billion (26.7 percent) higher than the first quarter of 2011, primarily due to purchases of government agency mortgage-backed securities, as the Company increased its on-balance sheet liquidity in response to anticipated regulatory requirements.

Average total deposits for the first quarter of 2012 were \$24.0 billion (11.7 percent) higher than the first quarter of 2011. Average noninterest-bearing deposits for the first quarter of 2012 were \$19.4 billion (43.9 percent) higher than the same period of 2011, with growth in average balances in a majority of the lines of business, including Wholesale Banking and Commercial Real Estate, Wealth Management and Securities Services, and Consumer and Small Business Banking. Average total savings deposits were \$8.6 billion (7.6 percent) higher in the first quarter of 2012, compared with the first quarter of 2011, primarily due to growth in corporate and institutional trust balances, as well as an increase in Consumer and Small Business Banking balances, partially offset by lower broker-dealer and government banking balances. Average time certificates of deposit less than \$100,000 were slightly lower, while time deposits greater than \$100,000 were \$3.7 billion (11.9 percent) lower in the first quarter of 2012, compared with the first quarter of 2011, principally in corporate and institutional trust average balances.

**Provision for Credit Losses** The provision for credit losses for the first quarter of 2012 decreased \$274 million (36.3 percent) from the first quarter of 2011. Net charge-offs decreased \$234 million (29.1 percent) in the first quarter of 2012, compared with the first quarter of 2011, principally due to improvement in the commercial, commercial real estate, and credit card portfolios. The provision for credit losses was lower than net charge-offs by \$90 million in the first quarter of 2012, compared with

\$50 million lower than net charge-offs in the first quarter of 2011. Refer to [Corporate Risk Profile](#) for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income in the first quarter of 2012 was \$2.2 billion, compared with \$2.0 billion in the first quarter of 2011. The \$227 million (11.3 percent) increase was primarily driven by strong growth in mortgage banking revenue, principally due to higher origination and sales revenue. In addition, merchant processing services revenue increased, principally due to increased transaction volumes and legislative-mitigation efforts. Deposit service charges were higher, reflecting product redesign initiatives and account growth. Commercial products revenue was also higher, the result of higher loan syndication and bond underwriting fees. Offsetting these positive variances was a decrease in credit and debit card revenue, due to lower debit card interchange fees as a result of fourth quarter of 2011 legislation (estimated impact of \$76 million in the first quarter of 2012), net of mitigation efforts, and the impact of the inclusion of credit card balance transfer fees in interest income beginning this year (approximately \$20 million in the first quarter of 2012), partially offset by higher transaction volumes. ATM processing services revenue was lower than a year ago, due to excluding from revenue surcharge fees the Company passes through to others rather than reporting those amounts in occupancy expense as in previous periods. Other income was similar to 2011, as the FCB gain and a gain

related to the Company's investment in Visa Inc. recorded in the first quarter of 2011, were offset by higher equity investment income and retail lease residual revenue in the first quarter of 2012.