US BANCORP \DE\
Form 10-Q
November 04, 2015

Table of Contents

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

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	**41-0255900**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES þ NO ¨

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

YES þ NO ¨

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

Large accelerated filer þ	Accelerated filer ¨
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 þ

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

Class	Outstanding as of October 31, 2015
Common Stock, $0.01 Par Value	1,749,177,062 shares

Table of Contents

Table of Contents and Form 10-Q Cross Reference Index

Part I Financial Information	
1) Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 2)	3
a) Overview	3
b) Statement of Income Analysis	4
c) Balance Sheet Analysis	6
d) Non-GAAP Financial Measures	34
e) Critical Accounting Policies	35
f) Controls and Procedures (Item 4)	35
2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)	8
a) Overview	8
b) Credit Risk Management	9
c) Residual Value Risk Management	23
d) Operational Risk Management	23
e) Compliance Risk Management	23
f) Interest Rate Risk Management	23
g) Market Risk Management	24
h) Liquidity Risk Management	25
i) Capital Management	27
3) Line of Business Financial Review	29
4) Financial Statements (Item 1)	36
Part II Other Information	
1) Legal Proceedings (Item 1)	80
2) Risk Factors (Item 1A)	80
3) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)	80
4) Exhibits (Item 6)	80
5) Signature	81
6) Exhibits	82

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. A reversal or slowing of the current economic recovery or another severe contraction could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a downturn in the residential real estate markets could cause credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance is likely to be negatively impacted by recently enacted and future legislation and regulation. U.S. Bancorp s results could also be adversely affected by deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities

portfolio; legal and regulatory developments; litigation; increased competition from both banks and non-banks; changes in customer behavior and preferences; breaches in data security; 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, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational 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, 2014, 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. However, factors other than these also could adversely affect U.S. Bancorp s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. 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

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Percent Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	$ 2,821	$ 2,748	2.7%	$ 8,343	$ 8,198	1.8%
Noninterest income	2,327	2,245	3.7	6,753	6,792	(.6)
Securities gains (losses), net	(1)	(3)	66.7	(1)	2	*
Total net revenue	5,147	4,990	3.1	15,095	14,992	.7
Noninterest expense	2,775	2,614	6.2	8,122	7,911	2.7
Provision for credit losses	282	311	(9.3)	827	941	(12.1)
Income before taxes	2,090	2,065	1.2	6,146	6,140	.1
Taxable-equivalent adjustment	53	56	(5.4)	161	167	(3.6)
Applicable income taxes	534	523	2.1	1,541	1,566	(1.6)
Net income	1,503	1,486	1.1	4,444	4,407	.8
Net (income) loss attributable to noncontrolling interests	(14)	(15)	6.7	(41)	(44)	6.8
Net income attributable to U.S. Bancorp	$ 1,489	$ 1,471	1.2	$ 4,403	$ 4,363	.9
Net income applicable to U.S. Bancorp common shareholders	$ 1,422	$ 1,405	1.2	$ 4,204	$ 4,163	1.0
Per Common Share						
Earnings per share	$ .81	$ .78	3.8%	$ 2.38	$ 2.30	3.5%
Diluted earnings per share	.81	.78	3.8	2.36	2.29	3.1
Dividends declared per share	.255	.245	4.1	.755	.720	4.9
Book value per share	22.99	21.38	7.5			
Market value per share	41.01	41.83	(2.0)			
Average common shares outstanding	1,758	1,798	(2.2)	1,770	1,809	(2.2)
Average diluted common shares outstanding	1,766	1,807	(2.3)	1,778	1,819	(2.3)
Financial Ratios						
Return on average assets	1.44%	1.51%		1.45%	1.56%	
Return on average common equity	14.1	14.5		14.1	14.7	
Net interest margin (taxable-equivalent basis) (a)	3.04	3.16		3.05	3.26	
Efficiency ratio (b)	53.9	52.4		53.8	52.8	
Net charge-offs as a percent of average loans outstanding	.46	.55		.47	.57	
Average Balances						
Loans	$ 250,536	$ 243,867	2.7%	$ 248,358	$ 240,098	3.4%
Loans held for sale	6,835	3,552	92.4	6,370	2,811	*

Investment securities (c)	103,943	93,141	11.6	102,361	87,687	16.7
Earning assets	369,265	346,422	6.6	365,543	336,287	8.7
Assets	410,439	385,823	6.4	406,757	375,047	8.5
Noninterest-bearing deposits	80,940	74,126	9.2	77,623	72,274	7.4
Deposits	289,692	271,008	6.9	284,673	263,662	8.0
Short-term borrowings	27,525	30,961	(11.1)	28,252	30,362	(6.9)
Long-term debt	33,202	26,658	24.5	34,015	24,864	36.8
Total U.S. Bancorp shareholders equity	44,867	43,132	4.0	44,489	42,498	4.7

	September 30, 2015	December 31, 2014	
Period End Balances			
Loans	$ 254,791	$ 247,851	2.8%
Investment securities	105,086	101,043	4.0
Assets	415,943	402,529	3.3
Deposits	295,264	282,733	4.4
Long-term debt	32,504	32,260	.8
Total U.S. Bancorp shareholders equity	45,075	43,479	3.7
Asset Quality			
Nonperforming assets	$ 1,567	$ 1,808	(13.3)%
Allowance for credit losses	4,306	4,375	(1.6)
Allowance for credit losses as a percentage of period-end loans	1.69%	1.77%	
Capital Ratios			
Basel III transitional standardized approach:			
Common equity tier 1 capital	9.6%	9.7%	
Tier 1 capital	11.1	11.3	
Total risk-based capital	13.1	13.6	
Leverage	9.3	9.3	
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	13.0	12.4	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (d)	9.2	9.0	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (d)	12.4	11.8	
Tangible common equity to tangible assets (d)	7.7	7.5	
Tangible common equity to risk-weighted assets (d)	9.3	9.3	

* *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 on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.*

(d) *See Non-GAAP Financial Measures on page 34.*

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 $1.5 billion for the third quarter of 2015, or $0.81 per diluted common share, compared with $1.5 billion, or $0.78 per diluted common share, for the third quarter of 2014. Return on average assets and return on average common equity were 1.44 percent and 14.1 percent, respectively, for the third quarter of 2015, compared with 1.51 percent and 14.5 percent, respectively, for the third quarter of 2014. The results for the third quarter of 2015 included a gain from the sale of Visa Inc. Class B common stock of approximately $135 million (Visa sale), and a $58 million market valuation adjustment to write down the value of student loans previously held for sale prior to transferring them back to held for investment, as a result of a recent disruption in the student loan securitization market (student loan market adjustment).

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2015 was $157 million (3.1 percent) higher than the third quarter of 2014, reflecting a 2.7 percent increase in net interest income and a 3.7 percent increase in noninterest income. The increase in net interest income from the third quarter of 2014 was the result of an increase in average earning assets. The increase in noninterest income was primarily due to increases in commercial products, payments and trust and investment management fee revenue.

Noninterest expense in the third quarter of 2015 was $161 million (6.2 percent) higher than the third quarter of 2014, primarily due to increases in compensation and employee benefits expenses and other costs related to risk and compliance activities.

The provision for credit losses for the third quarter of 2015 of $282 million was $29 million (9.3 percent) lower than the third quarter of 2014. Net charge-offs in the third quarter of 2015 were $292 million, compared with $336 million in the third quarter of 2014. 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.

Net income attributable to U.S. Bancorp for the first nine months of 2015 was $4.4 billion, or $2.36 per diluted common share, compared with $4.4 billion, or $2.29 per diluted common share, for the first nine months of 2014. Return on average assets and return on average common equity were 1.45 percent and 14.1 percent, respectively, for the first nine months of 2015, compared with 1.56 percent and 14.7 percent, respectively, for the first nine months of 2014.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2015 was $103 million (0.7 percent) higher than the first nine months of 2014, reflecting a 1.8 percent increase in net interest income, partially offset by a 0.6 percent decrease in noninterest income. The increase in net interest income was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin. The decrease in noninterest income from a year ago was primarily due to lower gains from 2014 and 2015 sales of shares of Visa Inc. Class B common stock, the 2015 student loan market adjustment and lower mortgage banking revenue, partially offset by higher revenue in most other fee businesses.

Noninterest expense in the first nine months of 2015 was $211 million (2.7 percent) higher than the first nine months of 2014, primarily due to higher compensation and employee benefits expenses, including the impact of the June 2014

acquisition of the Chicago-area branch banking operations of the Charter One Bank franchise (Charter One), and higher costs related to risk and compliance activities, partially offset by a settlement relating to the Federal Housing Administration s insurance program (FHA DOJ settlement) recorded in the second quarter of 2014.

The provision for credit losses for the first nine months of 2015 of $827 million was $114 million (12.1 percent) lower than the first nine months of 2014. Net charge-offs in the first nine months of 2015 were $867 million, compared with $1.0 billion in the first nine months of 2014. 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 $2.8 billion in the third quarter and $8.3 billion in the first nine months of 2015, representing increases of $73 million (2.7 percent) and $145 million (1.8 percent), respectively, over the same periods of 2014. The increases were principally the result of growth in average earning assets, partially offset by a continued shift in loan portfolio mix and lower reinvestment rates on investment securities. The increase in the first nine months of 2015 was further offset by lower loan fees due to the wind down of the short-term, small-dollar deposit advance product, Checking Account Advance (CAA). Average earning assets were $22.8 billion (6.6 percent) higher in the third quarter and $29.3 billion (8.7 percent) higher in the first nine months of 2015, compared with the same periods of 2014, driven by increases in investment securities and loans. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2015 was 3.04 percent and 3.05 percent, respectively, compared with 3.16 percent and 3.26 percent in the third quarter and first nine months of 2014, respectively. The decreases in the net interest margin from the same periods of the prior year primarily reflected a change in the loan portfolio mix as well as growth in the investment portfolio at lower average rates and lower reinvestment rates on investment securities. In addition, the decrease in the net interest margin for the first nine months of 2015, compared with the same period of the prior year, reflected lower loan fees due to the CAA product wind down. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average investment securities for the third quarter and first nine months of 2015 were $10.8 billion (11.6 percent) and $14.7 billion (16.7 percent) higher, respectively, than the same periods of 2014, primarily due to purchases of U.S. government and agency-backed securities, net of prepayments and maturities, to support regulatory liquidity coverage ratio requirements.

Average total loans for the third quarter and first nine months of 2015 were $6.7 billion (2.7 percent) and $8.3 billion (3.4 percent) higher, respectively, than the same periods of 2014, driven by growth in commercial loans, commercial real estate loans, credit card loans and other retail loans. The increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by declines in residential mortgages and loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC), a run-off portfolio. Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) decreased $2.3 billion (32.4 percent) in the third quarter and $2.7 billion (35.2 percent) in the first nine months of 2015, compared with the same periods of 2014. The decreases were primarily the result of the expiration of the loss sharing agreements on commercial and commercial real estate assets at the end of 2014.

Average total deposits for the third quarter and first nine months of 2015 were $18.7 billion (6.9 percent) and $21.0 billion (8.0 percent) higher, respectively, than the same periods of 2014. Average noninterest-bearing deposits for the third quarter and first nine months of 2015 increased $6.8 billion (9.2 percent) and $5.3 billion (7.4 percent), respectively, over the same periods of the prior year, mainly in Wholesale Banking and Commercial Real Estate and Consumer and Small Business Banking. Average total savings deposits for the third quarter and first nine months of 2015 were $19.4 billion (12.5 percent) and $21.3 billion (14.3 percent) higher, respectively, than the same periods of 2014, the result of growth in Consumer and Small Business Banking, including the impact of the Charter One branch acquisitions, corporate trust, and Wholesale Banking and Commercial Real Estate balances. The growth in Consumer and Small Business Banking deposits included net new account growth of 3.1 percent for the third quarter and 3.9 percent for the first nine months of 2015, compared with the same periods of 2014. Average time deposits less than $100,000 for the third quarter and first nine months of 2015 were $1.5 billion (13.5 percent) and $1.2 billion (10.7 percent) lower, respectively, than the same periods of the prior year, due to maturities. Average time deposits greater than $100,000 for the third quarter and first nine months of 2015 were $6.0 billion (19.7 percent) and $4.5 billion (14.5 percent) lower, respectively, than the same periods of the prior year, primarily due to declines in Wholesale

Banking and Commercial Real Estate, corporate trust and Consumer and Small Business Banking balances. Time deposits greater than $100,000 are primarily managed as an alternative to other funding sources, such as wholesale borrowing, based largely on funding needs and relative pricing.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2015 decreased $29 million (9.3 percent) and $114 million (12.1 percent), respectively, compared with the same periods of 2014. Net charge-offs decreased $44 million (13.1 percent) and $159 million (15.5 percent) in the third quarter and first nine months of 2015, respectively, compared with the same periods of the prior year, reflecting improvements in other retail, residential mortgages, and construction and development loans. The

Table of Contents

Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended September 30, 2015	2014	Percent Change	Nine Months Ended September 30, 2015	2014	Percent Change
Credit and debit card revenue	$ 269	$ 251	7.2%	$ 776	$ 749	3.6%
Corporate payment products revenue	190	195	(2.6)	538	550	(2.2)
Merchant processing services	400	387	3.4	1,154	1,127	2.4
ATM processing services	81	81		239	241	(.8)
Trust and investment management fees	329	315	4.4	985	930	5.9
Deposit service charges	185	185		520	513	1.4
Treasury management fees	143	136	5.1	422	409	3.2
Commercial products revenue	231	209	10.5	645	635	1.6
Mortgage banking revenue	224	260	(13.8)	695	774	(10.2)
Investment products fees	46	49	(6.1)	141	142	(.7)
Securities gains (losses), net	(1)	(3)	66.7	(1)	2	*
Other	229	177	29.4	638	722	(11.6)
Total noninterest income	$ 2,326	$ 2,242	3.7%	$ 6,752	$ 6,794	(.6)%

**Not meaningful.*

provision for credit losses was lower than net charge-offs by $10 million in the third quarter and $40 million in the first nine months of 2015, compared with $25 million in the third quarter and $85 million in the first nine months of 2014. 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 was $2.3 billion in the third quarter and $6.8 billion in the first nine months of 2015, representing an increase of $84 million (3.7 percent) and a decrease of $42 million (0.6 percent), respectively, compared with the same periods of 2014. The increase in the third quarter of 2015, compared with the third quarter of 2014, was primarily due to the third quarter 2015 Visa sale and increases in the majority of fee revenue categories, partially offset by the student loan market adjustment and lower mortgage banking revenue. The decrease in the first nine months of 2015, compared with the same period of the prior year, reflected lower other income from 2014 and 2015 Visa stock sales and the third quarter 2015 student loan market adjustment, as well as lower mortgage banking revenue, partially offset by increases in the majority of other fee revenue categories. The decreases in mortgage banking revenue were primarily due to unfavorable changes in the valuation of mortgage servicing rights (MSRs), net of hedging activities, partially offset by increases in mortgage production revenue. Commercial products revenue increased due to higher volumes of tax-advantaged project fees and increases in bond underwriting fees, partially offset by lower letter of credit fees. Credit and debit card revenue increased due to higher transaction volumes. Merchant processing services increased 3.4 percent in the third quarter and 2.4 percent in the first nine months of 2015, compared with the same periods of 2014, as a result of higher transaction volumes, account growth and equipment sales to merchants related to new chip card technology requirements. Adjusted for the impact of foreign currency rate changes, the increases would have been approximately 8.5 percent and 7.1 percent, respectively. In addition, trust and investment management fees increased reflecting the benefits of the Company s

investments in corporate trust and fund services businesses, as well as account growth and improved market conditions.

Noninterest Expense Noninterest expense of $2.8 billion in the third quarter and $8.1 billion in the first nine months of 2015 was $161 million (6.2 percent) and $211 million (2.7 percent) higher, respectively, than the same periods of 2014, reflecting higher compensation, employee benefits and other costs related to compliance activities in the current year. The increases in compensation expense primarily reflected the impact of merit increases and higher staffing for risk and compliance activities. In addition, the increase in compensation expense for the first nine months of 2015, compared with the same period of the prior year, reflected the impact of the Charter One branch acquisitions. The increases in employee benefits expense were primarily driven by higher pension costs. The increase in marketing and development expense in the third quarter of 2015, compared with the same period of the prior year, was primarily due to various marketing programs in Payment Services and Consumer and Small Business Banking. Offsetting the increases in noninterest expense in the first nine months of 2015, compared with the same period of the prior year, was the second quarter 2014 FHA DOJ settlement included in other expense.

Table of Contents

Table 3 Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30, 2015	2014	Percent Change	Nine Months Ended September 30, 2015	2014	Percent Change
Compensation	$ 1,225	$ 1,132	8.2%	$ 3,600	$ 3,372	6.8%
Employee benefits	285	250	14.0	895	796	12.4
Net occupancy and equipment	251	249	.8	745	739	.8
Professional services	115	102	12.7	298	282	5.7
Marketing and business development	99	78	26.9	265	253	4.7
Technology and communications	222	219	1.4	657	644	2.0
Postage, printing and supplies	77	81	(4.9)	223	242	(7.9)
Other intangibles	42	51	(17.6)	128	148	(13.5)
Other	459	452	1.5	1,311	1,435	(8.6)
Total noninterest expense	$ 2,775	$ 2,614	6.2%	$ 8,122	$ 7,911	2.7%
Efficiency ratio (a)	53.9%	52.4%		53.8%	52.8%	

(a) 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).

Income Tax Expense The provision for income taxes was $534 million (an effective rate of 26.2 percent) for the third quarter and $1.5 billion (an effective rate of 25.7 percent) for the first nine months of 2015, compared with $523 million (an effective rate of 26.0 percent) and $1.6 billion (an effective rate of 26.2 percent) for the same periods of 2014. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $254.8 billion at September 30, 2015, compared with $247.9 billion at December 31, 2014, an increase of $6.9 billion (2.8 percent). The increase was driven primarily by higher commercial loans, residential mortgages and other retail loans, partially offset by lower commercial real estate loans and covered loans.

Commercial loans increased $5.2 billion (6.4 percent) at September 30, 2015, compared with December 31, 2014, reflecting higher demand from new and existing customers. In addition, other retail loans increased $1.8 billion (3.6 percent) at September 30, 2015, compared with December 31, 2014. The increase was driven primarily by higher auto and installment loan balances, partially offset by lower retail leasing and student loan balances.

Residential mortgages held in the loan portfolio increased $730 million (1.4 percent) at September 30, 2015, compared with December 31, 2014, reflecting higher origination and refinancing activity during 2015. Residential mortgages originated and placed in the Company s loan portfolio include well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality.

Credit card loans increased $68 million (0.4 percent) at September 30, 2015, compared with December 31, 2014, including the acquisition of a credit card portfolio late in the third quarter of 2015, partially offset by customers

seasonally paying down balances.

Commercial real estate loans decreased $317 million (0.7 percent) at September 30, 2015, compared with December 31, 2014, primarily the result of customers paying down balances.

The Company generally retains portfolio loans through maturity; however, the Company s intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company s intent or ability to hold an existing portfolio loan changes, the loan is transferred to loans held for sale.

Loans Held for Sale Loans held for sale, consisting of residential mortgages and other loans to be sold in the secondary market, were $4.5 billion at September 30, 2015, compared with $4.8 billion at December 31, 2014. Almost all of the residential mortgage loans the Company originates or purchases for sale follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises.

Investment Securities Investment securities totaled $105.1 billion at September 30, 2015, compared with $101.0 billion at December 31, 2014. The $4.0 billion (4.0 percent) increase reflected $4.0 billion of net investment purchases, as well as a $55 million favorable change in net unrealized gains (losses) on available-for-sale investment securities.

The Company s available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At September 30, 2015, the Company s net unrealized gains on available-for-sale securities were $692 million,

Table of Contents

Table 4 Investment Securities

At September 30, 2015 (Dollars in Millions)	Available-for-Sale Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Held-to-Maturity Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 374	$ 375	.4	2.52%	$	$		%
Maturing after one year through five years	1,488	1,509	2.8	1.42	1,098	1,114	2.9	1.42
Maturing after five years through ten years	972	989	6.9	2.28	1,783	1,805	7.0	2.15
Maturing after ten years	1	1	11.9	4.15	56	56	10.1	1.78
Total	$ 2,835	$ 2,874	3.9	1.86%	$ 2,937	$ 2,975	5.5	1.87%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 836	$ 840	.7	1.68%	$ 349	$ 350	.7	1.69%
Maturing after one year through five years	38,148	38,531	4.0	1.83	36,027	36,296	3.7	1.96
Maturing after five years through ten years	10,540	10,625	5.7	1.43	5,161	5,206	5.6	1.21
Maturing after ten years	558	560	12.8	1.25	168	168	11.3	1.22
Total	$ 50,082	$ 50,556	4.4	1.73%	$ 41,705	$ 42,020	3.9	1.86%
Asset-Backed Securities (a)								
Maturing in one year or less	$ 52	$ 53	.5	.18%	$	$ 1	.2	.82%
Maturing after one year through five years	199	205	3.5	3.00	5	8	2.4	.86
Maturing after five years through ten years	354	361	6.2	2.16	4	4	5.8	.92
Maturing after ten years					1	7	11.9	.95
Total	$ 605	$ 619	4.8	2.26%	$ 10	$ 20	4.7	.89%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 1,581	$ 1,614	.6	7.01%	$	$	.2	9.50%
Maturing after one year through five years	2,753	2,891	1.8	6.91	1	1	2.7	7.93
Maturing after five years through ten years	635	639	7.2	5.40	1	2	8.0	7.78
Maturing after ten years	152	158	16.6	6.81	6	5	10.6	1.73
Total	$ 5,121	$ 5,302	2.5	6.75%	$ 8	$ 8	9.0	3.72%
Other Debt Securities								
Maturing in one year or less	$	$		%	$ 1	$ 1	.8	1.39%

Maturing after one year through five years					8	8	1.6	1.50
Maturing after five years through ten years					21	19	5.1	1.05
Maturing after ten years	677	616	17.8	2.55				
Total	$ 677	$ 616	17.8	2.55%	$ 30	$ 28	4.0	1.18%
Other Investments	$ 384	$ 429	11.6	2.41%	$	$		%
Total investment securities (d)	$ 59,704	$ 60,396	4.4	2.19%	$ 44,690	$ 45,051	4.0	1.86%

(a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.

(b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.

(c) Maturity calculations for obligations of state and political subdivisions are based on the first optional call date for securities with a fair value above par and contractual maturity for securities with a fair value equal to or below par.

(d) The weighted-average maturity of the available-for-sale investment securities was 4.3 years at December 31, 2014, with a corresponding weighted-average yield of 2.32 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.0 years at December 31, 2014, with a corresponding weighted-average yield of 1.92 percent.

(e) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity investment securities are computed based on amortized cost balances, excluding any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

	September 30, 2015		December 31, 2014	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 5,772	5.5%	$ 5,339	5.3%
Mortgage-backed securities	91,787	87.9	87,645	87.3
Asset-backed securities	615	.6	638	.6
Obligations of state and political subdivisions	5,129	4.9	5,613	5.6
Other debt securities and investments	1,091	1.1	1,171	1.2
Total investment securities	$ 104,394	100.0%	$ 100,406	100.0%

compared with $637 million at December 31, 2014. Gross unrealized losses on available-for-sale securities totaled $218 million at September 30, 2015, compared with $343 million at December 31, 2014. At September 30, 2015, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

In December 2013, U.S. banking regulators approved final rules that prohibit banks from holding certain types of investments, such as investments in hedge and certain private equity funds. The Company does not anticipate the implementation of these final rules will require any significant liquidation of securities held or impairment charges. Refer to Notes 3 and 14 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $295.3 billion at September 30, 2015, compared with $282.7 billion at December 31, 2014, the result of increases in total savings deposits and noninterest-bearing deposits, partially offset by a decrease in time deposits. Money market savings account balances increased $4.6 billion (6.0 percent) primarily due to higher Wholesale Banking and Commercial Real Estate and broker dealer balances. Interest checking balances increased $2.8 billion (5.0 percent) primarily due to higher corporate trust, Consumer and Small Business Banking, and Wholesale Banking and Commercial Real Estate balances, partially offset by lower broker dealer balances. Savings account balances increased $2.3 billion (6.6 percent), primarily due to higher Consumer and Small Business Banking balances. Noninterest-bearing deposits increased $6.2 billion (8.1 percent) at September 30, 2015, compared with December 31, 2014, primarily due to higher Wholesale Banking and Commercial Real Estate, Consumer and Small Business Banking, and corporate trust balances. Time deposits less than $100,000 decreased $1.2 billion (11.8 percent) at September 30, 2015, compared with December 31, 2014, primarily due to lower Consumer and Small Business Banking balances resulting from maturities. Time deposits greater than $100,000 decreased $2.1 billion (7.5 percent) at September 30, 2015, compared with December 31, 2014. Time deposits greater than $100,000 are primarily managed as an alternative to other funding sources, such as wholesale borrowing, based largely on funding needs and relative pricing.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $26.9 billion at September 30, 2015, compared with $29.9 billion at December 31, 2014. The $3.0 billion (10.0 percent) decrease in short-term borrowings was primarily due to decreases in short-term Federal Home Loan Bank (FHLB) advances and other short-term borrowings balances. Long-term debt was $32.5 billion at September 30, 2015, compared with $32.3 billion at December 31, 2014. The $244 million (0.8 percent) increase reflected the issuance of $2.3 billion of bank notes and a $1.9 billion increase in long-term FHLB advances, offset by $1.4 billion of bank note repayments, and $2.7 billion of medium-term note and subordinated bank note maturities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

Overview Managing risks is an essential part of successfully operating a financial services company. The Company s Board of Directors has approved a risk management framework which establishes governance and risk management requirements for all risk-taking activities. This framework includes Company and business line risk appetite statements which set boundaries for the types and amount of risk that may be undertaken in pursuing business objectives and initiatives. The Board of Directors, through its Risk Management Committee, oversees performance relative to the risk management framework, risk appetite statements, and other policy requirements.

The Executive Risk Committee (ERC), which is chaired by the Chief Risk Officer and includes the Chief Executive Officer and other members of the executive management team, oversees execution against the risk management framework and risk appetite statements. The ERC focuses on current and emerging risks, including strategic and reputational risks, by directing timely and comprehensive actions. Senior operating committees have also been established, each responsible for overseeing a specified category of risk.

The Company s most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale, MSRs and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations or new business at a reasonable cost and in a timely manner. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events, including the risk of

loss resulting from breaches in data security. Operational risk can also include failures by third parties with which the Company does business. Compliance risk is the risk of loss arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards, potentially exposing the Company to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk also arises in situations where the laws or rules governing certain Company products or activities of the Company s customers may be ambiguous or untested. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputational risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company s competitiveness by affecting its ability to establish new relationships or services, or continue servicing existing relationships. In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for a detailed discussion of these factors.

The Company s Board and management-level governance committees are supported by a three lines of defense model for establishing effective checks and balances. The first line of defense, the business lines, manages risks in conformity with established limits and policy requirements. In turn, business leaders and their risk officers establish programs to ensure conformity with these limits and policy requirements. The second line of defense, which includes the Chief Risk Officer s organization as well as policy and oversight activities of corporate support functions, translates risk appetite and strategy into actionable risk limits and policies. The second line of defense monitors first line of defense conformity with limits and policies, and provides reporting and escalation of emerging risks and other concerns to senior management and the Risk Management Committee of the Board of Directors. The third line of defense, internal audit, is responsible for providing the Audit Committee of the Board of Directors and senior management with independent assessment and assurance regarding the effectiveness of the Company s governance, risk management, and control processes.

Management provides various risk reports to the Risk Management Committee of the Board of Directors. The Risk Management Committee discusses with management the Company s risk management performance, and provides a summary of key risks to the entire Board of Directors, covering the status of existing matters, areas of potential future concern, and specific information on certain types of loss events. The Risk Management Committee considers quarterly reports by management assessing the Company s performance relative to the risk appetite statements and the associated risk limits, including:

- Qualitative considerations, such as the macroeconomic environment, regulatory and compliance changes, litigation developments, and technology and cybersecurity;
- Capital ratios and projections, including regulatory measures and stressed scenarios;
- Credit measures, including adversely rated and nonperforming loans, leveraged transactions, credit concentrations and lending limits;
- Interest rate and market risk, including market value and net income simulation, and trading-related Value at Risk;
- Liquidity risk, including funding projections under various stressed scenarios;
- Operational and compliance risk, including losses stemming from events such as fraud, processing errors, control breaches, breaches in data security, or adverse business decisions, as well as reporting on technology performance, and various legal and regulatory compliance measures; and
- Reputational and strategic risk considerations, impacts and responses.

Credit Risk Management The Company s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance and macroeconomic factors, such as changes in unemployment rates,

gross domestic product and consumer bankruptcy filings. The Risk Management Committee oversees the Company s credit risk management process.

In addition, credit quality ratings, as defined by the Company, are an important part of the Company s overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company s rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including loans that are 90 days or more past due and still accruing, nonaccrual loans, those considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it

considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company s internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to compute estimated loan-to-value (LTV) ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not the primary source of repayment. Refer to Note 4 in the Notes to Consolidated Financial Statements for further discussion of the Company s loan portfolios including internal credit quality ratings. In addition, refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into three segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company s three loan portfolio segments are commercial lending, consumer lending and covered loans. The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution, non-profit and public sector customers. Key risk characteristics relevant to commercial lending segment loans include the industry and geography of the borrower s business, purpose of the loan, repayment source, borrower s debt capacity and financial flexibility, loan covenants, and nature of pledged collateral, if any. These risk characteristics, among others, are considered in determining estimates about the likelihood of default by the borrowers and the severity of loss in the event of default. The Company considers these risk characteristics in assigning internal risk ratings to, or forecasting losses on, these loans which are the significant factors in determining the allowance for credit losses for loans in the commercial lending segment. At September 30, 2015, approximately $3.2 billion of the commercial loans outstanding were to customers in energy-related businesses, compared with $3.1 billion at December 31, 2014. The recent decline in energy prices has resulted in deterioration to some of these loans; however, its impact has not been material to the Company.

The consumer lending segment represents loans and leases made to consumer customers including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, student loans, and home equity loans and lines. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10- or 15-year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines in the portfolio are variable rates benchmarked to the prime rate, with a 10- or 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 20- or 10-year amortization period, respectively. At September 30, 2015, substantially all of the Company s home equity lines were in the draw period. Approximately $895 million, or 6 percent, of the outstanding home equity line balances at September 30, 2015, will enter the amortization period within the next 36 months. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and in some cases, updated LTV information on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

The covered loan segment represents loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC that greatly reduce the risk of future credit losses to the Company. Key risk characteristics for covered segment loans are consistent with the segment they would otherwise be included in had the loss share coverage not been in place, but consider the indemnification provided by the FDIC.

The Company further disaggregates its loan portfolio segments into various classes based on their underlying risk characteristics. The two classes within the commercial lending segment are commercial loans and commercial real estate loans. The three classes within the consumer lending segment are residential mortgages, credit card loans and other retail loans. The covered loan segment consists of only one class.

The Company s consumer lending segment utilizes several distinct business processes and channels to originate consumer credit, including traditional branch lending, indirect lending, portfolio acquisitions, correspondent banks and loan brokers. Each distinct underwriting and origination activity manages unique credit risk characteristics and prices its loan production commensurate with the differing risk profiles.

Residential mortgages are originated through the Company s branches, loan production offices and a wholesale network of originators. The Company may retain residential mortgage loans it originates on its balance sheet or sell the loans into the secondary market while retaining the servicing rights and customer relationships. Utilizing the secondary markets enables the Company to effectively reduce its credit and other asset/liability risks. For residential mortgages that are retained in the Company s portfolio and for home equity and second mortgages, credit risk is also diversified by geography and managed by adherence to LTV and borrower credit criteria during the underwriting process.

The Company estimates updated LTV information quarterly, based on a method that combines automated valuation model updates and relevant home price indices. LTV is the ratio of the loan s outstanding principal balance to the current estimate of property value. For home equity and second mortgages, combined loan-to-value (CLTV) is the combination of the first mortgage original principal balance and the second lien outstanding principal balance, relative to the current estimate of property value. Certain loans do not have a LTV or CLTV, primarily due to lack of availability of relevant automated valuation model and/or home price indices values, or lack of necessary valuation data on acquired loans.

The following tables provide summary information for the LTVs of residential mortgages and home equity and second mortgages by borrower type at September 30, 2015:

Residential mortgages

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	$ 1,780	$ 39,166	$ 40,946	89.6%
Over 80% through 90%	91	2,509	2,600	5.7
Over 90% through 100%	69	961	1,030	2.2
Over 100%	75	960	1,035	2.3
No LTV available		80	80	.2
Total	$ 2,015	$ 43,676	$ 45,691	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$	$ 585	$ 585	52.7%
Over 80% through 90%		180	180	16.2
Over 90% through 100%		148	148	13.3
Over 100%		198	198	17.8
No LTV available				
Total	$	$ 1,111	$ 1,111	100.0%

Other Borrowers				
Less than or equal to 80%	$ 2	$ 406	$ 408	60.7%
Over 80% through 90%		97	97	14.4
Over 90% through 100%		55	55	8.2
Over 100%		112	112	16.7
No LTV available				
Total	$ 2	$ 670	$ 672	100.0%
Loans Purchased From GNMA Mortgage Pools (a)	$	$ 4,875	$ 4,875	100.0%
Total				
Less than or equal to 80%	$ 1,782	$ 40,157	$ 41,939	80.1%
Over 80% through 90%	91	2,786	2,877	5.5
Over 90% through 100%	69	1,164	1,233	2.4
Over 100%	75	1,270	1,345	2.6
No LTV available		80	80	.1
Loans purchased from GNMA mortgage pools (a)		4,875	4,875	9.3
Total	$ 2,017	$ 50,332	$ 52,349	100.0%

(a) Represents loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose payments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Home equity and second mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	$ 10,548	$ 537	$ 11,085	71.3%
Over 80% through 90%	2,228	361	2,589	16.7
Over 90% through 100%	742	104	846	5.4
Over 100%	805	141	946	6.1
No LTV/CLTV available	52	29	81	.5
Total	$ 14,375	$ 1,172	$ 15,547	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$ 37	$ 24	$ 61	29.9%
Over 80% through 90%	11	20	31	15.2
Over 90% through 100%	9	21	30	14.7
Over 100%	17	59	76	37.3
No LTV/CLTV available	1	5	6	2.9
Total	$ 75	$ 129	$ 204	100.0%
Other Borrowers				
Less than or equal to 80%	$ 339	$ 14	$ 353	80.8%
Over 80% through 90%	51	4	55	12.6
Over 90% through 100%	12	2	14	3.2
Over 100%	12	2	14	3.2
No LTV/CLTV available	1		1	.2
Total	$ 415	$ 22	$ 437	100.0%
Total				
Less than or equal to 80%	$ 10,924	$ 575	$ 11,499	71.0%
Over 80% through 90%	2,290	385	2,675	16.5
Over 90% through 100%	763	127	890	5.5

Over 100%	834	202	1,036	6.4
No LTV/CLTV available	54	34	88	.6
Total	$ 14,865	$ 1,323	$ 16,188	100.0%

Table of Contents

At September 30, 2015, approximately $1.1 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent agencies at loan origination, compared with $1.2 billion at December 31, 2014. In addition to residential mortgages, at September 30, 2015, $204 million of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, compared with $238 million at December 31, 2014. The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only 0.3 percent of total assets at September 30, 2015, compared with 0.4 percent at December 31, 2014. The Company considers sub-prime loans to be those made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company s underwriting programs specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company s program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

Home equity and second mortgages were $16.2 billion at September 30, 2015, compared with $15.9 billion at December 31, 2014, and included $5.0 billion of home equity lines in a first lien position and $11.2 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at September 30, 2015, included approximately $4.4 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $6.8 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company s junior lien positions at September 30, 2015:

	Junior Liens Behind		
	Company Owned or Serviced		
(Dollars in Millions)	First Lien	Third Party First Lien	Total
Total	$ 4,373	$ 6,809	$ 11,182
Percent 30-89 days past due	.25%	.42%	.36%
Percent 90 days or more past due	.05%	.10%	.08%
Weighted-average CLTV	74%	71%	72%
Weighted-average credit score	772	765	768

See the Analysis and Determination of the Allowance for Credit Losses section for additional information on how the Company determines the allowance for credit losses for loans in a junior lien position.

Table of Contents

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

90 days or more past due **excluding** nonperforming loans	September 30, 2015	December 31, 2014
Commercial		
Commercial	.05%	.05%
Lease financing		
Total commercial	.05	.05
Commercial Real Estate		
Commercial mortgages	.01	.02
Construction and development	.16	.14
Total commercial real estate	.05	.05
Residential Mortgages (a)	.33	.40
Credit Card	1.10	1.13
Other Retail		
Retail leasing	.02	.02
Home equity and second mortgages	.25	.26
Other	.10	.12
Total other retail (b)	.14	.15
Total loans, excluding covered loans	.20	.23
Covered Loans	6.57	7.48
Total loans	.32%	.38%

90 days or more past due **including** nonperforming loans	September 30, 2015	December 31, 2014
Commercial	.25%	.19%
Commercial real estate	.39	.65
Residential mortgages (a)	1.73	2.07
Credit card	1.16	1.30
Other retail (b)	.47	.53
Total loans, excluding covered loans	.70	.83
Covered loans	6.80	7.74
Total loans	.81%	.97%

(a) Delinquent loan ratios exclude $2.9 billion at September 30, 2015, and $3.1 billion at December 31, 2014, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 7.26 percent at September 30, 2015, and 8.02 percent at December 31, 2014.

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including these loans, the ratio of total other retail loans 90 days or more past due including all nonperforming loans was ..71 percent at September 30, 2015, and .84 percent at December 31, 2014.

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $825 million ($510 million excluding covered loans) at September 30, 2015, compared with $945 million ($550 million excluding covered loans) at December 31, 2014. These balances exclude loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 0.32 percent (0.20 percent excluding covered loans) at September 30, 2015, compared with 0.38 percent (0.23 percent excluding covered loans) at December 31, 2014.

Table of Contents

The following table provides summary delinquency information for residential mortgages, credit card and other retail loans included in the consumer lending segment:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Residential Mortgages (a)				
30-89 days	$ 181	$ 221	.35%	.43%
90 days or more	171	204	.33	.40
Nonperforming	735	864	1.40	1.67
Total	$ 1,087	$ 1,289	2.08%	2.50%
Credit Card				
30-89 days	$ 235	$ 229	1.27%	1.24%
90 days or more	204	210	1.10	1.13
Nonperforming	12	30	.06	.16
Total	$ 451	$ 469	2.43%	2.53%
Other Retail				
Retail Leasing				
30-89 days	$ 10	$ 11	.18%	.18%
90 days or more	1	1	.02	.02
Nonperforming	2	1	.04	.02
Total	$ 13	$ 13	.24%	.22%
Home Equity and Second Mortgages				
30-89 days	$ 57	$ 85	.36%	.54%
90 days or more	41	42	.25	.26
Nonperforming	148	170	.91	1.07
Total	$ 246	$ 297	1.52%	1.87%
Other (b)				
30-89 days	$ 135	$ 142	.46%	.51%
90 days or more	29	32	.10	.12
Nonperforming	21	16	.07	.06
Total	$ 185	$ 190	.63%	.69%

(a) Excludes $337 million of loans 30-89 days past due and $2.9 billion of loans 90 days or more past due at September 30, 2015, purchased from GNMA mortgage pools that continue to accrue interest, compared with $431 million and $3.1 billion at December 31, 2014, respectively.
(b) Includes revolving credit, installment, automobile and student loans.

The following tables provide further information on residential mortgages and home equity and second mortgages as a percent of ending loan balances by borrower type:

Residential mortgages (a)	September 30, 2015	December 31, 2014
Prime Borrowers		
30-89 days	.29%	.33%
90 days or more	.30	.35
Nonperforming	1.18	1.42
Total	1.77%	2.10%
Sub-Prime Borrowers		
30-89 days	3.42%	5.12%
90 days or more	2.61	3.41
Nonperforming	15.21	16.73
Total	21.24%	25.26%
Other Borrowers		
30-89 days	1.34%	1.37%
90 days or more	1.04	1.13
Nonperforming	3.87	3.50
Total	6.25%	6.00%

(a) Excludes delinquent and nonperforming information on loans purchased from GNMA mortgage pools as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Home equity and second mortgages	September 30, 2015	December 31, 2014
Prime Borrowers		
30-89 days	.30%	.47%
90 days or more	.22	.24
Nonperforming	.82	.95
Total	1.34%	1.66%
Sub-Prime Borrowers		
30-89 days	1.96%	3.36%
90 days or more	.98	1.26
Nonperforming	4.90	5.88
Total	7.84%	10.50%
Other Borrowers		
30-89 days	1.37%	1.18%
90 days or more	.92	.40
Nonperforming	2.52	2.36
Total	4.81%	3.94%

The following table provides summary delinquency information for covered loans:

(Dollars in Millions)	Amount	As a Percent of Ending Loan Balances

	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
30-89 days	$ 61	$ 68	1.28%	1.28%
90 days or more	315	395	6.57	7.48
Nonperforming	11	14	.23	.27
Total	$ 387	$ 477	8.08%	9.03%

Restructured Loans In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due when a borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term. In most cases the modification is either a concessionary reduction in interest rate, extension of the maturity date or reduction in the principal balance that would otherwise not be considered.

Troubled Debt Restructurings Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles, which is generally six months or greater. At September 30, 2015, performing TDRs were $4.8 billion, compared with $5.1 billion at December 31, 2014. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

The Company continues to work with customers to modify loans for borrowers who are experiencing financial difficulties, including those acquired through FDIC-assisted acquisitions. Many of the Company s TDRs are determined on a case-by-case basis in connection with ongoing loan collection processes. The modifications vary within each of the Company s loan classes. Commercial lending segment TDRs generally include extensions of the maturity date and may be accompanied by an increase or decrease to the interest rate. The Company may also work with the borrower to make other changes to the loan to mitigate losses, such as obtaining additional collateral and/or guarantees to support the loan.

The Company has also implemented certain residential mortgage loan restructuring programs that may result in TDRs. The Company participates in the U.S. Department of the Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to permanently modify their loan and achieve more affordable monthly payments, with the U.S. Department of the Treasury compensating the Company for a portion of the reduction in monthly amounts due from borrowers participating in this program. The Company also modifies residential mortgage loans under Federal Housing Administration, Department of Veterans Affairs, and its own internal programs. Under these programs, the Company provides concessions to qualifying borrowers experiencing financial difficulties. The concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extensions of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement and the loan documents are not modified until that time. The Company reports loans in a trial period arrangement as TDRs and continues to report them as TDRs after the trial period.

Credit card and other retail loan TDRs are generally part of distinct restructuring programs providing customers modification solutions over a specified time period, generally up to 60 months.

In accordance with regulatory guidance, the Company considers secured consumer loans that have had debt discharged through bankruptcy where the borrower has not reaffirmed the debt to be TDRs. If the loan amount exceeds the collateral value, the loan is charged down to collateral value and the remaining amount is reported as nonperforming.

Modifications to loans in the covered segment are similar in nature to that described above for non-covered loans, and the evaluation and determination of TDR status is similar, except that acquired loans restructured after acquisition are not considered TDRs for purposes of the Company s accounting and disclosure if the loans evidenced credit deterioration as of the acquisition date and are accounted for in pools. Losses associated with modifications on covered loans, including the economic impact of interest rate reductions, are generally eligible for reimbursement

under the loss sharing agreements.

Table of Contents

The following table provides a summary of TDRs by loan class, including the delinquency status for TDRs that continue to accrue interest and TDRs included in nonperforming assets:

At September 30, 2015		As a Percent of Performing TDRs			
(Dollars in Millions)	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	Total TDRs
Commercial	$ 270	2.8%	1.1%	$ 110(a)	$ 380
Commercial real estate	218	.1	5.5	74(b)	292
Residential mortgages	1,903	3.5	3.2	484	2,387(d)
Credit card	202	10.2	6.1	12(c)	214
Other retail	153	5.1	4.3	66(c)	219(e)
TDRs, excluding GNMA and covered loans	2,746	3.7	3.4	746	3,492
Loans purchased from GNMA mortgage pools	2,000	5.8	63.7		2,000(f)
Covered loans	31	2.9	7.8	4	35
Total	$ 4,777	4.6%	28.7%	$ 750	$ 5,527

(a) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months) and small business credit cards with a modified rate equal to 0 percent.
(b) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months).
(c) Primarily represents loans with a modified rate equal to 0 percent.
(d) Includes $313 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $84 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(e) Includes $110 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $18 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(f) Includes $478 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $606 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

Short-term Modifications The Company makes short-term modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modified loans were not material at September 30, 2015.

Table of Contents

Table 6 Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2015	December 31, 2014
Commercial		
Commercial	$ 157	$ 99
Lease financing	12	13
Total commercial	169	112
Commercial Real Estate		
Commercial mortgages	105	175
Construction and development	39	84
Total commercial real estate	144	259
Residential Mortgages (b)	735	864
Credit Card	12	30
Other Retail		
Retail leasing	2	1
Home equity and second mortgages	148	170
Other	21	16
Total other retail	171	187
Total nonperforming loans, excluding covered loans	1,231	1,452
Covered Loans	11	14
Total nonperforming loans	1,242	1,466
Other Real Estate (c)(d)	276	288
Covered Other Real Estate (d)	31	37
Other Assets	18	17
Total nonperforming assets	$ 1,567	$ 1,808
Total nonperforming assets, excluding covered assets	$ 1,525	$ 1,757
Excluding covered assets		
Accruing loans 90 days or more past due (b)	$ 510	$ 550
Nonperforming loans to total loans	.49%	.60%
Nonperforming assets to total loans plus other real estate (c)	.61%	.72%
Including covered assets		
Accruing loans 90 days or more past due (b)	$ 825	$ 945
Nonperforming loans to total loans	.49%	.59%
Nonperforming assets to total loans plus other real estate (c)	.61%	.73%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Covered Assets	Total
Balance December 31, 2014	$ 431	$ 1,326	$ 51	$ 1,808
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	290	362	18	670
Advances on loans	37			37

Total additions	327	362	18	707
Reductions in nonperforming assets				
Paydowns, payoffs	(210)	(197)	(6)	(413)
Net sales	(37)	(93)	(20)	(150)
Return to performing status	(5)	(142)		(147)
Charge-offs (e)	(152)	(85)	(1)	(238)
Total reductions	(404)	(517)	(27)	(948)
Net additions to (reductions in) nonperforming assets	(77)	(155)	(9)	(241)
Balance September 30, 2015	$ 354	$ 1,171	$ 42	$ 1,567

(a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.

(b) Excludes $2.9 billion and $3.1 billion at September 30, 2015, and December 31, 2014, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

(c) Foreclosed GNMA loans of $648 million and $641 million at September 30, 2015, and December 31, 2014, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

(d) Includes equity investments in entities whose principal assets are other real estate owned.

(e) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.

Table of Contents

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. Nonperforming assets include nonaccrual loans, restructured loans not performing in accordance with modified terms and not accruing interest, restructured loans that have not met the performance period required to return to accrual status, other real estate owned and other nonperforming assets owned by the Company. Nonperforming assets are generally either originated by the Company or acquired under FDIC loss sharing agreements that substantially reduce the risk of credit losses to the Company. Interest payments collected from assets on nonaccrual status are generally applied against the principal balance and not recorded as income. However, interest income may be recognized for interest payments if the remaining carrying amount of the loan is believed to be collectible.

At September 30, 2015, total nonperforming assets were $1.6 billion, compared with $1.8 billion at December 31, 2014. The $241 million (13.3 percent) decrease in nonperforming assets was primarily driven by reductions in commercial real estate loans, residential mortgages and home equity and second mortgage balances, as economic conditions continued to slowly improve. Nonperforming covered assets at September 30, 2015, were $42 million, compared with $51 million at December 31, 2014. The ratio of total nonperforming assets to total loans and other real estate was 0.61 percent at September 30, 2015, compared with 0.73 percent at December 31, 2014.

Other real estate owned, excluding covered assets, was $276 million at September 30, 2015, compared with $288 million at December 31, 2014, and was related to foreclosed properties that previously secured loan balances. These balances exclude foreclosed GNMA loans whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Residential				
Minnesota	$ 19	$ 16	.30%	.26%
Florida	18	17	1.18	1.06
Illinois	17	16	.40	.37
Ohio	15	13	.49	.42
Wisconsin	12	10	.54	.44
All other states	159	161	.31	.32
Total residential	240	233	.35	.35
Commercial				
California	12	11	.06	.05
Illinois	7	12	.11	.19
Indiana	3	3	.20	.20
South Carolina	2	2	.46	.44
Virginia	1	3	.06	.18
All other states	11	24	.01	.03
Total commercial	36	55	.03	.04

Total	$ 276	$ 288	.11%	.12%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $292 million for the third quarter and $867 million for the first nine months of 2015, compared with $336 million and $1.0 billion for the same periods of 2014. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the third quarter and first nine months of 2015 was 0.46 percent and 0.47 percent, respectively, compared with

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Commercial				
Commercial	.34%	.29%	.25%	.27%
Lease financing	.23	.46	.23	.29
Total commercial	.33	.30	.25	.27
Commercial Real Estate				
Commercial mortgages		.01	.01	(.03)
Construction and development	(.43)	.13	(.42)	.05
Total commercial real estate	(.10)	.04	(.09)	(.01)
Residential Mortgages	.19	.32	.24	.40
Credit Card	3.38	3.53	3.64	3.80
Other Retail				
Retail leasing	.14		.09	.02
Home equity and second mortgages	.17	.61	.27	.67
Other	.65	.72	.62	.70
Total other retail	.44	.59	.44	.61
Total loans, excluding covered loans	.47	.56	.48	.59
Covered Loans		.05		.14
Total loans	.46%	.55%	.47%	.57%

0.55 percent and 0.57 percent for the same periods of 2014. The year-over-year decreases in total net charge-offs reflected the improvement in economic conditions.

Commercial and commercial real estate loan net charge-offs for the third quarter of 2015 were $60 million (0.19 percent of average loans outstanding on an annualized basis), compared with $62 million (0.21 percent of average loans outstanding on an annualized basis) for the third quarter of 2014. Commercial and commercial real estate loan net charge-offs for the first nine months of 2015 were $128 million (0.14 percent of average loans outstanding on an annualized basis), compared with $146 million (0.17 percent of average loans outstanding on an annualized basis) for the first nine months of 2014.

Residential mortgage loan net charge-offs for the third quarter of 2015 were $25 million (0.19 percent of average loans outstanding on an annualized basis), compared with $42 million (0.32 percent of average loans outstanding on an annualized basis) for the third quarter of 2014. Residential mortgage loan net charge-offs for the first nine months of 2015 were $93 million (0.24 percent of average loans outstanding on an annualized basis), compared with $156 million (0.40 percent of average loans outstanding on an annualized basis) for the first nine months of 2014. Credit card loan net charge-offs for the third quarter of 2015 were $153 million (3.38 percent of average loans outstanding on an annualized basis), compared with $158 million (3.53 percent of average loans outstanding on an annualized basis) for the third quarter of 2014. Credit card loan net charge-offs for the first nine months of 2015 were $485 million (3.64 percent of average loans outstanding on an annualized basis), compared with $498 million (3.80 percent of average loans outstanding on an annualized basis) for the first nine months of 2014. Other retail loan net charge-offs for the third quarter of 2015 were $54 million (0.44 percent of average loans outstanding on an annualized basis), compared with $73 million (0.59 percent of average loans outstanding on an annualized basis) for the third quarter of 2014. Other retail loan net charge-offs for the first nine months of 2015 were $161 million (0.44 percent of average loans outstanding on an annualized basis), compared with $218 million (0.61 percent of average loans outstanding on an annualized basis) for the first nine months of 2014. The decrease in total residential mortgage, credit card and other retail loan net charge-offs reflected the improvement in economic conditions.

The following table provides an analysis of net charge-offs as a percent of average loans outstanding for residential mortgages and home equity and second mortgages by borrower type:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
(Dollars in Millions)	2015	2014	2015	2014	2015	2014	2015	2014
Residential Mortgages								
Prime borrowers	$ 45,108	$ 44,247	.13%	.26%	$ 44,501	$ 43,844	.17%	.32%
Sub-prime borrowers	1,124	1,284	2.82	3.40	1,164	1,322	2.99	4.35
Other borrowers	689	845	1.15	.94	739	873	1.09	.92
Loans purchased from GNMA mortgage pools (a)	4,910	5,618			5,054	5,760	.08	.07
Total	$ 51,831	$ 51,994	.19%	.32%	$ 51,458	$ 51,799	.24%	.40%
Home Equity and Second Mortgages								
Prime borrowers	$ 15,428	$ 14,949	.13%	.50%	$ 15,286	$ 14,703	.22%	.58%

Sub-prime borrowers	207	255	1.92	6.22	219	269	2.44	5.46
Other borrowers	448	500	.89	.79	475	495	.84	.81
Total	$ 16,083	$ 15,704	.17%	.61%	$ 15,980	$ 15,467	.27%	.67%

(a) Represents loans purchased from GNMA mortgage pools whose payments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Analysis and Determination of the Allowance for Credit Losses The allowance for credit losses reserves for probable and estimable losses incurred in the Company s loan and lease portfolio, including unfunded credit commitments, and includes certain amounts that do not represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the FDIC. The allowance for credit losses is increased through provisions charged to operating earnings and reduced by net charge-offs. Management evaluates the allowance each quarter to ensure it appropriately reserves for incurred losses.

The allowance recorded for loans in the commercial lending segment is based on reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. In the migration analysis applied to risk rated loan portfolios, the Company currently examines up to a 14-year period of historical loss experience. For each loan type, this historical loss experience is adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions. The results of the analysis are evaluated quarterly to confirm an appropriate historical timeframe is selected for each commercial loan type. The allowance recorded for impaired loans greater than $5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or the fair value of the collateral for collateral-dependent loans, rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends.

The allowance recorded for TDR loans and purchased impaired loans in the consumer lending segment is determined on a homogenous pool basis utilizing expected cash flows discounted using the original effective interest rate of the pool, or the prior quarter effective rate, respectively. The allowance for collateral-dependent loans in the consumer lending segment is determined based on the fair value of the collateral less costs to sell. The allowance recorded for all other consumer lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, delinquency status, refreshed LTV ratios when possible, portfolio growth and historical losses, adjusted for current trends. Credit card and other retail loans 90 days or more past due are generally not placed on nonaccrual status because of the relatively short period of time to charge-off and, therefore, are excluded from nonperforming loans and measures that include nonperforming loans as part of the calculation.

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At September 30, 2015, the Company serviced the first lien on 39 percent of the home equity loans and lines in a junior lien position. The Company also considers information received from its primary regulator on the status of the first liens that are serviced by other large servicers in the industry and the status of first lien mortgage accounts reported on customer credit bureau files. Regardless of whether or not the Company services the first lien, an assessment is made of economic conditions, problem loans, recent loss experience and other factors in determining the allowance for credit losses. Based on the available information, the Company estimated $296 million or 1.8 percent of the total home equity portfolio at September 30, 2015, represented junior liens where the first lien was delinquent or modified.

The Company uses historical loss experience on the loans and lines in a junior lien position where the first lien is serviced by the Company, or can be identified in credit bureau data, to establish loss estimates for junior lien loans and lines the Company services that are current, but the first lien is delinquent or modified. Historically, the number of junior lien defaults in any period has been a small percentage of the total portfolio (for example, only 0.7 percent for the twelve months ended September 30, 2015), and the long-term average loss rate on the small percentage of loans that default has been approximately 80 percent. In addition, the Company obtains updated credit scores on its home equity portfolio each quarter, and in some cases more frequently, and uses this information to qualitatively supplement

its loss estimation methods. Credit score distributions for the portfolio are monitored monthly and any changes in the distribution are one of the factors considered in assessing the Company s loss estimates. In its evaluation of the allowance for credit losses, the Company also considers the increased risk of loss associated with home equity lines that are contractually scheduled to convert from a revolving status to a fully amortizing payment and with residential lines and loans that have a balloon payoff provision.

The allowance for the covered loan segment is evaluated each quarter in a manner similar to that

described for non-covered loans, and represents any decreases in expected cash flows on those loans after the acquisition date. The provision for credit losses for covered loans considers the indemnification provided by the FDIC.

In addition, the evaluation of the appropriate allowance for credit losses for purchased non-impaired loans acquired after January 1, 2009, in the various loan segments considers credit discounts recorded as a part of the initial determination of the fair value of the loans. For these loans, no allowance for credit losses is recorded at the purchase date. Credit discounts representing the principal losses expected over the life of the loans are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, the Company records a provision for credit losses only when the required allowance, net of any expected reimbursement under any loss sharing agreements with the FDIC, exceeds any remaining credit discounts.

The evaluation of the appropriate allowance for credit losses for purchased impaired loans in the various loan segments considers the expected cash flows to be collected from the borrower. These loans are initially recorded at fair value and therefore no allowance for credit losses is recorded at the purchase date.

Subsequent to the purchase date, the expected cash flows of purchased loans are subject to evaluation. Decreases in expected cash flows are recognized by recording an allowance for credit losses with the related provision for credit losses reduced for the amount reimbursable by the FDIC, where applicable. If the expected cash flows on the purchased loans increase such that a previously recorded impairment allowance can be reversed, the Company records a reduction in the allowance with a related reduction in losses reimbursable by the FDIC, where applicable. Increases in expected cash flows of purchased loans, when there are no reversals of previous impairment allowances, are recognized over the remaining life of the loans and resulting decreases in expected cash flows of the FDIC indemnification assets are amortized over the shorter of the remaining contractual term of the indemnification agreements or the remaining life of the loans.

The Company s methodology for determining the appropriate allowance for credit losses for all the loan segments also considers the imprecision inherent in the methodologies used. As a result, in addition to the amounts determined under the methodologies described above, management also considers the potential impact of other qualitative factors which include, but are not limited to, economic factors; geographic and other concentration risks; delinquency and nonaccrual trends; current business conditions; changes in lending policy, underwriting standards, internal review and other relevant business practices; and the regulatory environment. The consideration of these items results in adjustments to allowance amounts included in the Company s allowance for credit losses for each of the above loan segments.

Refer to Management s Discussion and Analysis Analysis of the Allowance for Credit Losses in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on the analysis and determination of the allowance for credit losses.

At September 30, 2015, the allowance for credit losses was $4.3 billion (1.69 percent of period-end loans), compared with $4.4 billion (1.77 percent of period-end loans) at December 31, 2014. The ratio of the allowance for credit losses to nonperforming loans was 347 percent at September 30, 2015, compared with 298 percent at December 31, 2014. The ratio of the allowance for credit losses to annualized loan net charge-offs was 372 percent at September 30, 2015, compared with 328 percent of full year 2014 net charge-offs at December 31, 2014, reflecting the impact of improving economic conditions over the past year.

Table of Contents

Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Balance at beginning of period	$ 4,326	$ 4,449	$ 4,375	$ 4,537
Charge-Offs				
Commercial				
Commercial	85	71	212	197
Lease financing	6	9	18	22
Total commercial	91	80	230	219
Commercial real estate				
Commercial mortgages	2	5	15	15
Construction and development		5	1	12
Total commercial real estate	2	10	16	27
Residential mortgages	31	48	113	171
Credit card	171	174	543	546
Other retail				
Retail leasing	3	1	6	4
Home equity and second mortgages	16	31	57	98
Other	58	64	170	189
Total other retail	77	96	233	291
Covered loans (a)		2		10
Total charge-offs	372	410	1,135	1,264
Recoveries				
Commercial				
Commercial	17	19	65	59
Lease financing	3	3	9	11
Total commercial	20	22	74	70
Commercial real estate				
Commercial mortgages	2	4	12	21
Construction and development	11	2	32	9
Total commercial real estate	13	6	44	30
Residential mortgages	6	6	20	15
Credit card	18	16	58	48
Other retail				
Retail leasing	1	1	2	3
Home equity and second mortgages	9	7	25	20
Other	13	15	45	50
Total other retail	23	23	72	73
Covered loans (a)		1		2
Total recoveries	80	74	268	238
Net Charge-Offs				
Commercial				
Commercial	68	52	147	138
Lease financing	3	6	9	11
Total commercial	71	58	156	149

Commercial real estate				
Commercial mortgages		1	3	(6)
Construction and development	(11)	3	(31)	3
Total commercial real estate	(11)	4	(28)	(3)
Residential mortgages	25	42	93	156
Credit card	153	158	485	498
Other retail				
Retail leasing	2		4	1
Home equity and second mortgages	7	24	32	78
Other	45	49	125	139
Total other retail	54	73	161	218
Covered loans (a)		1		8
Total net charge-offs	292	336	867	1,026
Provision for credit losses	282	311	827	941
Other changes (b)	(10)	(10)	(29)	(38)
Balance at end of period (c)	$ 4,306	$ 4,414	$ 4,306	$ 4,414
Components				
Allowance for loan losses	$ 3,965	$ 4,065		
Liability for unfunded credit commitments	341	349		
Total allowance for credit losses	$ 4,306	$ 4,414		
Allowance for Credit Losses as a Percentage of				
Period-end loans, excluding covered loans	1.71%	1.81%		
Nonperforming loans, excluding covered loans	347	291		
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	245	214		
Nonperforming assets, excluding covered assets	280	245		
Annualized net charge-offs, excluding covered loans	368	324		
Period-end loans	1.69%	1.80%		
Nonperforming loans	347	282		
Nonperforming and accruing loans 90 days or more past due	208	175		
Nonperforming assets	275	230		
Annualized net charge-offs	372	331		

(a) Relates to covered loan charge-offs and recoveries not reimbursable by the FDIC.

(b) Includes net changes in credit losses to be reimbursed by the FDIC and reductions in the allowance for covered loans where the reversal of a previously recorded allowance was offset by an associated decrease in the indemnification asset, and the impact of any loan sales.

(c) At September 30, 2015 and 2014, $1.6 billion and $1.7 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

Table of Contents

Residual Value Risk Management The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2015, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2014. Refer to Management s Discussion and Analysis Residual Value Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on residual value risk management.

Operational Risk Management Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company s objectives. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. The Company maintains a system of controls with the objective of providing proper transaction authorization and execution, proper system operations, proper oversight of third parties with whom they do business, safeguarding of assets from misuse or theft, and ensuring the reliability and security of financial and other data. Refer to Management s Discussion and Analysis Operational Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on operational risk management.

Compliance Risk Management The Company may suffer legal or regulatory sanctions, material financial loss, or damage to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct. The Company has controls and processes in place for the assessment, identification, monitoring, management and reporting of compliance risks and issues. Refer to Management s Discussion and Analysis Compliance Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on compliance risk management.

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

Net Interest Income Simulation Analysis Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. Table 9 summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALCO policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At September 30, 2015, and December 31, 2014, the Company was within policy. Refer to Management s Discussion and Analysis Net Interest Income Simulation Analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on net interest income simulation analysis.

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The ALCO policy limits the change in market value of equity in a 200 bps

parallel rate shock to a 15.0 percent decline. A 200 bps increase would have resulted in a 6.4 percent decrease in the market value of equity at September 30, 2015, compared with a 6.7 percent decrease at December 31, 2014. A 200 bps

Table 9 Sensitivity of Net Interest Income

	September 30, 2015				December 31, 2014			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	*	1.72%	*	2.39%	*	1.38%	*	1.68%

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

Table of Contents

decrease, where possible given current rates, would have resulted in a 7.2 percent decrease in the market value of equity at September 30, 2015, compared with a 7.1 percent decrease at December 31, 2014. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on market value of equity modeling.

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

- To convert fixed-rate debt from fixed-rate payments to floating-rate payments;
- To convert the cash flows associated with floating-rate loans and debt from floating-rate payments to fixed-rate payments;
- To mitigate changes in value of the Company s mortgage origination pipeline, funded mortgage loans held for sale and MSRs;
- To mitigate remeasurement volatility of foreign currency denominated balances; and
- To mitigate the volatility of the Company s investment in foreign operations driven by fluctuations in foreign currency exchange rates.

The Company may enter into derivative contracts that are either exchange-traded, centrally cleared through clearinghouses or over-the-counter. In addition, the Company enters into interest rate and foreign exchange derivative contracts to support the business requirements of its customers (customer-related positions). The Company minimizes the market and liquidity risks of customer-related positions by either entering into similar offsetting positions with broker-dealers, or on a portfolio basis by entering into other derivative or non-derivative financial instruments that partially or fully offset the exposure from these customer-related positions. The Company does not utilize derivatives for speculative purposes.

The Company does not designate all of the derivatives that it enters into for risk management purposes as accounting hedges because of the inefficiency of applying the accounting requirements and may instead elect fair value accounting for the related hedged items. In particular, the Company enters into interest rate swaps, forward commitments to buy to-be-announced securities (TBAs), U.S. Treasury futures and options on U.S. Treasury futures to mitigate fluctuations in the value of its MSRs, but does not designate those derivatives as accounting hedges.

Additionally, the Company uses forward commitments to sell TBAs and other commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At September 30, 2015, the Company had $6.8 billion of forward commitments to sell, hedging $3.0 billion of mortgage loans held for sale and $4.9 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedging activities. The Company has elected the fair value option for the mortgage loans held for sale.

Derivatives are subject to credit risk associated with counterparties to the contracts. Credit risk associated with derivatives is measured by the Company based on the probability of counterparty default. The Company manages the credit risk of its derivative positions by diversifying its positions among various counterparties, by entering into master netting arrangements, and, where possible by requiring collateral arrangements. The Company may also transfer counterparty credit risk related to interest rate swaps to third parties through the use of risk participation agreements. In addition, certain interest rate swaps and forwards and credit contracts are required to be centrally cleared through clearinghouses to further mitigate counterparty credit risk.

For additional information on derivatives and hedging activities, refer to Notes 12 and 13 in the Notes to Consolidated Financial Statements.

Market Risk Management In addition to interest rate risk, the Company is exposed to other forms of market risk, principally related to trading activities which support customers strategies to manage their own foreign currency, interest rate risk and funding activities. For purposes of its internal capital adequacy assessment process, the Company considers risk arising from its trading activities employing methodologies consistent with the requirements of regulatory rules for market risk. The Company s Market Risk Committee (MRC), within the framework of the ALCO, oversees market risk management. The MRC monitors and reviews the Company s trading positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the statistical risk of loss the Company has to adverse market movements over a one-day time horizon. The Company uses the Historical Simulation method to calculate VaR for its trading businesses measured at the ninety-ninth percentile using a

one-year look-back period for distributions derived from past market data. The market factors used in the calculations include those pertinent to market risks inherent in the underlying trading portfolios, principally those that affect its corporate bond trading business, foreign currency transaction business, client derivatives business, loan trading business and municipal securities business. On average, the Company expects the one-day VaR to be exceeded by actual losses two to three times per year for its trading businesses. The Company monitors the effectiveness of its risk programs by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. If the Company were to experience market losses in excess of the estimated VaR more often than expected, the VaR models and associated assumptions would be analyzed and adjusted.

The average, high, low and period-end one-day VaR amounts for the Company s trading positions were as follows:

Nine Months Ended September 30,

(Dollars in Millions)	2015	2014
Average	$ 1	$ 1
High	2	2
Low	1	1
Period-end	1	1

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR during the nine months ended September 30, 2015 and 2014. The Company stress tests its market risk measurements to provide management with perspectives on market events that may not be captured by its VaR models, including worst case historical market movement combinations that have not necessarily occurred on the same date.

The Company calculates Stressed VaR using the same underlying methodology and model as VaR, except that a historical continuous one-year look-back period is utilized that reflects a period of significant financial stress appropriate to the Company s trading portfolio. The period selected by the Company includes the significant market volatility of the last four months of 2008.

The average, high, low and period-end one-day Stressed VaR amounts for the Company s trading positions were as follows:

Nine Months Ended September 30,

(Dollars in Millions)	2015	2014
Average	$ 4	$ 4
High	8	8
Low	2	2
Period-end	3	5

Valuations of positions in the client derivatives and foreign currency transaction businesses are based on standard cash flow or other valuation techniques using market-based assumptions. These valuations are compared to third party quotes or other market prices to determine if there are significant variances. Significant variances are approved by the Company s market risk management department. Valuation of positions in the corporate bond trading, loan trading and municipal securities businesses are based on trader marks. These trader marks are evaluated against third party prices, with significant variances approved by the Company s risk management department.

The Company also measures the market risk of its hedging activities related to residential mortgage loans held for sale and MSRs using the Historical Simulation method. The VaRs are measured at the ninety-ninth percentile and employ factors pertinent to the market risks inherent in the valuation of the assets and hedges. The Company monitors the effectiveness of the models through back-testing, updating the data and regular validations. A three-year look-back period is used to obtain past market data for the models.

The average, high and low one-day VaR amounts for the residential mortgage loans held for sale and related hedges and the MSRs and related hedges were as follows:

Nine Months Ended September 30,		
(Dollars in Millions)	2015	2014
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$ 1	$ 1
High	2	2
Low		
Mortgage Servicing Rights and Related Hedges		
Average	$ 6	$ 3
High	8	8
Low	4	2

The Company did not experience any actual losses on its residential mortgage loans held for sale and MSRs activities, including their related hedges, that exceeded VaR during the nine months ended September 30, 2015 and 2014.

Liquidity Risk Management The Company s liquidity risk management process is designed to identify, measure, and manage the Company s funding and liquidity risk to meet its daily funding needs and to address expected and unexpected changes in its funding requirements. The Company engages in various activities to manage its liquidity risk. These activities include diversifying its funding sources, stress testing, and holding readily-marketable assets which can be used as a source of liquidity if needed. In addition, the Company s profitable operations, sound credit quality and strong capital position have enabled it to develop a large and reliable base of core deposit funding within its market areas and in domestic and global capital markets.

The Company s Board of Directors approves the Company s liquidity policy. The Risk Management

Committee of the Company s Board of Directors oversees the Company s liquidity risk management process and approves the contingency funding plan. The ALCO reviews the Company s liquidity policy and guidelines, and regularly assesses the Company s ability to meet funding requirements arising from adverse company-specific or market events.

The Company regularly projects its funding needs under various stress scenarios and maintains a contingency funding plan consistent with the Company s access to diversified sources of contingent funding. The Company maintains a substantial level of total available liquidity in the form of on-balance sheet and off-balance sheet funding sources. These include cash at the Federal Reserve Bank, unencumbered liquid assets, and capacity to borrow at the FHLB and the Federal Reserve Bank s Discount Window. At September 30, 2015, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $90.4 billion, compared with $86.9 billion at December 31, 2014. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company s ability to pledge loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At September 30, 2015, the Company could have borrowed an additional $78.2 billion at the FHLB and Federal Reserve Bank based on collateral available for additional borrowings.

The Company s diversified deposit base provides a sizeable source of relatively stable and low-cost funding, while reducing the Company s reliance on the wholesale markets. Total deposits were $295.3 billion at September 30, 2015, compared with $282.7 billion at December 31, 2014. Refer to Balance Sheet Analysis for further information on the Company s deposits.

Additional funding is provided by long-term debt and short-term borrowings. Long-term debt was $32.5 billion at September 30, 2015, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $26.9 billion at September 30, 2015, and supplement the Company s other funding sources. Refer to Balance Sheet Analysis for further information on the Company s long-term debt and short-term borrowings.

In addition to assessing liquidity risk on a consolidated basis, the Company monitors the parent company s liquidity. The Company maintains sufficient funding to meet expected parent company obligations, without access to the wholesale funding markets or dividends from subsidiaries, for 12 months when forecasted payments of common stock dividends are included, and 24 months assuming dividends were reduced to zero. The parent company currently has available funds considerably greater than the amounts required to satisfy these conditions.

At September 30, 2015, parent company long-term debt outstanding was $11.5 billion, compared with $13.2 billion at December 31, 2014. The decrease was primarily due to the maturity of $1.7 billion of medium-term notes. As of September 30, 2015, there was no parent company debt scheduled to mature in the remainder of 2015.

During 2014, U.S. banking regulators approved a final regulatory Liquidity Coverage Ratio (LCR), requiring banks to maintain an adequate level of unencumbered high quality liquid assets to meet estimated liquidity needs over a 30-day stressed period. The LCR requirement became effective for the Company January 1, 2015, subject to certain transition provisions over the following two years to full implementation by January 1, 2017. At September 30, 2015, the Company was compliant with the fully implemented LCR requirement based on its interpretation of the final U.S. LCR rule.

Refer to Management s Discussion and Analysis Liquidity Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on liquidity risk management.

European Exposures Certain European countries have experienced severe credit deterioration. The Company does not hold sovereign debt of any European country, but may have indirect exposure to sovereign debt through its investments in, and transactions with, European banks. At September 30, 2015, the Company had investments in perpetual preferred stock issued by European banks with an amortized cost totaling $22 million and unrealized losses totaling $2 million, compared with an amortized cost totaling $66 million and unrealized losses totaling $2 million, at December 31, 2014. The Company also transacts with various European banks as counterparties to interest rate and foreign currency derivatives for its hedging and customer-related activities; however, none of these banks are domiciled in the countries currently experiencing the most significant credit deterioration. These derivatives are subject to master netting arrangements. In addition, interest rate and foreign currency derivative transactions are subject to collateral arrangements which significantly limit the Company s exposure to loss as they generally require daily posting of collateral. At September 30, 2015, the Company was in a net receivable position with five banks in Europe, totaling $3 million. The Company was in a net payable position to each of the other European banks.

Table of Contents

Table 10 Regulatory Capital Ratios

(Dollars in Millions)		September 30, 2015		December 31, 2014
Basel III transitional standardized approach:				
Common equity tier 1 capital	$	32,124	$	30,856
Tier 1 capital		37,197		36,020
Total risk-based capital		44,015		43,208
Risk-weighted assets		336,227		317,398
Common equity tier 1 capital as a percent of risk-weighted assets		9.6%		9.7%
Tier 1 capital as a percent of risk-weighted assets		11.1		11.3
Total risk-based capital as a percent of risk-weighted assets		13.1		13.6
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)		9.3		9.3
Basel III transitional advanced approaches:				
Common equity tier 1 capital	$	32,124	$	30,856
Tier 1 capital		37,197		36,020
Total risk-based capital		41,021		40,475
Risk-weighted assets		248,048		248,596
Common equity tier 1 capital as a percent of risk-weighted assets		13.0%		12.4%
Tier 1 capital as a percent of risk-weighted assets		15.0		14.5
Total risk-based capital as a percent of risk-weighted assets		16.5		16.3

The Company has not bought or sold credit protection on the debt of any European country or any company domiciled in Europe, nor does it provide retail lending services in Europe. While the Company does not offer commercial lending services in Europe, it does provide financing to domestic multinational corporations that generate revenue from customers in European countries and provides a limited number of corporate credit cards in Europe to existing Company customers. While further deterioration in economic conditions in Europe could have a negative impact on these customers revenues, it is unlikely that any effect on the overall credit-worthiness of these multinational corporations would be material to the Company.

The Company provides merchant processing and corporate trust services in Europe either directly or through banking affiliations in Europe. Operating cash for these businesses is deposited on a short-term basis with certain European banks. However, exposure is mitigated by the Company placing deposits at multiple banks and managing the amounts on deposit at any bank based on institution-specific deposit limits. At September 30, 2015, the Company had an aggregate amount on deposit with European banks of approximately $1.0 billion, predominately with the Central Bank of Ireland.

The money market funds managed by a subsidiary of the Company do not have any investments in European sovereign debt, other than approximately $434 million at September 30, 2015 guaranteed by the country of Germany. Other than investments in banks in the countries of the Netherlands, France and Germany, those funds do not have any unsecured investments in banks domiciled in the Eurozone.

Off-Balance Sheet Arrangements Off-balance sheet arrangements include any contractual arrangements to which an unconsolidated entity is a party, under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. In the ordinary course of business, the Company enters into an array of

commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. Refer to Note 15 of the Notes to Consolidated Financial Statements for further information on these arrangements. The Company has not utilized private label asset securitizations as a source of funding.
Off-balance sheet arrangements also include any obligation related to a variable interest held in an unconsolidated entity that provides financing, liquidity, credit enhancement or market risk support. Refer to Note 5 of the Notes to Consolidated Financial Statements for further information related to the Company s interests in variable interest entities.

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Beginning January 1, 2014, the regulatory capital requirements effective for the Company follow Basel III, subject to certain transition provisions from Basel I over the following four years to full implementation by January 1, 2018. Basel III includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches, with the Company s capital adequacy being evaluated against the methodology that is most restrictive. Table 10 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2015 and December 31, 2014. All regulatory ratios exceeded regulatory well-capitalized requirements.

Table of Contents

During 2014, U.S. banking regulators approved a final regulatory Supplementary Leverage Ratio (SLR) requirement for banks calculating capital adequacy using advanced approaches under Basel III. The SLR is defined as tier 1 capital divided by total leverage exposure, which includes both on- and off-balance sheet exposures. At September 30, 2015, the Company s SLR exceeds the applicable minimum SLR requirement effective January 1, 2018.

Total U.S. Bancorp shareholders equity was $45.1 billion at September 30, 2015, compared with $43.5 billion at December 31, 2014. The increase was primarily the result of corporate earnings, partially offset by dividends and common share repurchases.

The Company believes certain capital ratios in addition to statutory regulatory capital ratios are useful in evaluating its capital adequacy. The Company s tangible common equity, as a percent of tangible assets and as a percent of risk-weighted assets calculated under the transitional standardized approach, was 7.7 percent and 9.3 percent, respectively, at September 30, 2015, compared with 7.5 percent and 9.3 percent, respectively, at December 31, 2014. The Company s common equity tier 1 to risk-weighted assets ratio using the Basel III standardized approach as if fully implemented was 9.2 percent at September 30, 2015, compared with 9.0 percent at December 31, 2014. The Company s common equity tier 1 to risk-weighted assets ratio using the Basel III advanced approaches as if fully implemented was 12.4 percent at September 30, 2015, compared with 11.8 percent at December 31, 2014. Refer to Non-GAAP Financial Measures for further information regarding the calculation of these ratios.

On March 11, 2015, the Company announced its Board of Directors had approved an authorization to repurchase up to $3.022 billion of its common stock, from April 1, 2015 through June 30, 2016.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the third quarter of 2015:

Period (Dollars in Millions, Except Per Share Data)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July	7,568,242	$ 45.46	7,568,242	$ 2,054
August	6,308,097 (b)	43.48	6,208,097	1,784
September	1,867,190 (c)	41.16	1,792,190	1,710
Total	15,743,529 (d)	$ 44.16	15,568,529	$ 1,710

(a) All shares were purchased under the stock repurchase program announced on March 11, 2015.

(b) Includes 100,000 shares of common stock purchased, at an average price per share of $40.73, in open-market transactions by U.S. Bank National Association, the Company s principal banking subsidiary, in its capacity as trustee of the Company s Employee Retirement Savings Plan (the 401(k) Plan).

(c)

Includes 75,000 shares of common stock purchased, at an average price per share of $41.33, in open-market transactions by U.S. Bank National Association in its capacity as trustee of the Company s 401(k) Plan.

(d) Includes 175,000 shares of common stock purchased, at an average price per share of $40.99, in open-market transactions by U.S. Bank National Association in its capacity as trustee of the Company s 401(k) Plan.

On June 16, 2015, the Company announced its Board of Directors had approved a 4.1 percent increase in the Company s dividend rate per common share, from $0.245 per quarter to $0.255 per quarter.

Refer to Management s Discussion and Analysis Capital Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on capital management.

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company s business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. The allowance for credit losses and related provision expense are allocated to the lines of business based on the related loan balances managed. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2015, certain organization and methodology changes were made and, accordingly, 2014 results were restated and presented on a comparable basis.

Wholesale Banking and Commercial Real Estate Wholesale Banking and Commercial Real Estate offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution, non-profit and public sector clients. Wholesale Banking and Commercial Real Estate contributed $210 million of the Company s net income in the third quarter and $666 million in the first nine months of 2015, or decreases of $48 million (18.6 percent) and $147 million (18.1 percent), respectively, compared with the same periods of 2014. The decreases were primarily driven by higher noninterest expense and provision for credit losses year-over-year.

Net revenue increased $2 million (0.3 percent) in the third quarter and decreased $53 million (2.4 percent) in the first nine months of 2015, compared with the same periods of 2014. Net interest income, on a taxable-equivalent basis, increased $12 million (2.4 percent) in the third quarter and $11 million (0.7 percent) in the first nine months of 2015, compared with the same periods of 2014. The increases were primarily driven by higher average loans and deposits, offset by lower rates and fees on loans. Noninterest income decreased $10 million (4.3 percent) in the third quarter and $64 million (8.8 percent) in the first nine months of 2015, compared with the same periods of 2014, driven by higher loan-related charges, partially offset by higher loan syndication and bond underwriting fees, as well as higher wholesale transaction activity.

Noninterest expense increased $28 million (9.2 percent) in the third quarter and $60 million (6.5 percent) in the first nine months of 2015, compared with the same periods of 2014, primarily due to higher compensation expense due to higher variable compensation and merit increases, higher benefits expense due to increased pension costs, as well as higher net shared services expense and increases in the FDIC insurance assessment allocation based on the level of commitments. The provision for credit losses increased $49 million in the third quarter and $118 million in the first nine months of 2015, compared with the same periods of 2014. The increases were due to unfavorable changes in the reserve allocation and higher net charge-offs. Nonperforming assets were $174 million at September 30, 2015, $118 million at June 30, 2015, and $252 million at September 30, 2014. Nonperforming assets as a percentage of period-end loans were 0.20 percent at September 30, 2015, 0.14 percent at June 30, 2015, and 0.32 percent at September 30, 2014. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Consumer and Small Business Banking Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices, such as mobile phones and tablet computers. It encompasses community banking, metropolitan banking and indirect lending (collectively, the retail banking division), as well as mortgage banking. Consumer and Small Business Banking contributed $310 million of the Company s net income in the third quarter and $980 million in the first nine months of 2015, or decreases of $65 million (17.3 percent) and $134 million (12.0 percent), respectively, compared with the same periods of 2014. The decreases were due to lower net revenue and higher noninterest expense, partially offset by decreases in the provision for credit losses. Within Consumer and Small Business Banking, the retail banking division contributed $222 million of the total net income in the third quarter and $715 million in the first nine months of 2015, or decreases of $11 million (4.7 percent) and $8

Table of Contents

Table 11 Line of Business Financial Performance

Three Months Ended September 30,	Wholesale Banking and Commercial Real Estate			Consumer and Small Business Banking		
(Dollars in Millions)	2015	2014	Percent Change	2015	2014	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 516	$ 504	2.4%	$ 1,161	$ 1,174	(1.1)%
Noninterest income	223	233	(4.3)	634	668	(5.1)
Securities gains (losses), net						
Total net revenue	739	737	.3	1,795	1,842	(2.6)
Noninterest expense	330	302	9.3	1,264	1,162	8.8
Other intangibles	1	1		10	12	(16.7)
Total noninterest expense	331	303	9.2	1,274	1,174	8.5
Income before provision and income taxes	408	434	(6.0)	521	668	(22.0)
Provision for credit losses	78	29	*	33	79	(58.2)
Income before income taxes	330	405	(18.5)	488	589	(17.1)
Income taxes and taxable-equivalent adjustment	120	147	(18.4)	178	214	(16.8)
Net income	210	258	(18.6)	310	375	(17.3)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 210	$ 258	(18.6)	$ 310	$ 375	(17.3