US BANCORP \DE\
Form 10-Q
August 05, 2016

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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 June 30, 2016

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 July 31, 2016
Common Stock, $0.01 Par Value	1,711,533,617 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. 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 (which could result, in part, from the United Kingdom s withdrawal from the European Union); 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, 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, 2015, 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, including the Risk Factors section of this report. 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.

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Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Percent Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	$ 2,896	$ 2,770	4.5%	$ 5,784	$ 5,522	4.7%
Noninterest income	2,549	2,272	12.2	4,695	4,426	6.1
Securities gains (losses), net	3		*	6		*
Total net revenue	5,448	5,042	8.1	10,485	9,948	5.4
Noninterest expense	2,992	2,682	11.6	5,741	5,347	7.4
Provision for credit losses	327	281	16.4	657	545	20.6
Income before taxes	2,129	2,079	2.4	4,087	4,056	.8
Taxable-equivalent adjustment	51	54	(5.6)	104	108	(3.7)
Applicable income taxes	542	528	2.7	1,046	1,007	3.9
Net income	1,536	1,497	2.6	2,937	2,941	(.1)
Net (income) loss attributable to noncontrolling interests	(14)	(14)		(29)	(27)	(7.4)
Net income attributable to U.S. Bancorp	$ 1,522	$ 1,483	2.6	$ 2,908	$ 2,914	(.2)
Net income applicable to U.S. Bancorp common shareholders	$ 1,435	$ 1,417	1.3	$ 2,764	$ 2,782	(.6)
Per Common Share						
Earnings per share	$ .83	$ .80	3.8%	$ 1.60	$ 1.57	1.9%
Diluted earnings per share	.83	.80	3.8	1.59	1.56	1.9
Dividends declared per share	.255	.255		.510	.500	2.0
Book value per share	24.37	22.51	8.3			
Market value per share	40.33	43.40	(7.1)			
Average common shares outstanding	1,725	1,771	(2.6)	1,731	1,776	(2.5)
Average diluted common shares outstanding	1,731	1,779	(2.7)	1,737	1,784	(2.6)
Financial Ratios						
Return on average assets	1.43%	1.46%		1.38%	1.45%	
Return on average common equity	13.8	14.3		13.4	14.2	
Net interest margin (taxable-equivalent basis) (a)	3.02	3.03		3.04	3.05	
Efficiency ratio (b)	54.9	53.2		54.8	53.7	
Net charge-offs as a percent of average loans outstanding	.48	.48		.48	.47	
Average Balances						
Loans	$ 266,582	$ 246,560	8.1%	$ 264,432	$ 247,251	6.9%
Loans held for sale	3,796	7,908	(52.0)	3,481	6,133	(43.2)
Investment securities (c)	107,132	102,391	4.6	106,581	101,556	4.9
Earning assets	385,368	366,428	5.2	381,788	363,650	5.0
Assets	428,750	407,901	5.1	425,153	404,885	5.0

Noninterest-bearing deposits	79,171	77,347	2.4	78,870	75,937	3.9
Deposits	307,386	285,744	7.6	301,632	282,122	6.9
Short-term borrowings	21,103	27,758	(24.0)	24,251	28,622	(15.3)
Long-term debt	36,478	34,418	6.0	35,643	34,428	3.5
Total U.S. Bancorp shareholders equity	47,184	44,514	6.0	46,961	44,297	6.0

	June 30, 2016	December 31, 2015	
Period End Balances			
Loans	$ 268,521	$ 260,849	2.9%
Investment securities	108,520	105,587	2.8
Assets	438,463	421,853	3.9
Deposits	317,590	300,400	5.7
Long-term debt	36,941	32,078	15.2
Total U.S. Bancorp shareholders equity	47,390	46,131	2.7
Asset Quality			
Nonperforming assets	$ 1,672	$ 1,523	9.8%
Allowance for credit losses	4,329	4,306	.5
Allowance for credit losses as a percentage of period-end loans	1.61%	1.65%	
Capital Ratios			
Basel III transitional standardized approach:			
Common equity tier 1 capital	9.5%	9.6%	
Tier 1 capital	11.1	11.3	
Total risk-based capital	13.4	13.3	
Leverage	9.3	9.5	
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.3	12.5	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (d)	9.3	9.1	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (d)	12.0	11.9	
Tangible common equity to tangible assets (d)	7.6	7.6	
Tangible common equity to risk-weighted assets (d)	9.3	9.2	

* *Not meaningful*

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

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

(c)

Excludes unrealized gains and losses 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 33.

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Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.5 billion for the second quarter of 2016, or $0.83 per diluted common share, compared with $1.5 billion, or $0.80 per diluted common share, for the second quarter of 2015. Return on average assets and return on average common equity were 1.43 percent and 13.8 percent, respectively, for the second quarter of 2016, compared with 1.46 percent and 14.3 percent, respectively, for the second quarter of 2015. The results for the second quarter of 2016 included $180 million of equity investment income, primarily the result of the Company s membership in Visa Europe Limited (Visa Europe) which was sold to Visa, Inc. on June 21, 2016, and a $110 million increase in reserves related to legal and regulatory matters along with a $40 million charitable contribution. Combined, these notable items increased the second quarter of 2016 diluted earnings per common share by $0.01.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2016 was $406 million (8.1 percent) higher than the second quarter of 2015, reflecting a 4.5 percent increase in net interest income and a 12.3 percent increase in noninterest income. The increase in net interest income from the second quarter of 2015 was mainly a result of loan growth. The noninterest income increase was primarily driven by the impact of the Visa Europe sale, along with growth in credit and debit card revenue, commercial products revenue, and trust and investment management fees.

Noninterest expense in the second quarter of 2016 was $310 million (11.6 percent) higher than the second quarter of 2015, the result of the second quarter 2016 increase in reserves related to legal and regulatory matters and a charitable contribution, as well as higher compensation expense related to the impact of merit increases and higher variable compensation expense, increased compliance costs, higher marketing expense as a result of brand advertising, higher technology and communications expense, and higher postage, printing and supplies expense.

The provision for credit losses for the second quarter of 2016 of $327 million was $46 million (16.4 percent) higher than the second quarter of 2015. Net charge-offs in the second quarter of 2016 were $317 million, compared with $296 million in the second quarter of 2015. 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 six months of 2016 was $2.9 billion, or $1.59 per diluted common share, compared with $2.9 billion, or $1.56 per diluted common share, for the first six months of 2015. Return on average assets and return on average common equity were 1.38 percent and 13.4 percent, respectively, for the first six months of 2016, compared with 1.45 percent and 14.2 percent, respectively, for the first six months of 2015.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2016 was $537 million (5.4 percent) higher than the first six months of 2015, reflecting a 4.7 percent increase in net interest income and a 6.2 percent increase in noninterest income. The increase in net interest income from a year ago was mainly the result of loan growth. The increase in noninterest income was primarily driven by the impact of the Visa Europe sale, along with growth in credit and debit card revenue, trust and investment management fees, merchant processing services revenue and commercial products revenue, partially offset by lower mortgage banking revenue.

Noninterest expense in the first six months of 2016 was $394 million (7.4 percent) higher than the first six months of 2015, the result of the second quarter 2016 increase in reserves related to legal and regulatory matters and a charitable contribution, as well as higher compensation expense related to the impact of merit increases and higher variable compensation expense, increased compliance costs, higher marketing expense as a result of brand advertising, higher technology and communications expense, and higher postage, printing and supplies expense.

The provision for credit losses for the first six months of 2016 of $657 million was $112 million (20.6 percent) higher than the first six months of 2015. Net charge-offs in the first six months of 2016 were $632 million, compared with $575 million in the first six months of 2015. 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.

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STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $2.9 billion in the second quarter and $5.8 billion in the first six months of 2016, representing increases of $126 million (4.5 percent) and $262 million (4.7 percent), respectively, over the same periods of 2015. The increases were driven by loan growth and higher rates, partially offset by the loan portfolio mix. Average earning assets were $18.9 billion (5.2 percent) higher in the second quarter and $18.1 billion (5.0 percent) higher in the first six months of 2016, compared with the same periods of 2015, driven by increases in loans and in investment securities. The net interest margin, on a taxable-equivalent basis, in the second quarter and first six months of 2016 was 3.02 percent and 3.04 percent, respectively, compared with 3.03 percent and 3.05 percent in the second quarter and first six months of 2015, respectively. The decreases in the net interest margin from the same periods of the prior year were principally due to securities purchases at lower average rates and lower reinvestment rates on maturing securities, partially offset by higher rates on new loans. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average investment securities in the second quarter and first six months of 2016 were $4.7 billion (4.6 percent) and $5.0 billion (4.9 percent) higher, respectively, than the same periods of 2015, primarily due to purchases of U.S. Treasury and U.S. government agency-backed securities, net of prepayments and maturities, to support regulatory liquidity coverage ratio requirements.

Average total loans in the second quarter and first six months of 2016 were $20.0 billion (8.1 percent) and $17.2 billion (6.9 percent) higher, respectively, than the same periods of 2015, due to growth in commercial loans, credit card loans, residential mortgages and other retail loans. The increases were driven by higher demand for loans from new and existing customers. In addition, at the end of the fourth quarter of 2015, the Company acquired a credit card portfolio which increased average credit card loans by approximately $1.5 billion for both the second quarter and first six months of 2016. These increases were partially offset by a decline in loans acquired in Federal Deposit Insurance Corporation (FDIC) assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans), a run-off portfolio.

Average total deposits for the second quarter and first six months of 2016 were $21.6 billion (7.6 percent) and $19.5 billion (6.9 percent) higher, respectively, than the same periods of 2015. Average noninterest-bearing deposits for the second quarter and first six months of 2016 increased $1.8 billion (2.4 percent) and $2.9 billion (3.9 percent), respectively, over the same periods of the prior year, mainly in Consumer and Small Business Banking and Wholesale Banking and Commercial Real Estate, partially offset by declines in balances in Wealth Management and Securities Services. Average total savings deposits for the second quarter and first six months of 2016 were $21.8 billion (12.7 percent) and $20.4 billion (12.1 percent) higher, respectively, over the same periods of the prior year, the result of growth across all business lines. Growth in Consumer and Small Business Banking total savings deposits included net new account growth of 2.8 percent in both the second quarter and first six months of 2016. Average time deposits for the second quarter and first six months of 2016 were $2.0 billion (5.6 percent) and $3.8 billion (10.2 percent) lower, respectively, compared with the same periods of 2015. The decreases were primarily due to lower Consumer and Small Business Banking balances driven by maturities, as well as declines related to those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2016 increased $46 million (16.4 percent) and $112 million (20.6 percent), respectively, compared with the same periods of 2015. The provision for credit losses was higher than net charge-offs by $10 million in the second quarter and higher than net charge-offs by $25 million in the first six months of 2016, compared with lower than net charge-offs by $15 million in the second quarter and lower than net charge-offs by $30 million in the first six months of 2015. The increase in the allowance for credit losses during the second quarter of 2016 was driven by loan portfolio growth, partially offset by reduced energy portfolio exposure and continued residential mortgage and home equity loans and lines credit quality improvement. The increase in the allowance for credit losses during the first six months of 2016 reflected loan portfolio growth and an increase in energy portfolio credit reserves in the first quarter, partially offset by residential mortgage and home equity loans and lines credit quality improvement. Net charge-offs increased $21 million (7.1 percent) and $57 million (9.9 percent) in the second quarter and first six months of 2016, respectively, compared with the same periods of the prior year, primarily due to higher commercial loan net charge-offs, partially offset by lower charge-offs related to residential mortgages and home equity loans. Refer to Corporate Risk Profile for further information on the

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Table 2 Noninterest Income

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in Millions)	2016	2015	Percent Change	2016	2015	Percent Change
Credit and debit card revenue	$ 296	$ 266	11.3%	$ 562	$ 507	10.8%
Corporate payment products revenue	181	178	1.7	351	348	.9
Merchant processing services	403	395	2.0	776	754	2.9
ATM processing services	84	80	5.0	164	158	3.8
Trust and investment management fees	358	334	7.2	697	656	6.3
Deposit service charges	179	174	2.9	347	335	3.6
Treasury management fees	147	142	3.5	289	279	3.6
Commercial products revenue	238	214	11.2	435	414	5.1
Mortgage banking revenue	238	231	3.0	425	471	(9.8)
Investment products fees	39	48	(18.8)	79	95	(16.8)
Securities gains (losses), net	3		*	6		*
Other	386	210	83.8	570	409	39.4
Total noninterest income	$ 2,552	$ 2,272	12.3%	$ 4,701	$ 4,426	6.2%

**Not meaningful.*

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 $2.6 billion in the second quarter and $4.7 billion in the first six months of 2016, representing increases of $280 million (12.3 percent) and $275 million (6.2 percent), respectively, compared with the same periods of 2015. The increases from a year ago were primarily due to higher other revenue, reflecting the second quarter 2016 Visa Europe sale, as well as higher credit and debit card revenue, trust and investment management fees, commercial product revenue and merchant processing services revenue. Credit and debit card revenue increased, reflecting higher transaction volumes including acquired portfolios. Trust and investment management fees increased, reflecting lower money market fee waivers. Commercial products revenue increased, driven by higher bond underwriting fees, as well as foreign currency customer activity and other capital markets activity resulting from market volatility. Merchant processing services revenue increased 2.0 percent in the second quarter and 2.9 percent in the first six months of 2016, compared with the same periods of 2015, as a result of higher transaction volumes. The increase in merchant processing services revenue for the first six months of 2016 over the same period of the prior year was also the result of higher 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 3.0 percent and 4.6 percent, respectively. Mortgage banking revenue and retail leasing revenue decreased for the first six months of 2016, compared with the same period of the prior year. The decrease in mortgage banking revenue was primarily due to lower origination and sales revenue driven by lower volume and lower pricing as a result of market competition. The decrease in retail leasing revenue was due to lower end-of-term gains on auto leases driven by lower used car values.

Noninterest Expense Noninterest expense was $3.0 billion in the second quarter and $5.7 billion in the first six months of 2016, representing increases of $310 million (11.6 percent) and $394 million (7.4 percent), respectively, compared with the same periods of 2015. The increases from a year ago were primarily due to higher compensation expense, marketing and business development expense, professional services expense, technology and communications expense and other noninterest expense, partially offset by lower employee benefits expense. Compensation expense increased principally due to the impact of merit increases, along with higher variable compensation including performance-based incentives. Marketing and business development expense increased reflecting the second quarter 2016 charitable contribution and higher marketing expense as a result of brand advertising. Professional services expense increased primarily due to compliance-related matters, while technology and communications expense increased as a result of acquired portfolio conversion costs and business initiatives across most business lines. In addition, postage, printing and supplies expense increased reflecting the impact of a prior year reimbursement from a business partner and other noninterest expense increased primarily due to the second quarter 2016 increase in reserves related to legal and regulatory matters. Offsetting these increases were lower employee benefits expense mainly due to lower pension costs.

Income Tax Expense The provision for income taxes was $542 million (an effective rate of 26.1 percent) for the second quarter and $1.0 billion (an effective rate of 26.3 percent) for the first six months of 2016, compared with $528 million (an effective rate of 26.1 percent) and $1.0 billion (an effective rate of 25.5 percent) for the same periods of 2015. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

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Table 3 Noninterest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in Millions)	2016	2015	Percent Change	2016	2015	Percent Change
Compensation	$ 1,277	$ 1,196	6.8%	$ 2,526	$ 2,375	6.4%
Employee benefits	278	293	(5.1)	578	610	(5.2)
Net occupancy and equipment	243	247	(1.6)	491	494	(.6)
Professional services	121	106	14.2	219	183	19.7
Marketing and business development	149	96	55.2	226	166	36.1
Technology and communications	241	221	9.0	474	435	9.0
Postage, printing and supplies	77	64	20.3	156	146	6.8
Other intangibles	44	43	2.3	89	86	3.5
Other	562	416	35.1	982	852	15.3
Total noninterest expense	$ 2,992	$ 2,682	11.6%	$ 5,741	$ 5,347	7.4%
Efficiency ratio (a)	54.9%	53.2%		54.8%	53.7%	

(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).

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $268.5 billion at June 30, 2016, compared with $260.8 billion at December 31, 2015, an increase of $7.7 billion (2.9 percent). The increase was driven primarily by higher commercial loans, residential mortgages, commercial real estate loans and other retail loans, partially offset by lower credit card loans and covered loans.

Commercial loans and commercial real estate loans increased $4.1 billion (4.7 percent) and $1.2 billion (2.7 percent), respectively, at June 30, 2016, compared with December 31, 2015, reflecting higher demand from new and existing customers.

Residential mortgages held in the loan portfolio increased $2.4 billion (4.5 percent), reflecting origination activity in the first half of 2016. 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.

Other retail loans increased $802 million (1.6 percent) at June 30, 2016, compared with December 31, 2015, driven by higher installment, auto, retail leasing and home equity and second mortgage loan balances, partially offset by decreases in revolving credit and student loan balances.

Credit card loans decreased $441 million (2.1 percent) at June 30, 2016, compared with December 31, 2015, 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, it is transferred to loans held for sale.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were $4.3 billion at June 30, 2016, compared with $3.2 billion at December 31, 2015. The increase in loans held for sale was principally due to a higher level of mortgage loan closings in the second quarter of 2016. 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 (GSEs).

Investment Securities Investment securities totaled $108.5 billion at June 30, 2016, compared with $105.6 billion at December 31, 2015. The $2.9 billion (2.8 percent) increase reflected $2.2 billion of net investment purchases and an $814 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 June 30, 2016, the Company s net unrealized gains on available-for-sale securities were $994 million, compared with $180 million at December 31, 2015. The favorable change in net unrealized gains (losses) was primarily due to increases in the fair value of agency mortgage-backed securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale securities totaled $142 million at June 30, 2016, compared with $480 million at December 31, 2015. At June 30, 2016, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it

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Table 4 Investment Securities

At June 30, 2016 (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	$ 1,933	$ 1,936	.6	1.00%	$ 100	$ 100	.8	.91%
Maturing after one year through five years	5,549	5,615	3.0	1.16	998	1,019	2.3	1.47
Maturing after five years through ten years	3,912	4,060	6.4	1.93	2,818	2,910	6.8	1.95
Maturing after ten years	1	1	11.2	4.15				
Total	$ 11,395	$ 11,612	3.7	1.40%	$ 3,916	$ 4,029	5.5	1.80%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 921	$ 926	.6	1.97%	$ 626	$ 629	.7	2.17%
Maturing after one year through five years	44,355	44,896	3.8	1.82	36,515	36,977	3.4	1.93
Maturing after five years through ten years	2,120	2,155	6.3	2.00	899	911	6.2	1.55
Maturing after ten years	187	186	12.3	1.55	31	31	11.6	1.31
Total	$ 47,583	$ 48,163	3.8	1.83%	$ 38,071	$ 38,548	3.4	1.93%
Asset-Backed Securities (a)								
Maturing in one year or less	$ 14	$ 16	.6	6.94%	$	$	.1	1.07%
Maturing after one year through five years	169	172	3.4	3.13	6	9	3.3	1.15
Maturing after five years through ten years	352	358	5.5	2.86	2	2	5.8	1.14
Maturing after ten years						6	17.8	1.16
Total	$ 535	$ 546	4.7	3.05%	$ 8	$ 17	3.9	1.15%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 2,388	$ 2,422	.4	7.03%	$	$	.7	7.77%
Maturing after one year through five years	1,114	1,175	1.9	6.71	1	1	2.9	8.14
Maturing after five years through ten years	1,369	1,458	7.9	5.37	7	7	9.3	2.61
Maturing after ten years	347	368	10.7	5.35			10.4	8.09

Total	$ 5,218	$ 5,423	3.4	6.42%	$ 8	$ 8	8.8	3.24%
Other Debt Securities								
Maturing in one year or less	$	$		%	$ 7	$ 7	.6	1.99%
Maturing after one year through five years					20	19	4.0	1.40
Maturing after five years through ten years								
Maturing after ten years	678	608	17.1	2.80				
Total	$ 678	$ 608	17.1	2.80%	$ 27	$ 26	3.1	1.55%
Other Investments	$ 87	$ 138	10.6	5.07%	$	$		%
Total investment securities (d)	$ 65,496	$ 66,490	3.9	2.14%	$ 42,030	$ 42,628	3.6	1.92%

(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 4.7 years at December 31, 2015, with a corresponding weighted-average yield of 2.21 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.2 years at December 31, 2015, with a corresponding weighted-average yield of 1.92 percent.

(e) Weighted-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. Weighted-average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

	June 30, 2016		December 31, 2015	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 15,311	14.2%	$ 7,536	7.2%
Mortgage-backed securities	85,654	79.7	91,265	86.6
Asset-backed securities	543	.5	558	.5
Obligations of state and political subdivisions	5,226	4.9	5,157	4.9
Other debt securities and investments	792	.7	891	.8
Total investment securities	$ 107,526	100.0%	$ 105,407	100.0%

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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 $317.6 billion at June 30, 2016, compared with $300.4 billion at December 31, 2015, the result of increases in total savings deposits, noninterest-bearing deposits and time deposits. Money market deposit balances increased $10.3 billion (12.0 percent) at June 30, 2016, compared with December 31, 2015, primarily due to higher Wholesale Banking and Commercial Real Estate, corporate trust and broker-dealer balances. Savings account balances increased $1.9 billion (4.9 percent), primarily due to higher Consumer and Small Business Banking balances. Interest checking balances increased $1.8 billion (3.0 percent) primarily due to higher Wholesale Banking and Commercial Real Estate balances, partially offset by lower broker-dealer, corporate trust and Consumer and Small Business Banking balances. Noninterest-bearing deposits increased $2.8 billion (3.3 percent) at June 30, 2016, compared with December 31, 2015, primarily due to higher corporate trust and mortgage escrow-related balances, partially offset by lower Wholesale Banking and Commercial Real Estate balances. Time deposits increased $368 million (1.1 percent) at June 30, 2016, compared with December 31, 2015, primarily related to increases in those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics, partially offset by lower Consumer and Small Business Banking balances due to maturities.

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 $18.4 billion at June 30, 2016, compared with $27.9 billion at December 31, 2015. The $9.5 billion (33.9 percent) decrease in short-term borrowings was primarily driven by lower commercial paper balances. Long-term debt was $36.9 billion at June 30, 2016, compared with $32.1 billion at December 31, 2015. The $4.8 billion (15.2 percent) increase was primarily due to the issuances of $4.4 billion of bank notes, $1.2 billion of medium-term notes and $1.0 billion of subordinated notes, and a $1.2 billion increase in Federal Home Loan Bank (FHLB) advances, partially offset by $3.1 billion of bank note and subordinated note repayments and maturities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

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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, primarily 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 (MLHFS), mortgage servicing rights (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, offer new services or continue serving 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, 2015, and Item 1A of Part II of this report 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), collateral values, 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, 2015, 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.

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Included within the commercial lending segment are energy loans, which represented 1.1 percent of the Company s total loans outstanding at June 30, 2016. Continued low energy prices during 2016 has resulted in further deterioration of a portion of these loans, which has led to an increase in criticized commitments and nonperforming loans at June 30, 2016, compared with December 31, 2015.

The following table provides a summary of amounts outstanding and credit quality statistics for the Company s energy loans:

	June 30,	December 31,
(Dollars in Millions)	2016	2015
Loans outstanding	$ 3,024	$ 3,183
Total commitments outstanding	11,329	12,118
Total criticized commitments outstanding	3,658	1,886
Nonperforming assets	222	19
Allowance for credit losses as a percentage of loans outstanding	8.8%	5.4%

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, home equity loans and lines, and student loans, a run-off portfolio. 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 June 30, 2016, substantially all of the Company s home equity lines were in the draw period. Approximately $1.0 billion, or 7 percent, of the outstanding home equity line balances at June 30, 2016, 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, on-line banking, 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 on its outstanding residential mortgages 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.

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The following tables provide summary information for the LTVs of residential mortgages and home equity and second mortgages by borrower type at June 30, 2016:

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	$ 1,676	$ 43,319	$ 44,995	90.2%
Over 80% through 90%	33	2,850	2,883	5.8
Over 90% through 100%	13	938	951	1.9
Over 100%	18	944	962	1.9
No LTV available	2	107	109	.2
Total	$ 1,742	$ 48,158	$ 49,900	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$	$ 581	$ 581	58.1%
Over 80% through 90%		156	156	15.6
Over 90% through 100%		118	118	11.8
Over 100%		143	143	14.3
No LTV available		2	2	.2
Total	$	$ 1,000	$ 1,000	100.0%
Other Borrowers				
Less than or equal to 80%	$ 1	$ 351	$ 352	63.8%
Over 80% through 90%		69	69	12.5
Over 90% through 100%		44	44	8.0
Over 100%		87	87	15.7
No LTV available				
Total	$ 1	$ 551	$ 552	100.0%
Loans Purchased From GNMA Mortgage Pools (a)	$	$ 4,452	$ 4,452	100.0%
Total				
Less than or equal to 80%	$ 1,677	$ 44,251	$ 45,928	82.1%
Over 80% through 90%	33	3,075	3,108	5.6
Over 90% through 100%	13	1,100	1,113	2.0
Over 100%	18	1,174	1,192	2.1
No LTV available	2	109	111	.2
Loans purchased from GNMA mortgage pools (a)		4,452	4,452	8.0
Total	$ 1,743	$ 54,161	$ 55,904	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%	$ 10,952	$ 578	$ 11,530	72.3%
Over 80% through 90%	2,353	425	2,778	17.4
Over 90% through 100%	744	99	843	5.3
Over 100%	616	100	716	4.5
No LTV/CLTV available	54	25	79	.5
Total	$ 14,719	$ 1,227	$ 15,946	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$ 36	$ 26	$ 62	35.2%
Over 80% through 90%	9	17	26	14.8
Over 90% through 100%	7	19	26	14.8
Over 100%	15	46	61	34.6
No LTV/CLTV available		1	1	.6
Total	$ 67	$ 109	$ 176	100.0%
Other Borrowers				
Less than or equal to 80%	$ 220	$ 11	$ 231	64.3%
Over 80% through 90%	27	2	29	8.1
Over 90% through 100%	10	1	11	3.1
Over 100%	8	1	9	2.5
No LTV/CLTV available	79		79	22.0
Total	$ 344	$ 15	$ 359	100.0%
Total				
Less than or equal to 80%	$ 11,208	$ 615	$ 11,823	71.7%
Over 80% through 90%	2,389	444	2,833	17.2
Over 90% through 100%	761	119	880	5.3
Over 100%	639	147	786	4.8
No LTV/CLTV available	133	26	159	1.0
Total	$ 15,130	$ 1,351	$ 16,481	100.0%

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 June 30, 2016 and December 31, 2015. 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 $16.5 billion at June 30, 2016, compared with $16.4 billion at December 31, 2015, and included $5.0 billion of home equity lines in a first lien position and $11.5 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at June 30, 2016, included approximately $4.6 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $6.9 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.

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

90 days or more past due **excluding** nonperforming loans	June 30, 2016	December 31, 2015
Commercial		
Commercial	.05%	.06%
Lease financing		
Total commercial	.05	.05
Commercial Real Estate		
Commercial mortgages	.01	
Construction and development	.10	.13
Total commercial real estate	.03	.03
Residential Mortgages (a)	.27	.33
Credit Card	.98	1.09
Other Retail		
Retail leasing		.02
Home equity and second mortgages	.24	.25
Other	.10	.11
Total other retail (b)	.13	.15
Total loans, excluding covered loans	.18	.21
Covered Loans	5.81	6.31
Total loans	.27%	.32%

90 days or more past due **including** nonperforming loans	June 30, 2016	December 31, 2015
Commercial	.58%	.25%
Commercial real estate	.27	.33
Residential mortgages (a)	1.39	1.66
Credit card	1.00	1.13
Other retail (b)	.43	.46
Total loans, excluding covered loans	.70	.67
Covered loans	5.98	6.48
Total loans	.79%	.78%

(a) Delinquent loan ratios exclude $2.5 billion at June 30, 2016, and $2.9 billion at December 31, 2015, 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 5.90 percent at June 30, 2016, and 7.15 percent at December 31, 2015.

(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 .62 percent at June 30, 2016, and .75 percent at December 31, 2015.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company s junior lien positions at June 30, 2016:

(Dollars in Millions)	Junior Liens Behind Company Owned or Serviced First Lien	Third Party First Lien	Total
Total	$4,621	$6,880	$11,501
Percent 30-89 days past due	.29%	.41%	.36%
Percent 90 days or more past due	.11%	.08%	.09%
Weighted-average CLTV	74%	71%	72%
Weighted-average credit score	774	768	771

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.

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 $724 million ($478 million excluding covered loans) at June 30, 2016, compared with $831 million ($541 million excluding covered loans) at December 31, 2015. 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, as well as student loans guaranteed by the federal government. 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 0.27 percent (0.18 percent excluding covered loans) at June 30, 2016, compared with 0.32 percent (0.21 percent excluding covered loans) at December 31, 2015.

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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)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Residential Mortgages (a)				
30-89 days	$ 159	$ 170	.28%	.32%
90 days or more	149	176	.27	.33
Nonperforming	628	712	1.12	1.33
Total	$ 936	$ 1,058	1.67%	1.98%
Credit Card				
30-89 days	$ 236	$ 243	1.15%	1.15%
90 days or more	201	228	.98	1.09
Nonperforming	5	9	.02	.04
Total	$ 442	$ 480	2.15%	2.28%
Other Retail				
Retail Leasing				
30-89 days	$ 10	$ 11	.18%	.21%
90 days or more		1		.02
Nonperforming	2	3	.04	.06
Total	$ 12	$ 15	.22%	.29%
Home Equity and Second Mortgages				
30-89 days	$ 60	$ 59	.36%	.36%
90 days or more	39	41	.24	.25
Nonperforming	129	136	.78	.83
Total	$ 228	$ 236	1.38%	1.44%
Other (b)				
30-89 days	$ 143	$ 154	.47%	.52%
90 days or more	29	33	.10	.11
Nonperforming	26	23	.09	.08
Total	$ 198	$ 210	.66%	.71%

(a) Excludes $295 million of loans 30-89 days past due and $2.5 billion of loans 90 days or more past due at June 30, 2016, purchased from GNMA mortgage pools that continue to accrue interest, compared with $320 million and $2.9 billion at December 31, 2015, 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)	June 30, 2016	December 31, 2015
Prime Borrowers		
30-89 days	.24%	.25%
90 days or more	.23	.30
Nonperforming	.92	1.12
Total	1.39%	1.67%
Sub-Prime Borrowers		
30-89 days	2.90%	3.92%
90 days or more	2.50	2.52
Nonperforming	14.70	15.30
Total	20.10%	21.74%
Other Borrowers		
30-89 days	1.45%	1.60%
90 days or more	1.45	1.12
Nonperforming	4.35	4.00
Total	7.25%	6.72%

(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	June 30, 2016	December 31, 2015
Prime Borrowers		
30-89 days	.32%	.31%
90 days or more	.21	.23
Nonperforming	.70	.74
Total	1.23%	1.28%
Sub-Prime Borrowers		
30-89 days	2.27%	2.56%
90 days or more	.57	1.03
Nonperforming	5.11	4.62
Total	7.95%	8.21%
Other Borrowers		
30-89 days	1.39%	1.23%
90 days or more	1.11	.74
Nonperforming	2.51	2.45
Total	5.01%	4.42%

The following table provides summary delinquency information for covered loans:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
30-89 days	$ 54	$ 62	1.27%	1.35%
90 days or more	246	290	5.81	6.31

Nonperforming	7	8	.17	.17
Total	$ 307	$ 360	7.25%	7.83%

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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 June 30, 2016, performing TDRs were $4.3 billion, compared with $4.7 billion at December 31, 2015. 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.

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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 June 30, 2016		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	$ 376	1.9%	.9%	$ 250(a)	$ 626
Commercial real estate	185	3.6	3.9	32(b)	217
Residential mortgages	1,772	2.8	2.8	422	2,194(d)
Credit card	206	9.0	5.7	5(c)	211
Other retail	137	4.7	3.5	56(c)	193(e)
TDRs, excluding GNMA and covered loans	2,676	3.3	2.9	765	3,441
Loans purchased from GNMA mortgage pools	1,572	5.0	58.5		1,572(f)
Covered loans	30	3.4	10.6	5	35
Total	$ 4,278	3.9%	23.4%	$ 770	$ 5,048

(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 $289 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $45 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(e) Includes $94 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $16 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(f) Includes $428 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $375 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 June 30, 2016.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2016	December 31, 2015
Commercial		
Commercial	$ 450	$ 160
Lease financing	39	14
Total commercial	489	174
Commercial Real Estate		
Commercial mortgages	91	92
Construction and development	12	35
Total commercial real estate	103	127
Residential Mortgages (b)	628	712
Credit Card	5	9
Other Retail		
Retail leasing	2	3
Home equity and second mortgages	129	136
Other	26	23
Total other retail	157	162
Total nonperforming loans, excluding covered loans	1,382	1,184
Covered Loans	7	8
Total nonperforming loans	1,389	1,192
Other Real Estate (c)(d)	229	280
Covered Other Real Estate (d)	34	32
Other Assets	20	19
Total nonperforming assets	$ 1,672	$ 1,523
Total nonperforming assets, excluding covered assets	$ 1,631	$ 1,483
Excluding covered assets		
Accruing loans 90 days or more past due (b)	$ 478	$ 541
Nonperforming loans to total loans	.52%	.46%
Nonperforming assets to total loans plus other real estate (c)	.62%	.58%
Including covered assets		
Accruing loans 90 days or more past due (b)	$ 724	$ 831
Nonperforming loans to total loans	.52%	.46%
Nonperforming assets to total loans plus other real estate (c)	.62%	.58%

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, 2015	$ 336	$ 1,147	$ 40	$ 1,523
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	693	213	12	918
Advances on loans	42			42

Total additions	735	213	12	960
Reductions in nonperforming assets				
Paydowns, payoffs	(158)	(151)	(1)	(310)
Net sales	(118)	(85)	(9)	(212)
Return to performing status	(24)	(60)		(84)
Charge-offs (e)	(162)	(42)	(1)	(205)
Total reductions	(462)	(338)	(11)	(811)
Net additions to (reductions in) nonperforming assets	273	(125)	1	149
Balance June 30, 2016	$ 609	$ 1,022	$ 41	$ 1,672

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

(b) Excludes $2.5 billion and $2.9 billion at June 30, 2016, and December 31, 2015, 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 $447 million and $535 million at June 30, 2016, and December 31, 2015, 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.

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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 (OREO) 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 June 30, 2016, total nonperforming assets were $1.7 billion, compared with $1.5 billion at December 31, 2015. The $149 million (9.8 percent) increase in nonperforming assets was primarily driven by a $203 million increase in nonperforming commercial loans within the energy portfolio, partially offset by improvements in the Company s residential and commercial real estate portfolios. Excluding energy loans, nonperforming assets decreased 3.6 percent at June 30, 2016, compared with December 31, 2015. Nonperforming covered assets were $41 million at June 30, 2016, compared with $40 million at December 31, 2015. The ratio of total nonperforming assets to total loans and other real estate was 0.62 percent at June 30, 2016, compared with 0.58 percent at December 31, 2015.

OREO, excluding covered assets, was $229 million at June 30, 2016, compared with $280 million at December 31, 2015, 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 OREO, excluding covered assets, as a percent of their related loan balances, including geographical location detail for residential (residential mortgage, home equity and second mortgage) and commercial (commercial and commercial real estate) loan balances:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Residential				
Minnesota	$ 19	$ 23	.30%	.37%
Illinois	17	18	.40	.42
Florida	13	17	.85	1.12
Wisconsin	13	11	.57	.49
Ohio	12	17	.40	.56
All other states	142	164	.26	.31
Total residential	216	250	.30	.36
Commercial				
California	5	11	.02	.05
Tennessee	1	1	.04	.04
Illinois	1	5	.02	.08
Iowa	1	1	.03	.04
Ohio	1	1	.02	.02
All other states	4	11		.01

Total commercial	13	30	.01	.02
Total	$ 229	$ 280	.09%	.11%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $317 million for the second quarter and $632 million for the first six months of 2016, compared with $296 million and $575 million for the same periods of 2015. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for both the second quarter and first six months of 2016 was 0.48 percent, compared with 0.48 percent and 0.47 percent for the second quarter and first six months of 2015, respectively. The year-over-year increases in total net charge-offs reflected higher commercial loan net charge-offs, partially offset by lower charge-offs related to residential mortgages and home equity loans.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2016 were $79 million (0.24 percent of average loans outstanding on an annualized basis), compared with $43 million (0.14 percent of average loans outstanding on an annualized basis) for the second quarter of 2015. Commercial and commercial real estate loan net charge-offs for the first six months of 2016 were $157 million (0.24 percent of average loans outstanding on an annualized basis), compared with $68 million (0.11 percent of average loans outstanding on an annualized basis) for the first six months of 2015. The year-over-year increases reflected higher energy-related net charge-offs in the current year.

Residential mortgage loan net charge-offs for the second quarter of 2016 were $17 million (0.12 percent of average loans outstanding on an annualized basis),

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Commercial				
Commercial	.34%	.20%	.36%	.21%
Lease financing	.38	.23	.38	.23
Total commercial	.34	.20	.36	.21
Commercial Real Estate				
Commercial mortgages	(.05)	.05	(.04)	.02
Construction and development	.15	(.12)	.02	(.41)
Total commercial real estate		.01	(.02)	(.08)
Residential Mortgages	.12	.26	.13	.27
Credit Card	3.39	3.85	3.33	3.78
Other Retail				
Retail leasing	.15	.07	.11	.07
Home equity and second mortgages	(.02)	.28	.01	.32
Other	.68	.62	.69	.61
Total other retail	.40	.43	.41	.45
Total loans, excluding covered loans	.49	.49	.49	.48
Covered Loans				
Total loans	.48%	.48%	.48%	.47%

compared with $33 million (0.26 percent of average loans outstanding on an annualized basis) for the second quarter of 2015. Residential mortgage loan net charge-offs for the first six months of 2016 were $36 million (0.13 percent of average loans outstanding on an annualized basis), compared with $68 million (0.27 percent of average loans outstanding on an annualized basis) for the first six months of 2015. Credit card loan net charge-offs for the second quarter of 2016 were $170 million (3.39 percent of average loans outstanding on an annualized basis), compared with $169 million (3.85 percent of average loans outstanding on an annualized basis) for the second quarter of 2015. Credit card loan net charge-offs for the first six months of 2016 were $334 million (3.33 percent of average loans outstanding on an annualized basis), compared with $332 million (3.78 percent of average loans outstanding on an annualized basis) for the first six months of 2015. Other retail loan net charge-offs for the second quarter of 2016 were $51 million (0.40 percent of average loans outstanding on an annualized basis), compared with $51 million (0.43 percent of average loans outstanding on an annualized basis) for the second quarter of 2015. Other retail loan net charge-offs for the first six months of 2016 were $105 million (0.41 percent of average loans outstanding on an annualized basis), compared with $107 million (0.45 percent of average loans outstanding on an annualized basis) for the first six months of 2015. The decreases in total residential mortgage, credit card and other retail loan net charge-offs as a percentage of average loans outstanding on an annualized basis reflected the continued 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 June 30,				Six Months Ended June 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
(Dollars in Millions)	2016	2015	2016	2015	2016	2015	2016	2015
Residential Mortgages								
Prime borrowers	$ 49,336	$ 44,152	.09%	.20%	$ 48,562	$ 44,192	.10%	.20%
Sub-prime borrowers	1,012	1,164	1.19	2.76	1,030	1,185	1.37	3.06
Other borrowers	565	742	.71	1.08	585	764	.69	1.06
Loans purchased from GNMA mortgage pools (a)	4,588	5,056	.18	.08	4,677	5,128	.09	.12
Total	$ 55,501	$ 51,114	.12%	.26%	$ 54,854	$ 51,269	.13%	.27%
Home Equity and Second Mortgages								
Prime borrowers	$ 15,847	$ 15,263	(.05)%	.24%	$ 15,816	$ 15,213	%	.27%
Sub-prime borrowers	179	219	(2.25)	1.83	184	225	(1.09)	2.69
Other borrowers	368	476	2.19	.84	381	490	1.06	.82
Total	$ 16,394	$ 15,958	(.02)%	.28%	$ 16,381	$ 15,928	.01%	.32%

(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.

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Analysis and Determination of the Allowance for Credit Losses The allowance for credit losses is established 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 15-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, less selling costs, 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 June 30, 2016, the Company serviced the first lien on 40 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 $329 million or 2.0 percent of its total home equity portfolio at June 30, 2016, represented non-delinquent 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 has been a small percentage of the total portfolio (approximately 1.1 percent annually), while the long-term average loss rate on loans that default has been approximately 90 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

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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, 2015, for further discussion on the analysis and determination of the allowance for credit losses.

At June 30, 2016, the allowance for credit losses was $4.3 billion (1.61 percent of period-end loans), compared with an allowance of $4.3 billion (1.65 percent of period-end loans) at December 31, 2015. The ratio of the allowance for credit losses to nonperforming loans was 312 percent at June 30, 2016, compared with 361 percent at December 31, 2015. The ratio of the allowance for credit losses to annualized loan net charge-offs was 340 percent at June 30, 2016, compared with 367 percent of full year 2015 net charge-offs at December 31, 2015.

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Table 8 Summary of Allowance for Credit Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Millions)	2016	2015	2016	2015
Balance at beginning of period	$ 4,320	$ 4,351	$ 4,306	$ 4,375
Charge-Offs				
Commercial				
Commercial	99	59	203	127
Lease financing	8	6	15	12
Total commercial	107	65	218	139
Commercial real estate				
Commercial mortgages	2	9	3	13
Construction and development	5		7	1
Total commercial real estate	7	9	10	14
Residential mortgages	25	41	48	82
Credit card	189	190	377	372
Other retail				
Retail leasing	3	1	5	3
Home equity and second mortgages	10	20	19	41
Other	66	54	135	112
Total other retail	79	75	159	156
Covered loans (a)				
Total charge-offs	407	380	812	763
Recoveries				
Commercial				
Commercial	25	20	51	48
Lease financing	3	3	5	6
Total commercial	28	23	56	54
Commercial real estate				
Commercial mortgages	6	5	9	10
Construction and development	1	3	6	21
Total commercial real estate	7	8	15	31
Residential mortgages	8	8	12	14
Credit card	19	21	43	40
Other retail				
Retail leasing	1		2	1
Home equity and second mortgages	11	9	18	16
Other	16	15	34	32
Total other retail	28	24	54	49
Covered loans (a)				
Total recoveries	90	84	180	188
Net Charge-Offs				
Commercial				
Commercial	74	39	152	79
Lease financing	5	3	10	6

Total commercial	79	42	162	85
Commercial real estate				
Commercial mortgages	(4)	4	(6)	3
Construction and development	4	(3)	1	(20)
Total commercial real estate		1	(5)	(17)
Residential mortgages	17	33	36	68
Credit card	170	169	334	332
Other retail				
Retail leasing	2	1	3	2
Home equity and second mortgages	(1)	11	1	25
Other	50	39	101	80
Total other retail	51	51	105	107
Covered loans (a)				
Total net charge-offs	317	296	632	575
Provision for credit losses	327	281	657	545
Other changes (b)	(1)	(10)	(2)	(19)
Balance at end of period (c)	$ 4,329	$ 4,326	$ 4,329	$ 4,326
Components				
Allowance for loan losses	$ 3,806	$ 4,013		
Liability for unfunded credit commitments	523	313		
Total allowance for credit losses	$ 4,329	$ 4,326		
Allowance for Credit Losses as a Percentage of				
Period-end loans, excluding covered loans	1.62%	1.76%		
Nonperforming loans, excluding covered loans	311	348		
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	231	252		
Nonperforming assets, excluding covered assets	263	279		
Annualized net charge-offs, excluding covered loans	337	360		
Period-end loans	1.61%	1.74%		
Nonperforming loans	312	349		
Nonperforming and accruing loans 90 days or more past due	205	212		
Nonperforming assets	259	274		
Annualized net charge-offs	340	364		

(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 June 30, 2016 and 2015, $1.5 billion and $1.6 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

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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 June 30, 2016, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2015. 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, 2015, 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, 2015, 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, including those related to compliance with Bank Secrecy Act/anti-money laundering requirements, sanctions compliance requirements as administered by the Office of Foreign Assets Control, consumer protection and other requirements. 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, 2015, 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 June 30, 2016, and December 31, 2015, 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, 2015, 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

Table 9 Sensitivity of Net Interest Income

	June 30, 2016				December 31, 2015			
	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	*	2.15%	*	2.91%	*	1.78%	*	2.69%

**Given the current level of interest rates, downward rate scenario is not computed.*

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 2.8 percent decrease in the market value of equity at June 30, 2016, compared with a 5.8 percent decrease at December 31, 2015. A 200 bps decrease, where possible given current rates, would have resulted in a 13.1 percent decrease in the market value of equity at June 30, 2016, compared with a 7.0 percent decrease at December 31, 2015. The change in the market value of equity sensitivity to an immediate 200 bps decrease in the yield curve at June 30, 2016, as compared with December 31, 2015, was primarily due to assuming deposit rates do not decrease below zero, combined with lower rates on the long end of the yield curve. 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, 2015, 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 debt from floating-rate payments to fixed-rate payments;
- To mitigate changes in value of the Company s mortgage origination pipeline, funded MLHFS and MSRs;
- To mitigate remeasurement volatility of foreign currency denominated balances; and
- To mitigate the volatility of the Company s investment in foreign businesses 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 and Eurodollar 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 June 30, 2016, the Company had $8.1 billion of forward commitments to sell, hedging $2.9 billion of MLHFS and $6.6 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 MLHFS.

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

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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:

Six Months Ended June 30,

(Dollars in Millions)	2016	2015
Average	$ 1	$ 1
High	1	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 six months ended June 30, 2016 and 2015. 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:

Six Months Ended June 30,

(Dollars in Millions)	2016	2015
Average	$ 4	$ 4
High	5	8
Low	2	2
Period-end	5	4

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 market risk management department.

The Company also measures the market risk of its hedging activities related to residential MLHFS 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 VaR amounts for the residential MLHFS and related hedges and the MSRs and related hedges were as follows:

Six Months Ended June 30,

(Dollars in Millions)	2016	2015
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$	$ 1
High	2	2
Low		
Mortgage Servicing Rights and Related Hedges		
Average	$ 8	$ 7
High	9	8
Low	4	5

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 June 30, 2016, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $98.0 billion, compared with $92.4 billion at December 31, 2015. 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 June 30, 2016, the Company could have borrowed an additional $78.7 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 $317.6 billion at June 30, 2016, compared with $300.4 billion at December 31, 2015. 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 $36.9 billion at June 30, 2016, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $18.4 billion at June 30, 2016, 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 June 30, 2016, parent company long-term debt outstanding was $13.1 billion, compared with $11.5 billion at December 31, 2015. The $1.6 billion (14.0 percent) increase was primarily due to the issuances of $1.2 billion of medium-term notes and $1.0 billion of subordinated notes, partially offset by $500 million of subordinated note maturities. As of June 30, 2016, there was $1.3 billion of parent company debt scheduled to mature in the remainder of 2016.

Effective January 1, 2015, the Company became subject to a regulatory Liquidity Coverage Ratio (LCR) requirement. Certain transition provisions apply until full implementation by January 1, 2017. The LCR rule requires banks to maintain an adequate level of unencumbered high quality liquid assets to meet estimated liquidity needs over a 30-day stressed period. At June 30, 2016, 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, 2015, for further discussion on liquidity risk management.

European Exposures Certain European countries have experienced deterioration in economic conditions over the past several years. 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 June 30, 2016, the Company had an aggregate amount on deposit with European banks of approximately $6.2 billion, predominately with the Central Bank of Ireland and Bank of England.

In addition, the Company provides financing to domestic multinational corporations that generate revenue from customers in European countries, transacts with various European banks as counterparties to certain derivative-related activities, and through a subsidiary manages money market funds that hold certain investments in European sovereign debt. Any further deterioration in economic conditions in Europe is unlikely to have a significant effect on the Company related to these activities. However, the effects on the Company which could result from the United Kingdom s potential formal withdrawal from the European Union (Brexit) remain uncertain. Refer to the Risk Factors section for further information regarding potential impacts to the Company s businesses, results of operations, financial condition, liquidity and capital resulting from Brexit.

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.

The FDIC has adopted a final rule that will establish a temporary premium surcharge that will apply to the Company. The Company expects the surcharge will begin in the third quarter of 2016 and will increase its expenses by approximately $20 million per quarter through 2018.

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 banking

organizations. 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 June 30, 2016 and December 31, 2015. All regulatory ratios exceeded regulatory well-capitalized requirements.

Effective January 1, 2018, the Company will be subject to a 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 exposures, which includes both on- and off-balance sheet exposures. At June 30, 2016, the Company s SLR exceeds the applicable minimum SLR requirement.

Total U.S. Bancorp shareholders equity was $47.4 billion at June 30, 2016, compared with $46.1 billion at December 31, 2015. The increase was primarily the result of corporate earnings and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income (loss), 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 7.6 percent and 9.3 percent, respectively, at June 30, 2016, compared with 7.6 percent and 9.2 percent, respectively, at December 31, 2015. The Company s common equity tier 1 to risk-weighted assets ratio using the Basel III standardized approach as if fully implemented was 9.3 percent at June 30, 2016, compared with 9.1 percent at December 31, 2015. The Company s common equity tier 1 to risk-weighted assets ratio using the Basel III advanced approaches as if fully implemented was 12.0 percent at June 30, 2016, compared with 11.9 percent at December 31, 2015. Refer to Non-GAAP Financial Measures for further information regarding the calculation of these ratios.

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Table 10 Regulatory Capital Ratios

(Dollars in Millions)	June 30, 2016	December 31, 2015
Basel III transitional standardized approach:		
Common equity tier 1 capital	$ 33,444	$ 32,612
Tier 1 capital	39,148	38,431
Total risk-based capital	47,049	45,313
Risk-weighted assets	351,462	341,360
Common equity tier 1 capital as a percent of risk-weighted assets	9.5%	9.6%
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	13.4	13.3
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.3	9.5
Basel III transitional advanced approaches:		
Common equity tier 1 capital	$ 33,444	$ 32,612
Tier 1 capital	39,148	38,431
Total risk-based capital	43,966	42,262
Risk-weighted assets	271,495	261,668
Common equity tier 1 capital as a percent of risk-weighted assets	12.3%	12.5%
Tier 1 capital as a percent of risk-weighted assets	14.4	14.7
Total risk-based capital as a percent of risk-weighted assets	16.2	16.2

On June 29, 2016, the Company announced its Board of Directors had approved an authorization to repurchase up to $2.6 billion of its common stock, from July 1, 2016 through June 30, 2017.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the second quarter of 2016:

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 (b)
April	7,732,904	$ 43.11	7,732,904	$ 336
May	4,756,339	42.03	4,756,339	136
June	3,289,089 (c)	41.83	3,189,089	
Total	15,778,332 (c)	$ 42.52	15,678,332	$

(a) All shares were purchased under the April 1, 2015 through June 30, 2016, $3.022 billion common stock repurchase authorization program announced on March 11, 2015.

(b)

The dollar value of shares subject to the stock repurchase program announced on June 29, 2016 are not reflected in this column.

(c) *Includes 100,000 shares of common stock purchased, at an average price per share of $38.91, in open-market transactions by U.S. Bank National Association, the Company s banking subsidiary, in its capacity as trustee of the Company s Employee Retirement Savings Plan.*

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, 2015, 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, 2015, 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 2016, certain organization and methodology changes were made and, accordingly, 2015 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 $233 million of the Company s net income in the second quarter and $351 million in the first six months of 2016, or decreases of $2 million (0.9 percent) and $84 million (19.3 percent), respectively, compared with the same periods of 2015. The decreases were primarily due to increases in the provision for credit losses and noninterest expense, partially offset by increases in net revenue.

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Net revenue increased $75 million (10.5 percent) in the second quarter and $102 million (7.2 percent) in the first six months of 2016, compared with the same periods of 2015. Net interest income, on a taxable-equivalent basis, increased $50 million (10.3 percent) in the second quarter and $91 million (9.4 percent) in the first six months of 2016, compared with the same periods of 2015. The increases were primarily due to higher average loan and deposit balances, partially offset by lower rates and fees on loans. Noninterest income increased $25 million (11.2 percent) in the second quarter and $11 million (2.5 percent) in the first six months of 2016, compared with the same periods of 2015, driven by higher bond underwriting fees, foreign currency customer activity and other capital markets activity, partially offset by higher loan-related charges.

Noninterest expense increased $31 million (9.6 percent) in the second quarter and $44 million (6.7 percent) in the first six months of 2016, compared with the same periods of 2015, primarily due to increases in variable compensation and other variable costs allocated to manage the business. The provision for credit losses increased $48 million in the second quarter and $192 million in the first six months of 2016, compared with the same periods of 2015, primarily due to increases in net charge-offs. The increase in the provision for credit losses for the first six months of 2016 was further due to an unfavorable change in the reserve allocation driven by loan growth and a decline in energy prices.

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, as well as mortgage banking. Consumer and Small Business Banking contributed $343 million of the Company s net income in the second quarter and $711 million in the first six months of 2016, or increases of $18 million (5.5 percent) and $27 million (3.9 percent), respectively, compared with the same periods of 2015. The increases were due to higher net revenue and decreases in the provision for credit losses, partially offset by higher noninterest expense.

Net revenue increased $47 million (2.7 percent) in the second quarter and $7 million (0.2 percent) in the first six months of 2016, compared with the same periods of 2015. Net interest income, on a taxable-equivalent basis, increased $38 million (3.3 percent) in the second quarter and $66 million (2.9 percent) in the first six months of 2016, compared with the same periods of 2015. The increases in net interest income were primarily due to higher average loan and deposit balances, partially offset by lower loan rates. Noninterest income increased $9 million (1.4 percent) in the second quarter of 2016, compared with the second quarter of 2015, driven by higher mortgage banking revenue, reflecting the impact of higher origination and sales revenue. Noninterest income decreased $59 million (4.7 percent) in the first six months of 2016, compared with the same period of 2015, driven by lower mortgage banking revenue, reflecting the impact of lower origination and sales revenue, and lower retail leasing revenue due to lower end-of-term gains on auto leases driven by lower used car values.

Noninterest expense increased $23 million (1.9 percent) in the second quarter and $48 million (2.0 percent) in the first six months of 2016, compared with the same periods of 2015, primarily due to higher net shared services expense and higher compensation expense, reflecting the impact of merit increases and higher variable compensation, along with higher professional services expense, principally due to compliance-related matters. The provision for credit losses decreased $4 million (7.8 percent) in the second quarter of 2016, compared with the second quarter of 2015, primarily due to lower net charge-offs, partially offset by an unfavorable change in the reserve allocation. The provision for credit losses decreased $83 million in the first six months of 2016, compared with the same period of 2015, primarily due to a favorable change in the reserve allocation driven by improvements in the mortgage portfolio and lower net charge-offs.

Wealth Management and Securities Services Wealth Management and Securities Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Securities Services contributed $100 million of the Company s net income in the second quarter and $180 million in the first six months of 2016, or increases of $36 million (56.3 percent) and $65 million (56.5 percent), respectively, compared with the same periods of 2015. The increases were primarily due to higher net revenue, partially offset by higher noninterest expense.

Net revenue increased $67 million (14.7 percent) in the second quarter and $125 million (14.0 percent) in the first six months of 2016, compared with the same periods of 2015. Net interest income, on a taxable-equivalent basis, increased $40 million (48.8 percent) in the second quarter and $77 million (47.5 percent) in the first six months of 2016, compared with the same

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Table 11 Line of Business Financial Performance

Three Months Ended June 30, (Dollars in Millions)	Wholesale Banking and Commercial Real Estate 2016	2015	Percent Change	Consumer and Small Business Banking 2016	2015	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 537	$ 487	10.3%	$ 1,179	$ 1,141	3.3%
Noninterest income	249	224	11.2	638	629	1.4
Securities gains (losses), net						
Total net revenue	786	711	10.5	1,817	1,770	2.7
Noninterest expense	354	323	9.6	1,223	1,198	2.1
Other intangibles	1	1		8	10	(20.0)
Total noninterest expense	355	324	9.6	1,231	1,208	1.9
Income before provision and income taxes	431	387	11.4	586	562	4.3
Provision for credit losses	65	17	*	47	51	(7.8)
Income before income taxes	366	370	(1.1)	539	511	5.5
Income taxes and taxable-equivalent adjustment	133	135	(1.5)	196	186	5.4
Net income	233	235	(.9)	343	325	5.5
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 233	$ 235	(.9)	$ 343	$ 325	5.5
Average Balance Sheet						
Commercial	$ 70,782	$ 63,329	11.8%	$ 10,653	$ 10,304	3.4%
Commercial real estate	19,932	19,457	2.4	19,344	18,930	2.2
Residential mortgages	7	8	(12.5)	53,316	49,337	8.1
Credit card						
Other retail	2	3	(33.3)	49,414	44,953	9.9
Total loans, excluding covered loans	90,723	82,797	9.6	132,727	123,524	7.5
Covered loans				4,296	5,020	(14.4)
Total loans	90,723	82,797	9.6	137,023	128,544	6.6
Goodwill	1,647	1,647		3,681	3,681	
Other intangible assets	17	21	(19.0)	2,399	2,564	(6.4)
Assets	99,195	91,670	8.2	151,947	147,472	3.0
Noninterest-bearing deposits	35,852	35,324	1.5	27,306	25,774	5.9
Interest checking	8,094	7,480	8.2	43,572	40,029	8.9
Savings products	39,894	27,140	47.0	57,324	53,576	7.0
Time deposits	13,384	15,465	(13.5)	14,250	16,018	(11.0)
Total deposits	97,224	85,409	13.8	142,452	135,397	5.2
Total U.S. Bancorp shareholders equity	8,900	8,116	9.7	11,153	10,809	3.2

	Wholesale Banking and	Consumer and Small

Six Months Ended June 30, (Dollars in Millions)	Commercial Real Estate 2016	2015	Percent Change	Business Banking 2016	2015	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 1,058	$ 967	9.4%	$ 2,346	$ 2,280	2.9%
Noninterest income	455	444	2.5	1,190	1,249	(4.7)
Securities gains (losses), net						
Total net revenue	1,513	1,411	7.2	3,536	3,529	.2
Noninterest expense	694	650	6.8	2,423	2,371	2.2
Other intangibles	2	2		16	20	(20.0)
Total noninterest expense	696	652	6.7	2,439	2,391	2.0
Income before provision and income taxes	817	759	7.6	1,097	1,138	(3.6)
Provision for credit losses	266	74	*	(20)	63	*
Income before income taxes	551	685	(19.6)	1,117	1,075	3.9
Income taxes and taxable-equivalent adjustment	200	250	(20.0)	406	391	3.8
Net income	351	435	(19.3)	711	684	3.9
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 351	$ 435	(19.3)	$ 711	$ 684	3.9
Average Balance Sheet						
Commercial	$ 70,067	$ 63,023	11.2%	$ 10,423	$ 9,975	4.5%
Commercial real estate	19,698	19,351	1.8	19,273	19,058	1.1
Residential mortgages	7	8	(12.5)	52,720	49,553	6.4
Credit card						
Other retail	2	3	(33.3)	49,209	46,090	6.8
Total loans, excluding covered loans	89,774	82,385	9.0	131,625	124,676	5.6
Covered loans				4,381	5,091	(13.9)
Total loans	89,774	82,385	9.0	136,006	129,767	4.8
Goodwill	1,647	1,647		3,681	3,681	
Other intangible assets	18	21	(14.3)	2,455	2,529	(2.9)
Assets	98,223	91,086	7.8	150,633	146,993	2.5
Noninterest-bearing deposits	36,131	34,903	3.5	26,790	25,289	5.9
Interest checking	7,475	7,578	(1.4)	42,865	39,513	8.5
Savings products	37,841	26,324	43.8	56,756	53,020	7.0
Time deposits	12,752	16,300	(21.8)	14,449	16,482	(12.3)
Total deposits	94,199	85,105	10.7	140,860	134,304	4.9
Total U.S. Bancorp shareholders equity	8,828	8,083	9.2	11,119	11,167	(.4)

* *Not meaningful*

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Vealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
016	2015	Percent Change	2016	2015	Percent Change	2016	2015	Percent Change	2016	2015	P C
122	$ 82	48.8%	$ 513	$ 459	11.8%	$ 545	$ 601	(9.3)%	$ 2,896	$ 2,770	
401	374	7.2	923	850	8.6	338	195	73.3	2,549	2,272	
						3		*	3		
523	456	14.7	1,436	1,309	9.7	886	796	11.3	5,448	5,042	
359	348	3.2	664	663	.2	348	107	*	2,948	2,639	
6	7	(14.3)	29	25	16.0				44	43	
365	355	2.8	693	688	.7	348	107	*	2,992	2,682	
158	101	56.4	743	621	19.6	538	689	(21.9)	2,456	2,360	
1	1		215	208	3.4	(1)	4	*	327	281	
157	100	57.0	528	413	27.8	539	685	(21.3)	2,129	2,079	
57	36	58.3	192	150	28.0	15	75	(80.0)	593	582	
100	64	56.3	336	263	27.8	524	610	(14.1)	1,536	1,497	
			(8)	(8)		(6)	(6)		(14)	(14)	
100	$ 64	56.3	$ 328	$ 255	28.6	$ 518	$ 604	(14.2)	$ 1,522	$ 1,483	
335	$ 2,256	25.7%	$ 7,522	$ 7,083	6.2%	$ 362	$ 281	28.8%	$ 92,154	$ 83,253	
517	553	(6.5)				3,195	3,506	(8.9)	42,988	42,446	
178	1,756	24.0					13	*	55,501	51,114	
			20,140	17,613	14.3				20,140	17,613	
521	1,511	.7	531	602	(11.8)				51,468	47,069	
051	6,076	16.0	28,193	25,298	11.4	3,557	3,800	(6.4)	262,251	241,495	
	1	*				35	44	(20.5)	4,331	5,065	
051	6,077	16.0	28,193	25,298	11.4	3,592	3,844	(6.6)	266,582	246,560	
568	1,567	.1	2,472	2,474	(.1)				9,368	9,369	
104	129	(19.4)	506	403	25.6				3,026	3,117	
005	8,983	11.4	33,997	31,510	7.9	133,606	128,266	4.2	428,750	407,901	
076	13,706	(4.6)	925	881	5.0	2,012	1,662	21.1	79,171	77,347	
136	7,061	29.4		602	*	40	33	21.2	60,842	55,205	
353	35,684	(.9)	97	90	7.8	494	479	3.1	133,162	116,969	
907	3,498	11.7				2,670	1,242	*	34,211	36,223	
472	59,949	2.5	1,022	1,573	(35.0)	5,216	3,416	52.7	307,386	285,744	
881	2,304	3.3	6,376	5,817	9.6	18,374	17,468	5.2	47,184	44,514	

Vealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
016	2015	Percent Change	2016	2015	Percent Change	2016	2015	Percent Change	2016	2015	P C
239	$ 162	47.5%	$ 1,040	$ 926	12.3%	$ 1,101	$ 1,187	(7.2)%	$ 5,784	$ 5,522	
780	732	6.6	1,739	1,627	6.9	531	374	42.0	4,695	4,426	

						6		*	6	
019	894	14.0	2,779	2,553	8.9	1,638	1,561	4.9	10,485	9,948
726	701	3.6	1,312	1,261	4.0	497	278	78.8	5,652	5,261
12	14	(14.3)	59	50	18.0				89	86
738	715	3.2	1,371	1,311	4.6	497	278	78.8	5,741	5,347
281	179	57.0	1,408	1,242	13.4	1,141	1,283	(11.1)	4,744	4,601
(1)	(1)		407	405	.5	5	4	25.0	657	545
282	180	56.7	1,001	837	19.6	1,136	1,279	(11.2)	4,087	4,056
102	65	56.9	364	304	19.7	78	105	(25.7)	1,150	1,115
180	115	56.5	637	533	19.5	1,058	1,174	(9.9)	2,937	2,941
			(17)	(16)	(6.3)	(12)	(11)	(9.1)	(29)	(27)
180	$ 115	56.5	$ 620	$ 517	19.9	$ 1,046	$ 1,163	(10.1)	$ 2,908	$ 2,914
364	$ 2,274	25.9%	$ 7,272	$ 6,840	6.3%	$ 361	$ 273	32.2%	$ 90,987	$ 82,385
526	569	(7.6)				3,197	3,580	(10.7)	42,694	42,558
127	1,695	25.5					13	*	54,854	51,269
			20,192	17,718	14.0				20,192	17,718
531	1,481	3.4	541	614	(11.9)				51,283	48,188
048	6,019	17.1	28,005	25,172	11.3	3,558	3,866	(8.0)	260,010	242,118
	1	*				41	41		4,422	5,133
048	6,020	17.1	28,005	25,172	11.3	3,599	3,907	(7.9)	264,432	247,251
567	1,567		2,468	2,478	(.4)				9,363	9,373
107	133	(19.5)	507	414	22.5				3,087	3,097
089	9,091	11.0	33,998	31,250	8.8	132,210	126,465	4.5	425,153	404,885
976	13,188	(1.6)	943	886	6.4	2,030	1,671	21.5	78,870	75,937
996	7,215	24.7		595	*	40	32	25.0	59,376	54,933
253	33,553	2.1	96	89	7.9	491	479	2.5	129,437	113,465
726	3,248	14.7				3,022	1,757	72.0	33,949	37,787
951	57,204	4.8	1,039	1,570	(33.8)	5,583	3,939	41.7	301,632	282,122
376	2,302	3.2	6,351	5,799	9.5	18,287	16,946	7.9	46,961	44,297

periods of 2015. The increases were principally due to the impact of higher rates on the margin benefit from deposits. Noninterest income increased $27 million (7.2 percent) in the second quarter and $48 million (6.6 percent) in the first six months of 2016, compared with the same periods of 2015, reflecting the impact of lower money market fee waivers.

Noninterest expense increased $10 million (2.8 percent) in the second quarter and $23 million (3.2 percent) in the first six months of 2016, compared with the same periods of 2015. The increases were primarily the result of higher compensation, reflecting the impact of merit increases and higher variable compensation.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate, government and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed $328 million of the Company s net income in the second quarter and $620 million in the first six months of 2016, or increases of $73 million (28.6 percent) and $103 million (19.9 percent), respectively, compared with the same periods of 2015. The increases were due to higher net revenue, partially offset by higher noninterest expense and provision for credit losses.

Net revenue increased $127 million (9.7 percent) in the second quarter and $226 million (8.9 percent) in the first six months of 2016, compared with the same periods of 2015. Net interest income, on a taxable-equivalent basis, increased $54 million (11.8 percent) in the second quarter and $114 million (12.3 percent) in the first six months of 2016, compared with the same periods of 2015, primarily due to higher average loan balances and fees. Noninterest income increased $73 million (8.6 percent) in the second quarter and $112 million (6.9 percent) in the first six months of 2016, compared with the same periods of 2015, due to a sale of an equity investment and increases in credit and debit card revenue on higher transaction volumes. The increase in the first six months of 2016 was further due to higher merchant processing services revenue, driven by increased transaction volumes and product fees and equipment sales to merchants related to new chip card technology requirements, partially offset by the impact of foreign currency rate changes.

Noninterest expense increased $5 million (0.7 percent) in the second quarter and $60 million (4.6 percent) in the first six months of 2016, compared with the same periods of 2015, reflecting higher compensation expense, resulting from the impact of merit increases and staffing for business expansion and risk and compliance activities, and increased technology and communications expense, which was impacted by card portfolio acquisitions, along with higher net shared services expense, partially offset by the impact of a previously reserved regulatory item in the second quarter of the prior year. The provision for credit losses increased $7 million (3.4 percent) in the second quarter of 2016, compared with the second quarter of 2015, due to an unfavorable change in the reserve allocation. The provision for credit losses increased $2 million (0.5 percent) in the first six months of 2016, compared with the same period of 2015, due to higher net charge-offs.

Treasury and Corporate Support Treasury and Corporate Support includes the Company s investment portfolios, funding, capital management, interest rate risk management, income taxes not allocated to the business lines, including most investments in tax-advantaged projects, and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of $518 million in the second quarter and $1.0 billion in the first six months of 2016, compared with $604 million and $1.2 billion in the same periods of 2015, respectively. The $86 million (14.2 percent) decrease in the second quarter and $117 million (10.1 percent) decrease in the first six months of 2016, compared to the same periods of the prior year, were due to increases in noninterest expense, partially offset by increases in net revenue.

Net revenue increased $90 million (11.3 percent) in the second quarter and $77 million (4.9 percent) in the first six months of 2016, compared with the same periods of 2015. Noninterest income increased $146 million (74.9 percent) in the second quarter and $163 million (43.6 percent) in the first six months of 2016, compared with the same periods of 2015, mainly due to the Visa Europe sale. Net interest income, on a taxable-equivalent basis, decreased $56 million (9.3 percent) in the second quarter and $86 million (7.2 percent) in the first six months of 2016, compared with the same periods of 2015, principally due to the impact of higher rates credited to the business lines on deposits, partially offset by growth in the investment portfolio.

Noninterest expense increased $241 million in the second quarter and $219 million (78.8 percent) in the first six months of 2016, compared with the same periods of 2015, driven by the increase in reserves related to legal and regulatory matters and a charitable contribution recorded in the second quarter of 2016. The increases in noninterest expense were further due to higher compensation expense, reflecting the impact of merit increases and higher variable compensation, along with higher marketing and business development expense due to brand advertising, partially offset by lower employee benefits expense, driven by lower pension costs. The provision for credit losses was $5 million lower in the second quarter of 2016, compared with the same period of the prior year, primarily due to lower net charge-offs.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support.

NON-GAAP FINANCIAL MEASURES

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

- Tangible common equity to tangible assets,
- Tangible common equity to risk-weighted assets,
- Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach, and
- Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches.

These measures are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market or economic conditions. Additionally, presentation of these measures allows investors, analysts and banking regulators to assess the Company s capital position relative to other financial services companies. These measures differ from currently effective capital ratios defined by banking regulations principally in that the numerator includes unrealized gains and losses related to available-for-sale securities and excludes preferred securities, including preferred stock, the nature and extent of which varies among different financial services companies. These measures are not defined in generally accepted accounting principles (GAAP), or are not currently effective or defined in federal banking regulations. As a result, these measures disclosed by the Company may be considered non-GAAP financial measures.

There may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider the consolidated financial statements and other financial information contained in this report in their entirety, and not to rely on any single financial measure.

The following table shows the Company s calculation of these non-GAAP financial measures:

(Dollars in Millions)	June 30, 2016	December 31, 2015
Total equity	$ 48,029	$ 46,817
Preferred stock	(5,501)	(5,501)
Noncontrolling interests	(639)	(686)
Goodwill (net of deferred tax liability) (1)	(8,246)	(8,295)
Intangible assets, other than mortgage servicing rights	(796)	(838)
Tangible common equity (a)	32,847	31,497
Tangible common equity (as calculated above)	32,847	31,497

Adjustments (2)	133	67
Common equity tier 1 capital estimated for the Basel III fully implemented standardized and advanced approaches (b)	32,980	31,564
Total assets	438,463	421,853
Goodwill (net of deferred tax liability) (1)	(8,246)	(8,295)
Intangible assets, other than mortgage servicing rights	(796)	(838)
Tangible assets (c)	429,421	412,720
Risk-weighted assets, determined in accordance with prescribed transitional standardized approach regulatory requirements (d)	351,462	341,360
Adjustments (3)	3,079	3,892
Risk-weighted assets estimated for the Basel III fully implemented standardized approach (e)	354,541	345,252
Risk-weighted assets, determined in accordance with prescribed transitional advanced approaches regulatory requirements	271,495	261,668
Adjustments (4)	3,283	4,099
Risk-weighted assets estimated for the Basel III fully implemented advanced approaches (f)	274,778	265,767
Ratios		
Tangible common equity to tangible assets (a)/(c)	7.6%	7.6%
Tangible common equity to risk-weighted assets (a)/(d)	9.3	9.2
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)/(e)	9.3	9.1
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)/(f)	12.0	11.9

(1) Includes goodwill related to certain investments in unconsolidated financial institutions per prescribed regulatory requirements.

(2) Includes net losses on cash flow hedges included in accumulated other comprehensive income (loss) and other adjustments.

(3) Includes higher risk-weighting for unfunded loan commitments, investment securities, residential mortgages, MSRs and other adjustments.

(4) Primarily reflects higher risk-weighting for MSRs.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The Company s financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company s financial statements. Critical accounting policies are those policies management believes are the most important to the portrayal of the Company s financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, purchased loans and related indemnification assets, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company s Audit Committee. These accounting policies are discussed in detail in Management s Discussion and Analysis Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

CONTROLS AND PROCEDURES

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

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

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U.S. Bancorp

Consolidated Balance Sheet

(Dollars in Millions)	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 14,038	$ 11,147
Investment securities		
Held-to-maturity (fair value $42,628 and $43,493, respectively)	42,030	43,590
Available-for-sale ($946 and $1,018 pledged as collateral, respectively) (a)	66,490	61,997
Loans held for sale (including $4,309 and $3,110 of mortgage loans carried at fair value, respectively)	4,311	3,184
Loans		
Commercial	92,514	88,402
Commercial real estate	43,290	42,137
Residential mortgages	55,904	53,496
Credit card	20,571	21,012
Other retail	52,008	51,206
Total loans, excluding covered loans	264,287	256,253
Covered loans	4,234	4,596
Total loans	268,521	260,849
Less allowance for loan losses	(3,806)	(3,863)
Net loans	264,715	256,986
Premises and equipment	2,459	2,513
Goodwill	9,359	9,361
Other intangible assets	2,852	3,350
Other assets (including $84 and $121 of trading securities at fair value pledged as collateral, respectively) (a)	32,209	29,725
Total assets	$ 438,463	$ 421,853
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	$ 86,572	$ 83,766
Interest-bearing (b)	231,018	216,634
Total deposits	317,590	300,400
Short-term borrowings	18,433	27,877
Long-term debt	36,941	32,078
Other liabilities	17,470	14,681
Total liabilities	390,434	375,036
Shareholders equity		
Preferred stock	5,501	5,501
Common stock, par value $0.01 a share authorized: 4,000,000,000 shares; issued: 6/30/16 and 12/31/15 2,125,725,742 shares	21	21
Capital surplus	8,402	8,376
Retained earnings	48,269	46,377

Less cost of common stock in treasury: 6/30/16 406,976,134 shares; 12/31/15 380,534,801 shares	(14,241)	(13,125)
Accumulated other comprehensive income (loss)	(562)	(1,019)
Total U.S. Bancorp shareholders equity	47,390	46,131
Noncontrolling interests	639	686
Total equity	48,029	46,817
Total liabilities and equity	$ 438,463	$ 421,853

(a) Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral.

(b) Includes time deposits greater than $250,000 balances of $4.1 billion and $2.6 billion at June 30, 2016, and December 31, 2015, respectively.

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2016	2015	2016	2015
Interest Income				
Loans	$ 2,664	$ 2,463	$ 5,308	$ 4,956
Loans held for sale	36	65	67	106
Investment securities	523	505	1,040	1,000
Other interest income	29	35	58	67
Total interest income	3,252	3,068	6,473	6,129
Interest Expense				
Deposits	152	113	291	231
Short-term borrowings	66	62	131	123
Long-term debt	189	177	371	361
Total interest expense	407	352	793	715
Net interest income	2,845	2,716	5,680	5,414
Provision for credit losses	327	281	657	545
Net interest income after provision for credit losses	2,518	2,435	5,023	4,869
Noninterest Income				
Credit and debit card revenue	296	266	562	507
Corporate payment products revenue	181	178	351	348
Merchant processing services	403	395	776	754
ATM processing services	84	80	164	158
Trust and investment management fees	358	334	697	656
Deposit service charges	179	174	347	335
Treasury management fees	147	142	289	279
Commercial products revenue	238	214	435	414
Mortgage banking revenue	238	231	425	471
Investment products fees	39	48	79	95
Securities gains (losses), net				
Realized gains (losses), net	4		7	
Total other-than-temporary impairment			(2)	
Portion of other-than-temporary impairment recognized in other comprehensive income	(1)		1	
Total securities gains (losses), net	3		6	
Other	386	210	570	409
Total noninterest income	2,552	2,272	4,701	4,426
Noninterest Expense				
Compensation	1,277	1,196	2,526	2,375
Employee benefits	278	293	578	610

Net occupancy and equipment	243	247	491	494
Professional services	121	106	219	183
Marketing and business development	149	96	226	166
Technology and communications	241	221	474	435
Postage, printing and supplies	77	64	156	146
Other intangibles	44	43	89	86
Other	562	416	982	852
Total noninterest expense	2,992	2,682	5,741	5,347
Income before income taxes	2,078	2,025	3,983	3,948
Applicable income taxes	542	528	1,046	1,007
Net income	1,536	1,497	2,937	2,941
Net (income) loss attributable to noncontrolling interests	(14)	(14)	(29)	(27)
Net income attributable to U.S. Bancorp	$ 1,522	$ 1,483	$ 2,908	$ 2,914
Net income applicable to U.S. Bancorp common shareholders	$ 1,435	$ 1,417	$ 2,764	$ 2,782
Earnings per common share	$ .83	$ .80	$ 1.60	$ 1.57
Diluted earnings per common share	$ .83	$ .80	$ 1.59	$ 1.56
Dividends declared per common share	$ .255	$ .255	$ .510	$ .500
Average common shares outstanding	1,725	1,771	1,731	1,776
Average diluted common shares outstanding	1,731	1,779	1,737	1,784

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Comprehensive Income

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2016	2015	2016	2015
Net income	$ 1,536	$ 1,497	$ 2,937	$ 2,941
Other Comprehensive Income (Loss)				
Changes in unrealized gains and losses on securities available-for-sale	333	(356)	821	(148)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	1		(1)	
Changes in unrealized gains and losses on derivative hedges	(87)	5	(183)	(23)
Foreign currency translation	(20)	8	(36)	25
Reclassification to earnings of realized gains and losses	66	98	142	197
Income taxes related to other comprehensive income (loss)	(111)	94	(286)	(20)
Total other comprehensive income (loss)	182	(151)	457	31
Comprehensive income	1,718	1,346	3,394	2,972
Comprehensive (income) loss attributable to noncontrolling interests	(14)	(14)	(29)	(27)
Comprehensive income attributable to U.S. Bancorp	$ 1,704	$ 1,332	$ 3,365	$ 2,945

See Notes to Consolidated Financial Statements.

U.S. Bancorp

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U.S. Bancorp

Consolidated Statement of Shareholders Equity

(Dollars and Shares in Millions) (Unaudited)	U.S. Bancorp Shareholders Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shareholders Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2014	1,786	$ 4,756	$ 21	$ 8,313	$ 42,530	$ (11,245)	$ (896)	$ 43,479	$ 689	$ 44,168
Net income (loss)					2,914			2,914	27	2,941
Other comprehensive income (loss)							31	31		31
Preferred stock dividends					(120)			(120)		(120)
Common stock dividends					(890)			(890)		(890)
Issuance of common and treasury stock	7			(49)		243		194		194
Purchase of treasury stock	(26)					(1,142)		(1,142)		(1,142)
Distributions to noncontrolling interests									(27)	(27)
Net other changes in noncontrolling interests									5	5
Stock option and restricted stock grants				71				71		71
Balance June 30, 2015	1,767	$ 4,756	$ 21	$ 8,335	$ 44,434	$ (12,144)	$ (865)	$ 44,537	$ 694	$ 45,231
Balance December 31, 2015	1,745	$ 5,501	$ 21	$ 8,376	$ 46,377	$ (13,125)	$ (1,019)	$ 46,131	$ 686	$ 46,817
Net income (loss)					2,908			2,908	29	2,937
Other comprehensive income (loss)							457	457		457
Preferred stock dividends					(140)			(140)		(140)

Common stock dividends					(885)			(885)		(885)
Issuance of common and treasury stock	5			(57)		176		119		119
Purchase of treasury stock	(31)					(1,292)		(1,292)		(1,292)
Distributions to noncontrolling interests									(25)	(25)
Purchase of noncontrolling interests				1	9			10	(50)	(40)
Net other changes in noncontrolling interests									(1)	(1)
Stock option and restricted stock grants				82				82		82
Balance June 30, 2016	1,719	$ 5,501	$ 21	$ 8,402	$ 48,269	$ (14,241)	$ (562)	$ 47,390	$ 639	$ 48,029

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Cash Flows

(Dollars in Millions)	Six Months Ended June 30,	
(Unaudited)	2016	2015
Operating Activities		
Net income attributable to U.S. Bancorp	$ 2,908	$ 2,914
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	657	545
Depreciation and amortization of premises and equipment	147	154
Amortization of intangibles	89	86
(Gain) loss on sale of loans held for sale	(433)	(467)
(Gain) loss on sale of securities and other assets	(354)	(137)
Loans originated for sale in the secondary market, net of repayments	(19,753)	(21,688)
Proceeds from sales of loans held for sale	18,887	21,059
Other, net	536	931
Net cash provided by operating activities	2,684	3,397
Investing Activities		
Proceeds from sales of available-for-sale investment securities	5,071	269
Proceeds from maturities of held-to-maturity investment securities	4,503	5,437
Proceeds from maturities of available-for-sale investment securities	6,439	6,709
Purchases of held-to-maturity investment securities	(2,963)	(6,723)
Purchases of available-for-sale investment securities	(15,204)	(8,153)
Net increase in loans outstanding	(8,025)	(4,416)
Proceeds from sales of loans	782	970
Purchases of loans	(1,123)	(1,080)
Other, net	426	(1,137)
Net cash used in investing activities	(10,094)	(8,124)
Financing Activities		
Net increase in deposits	17,192	14,115
Net decrease in short-term borrowings	(9,444)	(2,109)
Proceeds from issuance of long-term debt	9,149	3,382
Principal payments or redemption of long-term debt	(4,384)	(1,491)
Proceeds from issuance of common stock	113	188
Repurchase of common stock	(1,267)	(1,089)
Cash dividends paid on preferred stock	(127)	(121)
Cash dividends paid on common stock	(891)	(877)
Purchase of noncontrolling interests	(40)	
Net cash provided by financing activities	10,301	11,998
Change in cash and due from banks	2,891	7,271
Cash and due from banks at beginning of period	11,147	10,654
Cash and due from banks at end of period	$ 14,038	$ 17,925

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs, expenses and other financial elements to each line of business. Table 11 Line of Business Financial Performance included in Management s Discussion and Analysis provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Revenue Recognition In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance, originally effective for the Company on January 1, 2017, related to revenue recognition from contracts with customers. In August 2015, the FASB delayed the effective date of this guidance by one year, resulting in it becoming effective for the Company on January 1, 2018.

This guidance amends certain currently existing revenue recognition accounting guidance and allows for either retrospective application to all periods presented or a modified retrospective approach where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. The Company is currently evaluating the impact of this guidance under the modified retrospective approach and expects the adoption will not be material to its financial statements.

Accounting for Leases In February 2016, the FASB issued accounting guidance, effective for the Company on January 1, 2019, related to the accounting for leases. This guidance will require lessees to recognize all leases on the Consolidated Balance Sheet as lease assets and lease liabilities, with lessor accounting being largely unchanged. This guidance also requires additional disclosures regarding leasing arrangements. The Company expects the adoption of this guidance will not be material to its financial statements.

Financial Instruments Credit Losses In June 2016, the FASB issued accounting guidance, effective for the Company on January 1, 2020, related to the impairment of financial instruments. This guidance changes existing impairment recognition to a model that is based on expected losses rather than incurred losses, which is intended to result in more timely recognition of credit losses. This guidance is also intended to reduce the complexity of current accounting guidance by decreasing the number of credit impairment models that entities use to account for debt instruments. The Company is currently evaluating the impact of this guidance on its financial statements.

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Note 3 Investment Securities

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

	June 30, 2016					December 31, 2015				
			Unrealized Losses					Unrealized Losses		
(Dollars in Millions)	Amortized Cost	Unrealized Gains	Other-than-Temporary (e)	Other (f)	Fair Value	Amortized Cost	Unrealized Gains	Other-than-Temporary (e)	Other (f)	Fair Value
Held-to-maturity (a)										
U.S. Treasury and agencies	$ 3,916	$ 113	$	$	$ 4,029	$ 2,925	$ 14	$	$ (20)	$ 2,919
Mortgage-backed securities										
Residential										
Agency	38,070	502		(25)	38,547	40,619	175		(273)	40,521
Non-agency non-prime (d)	1				1	1				1
Asset-backed securities										
Collateralized debt obligations/Collateralized loan obligations		6			6		6			6
Other	8	3			11	10	3			13
Obligations of state and political subdivisions	8	1		(1)	8	8	1		(1)	8
Obligations of foreign governments	9				9	9				9
Other debt securities	18			(1)	17	18			(2)	16
Total held-to-maturity	$ 42,030	$ 625	$	$ (27)	$ 42,628	$ 43,590	$ 199	$	$ (296)	$ 43,493
Available-for-sale (b)										
U.S. Treasury and agencies	$ 11,395	$ 217	$	$	$ 11,612	$ 4,611	$ 12	$	$ (27)	$ 4,596
Mortgage-backed securities										
Residential										
Agency	47,085	619		(57)	47,647	50,056	384		(364)	50,076
Non-agency										
Prime (c)	278	6	(3)	(1)	280	316	6	(3)	(1)	318
Non-prime (d)	200	20	(4)		216	221	20	(1)		240
Commercial agency	20				20	52				52
Asset-backed securities										
Collateralized debt obligations/Collateralized loan obligations	14	2			16	16	3			19
Other	521	9			530	532	9			541

Obligations of state and political subdivisions	5,218	205			5,423	5,149	169		(2)	5,316
Corporate debt securities	678	7		(77)	608	677	3		(70)	610
Perpetual preferred securities	53	19			72	153	20		(12)	161
Other investments	34	32			66	34	34			68
Total available-for-sale	$ 65,496	$ 1,136	$ (7)	$ (135						