

US BANCORP \DE\
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

b **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

OR

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

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

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(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 NO

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

YES NO

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

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

Class
Common Stock, \$0.01 Par Value

Outstanding as of July 31, 2015
1,761,004,141 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; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities

portfolio; legal and regulatory developments; litigation; increased competition from both banks and non-banks; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputation risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014, on file with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Corporate Risk Profile" contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. However, factors other than these also could adversely affect U.S. Bancorp's results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

U.S. Bancorp

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(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended			Six Months Ended		
	2015	June 30, 2014	Percent Change	2015	June 30, 2014	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	\$ 2,770	\$ 2,744	.9%	\$ 5,522	\$ 5,450	1.3%
Noninterest income	2,272	2,444	(7.0)	4,426	4,547	(2.7)
Securities gains (losses), net					5	
Total net revenue	5,042	5,188	(2.8)	9,948	10,002	(.5)
Noninterest expense	2,682	2,753	(2.6)	5,347	5,297	.9
Provision for credit losses	281	324	(13.3)	545	630	(13.5)
Income before taxes	2,079	2,111	(1.5)	4,056	4,075	(.5)
Taxable-equivalent adjustment	54	55	(1.8)	108	111	(2.7)
Applicable income taxes	528	547	(3.5)	1,007	1,043	(3.5)
Net income	1,497	1,509	(.8)	2,941	2,921	.7
Net (income) loss attributable to noncontrolling interests	(14)	(14)		(27)	(29)	6.9
Net income attributable to U.S. Bancorp	\$ 1,483	\$ 1,495	(.8)	\$ 2,914	\$ 2,892	.8
Net income applicable to U.S. Bancorp common shareholders	\$ 1,417	\$ 1,427	(.7)	\$ 2,782	\$ 2,758	.9
Per Common Share						
Earnings per share	\$.80	\$.79	1.3%	\$ 1.57	\$ 1.52	3.3%
Diluted earnings per share	.80	.78	2.6	1.56	1.51	3.3
Dividends declared per share	.255	.245	4.1	.500	.475	5.3
Book value per share	22.51	20.98	7.3			
Market value per share	43.40	43.32	.2			
Average common shares outstanding	1,771	1,811	(2.2)	1,776	1,815	(2.1)
Average diluted common shares outstanding	1,779	1,821	(2.3)	1,784	1,825	(2.2)
Financial Ratios						
Return on average assets	1.46%	1.60%		1.45%	1.58%	
Return on average common equity	14.3	15.1		14.2	14.9	
Net interest margin (taxable-equivalent basis) (a)	3.03	3.27		3.05	3.31	
Efficiency ratio (b)	53.2	53.1		53.7	53.0	
Net charge-offs as a percent of average loans outstanding	.48	.58		.47	.58	
Average Balances						
Loans	\$ 246,560	\$ 240,480	2.5%	\$ 247,251	\$ 238,182	3.8%
Loans held for sale	7,908	2,247	*	6,133	2,435	*
Investment securities (c)	102,391	87,583	16.9	101,556	84,915	19.6

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Earning assets	366,428	335,992	9.1	363,650	331,136	9.8
Assets	407,901	374,769	8.8	404,885	369,569	9.6
Noninterest-bearing deposits	77,347	71,837	7.7	75,937	71,333	6.5
Deposits	285,744	262,351	8.9	282,122	259,928	8.5
Short-term borrowings	27,758	30,620	(9.3)	28,622	30,058	(4.8)
Long-term debt	34,418	25,752	33.7	34,428	23,952	43.7
Total U.S. Bancorp shareholders equity	44,514	42,586	4.5	44,297	42,176	5.0

June 30, 2015 December 31, 2014

Period End Balances

Loans	\$ 248,639	\$ 247,851	.3%
Investment securities	103,311	101,043	2.2
Assets	419,075	402,529	4.1
Deposits	296,848	282,733	5.0
Long-term debt	34,141	32,260	5.8
Total U.S. Bancorp shareholders equity	44,537	43,479	2.4

Asset Quality

Nonperforming assets	\$ 1,577	\$ 1,808	(12.8)%
Allowance for credit losses	4,326	4,375	(1.1)
Allowance for credit losses as a percentage of period-end loans	1.74%	1.77%	

Capital Ratios

Basel III transitional standardized approach:

Common equity tier 1 capital	9.5%	9.7%
Tier 1 capital	11.0	11.3
Total risk-based capital	13.1	13.6
Leverage	9.2	9.3
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.9	12.4
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (d)	9.2	9.0
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (d)	12.4	11.8
Tangible common equity to tangible assets (d)	7.5	7.5
Tangible common equity to risk-weighted assets (d)	9.2	9.3

** Not meaningful*

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

(b)

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

- (c) Excludes unrealized gains and losses on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.*
- (d) See Non-GAAP Financial Measures beginning 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 2015, or \$0.80 per diluted common share, compared with \$1.5 billion, or \$0.78 per diluted common share, for the second quarter of 2014. Return on average assets and return on average common equity were 1.46 percent and 14.3 percent, respectively, for the second quarter of 2015, compared with 1.60 percent and 15.1 percent, respectively, for the second quarter of 2014.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2015 was \$146 million (2.8 percent) lower than the second quarter of 2014, reflecting a 7.0 percent decrease in noninterest income, partially offset by a 0.9 percent increase in net interest income. The decrease in noninterest income from the second quarter of 2014 was primarily due to lower other income from the sale of shares of stock of Visa Inc. (Visa stock sales) and lower mortgage banking revenue, partially offset by increases in trust and investment management fees, merchant processing services and credit and debit card revenue. The increase in net interest income was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin.

Noninterest expense in the second quarter of 2015 was \$71 million (2.6 percent) lower than the second quarter of 2014, primarily due to a settlement relating to the Federal Housing Administration's insurance program (FHA DOJ settlement) recorded in the second quarter of 2014, partially offset by an increase in compensation expense, primarily reflecting the impact of merit increases, the June 2014 acquisition of the Chicago-area branch banking operations of the Charter One Bank franchise (Charter One), and higher staffing for risk, compliance and internal audit activities, as well as increased employee benefits expense mainly due to higher pension costs, and higher expenses related to mortgage servicing activities.

The provision for credit losses for the second quarter of 2015 of \$281 million was \$43 million (13.3 percent) lower than the second quarter of 2014. Net charge-offs in the second quarter of 2015 were \$296 million, compared with \$349 million in the second quarter of 2014. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first six months of 2015 was \$2.9 billion, or \$1.56 per diluted common share, compared with \$2.9 billion, or \$1.51 per diluted common share, for the first six months of 2014. Return on average assets and return on average common equity were 1.45 percent and 14.2 percent, respectively, for the first six months of 2015, compared with 1.58 percent and 14.9 percent, respectively, for the first six months of 2014.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2015 was \$54 million (0.5 percent) lower than the first six months of 2014, reflecting a 2.8 percent decrease in noninterest income, partially offset by a 1.3 percent increase in net interest income. The decrease in noninterest income from a year ago was primarily due to lower other income from Visa stock sales and lower mortgage banking revenue, partially offset by higher revenue in most other fee businesses. The increase in net interest income was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin.

Noninterest expense in the first six months of 2015 was \$50 million (0.9 percent) higher than the first six months of 2014, primarily due to higher compensation and employee benefits expenses and costs related to mortgage servicing activities, partially offset by the second quarter 2014 FHA DOJ settlement.

The provision for credit losses for the first six months of 2015 of \$545 million was \$85 million (13.5 percent) lower than the first six months of 2014. Net charge-offs in the first six months of 2015 were \$575 million, compared with \$690 million in the first six months of 2014. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was \$2.8 billion in the second quarter

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and \$5.5 billion in the first six months of 2015, representing increases of \$26 million (0.9 percent) and \$72 million (1.3 percent), respectively, over the same periods of 2014. The increases were principally the result of growth in average earning assets, partially offset by lower rates on new loans and a continued shift in loan portfolio mix, lower rates on investment securities and lower loan fees due to the wind down of the short-term, small-dollar deposit advance product, Checking Account Advance (CAA). Average earning assets were \$30.4 billion (9.1 percent) higher in the second quarter and \$32.5 billion (9.8 percent) higher in the first six months of 2015, compared with the same periods of 2014, driven by increases in investment securities, loans and loans held for sale. The net interest margin, on a taxable-equivalent basis, in the second quarter and first six months of 2015 was 3.03 percent and 3.05 percent, respectively, compared with 3.27 percent and 3.31 percent in the second quarter and first six months of 2014, respectively. The decreases in the net interest margin from the same periods of the prior year primarily reflected growth in the investment portfolio at lower average rates, as well as lower reinvestment rates on investment securities, lower loan fees due to the CAA product wind down, lower rates on new loans and a change in loan portfolio mix, partially offset by lower funding costs. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average investment securities for the second quarter and first six months of 2015 were \$14.8 billion (16.9 percent) and \$16.6 billion (19.6 percent) higher, respectively, than the same periods of 2014, primarily due to purchases of U.S. government and agency-backed securities, net of prepayments and maturities, to support regulatory liquidity coverage ratio requirements.

Average total loans for the second quarter and first six months of 2015 were \$6.1 billion (2.5 percent) and \$9.1 billion (3.8 percent) higher, respectively, than the same periods of 2014, the result of growth in commercial loans, commercial real estate loans, credit card loans and other retail loans, excluding the impact of the transfer of approximately \$3 billion of student loans from the loan portfolio to loans held for sale at the end of the first quarter of 2015 based on the Company's intent to sell these loans. The increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by declines in residential mortgages and loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC), a run-off portfolio. Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) decreased \$2.8 billion (35.4 percent) in the second quarter and \$2.9 billion (36.5 percent) in the first six months of 2015, compared with the same periods of 2014. The decreases were primarily the result of the expiration of the loss sharing agreements on commercial and commercial real estate assets at the end of 2014.

Average total deposits for the second quarter and first six months of 2015 were \$23.4 billion (8.9 percent) and \$22.2 billion (8.5 percent) higher, respectively, than the same periods of 2014. Average noninterest-bearing deposits for the second quarter and first six months of 2015 increased \$5.5 billion (7.7 percent) and \$4.6 billion (6.5 percent), respectively, over the same periods of the prior year, primarily in Wholesale Banking and Commercial Real Estate and Consumer and Small Business Banking. Average total savings deposits for the second quarter and first six months of 2015 were \$23.8 billion (16.1 percent) and \$22.3 billion (15.3 percent) higher, respectively, than the same periods of 2014, the result of growth in Consumer and Small Business Banking, including the impact of the Charter One branch acquisitions, corporate trust, and Wholesale Banking and Commercial Real Estate balances. The growth in average total savings deposits included increases in new accounts and increased balances from existing customers, including the continued strong participation in a savings product offered by Consumer and Small Business Banking. Average time deposits less than \$100,000 for the second quarter and first six months of 2015 were \$1.0 billion (9.5 percent) and \$1.0 billion (9.2 percent) lower, respectively, than the same periods of the prior year, due to maturities. Average time deposits greater than \$100,000 for the second quarter and first six months of 2015 were \$4.9 billion (15.7 percent) and \$3.7 billion (11.8 percent) lower, respectively, than the same periods of the prior year, primarily due to declines in Wholesale Banking and Commercial Real Estate, corporate trust and Consumer and Small Business Banking balances. Time deposits greater than \$100,000 are primarily managed as an alternative to other funding

sources, such as wholesale borrowing, based largely on funding needs and relative pricing.

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2015 decreased \$43 million (13.3 percent) and \$85 million (13.5 percent), respectively, compared with the same periods of 2014. Net charge-offs decreased \$53 million (15.2 percent) and \$115 million (16.7 percent) in the second quarter and first six months of 2015, respectively, compared with the same periods of the prior year,

Table of Contents**Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended			Six Months Ended		
	June 30,		Percent	June 30,		Percent
	2015	2014	Change	2015	2014	Change
Credit and debit card revenue	\$ 266	\$ 259	2.7%	\$ 507	\$ 498	1.8%
Corporate payment products revenue	178	182	(2.2)	348	355	(2.0)
Merchant processing services	395	384	2.9	754	740	1.9
ATM processing services	80	82	(2.4)	158	160	(1.3)
Trust and investment management fees	334	311	7.4	656	615	6.7
Deposit service charges	174	171	1.8	335	328	2.1
Treasury management fees	142	140	1.4	279	273	2.2
Commercial products revenue	214	221	(3.2)	414	426	(2.8)
Mortgage banking revenue	231	278	(16.9)	471	514	(8.4)
Investment products fees	48	47	2.1	95	93	2.2
Securities gains (losses), net					5	*
Other	210	369	(43.1)	409	545	(25.0)
Total noninterest income	\$ 2,272	\$ 2,444	(7.0)%	\$ 4,426	\$ 4,552	(2.8)%

*Not meaningful.

reflecting improvements in residential mortgages, other retail, commercial, and construction and development loans. The provision for credit losses was lower than net charge-offs by \$15 million in the second quarter and \$30 million in the first six months of 2015, compared with \$25 million in the second quarter and \$60 million in the first six months of 2014. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was \$2.3 billion in the second quarter and \$4.4 billion in the first six months of 2015, representing decreases of \$172 million (7.0 percent) and \$126 million (2.8 percent), respectively, compared with the same periods of 2014. The decreases from a year ago were principally due to lower other income from Visa stock sales and lower mortgage banking revenue, partially offset by increases in other fee revenue categories. The decreases in mortgage banking revenue were primarily due to unfavorable changes in the valuation of mortgage servicing rights (MSRs), net of hedging activities, offset by increases in mortgage production revenue. Trust and investment management fees increased reflecting the benefits of the Company's investments in corporate trust and fund services businesses, as well as account growth and improved market conditions. Merchant processing services increased 2.9 percent in the second quarter and 1.9 percent in the first six months of 2015, compared with the same periods of 2014, due to higher transaction volumes and account growth. Adjusted for the impact of foreign currency rate changes, the increases would have been approximately 7.6 percent and 6.4 percent, respectively. In addition, credit and debit card revenue increased due to higher transaction volumes.

Noninterest Expense Noninterest expense was \$2.7 billion in the second quarter and \$5.3 billion in the first six months of 2015, representing a decrease of \$71 million (2.6 percent) and an increase of \$50 million (0.9 percent),

respectively, compared with the same periods of 2014. The changes from a year ago were primarily the result of higher compensation, employee benefits and mortgage servicing-related expenses in the current year, offset by the second quarter 2014 FHA DOJ settlement. The increases in compensation expense primarily reflected the impact of merit increases, the Charter One branch acquisitions, and higher staffing for risk, compliance and internal audit activities. The increases in employee benefits expense were primarily driven by higher pension costs. Postage, printing and supplies expense decreased from the same periods of the prior year reflecting reimbursement from a business partner.

Income Tax Expense The provision for income taxes was \$528 million (an effective rate of 26.1 percent) for the second quarter and \$1.0 billion (an effective rate of 25.5 percent) for the first six months of 2015, compared with \$547 million (an effective rate of 26.6 percent) and \$1.0 billion (an effective rate of 26.3 percent) for the same periods of 2014. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company's loan portfolio was \$248.6 billion at June 30, 2015, compared with \$247.9 billion at December 31, 2014, an increase of \$788 million (0.3 percent). The increase was driven primarily by higher

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(Dollars in Millions)	Three Months Ended			Six Months Ended		
	June 30, 2015	June 30, 2014	Percent Change	June 30, 2015	June 30, 2014	Percent Change
Compensation	\$ 1,196	\$ 1,125	6.3%	\$ 2,375	\$ 2,240	6.0%
Employee benefits	293	257	14.0	610	546	11.7
Net occupancy and equipment	247	241	2.5	494	490	.8
Professional services	106	97	9.3	183	180	1.7
Marketing and business development	96	96		166	175	(5.1)
Technology and communications	221	214	3.3	435	425	2.4
Postage, printing and supplies	64	80	(20.0)	146	161	(9.3)
Other intangibles	43	48	(10.4)	86	97	(11.3)
Other	416	595	(30.1)	852	983	(13.3)
Total noninterest expense	\$ 2,682	\$ 2,753	(2.6)%	\$ 5,347	\$ 5,297	.9%
Efficiency ratio (a)	53.2%	53.1%		53.7%	53.0%	

(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).

commercial loans, partially offset by lower credit card loans, commercial real estate loans, covered loans, residential mortgages and other retail loans, including the transfer of the student loans from the loan portfolio to loans held for sale at the end of the first quarter of 2015.

Commercial loans increased \$4.2 billion (5.3 percent) at June 30, 2015, compared with December 31, 2014, reflecting higher demand from new and existing customers. In addition, excluding student loans, other retail loans increased \$1.5 billion (3.2 percent) at June 30, 2015, compared with December 31, 2014. The increase was driven primarily by higher auto and installment loan balances.

Credit card and commercial real estate loans decreased \$727 million (3.9 percent) and \$537 million (1.3 percent), respectively, at June 30, 2015, compared with December 31, 2014, primarily the result of customers paying down balances.

Residential mortgages held in the loan portfolio decreased \$282 million (0.5 percent) at June 30, 2015, compared with December 31, 2014, reflecting higher loan prepayments due to the low interest rate environment. 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. The Company generally retains portfolio loans through maturity; however, the Company's intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company's intent or ability to hold an existing portfolio loan changes, the loan is transferred to loans held for sale.

Loans Held for Sale Loans held for sale, consisting of residential mortgages and other loans to be sold in the secondary market, were \$8.5 billion at June 30, 2015, compared with \$4.8 billion at December 31, 2014. The increase in loans held for sale was principally due to the transfer of the student loan balances to loans held for sale at the end of the first quarter of 2015, as well as an increase in residential mortgage loans held for sale balances due to a higher level of mortgage loan closings.

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 \$103.3 billion at June 30, 2015, compared with \$101.0 billion at December 31, 2014. The \$2.3 billion (2.2 percent) increase reflected \$2.5 billion of net investment purchases, partially offset by a \$148 million unfavorable 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, 2015, the Company s net unrealized gains on available-for-sale securities were \$489 million, compared with \$637 million at December 31, 2014. The unfavorable change in net unrealized gains (losses) was primarily due to decreases in the fair value of agency mortgage-backed and state and political securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale securities totaled \$369 million at June 30, 2015, compared with \$343 million at December 31, 2014. At June 30, 2015, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

In December 2013, U.S. banking regulators approved final rules that prohibit banks from holding

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At June 30, 2015 (Dollars in Millions)	Amortized Cost	Available-for-Sale Weighted- Average Fair Value	Weighted- Maturity in Years	Weighted- Average Yield (e)	Amortized Cost	Held-to-Maturity Weighted- Average Fair Value	Weighted- Maturity in Years	Weighted- Average Yield (e)	
U.S. Treasury and Agencies									
Maturing in one year or less	\$ 120	\$ 121	.2	1.94%	\$	\$			%
Maturing after one year through five years	1,785	1,795	3.2	1.59	1,097	1,109	3.2	1.42	
Maturing after five years through ten years	846	847	7.0	2.35	1,700	1,688	7.2	2.16	
Maturing after ten years	1	1	12.2	4.15	56	56	10.3	1.77	
Total	\$ 2,752	\$ 2,764	4.2	1.84%	\$ 2,853	\$ 2,853	5.7	1.87%	
Mortgage-Backed Securities (a)									
Maturing in one year or less	\$ 438	\$ 440	.7	1.51%	\$ 165	\$ 165	.7	1.75%	
Maturing after one year through five years	30,054	30,255	4.0	1.95	31,421	31,486	3.7	2.03	
Maturing after five years through ten years	15,699	15,771	5.7	1.49	11,503	11,559	5.5	1.36	
Maturing after ten years	867	871	12.2	1.25	240	242	11.9	1.23	
Total	\$ 47,058	\$ 47,337	4.7	1.78%	\$ 43,329	\$ 43,452	4.2	1.84%	
Asset-Backed Securities (a)									
Maturing in one year or less	\$ 53	\$ 56	.7	.18%	\$	\$ 1	.1	.81%	
Maturing after one year through five years	206	212	3.6	2.00	7	9	3.0	.84	
Maturing after five years through ten years	355	361	6.3	1.49	4	5	6.2	.91	
Maturing after ten years					1	7	11.3	.95	
Total	\$ 614	\$ 629	4.9	1.55%	\$ 12	\$ 22	4.8	.87%	
Obligations of State and Political Subdivisions (b) (c)									
Maturing in one year or less	\$ 1,244	\$ 1,267	.5	6.75%	\$	\$.4	9.47%	
Maturing after one year through five years	3,412	3,581	1.9	6.60	1	1	2.9	7.89	
Maturing after five years through ten years	366	365	6.9	4.90	2	2	8.3	7.76	
Maturing after ten years	158	161	18.0	6.49	6	5	10.8	1.73	
Total	\$ 5,180	\$ 5,374	2.4	6.51%	\$ 9	\$ 8	9.2	3.72%	
Other Debt Securities									
Maturing in one year or less	\$	\$		%	\$	\$		%	

Maturing after one year through five years					9	9	1.7	1.49
Maturing after five years through ten years					21	20	5.3	1.02
Maturing after ten years	691	632	18.0	2.49				
Total	\$ 691	\$ 632	18.0	2.49%	\$ 30	\$ 29	4.3	1.16%
Other Investments	\$ 294	\$ 342	15.2	3.15%	\$	\$		%
Total investment securities								
(d)	\$ 56,589	\$ 57,078	4.7	2.23%	\$ 46,233	\$ 46,364	4.3	1.85%

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.
- (c) Maturity calculations for obligations of state and political subdivisions are based on the first optional call date for securities with a fair value above par and contractual maturity for securities with a fair value equal to or below par.
- (d) The weighted-average maturity of the available-for-sale investment securities was 4.3 years at December 31, 2014, with a corresponding weighted-average yield of 2.32 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.0 years at December 31, 2014, with a corresponding weighted-average yield of 1.92 percent.
- (e) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity investment securities are computed based on amortized cost balances, excluding any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

(Dollars in Millions)	June 30, 2015		December 31, 2014	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 5,605	5.5%	\$ 5,339	5.3%
Mortgage-backed securities	90,387	87.9	87,645	87.3
Asset-backed securities	626	.6	638	.6
Obligations of state and political subdivisions	5,189	5.0	5,613	5.6
Other debt securities and investments	1,015	1.0	1,171	1.2
Total investment securities	\$ 102,822	100.0%	\$ 100,406	100.0%

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 \$296.8 billion at June 30, 2015, compared with \$282.7 billion at December 31, 2014, the result of increases in total savings deposits and noninterest-bearing deposits, partially offset by a decrease in time deposits. Money market savings account balances increased \$6.7 billion (8.8 percent) primarily due to higher corporate trust and Wholesale Banking and

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Commercial Real Estate balances. Savings account balances increased \$1.9 billion (5.5 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking, including an increase in new accounts and increased balances from existing customers. Interest checking balances increased \$1.4 billion (2.5 percent) primarily due to higher Consumer and Small Business Banking, and Wholesale Banking and Commercial Real Estate balances, partially offset by lower broker dealer balances. Noninterest-bearing deposits increased \$8.9 billion (11.5 percent) at June 30, 2015, compared with December 31, 2014, primarily due to higher corporate trust and Wholesale Banking and Commercial Real Estate balances. Time deposits less than \$100,000 decreased \$862 million (8.1 percent) at June 30, 2015, compared with December 31, 2014, primarily due to lower Consumer and Small Business Banking balances, the result of maturities. Time deposits greater than \$100,000 decreased \$3.9 billion (13.9 percent) at June 30, 2015, compared with December 31, 2014, primarily due to lower Wholesale Banking and Commercial Real Estate, and Consumer and Small Business Banking balances. Time deposits greater than \$100,000 are primarily managed as an alternative to other funding sources, such as wholesale borrowing, based largely on funding needs and relative pricing.

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 \$27.8 billion at June 30, 2015, compared with \$29.9 billion at December 31, 2014. The \$2.1 billion (7.1 percent) decrease in short-term borrowings was primarily due to decreases in short-term Federal Home Loan Bank advances and other short-term borrowings balances. Long-term debt was \$34.2 billion at June 30, 2015, compared with \$32.3 billion at December 31, 2014. The \$1.9 billion (5.8 percent) increase was primarily due to the issuance of \$2.3 billion of bank notes and a \$783 million increase in long-term Federal Home Loan Bank advances, partially offset by \$750 million of medium-term note and \$500 million of subordinated bank note maturities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

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

The Executive Risk Committee (ERC), which is chaired by the Chief Risk Officer and includes the Chief Executive Officer and other members of the executive management team, oversees execution against the risk management framework and risk appetite statements. The ERC focuses on current and emerging risks, including strategic and reputation 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 reputation. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale, MSRs and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations or new business at a reasonable cost and in a timely manner. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or

systems, or from external events, including the risk of loss resulting from breaches in data security. Operational risk can also include failures by third parties with which the Company does business. Compliance risk is the risk of loss arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards, potentially exposing the Company to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk also arises in situations where the laws or rules governing certain Company products or activities of the Company's customers may be ambiguous or untested. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputation risk is the

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risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company's competitiveness by affecting its ability to establish new relationships or services, or continue servicing existing relationships. In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for a detailed discussion of these factors.

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

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

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

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

In addition, credit quality ratings, as defined by the Company, are an important part of the Company's overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company's rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including loans that are 90 days or more past due and still accruing, nonaccrual loans,

those considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company s internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to

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compute estimated loan-to-value (LTV) ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not the primary source of repayment. Refer to Note 4 in the Notes to Consolidated Financial Statements for further discussion of the Company's loan portfolios including internal credit quality ratings. In addition, refer to Management's Discussion and Analysis - Credit Risk Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into three segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company's three loan portfolio segments are commercial lending, consumer lending and covered loans. The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution, non-profit and public sector customers. Key risk characteristics relevant to commercial lending segment loans include the industry and geography of the borrower's business, purpose of the loan, repayment source, borrower's debt capacity and financial flexibility, loan covenants, and nature of pledged collateral, if any. These risk characteristics, among others, are considered in determining estimates about the likelihood of default by the borrowers and the severity of loss in the event of default. The Company considers these risk characteristics in assigning internal risk ratings to, or forecasting losses on, these loans which are the significant factors in determining the allowance for credit losses for loans in the commercial lending segment. At June 30, 2015, approximately \$3.3 billion of the commercial loans outstanding were to customers in energy-related businesses, compared with \$3.1 billion at December 31, 2014. The recent decline in energy prices has resulted in deterioration to some of these loans; however, its impact has not been material to the Company.

The consumer lending segment represents loans and leases made to consumer customers including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, and home equity loans and lines. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10- or 15-year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines in the portfolio are variable rates benchmarked to the prime rate, with a 10- or 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 20- or 10-year amortization period, respectively. At June 30, 2015, substantially all of the Company's home equity lines were in the draw period. Approximately \$856 million, or 6 percent, of the outstanding home equity line balances at June 30, 2015, will enter the amortization period within the next 36 months. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers' capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and in some cases, updated LTV information on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

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

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

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

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

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

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

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	\$ 1,820	\$ 36,870	\$ 38,690	86.9%
Over 80% through 90%	138	2,949	3,087	6.9
Over 90% through 100%	102	1,152	1,254	2.8
Over 100%	144	1,278	1,422	3.2
No LTV available		63	63	.2
Total	\$ 2,204	\$ 42,312	\$ 44,516	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	\$	\$ 557	\$ 557	48.4%
Over 80% through 90%		177	177	15.4
Over 90% through 100%		152	152	13.2
Over 100%		264	264	23.0
No LTV available				
Total	\$	\$ 1,150	\$ 1,150	100.0%
Other Borrowers				
Less than or equal to 80%	\$ 3	\$ 399	\$ 402	55.4%
Over 80% through 90%		118	118	16.2
Over 90% through 100%		63	63	8.7
Over 100%		143	143	19.7
No LTV available				
Total	\$ 3	\$ 723	\$ 726	100.0%
Loans Purchased From GNMA Mortgage Pools (a)	\$	\$ 4,945	\$ 4,945	100.0%
Total				
Less than or equal to 80%	\$ 1,823	\$ 37,826	\$ 39,649	77.2%

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Over 80% through 90%	138	3,244	3,382	6.6
Over 90% through 100%	102	1,367	1,469	2.9
Over 100%	144	1,685	1,829	3.6
No LTV available		63	63	.1
Loans purchased from GNMA mortgage pools (a)		4,945	4,945	9.6
Total	\$ 2,207	\$ 49,130	\$ 51,337	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				Percent of Total
(Dollars in Millions)	Lines	Loans	Total	
Prime Borrowers				
Less than or equal to 80%	\$ 9,569	\$ 601	\$ 10,170	66.1%
Over 80% through 90%	2,350	280	2,630	17.1
Over 90% through 100%	1,051	125	1,176	7.6
Over 100%	1,103	142	1,245	8.1
No LTV/CLTV available	152	17	169	1.1
Total	\$ 14,225	\$ 1,165	\$ 15,390	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	\$ 34	\$ 25	\$ 59	27.5%
Over 80% through 90%	11	17	28	13.0
Over 90% through 100%	10	21	31	14.4
Over 100%	23	72	95	44.2
No LTV/CLTV available		2	2	.9
Total	\$ 78	\$ 137	\$ 215	100.0%
Other Borrowers				
Less than or equal to 80%	\$ 339	\$ 11	\$ 350	75.1%
Over 80% through 90%	68	8	76	16.3
Over 90% through 100%	20	2	22	4.7
Over 100%	16	2	18	3.9
No LTV/CLTV available				
Total	\$ 443	\$ 23	\$ 466	100.0%
Total				
Less than or equal to 80%	\$ 9,942	\$ 637	\$ 10,579	65.8%
Over 80% through 90%	2,429	305	2,734	17.0
Over 90% through 100%	1,081	148	1,229	7.6
Over 100%	1,142	216	1,358	8.5
No LTV/CLTV available	152	19	171	1.1
Total	\$ 14,746	\$ 1,325	\$ 16,071	100.0%

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At June 30, 2015 and December 31, 2014, approximately \$1.2 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent agencies at loan origination. In addition to residential mortgages, at June 30, 2015, \$215 million of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, compared with \$238 million at December 31, 2014. The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only 0.3 percent of total assets at June 30, 2015, compared with 0.4 percent at December 31, 2014. The Company considers sub-prime loans to be those made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company's underwriting programs specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company's program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

Covered loans included \$792 million in loans with negative-amortization payment options at June 30, 2015, compared with \$850 million at December 31, 2014. Other than covered loans, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

Home equity and second mortgages were \$16.1 billion at June 30, 2015, compared with \$15.9 billion at December 31, 2014, and included \$5.1 billion of home equity lines in a first lien position and \$11.0 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, 2015, included approximately \$4.3 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately \$6.7 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

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

(Dollars in Millions)	Junior Liens Behind		Total
	Company Owned or Serviced First Lien	Third Party First Lien	
Total	\$ 4,284	\$ 6,741	\$ 11,025
Percent 30-89 days past due	.23%	.42%	.35%
Percent 90 days or more past due	.06%	.11%	.09%
Weighted-average CLTV	77%	74%	75%
Weighted-average credit score	750	745	747

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.

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	June 30, 2015	December 31, 2014
90 days or more past due excluding nonperforming loans		
Commercial		
Commercial	.05%	.05%
Lease financing		
Total commercial	.05	.05
Commercial Real Estate		
Commercial mortgages	.01	.02
Construction and development	.16	.14
Total commercial real estate	.05	.05
Residential Mortgages (a)	.30	.40
Credit Card	1.03	1.13
Other Retail		
Retail leasing		.02
Home equity and second mortgages	.25	.26
Other	.10	.12
Total other retail (b)	.14	.15
Total loans, excluding covered loans	.19	.23
Covered Loans	6.66	7.48
Total loans	.32%	.38%
	June 30, 2015	December 31, 2014
90 days or more past due including nonperforming loans		
Commercial	.16%	.19%
Commercial real estate	.46	.65
Residential mortgages (a)	1.80	2.07
Credit card	1.12	1.30
Other retail (b)	.51	.53
Total loans, excluding covered loans	.70	.83
Covered loans	6.88	7.74
Total loans	.82%	.97%

(a) Delinquent loan ratios exclude \$2.9 billion at June 30, 2015, and \$3.1 billion at December 31, 2014, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 7.41 percent at June 30, 2015, and 8.02 percent at December 31, 2014.

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including these loans, the ratio of total other retail loans 90 days or more past due including all nonperforming loans was .81 percent at June 30, 2015, and .84 percent at December 31, 2014.

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company's loan portfolios. The Company measures delinquencies, both including and excluding nonperforming

loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$801 million (\$469 million excluding covered loans) at June 30, 2015, compared with \$945 million (\$550 million excluding covered loans) at December 31, 2014. These balances exclude loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 0.32 percent (0.19 percent excluding covered loans) at June 30, 2015, compared with 0.38 percent (0.23 percent excluding covered loans) at December 31, 2014.

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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:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Residential Mortgages (a)				
30-89 days	\$ 195	\$ 221	.38%	.43%
90 days or more	156	204	.30	.40
Nonperforming	769	864	1.50	1.67
Total	\$ 1,120	\$ 1,289	2.18%	2.50%
Credit Card				
30-89 days	\$ 206	\$ 229	1.16%	1.24%
90 days or more	183	210	1.03	1.13
Nonperforming	16	30	.09	.16
Total	\$ 405	\$ 469	2.28%	2.53%
Other Retail				
Retail Leasing				
30-89 days	\$ 10	\$ 11	.17%	.18%
90 days or more		1		.02
Nonperforming	2	1	.04	.02
Total	\$ 12	\$ 13	.21%	.22%
Home Equity and Second Mortgages				
30-89 days	\$ 59	\$ 85	.36%	.54%
90 days or more	40	42	.25	.26
Nonperforming	157	170	.98	1.07
Total	\$ 256	\$ 297	1.59%	1.87%
Other (b)				
30-89 days	\$ 124	\$ 142	.48%	.51%
90 days or more	27	32	.10	.12
Nonperforming	19	16	.07	.06
Total	\$ 170	\$ 190	.65%	.69%

(a) Excludes \$375 million of loans 30-89 days past due and \$2.9 billion of loans 90 days or more past due at June 30, 2015, purchased from GNMA mortgage pools that continue to accrue interest, compared with \$431 million and \$3.1 billion at December 31, 2014, respectively.

(b) Includes revolving credit, installment, automobile and student loans.

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

	June 30, 2015	December 31, 2014
Residential mortgages (a)		
Prime Borrowers		
30-89 days	.32%	.33%
90 days or more	.27	.35
Nonperforming	1.27	1.42
Total	1.86%	2.10%
Sub-Prime Borrowers		
30-89 days	3.83%	5.12%
90 days or more	2.35	3.41
Nonperforming	15.30	16.73
Total	21.48%	25.26%
Other Borrowers		
30-89 days	1.24%	1.37%
90 days or more	1.10	1.13
Nonperforming	3.72	3.50
Total	6.06%	6.00%

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

	June 30, 2015	December 31, 2014
Home equity and second mortgages		
Prime Borrowers		
30-89 days	.32%	.47%
90 days or more	.23	.24
Nonperforming	.87	.95
Total	1.42%	1.66%
Sub-Prime Borrowers		
30-89 days	2.79%	3.36%
90 days or more	.93	1.26
Nonperforming	5.58	5.88
Total	9.30%	10.50%
Other Borrowers		
30-89 days	.86%	1.18%
90 days or more	.43	.40
Nonperforming	2.57	2.36
Total	3.86%	3.94%

The following table provides summary delinquency information for covered loans:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
30-89 days	\$ 73	\$ 68	1.47%	1.28%
90 days or more	332	395	6.66	7.48

Nonperforming	11	14	.22	.27
Total	\$ 416	\$ 477	8.35%	9.03%

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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, 2015, performing TDRs were \$4.9 billion, compared with \$5.1 billion at December 31, 2014. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

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

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

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

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

under the loss sharing agreements.

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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, 2015	As a Percent of Performing TDRs				Total TDRs
	Performing TDRs	Past Due	30-89 Days 90 Days or More Past Due	Nonperforming TDRs	
(Dollars in Millions)					
Commercial	\$ 286	3.6%	.9%	\$ 45(a)	\$ 331
Commercial real estate	240	1.9	4.9	84(b)	324
Residential mortgages	1,931	3.5	2.8	497	2,428(d)
Credit card	202	9.5	5.7	16(c)	218
Other retail	156	4.3	4.1	63(c)	219(e)
TDRs, excluding GNMA and covered loans	2,815	3.8	3.1	705	3,520
Loans purchased from GNMA mortgage pools	2,080	6.8	61.7		2,080(f)
Covered loans	31	1.1	10.4	4	35
Total	\$ 4,926	5.1%	27.9%	\$ 709	\$ 5,635

- (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 \$320 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$83 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
- (e) Includes \$117 million of other retail loans to borrowers that have had debt discharged through bankruptcy and \$10 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
- (f) Includes \$484 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$610 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, 2015.

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(Dollars in Millions)	June 30, 2015	December 31, 2014
Commercial		
Commercial	\$ 78	\$ 99
Lease financing	12	13
Total commercial	90	112
Commercial Real Estate		
Commercial mortgages	116	175
Construction and development	59	84
Total commercial real estate	175	259
Residential Mortgages (b)	769	864
Credit Card	16	30
Other Retail		
Retail leasing	2	1
Home equity and second mortgages	157	170
Other	19	16
Total other retail	178	187
Total nonperforming loans, excluding covered loans	1,228	1,452
Covered Loans	11	14
Total nonperforming loans	1,239	1,466
Other Real Estate (c)(d)	287	288
Covered Other Real Estate (d)	35	37
Other Assets	16	17
Total nonperforming assets	\$ 1,577	\$ 1,808
Total nonperforming assets, excluding covered assets	\$ 1,531	\$ 1,757
Excluding covered assets		
Accruing loans 90 days or more past due (b)	\$ 469	\$ 550
Nonperforming loans to total loans	.50%	.60%
Nonperforming assets to total loans plus other real estate (c)	.63%	.72%
Including covered assets		
Accruing loans 90 days or more past due (b)	\$ 801	\$ 945
Nonperforming loans to total loans	.50%	.59%
Nonperforming assets to total loans plus other real estate (c)	.63%	.73%
Changes in Nonperforming Assets		

(Dollars in Millions)	Commercial and Commercial Real Estate	Credit Card, Other Retail and Residential Mortgages	Covered Assets	Total
Balance December 31, 2014	\$ 431	\$ 1,326	\$ 51	\$ 1,808
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	140	244	13	397
Advances on loans	31			31

Total additions	171	244	13	428
Reductions in nonperforming assets				
Paydowns, payoffs	(167)	(132)	(5)	(304)
Net sales	(24)	(59)	(12)	(95)
Return to performing status	(3)	(106)		(109)
Charge-offs (e)	(91)	(59)	(1)	(151)
Total reductions	(285)	(356)	(18)	(659)
Net additions to (reductions in) nonperforming assets	(114)	(112)	(5)	(231)
Balance June 30, 2015	\$ 317	\$ 1,214	\$ 46	\$ 1,577

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$2.9 billion and \$3.1 billion at June 30, 2015, and December 31, 2014, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
- (c) Foreclosed GNMA loans of \$753 million and \$641 million at June 30, 2015, and December 31, 2014, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
- (d) Includes equity investments in entities whose principal assets are other real estate owned.
- (e) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.

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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 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, 2015, total nonperforming assets were \$1.6 billion, compared with \$1.8 billion at December 31, 2014. The \$231 million (12.8 percent) decrease in nonperforming assets was primarily driven by reductions in commercial loans, commercial real estate loans and residential mortgages. Nonperforming covered assets at June 30, 2015, were \$46 million, compared with \$51 million at December 31, 2014. The ratio of total nonperforming assets to total loans and other real estate was 0.63 percent at June 30, 2015, compared with 0.73 percent at December 31, 2014.

Other real estate owned, excluding covered assets, was \$287 million at June 30, 2015, compared with \$288 million at December 31, 2014, and was related to foreclosed properties that previously secured loan balances. These balances exclude foreclosed GNMA loans whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Residential				
Florida	\$ 20	\$ 17	1.30%	1.06%
Illinois	18	16	.43	.37
Minnesota	17	16	.27	.26
Ohio	14	13	.46	.42
Wisconsin	12	10	.54	.44
All other states	158	161	.32	.32
Total residential	239	233	.35	.35
Commercial				
California	12	11	.06	.05
Illinois	11	12	.18	.19
Indiana	3	3	.20	.20
Texas	2		.03	
Florida	2	7	.06	.24
All other states	18	22	.02	.03
Total commercial	48	55	.04	.04
Total	\$ 287	\$ 288	.12%	.12%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were \$296 million for the second quarter and \$575 million for the first six months of 2015, compared with \$349 million and \$690 million for the same periods of 2014. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the second quarter and first six months of 2015 was 0.48 percent and 0.47 percent, respectively, compared with 0.58 percent for both the second quarter and first six

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Commercial				
Commercial	.20%	.30%	.21%	.26%