

US BANCORP \DE\  
Form 10-Q  
November 06, 2014  
**Table of Contents**



Edgar Filing: US BANCORP \DE\ - Form 10-Q

(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, \$.01 Par Value

Outstanding as of October 31, 2014  
1,789,386,385 shares

**Table of Contents****Table of Contents and Form 10-Q Cross Reference Index****Part I Financial Information**

<u>1) Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)</u>	3
<u>a) Overview</u>	3
<u>b) Statement of Income Analysis</u>	4
<u>c) Balance Sheet Analysis</u>	6
<u>d) Non-GAAP Financial Measures</u>	33
<u>e) Critical Accounting Policies</u>	35
<u>f) Controls and Procedures (Item 4)</u>	35
<u>2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)</u>	8
<u>a) Overview</u>	8
<u>b) Credit Risk Management</u>	9
<u>c) Residual Value Risk Management</u>	23
<u>d) Operational Risk Management</u>	23
<u>e) Compliance Risk Management</u>	23
<u>f) Interest Rate Risk Management</u>	23
<u>g) Market Risk Management</u>	24
<u>h) Liquidity Risk Management</u>	25
<u>i) Capital Management</u>	27
<u>3) Line of Business Financial Review</u>	28
<u>4) Financial Statements (Item 1)</u>	36
<b>Part II Other Information</b>	
<u>1) Legal Proceedings (Item 1)</u>	83
<u>2) Risk Factors (Item 1A)</u>	83
<u>3) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)</u>	83
<u>4) Exhibits (Item 6)</u>	83
<u>5) Signature</u>	84
<u>6) Exhibits</u>	85

**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 moderate 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. Continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets could cause additional 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; increased competition from both banks and non-banks; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013, on file with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Corporate Risk Profile" contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. However, factors other than these also could adversely affect U.S. Bancorp's results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.



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

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended			Nine Months Ended		
	September 30,		Percent Change	September 30,		Percent Change
	2014	2013		2014	2013	
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis) (a)	\$ 2,748	\$ 2,714	1.3%	\$ 8,198	\$ 8,095	1.3%
Noninterest income	2,245	2,180	3.0	6,792	6,610	2.8
Securities gains (losses), net	(3)	(3)		2	8	(75.0)
Total net revenue	4,990	4,891	2.0	14,992	14,713	1.9
Noninterest expense	2,614	2,565	1.9	7,911	7,592	4.2
Provision for credit losses	311	298	4.4	941	1,063	(11.5)
Income before taxes	2,065	2,028	1.8	6,140	6,058	1.4
Taxable-equivalent adjustment	56	56		167	168	(.6)
Applicable income taxes	523	542	(3.5)	1,566	1,629	(3.9)
Net income	1,486	1,430	3.9	4,407	4,261	3.4
Net (income) loss attributable to noncontrolling interests	(15)	38	*	(44)	119	*
Net income attributable to U.S. Bancorp	\$ 1,471	\$ 1,468	.2	\$ 4,363	\$ 4,380	(.4)
Net income applicable to U.S. Bancorp common shareholders	\$ 1,405	\$ 1,400	.4	\$ 4,163	\$ 4,163	
<b>Per Common Share</b>						
Earnings per share	\$ .78	\$ .76	2.6%	\$ 2.30	\$ 2.26	1.8%
Diluted earnings per share	.78	.76	2.6	2.29	2.25	1.8
Dividends declared per share	.245	.230	6.5	.720	.655	9.9
Book value per share	21.38	19.31	10.7			
Market value per share	41.83	36.58	14.4			
Average common shares outstanding	1,798	1,832	(1.9)	1,809	1,844	(1.9)
Average diluted common shares outstanding	1,807	1,843	(2.0)	1,819	1,854	(1.9)
<b>Financial Ratios</b>						
Return on average assets	1.51%	1.65%		1.56%	1.67%	
Return on average common equity	14.5	15.8		14.7	16.0	
Net interest margin (taxable-equivalent basis) (a)	3.16	3.43		3.26	3.45	
Efficiency ratio (b)	52.4	52.4		52.8	51.6	
Net charge-offs as a percent of average loans outstanding	.55	.57		.57	.68	
<b>Average Balances</b>						
Loans	\$ 243,867	\$ 229,362	6.3%	\$ 240,098	\$ 225,682	6.4%
Loans held for sale	3,552	4,965	(28.5)	2,811	6,659	(57.8)
Investment securities (c)	93,141	74,988	24.2	87,687	74,303	18.0
Earning assets	346,422	315,060	10.0	336,287	313,663	7.2
Assets	385,823	352,161	9.6	375,047	351,048	6.8
Noninterest-bearing deposits	74,126	68,264	8.6	72,274	67,183	7.6
Deposits	271,008	252,368	7.4	263,662	248,284	6.2
Short-term borrowings	30,961	27,495	12.6	30,362	27,736	9.5
Long-term debt	26,658	19,226	38.7	24,864	21,968	13.2
Total U.S. Bancorp shareholders equity	43,132	39,936	8.0	42,498	39,675	7.1
	September 30,	December 31,				
	2014	2013				
<b>Period End Balances</b>						
Loans	\$ 245,591	\$ 235,235	4.4%			
Investment securities	96,905	79,855	21.4			
Assets	391,284	364,021	7.5			
Deposits	273,097	262,123	4.2			
Long-term debt	30,768	20,049	53.5			
Total U.S. Bancorp shareholders equity	43,141	41,113	4.9			
<b>Asset Quality</b>						
Nonperforming assets	\$ 1,923	\$ 2,037	(5.6)			
Allowance for credit losses	4,414	4,537	(2.7)			
Allowance for credit losses as a percent of period-end loans	1.80%	1.93%				
<b>Capital Ratios</b>						

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Common equity tier 1 capital (d)	9.7%	9.4%(e)
Tier 1 capital (d)	11.3	11.2
Total risk-based capital (d)	13.6	13.2
Leverage (d)	9.4	9.6
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.4	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (e)	9.0	8.8
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (e)	11.8	
Tangible common equity to tangible assets (e)	7.6	7.7
Tangible common equity to risk-weighted assets (e)	9.3	9.1

\* *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) *September 30, 2014, calculated under the Basel III transitional standardized approach; December 31, 2013, calculated under Basel I.*

(e) *See Non-GAAP Financial Measures beginning on page 33.*

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

**Earnings Summary** U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of \$1.5 billion for the third quarter of 2014, or \$.78 per diluted common share, compared with \$1.5 billion, or \$.76 per diluted common share, for the third quarter of 2013. Return on average assets and return on average common equity were 1.51 percent and 14.5 percent, respectively, for the third quarter of 2014, compared with 1.65 percent and 15.8 percent, respectively, for the third quarter of 2013.

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2014 was \$99 million (2.0 percent) higher than the third quarter of 2013, reflecting a 1.3 percent increase in net interest income and a 3.0 percent increase in noninterest income. The increase in net interest income from a year ago was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin. The noninterest income increase was primarily due to higher revenue in most fee businesses, partially offset by lower mortgage banking revenue.

Noninterest expense in the third quarter of 2014 was \$49 million (1.9 percent) higher than the third quarter of 2013, primarily due to higher compensation expense, reflecting the impact of merit increases, acquisitions and higher staffing for risk, compliance and internal audit activities.

The provision for credit losses for the third quarter of 2014 of \$311 million was \$13 million (4.4 percent) higher than the third quarter of 2013. Net charge-offs in the third quarter of 2014 were \$336 million, compared with \$328 million in the third quarter of 2013. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first nine months of 2014 was \$4.4 billion, or \$2.29 per diluted common share, compared with \$4.4 billion, or \$2.25 per diluted common share for the first nine months of 2013. Return on average assets and return on average common equity were 1.56 percent and 14.7 percent, respectively, for the first nine months of 2014, compared with 1.67 percent and 16.0 percent, respectively, for the first nine months of 2013. The results for the first nine months of 2014 included a second quarter \$214 million gain related to the sale of Visa Inc. Class B common stock ( Visa sale ), offset by a \$200 million settlement with the U.S. Department of Justice to resolve an investigation relating to the endorsement of mortgage loans under the Federal Housing Administration's insurance program ( FHA DOJ settlement ). Together, these two items had no impact on diluted earnings per common share.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2014 was \$279 million (1.9 percent) higher than the first nine months of 2013, primarily reflecting a 1.3 percent increase in net interest income and a 2.7 percent increase in noninterest income. The increase in net interest income from a year ago was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin. The noninterest income increase was primarily due to higher revenue in most fee businesses and the Visa sale, partially offset by lower mortgage banking revenue.

Noninterest expense in the first nine months of 2014 was \$319 million (4.2 percent) higher than the first nine months of 2013, primarily due to the FHA DOJ settlement and higher compensation expense.

The provision for credit losses for the first nine months of 2014 of \$941 million was \$122 million (11.5 percent) lower than the first nine months of 2013. Net charge-offs in the first nine months of 2014 were \$1.0 billion, compared with \$1.2 billion in the first nine months of 2013. 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.

**Acquisitions** In June 2014, the Company acquired the Chicago-area branch banking operations of the Charter One Bank franchise ( Charter One ) owned by RBS Citizens Financial Group. The acquisition included Charter One's retail branch network, small business operations and select middle market relationships. The Company acquired approximately \$969 million of loans and \$4.8 billion of deposits with this transaction.

**Table of Contents****STATEMENT OF INCOME ANALYSIS**

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$2.7 billion in the third quarter and \$8.2 billion in the first nine months of 2014, or increases of \$34 million (1.3 percent) and \$103 million (1.3 percent), respectively, compared with the same periods of 2013. The increases were the result of growth in average earning assets and lower cost core deposit funding, partially offset by lower rates on new loans and investment securities and lower loan fees. Average earning assets were \$31.4 billion (10.0 percent) higher in the third quarter and \$22.6 billion (7.2 percent) higher in the first nine months of 2014, compared with the same periods of 2013, driven by increases in loans and investment securities, partially offset by decreases in loans held for sale. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2014 was 3.16 percent and 3.26 percent, respectively, compared with 3.43 percent and 3.45 percent in the third quarter and first nine months of 2013, respectively. The decreases from the same periods of the prior year primarily reflected lower reinvestment rates on investment securities, as well as growth in the investment portfolio at lower average rates, lower loan fees due to the wind down of the short-term, small dollar advance product, Checking Account Advance ( CAA ), and strong growth in lower rate commercial loans, 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 total loans for the third quarter and first nine months of 2014 were \$14.5 billion (6.3 percent) and \$14.4 billion (6.4 percent) higher, respectively, than the same periods of 2013, driven by growth in commercial loans, residential mortgages, commercial real estate loans, credit card loans and other retail loans. These increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by a decline in loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation ( FDIC ). Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC ( covered loans) decreased \$2.5 billion (25.6 percent) in the third quarter and \$2.6 billion (24.9 percent) in the first nine months of 2014, compared with the same periods of 2013, respectively.

Average investment securities in the third quarter and first nine months of 2014 were \$18.2 billion (24.2 percent) and \$13.4 billion (18.0 percent) higher, respectively, than the same periods of 2013, primarily due to purchases of U.S. government agency-backed securities, net of prepayments and maturities, in preparation for final liquidity coverage ratio regulatory requirements.

Average total deposits for the third quarter and first nine months of 2014 were \$18.6 billion (7.4 percent) and \$15.4 billion (6.2 percent) higher, respectively, than the same periods of 2013. Average noninterest-bearing deposits for the third quarter and first nine months of 2014 were \$5.9 billion (8.6 percent) and \$5.1 billion (7.6 percent) higher, respectively, than the same periods of the prior year, reflecting growth in Consumer and Small Business Banking, Wholesale Banking and Commercial Real Estate, and corporate trust balances, as well as the impact of the Charter One acquisition. Average total savings deposits for the third quarter and first nine months of 2014 were \$19.0 billion (14.0 percent) and \$14.2 billion (10.5 percent) higher, respectively, than the same periods of 2013, reflecting growth in Consumer and Small Business Banking, Wholesale Banking and Commercial Real Estate and corporate trust balances, as well as the impact of the Charter One acquisition. Average time deposits less than \$100,000 for the third quarter and first nine months of 2014 were \$1.5 billion (11.6 percent) and \$1.9 billion (14.8 percent) lower, respectively, than the same periods of 2013, due to maturities. Average time deposits greater than \$100,000 for the third quarter and first nine months of 2014 were \$4.8 billion (13.6 percent) and \$2.0 billion (6.0 percent) lower, respectively, than the same periods of the prior year, primarily due to declines in Consumer and Small Business Banking and broker-dealer balances. Time deposits greater than \$100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

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

(Dollars in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percent Change	2014	2013	Percent Change
Credit and debit card revenue	\$ 251	\$ 244	2.9%	\$ 749	\$ 702	6.7%
Corporate payment products revenue	195	192	1.6	550	540	1.9
Merchant processing services	387	371	4.3	1,127	1,091	3.3
ATM processing services	81	83	(2.4)	241	248	(2.8)
Trust and investment management fees	315	280	12.5	930	842	10.5
Deposit service charges	185	180	2.8	513	493	4.1
Treasury management fees	136	134	1.5	409	408	.2
Commercial products revenue	209	207	1.0	635	616	3.1
Mortgage banking revenue	260	328	(20.7)	774	1,125	(31.2)
Investment products fees	49	46	6.5	142	133	6.8
Securities gains (losses), net	(3)	(3)		2	8	(75.0)
Other	177	115	53.9	722	412	75.2
Total noninterest income	\$ 2,242	\$ 2,177	3.0%	\$ 6,794	\$ 6,618	2.7%

**Provision for Credit Losses** The provision for credit losses for the third quarter and first nine months of 2014 increased \$13 million (4.4 percent) and decreased \$122 million (11.5 percent), respectively, compared with the same periods of 2013. Net charge-offs increased \$8 million (2.4 percent) and decreased \$127 million (11.0 percent) in the third quarter and first nine months of 2014, respectively, compared with the same periods of the prior year, reflecting higher commercial loan charge-offs and lower recoveries in commercial real estate in the current year, offset by improvements in residential mortgages and home equity and second mortgages. The provision for credit losses was lower than net charge-offs by \$25 million in the third quarter and \$85 million in the first nine months of 2014, compared with \$30 million in the third quarter and \$90 million in the first nine months of 2013. 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 \$2.2 billion in the third quarter and \$6.8 billion in the first nine months of 2014, reflecting increases of \$65 million (3.0 percent) and \$176 million (2.7 percent), respectively, compared with the same periods of 2013. The increases over a year ago were principally due to increases in a majority of fee revenue categories, partially offset by reductions in mortgage banking revenue. Trust and investment management fees increased, reflecting account growth, improved market conditions and business expansion. Merchant processing services revenue was higher as a result of increases in fee-based product revenue and higher volumes, partially offset by lower rates. Credit and debit card revenue and corporate payment products revenue increased primarily due to higher transaction volumes. Deposit service charges were higher due to account growth, the Charter One acquisition and pricing changes. Other income increased, reflecting higher equity investment income and retail leasing revenue. Other income further increased in the first nine months of 2014, compared with the same period of the prior year, due to the second quarter 2014 Visa sale. In addition, commercial products revenue for the first nine months of 2014 increased compared with the same period of the prior year, principally due to higher syndication fees on tax-advantaged projects and higher bond underwriting fees, partially offset by lower standby letters of credit fees. The decrease in mortgage banking revenue in the third quarter of 2014, compared with the third quarter of 2013, was principally due to an unfavorable change in the valuation of mortgage servicing rights (MSRs), net of hedging activities. The decrease in mortgage banking revenue in the first nine months of 2014, compared with the same period of the prior year, was primarily due to lower origination and sales revenue.

**Noninterest Expense** Noninterest expense was \$2.6 billion in the third quarter and \$7.9 billion in the first nine months of 2014, reflecting increases of \$49 million (1.9 percent) and \$319 million (4.2 percent), respectively, compared with the same periods of 2013. The increases over a year ago were the result of higher compensation expense, reflecting the impact of merit increases, acquisitions and higher staffing for risk, compliance and internal audit activities (partially offset by lower employee benefits expense driven by lower pension costs), higher net occupancy and equipment expense due to business initiatives and higher maintenance costs, higher professional services expense due mainly to mortgage servicing-related project costs, and higher other expense reflecting the Charter One merger integration and mortgage servicing-related expenses, partially offset by lower tax-advantaged project costs in the current year as a result of the first quarter of 2014 adoption of new

**Table of Contents****Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percent Change	2014	2013	Percent Change
Compensation	\$ 1,132	\$ 1,088	4.0%	\$ 3,372	\$ 3,268	3.2%
Employee benefits	250	278	(10.1)	796	865	(8.0)
Net occupancy and equipment	249	240	3.8	739	709	4.2
Professional services	102	94	8.5	282	263	7.2
Marketing and business development	78	85	(8.2)	253	254	(.4)
Technology and communications	219	214	2.3	644	639	.8
Postage, printing and supplies	81	76	6.6	242	230	5.2
Other intangibles	51	55	(7.3)	148	167	(11.4)
Other	452	435	3.9	1,435	1,197	19.9
Total noninterest expense	\$ 2,614	\$ 2,565	1.9%	\$ 7,911	\$ 7,592	4.2%
Efficiency ratio (a)	52.4%	52.4%		52.8%	51.6%	

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

accounting guidance for certain affordable housing tax credit investments. In addition, other expense further increased in the first nine months of 2014, compared with the same period of 2013, due to the second quarter 2014 FHA DOJ settlement.

**Income Tax Expense** The provision for income taxes was \$523 million (an effective rate of 26.0 percent) for the third quarter and \$1.6 billion (an effective rate of 26.2 percent) for the first nine months of 2014, compared with \$542 million (an effective rate of 27.5 percent) and \$1.6 billion (an effective rate of 27.7 percent) for the same periods of 2013. For further information on income taxes, refer to Note 12 of the Notes to Consolidated Financial Statements.

**BALANCE SHEET ANALYSIS**

**Loans** The Company's loan portfolio was \$245.6 billion at September 30, 2014, compared with \$235.2 billion at December 31, 2013, an increase of \$10.4 billion (4.4 percent). The increase was driven primarily by increases in commercial loans, commercial real estate loans, other retail loans and residential mortgages, including the Charter One acquisition, partially offset by lower credit card and covered loans.

Commercial loans and commercial real estate loans increased \$8.8 billion (12.6 percent) and \$1.0 billion (2.6 percent), respectively, at September 30, 2014, compared with December 31, 2013, reflecting higher demand from new and existing customers.

Other retail loans, which include retail leasing, home equity and second mortgages and other retail loans, increased \$1.3 billion (2.6 percent) at September 30, 2014, compared with December 31, 2013. The increase was driven by higher auto and installment loans, home equity and second mortgages, and the Charter One acquisition, partially offset by lower student loan balances.

Residential mortgages held in the loan portfolio increased \$801 million (1.6 percent) at September 30, 2014, compared with December 31, 2013. Residential mortgages originated and placed in the Company's loan portfolio are primarily 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.

Credit card loans decreased \$163 million (.9 percent) at September 30, 2014, compared with December 31, 2013, primarily the result of customers paying down balances.

**Loans Held for Sale** Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were \$3.9 billion at September 30, 2014, compared with \$3.3 billion at December 31, 2013. The increase in loans held for sale was principally due to the higher level of mortgage loan closings.

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

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 \$96.9 billion at September 30, 2014, compared with \$79.9 billion at December 31, 2013. The \$17.0 billion (21.4 percent) increase reflected \$16.6 billion of net investment purchases, primarily U.S. government agency-backed securities in preparation for final liquidity coverage ratio regulatory requirements, and a

**Table of Contents****Table 4** Investment Securities

At September 30, 2014  (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Weighted- Average Maturity in Years	Weighted- Average Yield (e)	Amortized Cost	Fair Value	Weighted- Average Maturity in Years	Weighted- Average Yield (e)
<b>U.S. Treasury and Agencies</b>								
Maturing in one year or less	\$ 27	\$ 27	.3	4.17%	\$ 80	\$ 81	.7	1.36%
Maturing after one year through five years	1,385	1,387	3.7	1.39	1,096	1,096	3.9	1.42
Maturing after five years through ten years	1,179	1,163	8.1	2.83	1,445	1,412	7.8	2.20
Maturing after ten years	101	101	18.5	1.38	58	58	10.8	1.73
Total	\$ 2,692	\$ 2,678	6.1	2.05%	\$ 2,679	\$ 2,647	6.1	1.85%
<b>Mortgage-Backed Securities(a)</b>								
Maturing in one year or less	\$ 565	\$ 573	.7	1.81%	\$ 120	\$ 120	.8	1.16%
Maturing after one year through five years	24,490	24,625	3.8	2.02	28,283	28,200	3.6	2.12
Maturing after five years through ten years	16,133	16,121	5.7	1.62	12,674	12,640	5.6	1.55
Maturing after ten years	1,355	1,350	12.5	1.21	343	346	12.7	1.17
Total	\$ 42,543	\$ 42,669	4.8	1.84%	\$ 41,420	\$ 41,306	4.3	1.94%
<b>Asset-Backed Securities(a)</b>								
Maturing in one year or less	\$	\$		%	\$ 1	\$ 1	.7	.78%
Maturing after one year through five years	271	281	3.5	2.32	6	9	2.9	.89
Maturing after five years through ten years	357	364	7.0	2.15	7	8	6.3	.81
Maturing after ten years						7	15.5	.88
Total	\$ 628	\$ 645	5.5	2.23%	\$ 14	\$ 25	4.8	.84%
<b>Obligations of State and Political Subdivisions(b)(c)</b>								
Maturing in one year or less	\$ 724	\$ 742	.6	6.66%	\$	\$	.4	11.64%
Maturing after one year through five years	4,121	4,334	2.3	6.79	2	2	2.2	8.31
Maturing after five years through ten years	448	453	6.9	4.76	1	1	7.4	8.14
Maturing after ten years	34	34	18.0	5.06	7	7	11.4	2.51
Total	\$ 5,327	\$ 5,563	2.5	6.59%	\$ 10	\$ 10	9.0	4.54%
<b>Other Debt Securities</b>								
Maturing in one year or less	\$ 6	\$ 6	.4	1.01%	\$ 2	\$ 2		1.78%
Maturing after one year through five years					82	82	1.2	1.13
Maturing after five years through ten years					24	22	6.1	.97
Maturing after ten years	690	639	18.7	2.47				
Total	\$ 696	\$ 645	18.6	2.45%	\$ 108	\$ 106	2.2	1.11%
<b>Other Investments</b>	\$ 428	\$ 474	14.4	2.30%	\$	\$		%
Total investment securities (d)	\$ 52,314	\$ 52,674	4.9	2.35%	\$ 44,231	\$ 44,094	4.4	1.93%

- (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 6.0 years at December 31, 2013, with a corresponding weighted-average yield of 2.64 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.5 years at December 31, 2013, with a corresponding weighted-average yield of 2.00 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)	September 30, 2014		December 31, 2013	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 5,371	5.5%	\$ 4,222	5.3%
Mortgage-backed securities	83,963	87.0	68,236	85.3

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

Asset-backed securities	642	.7	652	.8
Obligations of state and political subdivisions	5,337	5.5	5,685	7.1
Other debt securities and investments	1,232	1.3	1,184	1.5
Total investment securities	\$ 96,545	100.0%	\$ 79,979	100.0%

\$485 million favorable change in net unrealized gains (losses) on available-for-sale investment securities.

The Company's available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At September 30, 2014, the Company's net unrealized gains on available-for-sale securities were \$360 million, compared with net unrealized losses of \$125 million at December 31, 2013. The favorable change in net unrealized gains (losses) was primarily due to increases in the fair value of agency mortgage-backed and state and

## Table of Contents

political securities as a result of decreases in interest rates and changes in credit spreads. Gross unrealized losses on available-for-sale securities totaled \$513 million at September 30, 2014, compared with \$775 million at December 31, 2013. At September 30, 2014, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

In December 2013, U.S. banking regulators approved final rules that prohibit banks from holding certain types of investments, such as investments in hedge and 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 4 and 15 in the Notes to Consolidated Financial Statements for further information on investment securities.

**Deposits** Total deposits were \$273.1 billion at September 30, 2014, compared with \$262.1 billion at December 31, 2013, the result of increases in total savings deposits, noninterest-bearing deposits and time deposits greater than \$100,000, including the Charter One acquisition, partially offset by a decrease in time deposits less than \$100,000. Money market deposit balances increased \$6.1 billion (10.3 percent) at September 30, 2014, compared with December 31, 2013, primarily due to higher corporate trust, Wholesale Banking and Commercial Real Estate, and Consumer and Small Business Banking balances, including the Charter One acquisition. Savings account balances increased \$2.2 billion (6.7 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking. Interest checking balances increased \$1.5 billion (2.8 percent) primarily due to higher Wholesale Banking and Commercial Real Estate, and Consumer and Small Business Banking balances, including the Charter One acquisition, partially offset by lower corporate trust and broker-dealer balances. Noninterest-bearing deposits increased \$1.7 billion (2.2 percent) at September 30, 2014, compared with December 31, 2013, primarily due to higher Consumer and Small Business Banking balances, including the Charter One acquisition. Time deposits greater than \$100,000 increased \$369 million (1.3 percent) at September 30, 2014, compared with December 31, 2013. Time deposits greater than \$100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics. Time deposits less than \$100,000 decreased \$876 million (7.4 percent) at September 30, 2014, compared with December 31, 2013, primarily 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 \$30.0 billion at September 30, 2014, compared with \$27.6 billion at December 31, 2013. The \$2.4 billion (8.8 percent) increase in short-term borrowings was primarily due to higher commercial paper and other short-term borrowings balances, partially offset by lower repurchase agreement balances. Long-term debt was \$30.8 billion at September 30, 2014, compared with \$20.0 billion at December 31, 2013. The \$10.8 billion (53.5 percent) increase was primarily due to the issuances of \$7.6 billion of bank notes, \$2.3 billion of medium-term notes and \$1.0 billion of subordinated notes, and a \$1.8 billion increase in Federal Home Loan Bank advances, partially offset by \$1.0 billion of subordinated note and \$1.0 billion of medium-term note maturities. These increases in borrowings were used to fund the Company's loan growth and securities purchases. 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 Management Committee (ERC), which is comprised of senior management and chaired by the Chief Risk Officer, oversees execution against the risk management framework and risk appetite statements. The ERC focuses on current and emerging risks, including strategic and reputational risks, 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, residual value, interest rate, market, liquidity, operational, compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the

**Table of Contents**

principal balance of a loan, investment or derivative contract when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the re-pricing of assets and liabilities differently. 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 to depositors, investors, or borrowers. 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. Compliance risk is the risk that customers may suffer economic loss or other injury, and/or that the Company may suffer regulatory sanctions, material financial loss, or loss to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputational risk is the potential that negative publicity or press regarding the Company's business practices or products, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. 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, 2013, 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 discussion also covers 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, compliance and strategic 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 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, the level of allowance coverage relative to similar banking institutions 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

---

**Table of Contents**

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 all of the Company's loans that are 90 days or more past due and still accruing, nonaccrual loans, loans 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 5 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, 2013, 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.

The consumer lending segment represents loans and leases made to consumer customers including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, student loans, and home equity loans and lines. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10- or 15-year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines in the portfolio are variable rates benchmarked to the prime rate, with a 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 10-year amortization period. A 10-year draw and 20-year amortization product was introduced during 2013 to provide customers the option to repay their outstanding balances over a longer period. At September 30, 2014, substantially all of the Company's home equity lines were in the draw period. 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.

**Table of Contents**

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

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

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

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

The following tables provide summary information for the LTVs of residential mortgages and home equity and second mortgages by borrower type at September 30, 2014:

## Residential mortgages

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
<b>Prime Borrowers</b>				
Less than or equal to 80%	\$ 1,880	\$ 37,335	\$ 39,215	88.3%
Over 80% through 90%	172	2,450	2,622	5.9
Over 90% through 100%	133	1,020	1,153	2.6
Over 100%	187	1,156	1,343	3.0
No LTV available		98	98	.2
<b>Total</b>	<b>\$ 2,372</b>	<b>\$ 42,059</b>	<b>\$ 44,431</b>	<b>100.0%</b>
<b>Sub-Prime Borrowers</b>				
Less than or equal to 80%	\$	\$ 610	\$ 610	48.1%
Over 80% through 90%		202	202	15.9
Over 90% through 100%		173	173	13.6
Over 100%		284	284	22.4
No LTV available				
<b>Total</b>	<b>\$</b>	<b>\$ 1,269</b>	<b>\$ 1,269</b>	<b>100.0%</b>
<b>Other Borrowers</b>				
Less than or equal to 80%	\$ 5	\$ 459	\$ 464	55.5%
Over 80% through 90%		153	153	18.3
Over 90% through 100%		66	66	7.9
Over 100%		153	153	18.3
No LTV available				
<b>Total</b>	<b>\$ 5</b>	<b>\$ 831</b>	<b>\$ 836</b>	<b>100.0%</b>
<b>Loans Purchased From GNMA Mortgage Pools (a)</b>				
<b>Total</b>		\$ 5,421	\$ 5,421	100.0%
Less than or equal to 80%	\$ 1,885	\$ 38,404	\$ 40,289	77.6%
Over 80% through 90%	172	2,805	2,977	5.7
Over 90% through 100%	133	1,259	1,392	2.7
Over 100%	187	1,593	1,780	3.4
No LTV available		98	98	.2
Loans purchased from GNMA mortgage pools (a)		5,421	5,421	10.4
<b>Total</b>	<b>\$ 2,377</b>	<b>\$ 49,580</b>	<b>\$ 51,957</b>	<b>100.0%</b>

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

(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
<b>Prime Borrowers</b>				
Less than or equal to 80%	\$ 9,466	\$ 715	\$ 10,181	67.8%
Over 80% through 90%	2,027	227	2,254	15.0
Over 90% through 100%	901	103	1,004	6.7
Over 100%	1,206	113	1,319	8.8
No LTV/CLTV available	226	34	260	1.7
<b>Total</b>	<b>\$ 13,826</b>	<b>\$ 1,192</b>	<b>\$ 15,018</b>	<b>100.0%</b>
<b>Sub-Prime Borrowers</b>				
Less than or equal to 80%	\$ 38	\$ 31	\$ 69	27.5%
Over 80% through 90%	12	23	35	14.0
Over 90% through 100%	10	28	38	15.1
Over 100%	27	79	106	42.2
No LTV/CLTV available		3	3	1.2
<b>Total</b>	<b>\$ 87</b>	<b>\$ 164</b>	<b>\$ 251</b>	<b>100.0%</b>
<b>Other Borrowers</b>				
Less than or equal to 80%	\$ 378	\$ 13	\$ 391	78.2%
Over 80% through 90%	66	7	73	14.6
Over 90% through 100%	14	1	15	3.0
Over 100%	16	3	19	3.8
No LTV/CLTV available	2		2	.4
<b>Total</b>	<b>\$ 476</b>	<b>\$ 24</b>	<b>\$ 500</b>	<b>100.0%</b>
<b>Total</b>				
Less than or equal to 80%	\$ 9,882	\$ 759	\$ 10,641	67.5%
Over 80% through 90%	2,105	257	2,362	15.0
Over 90% through 100%	925	132	1,057	6.7
Over 100%	1,249	195	1,444	9.1
No LTV/CLTV available	228	37	265	1.7
<b>Total</b>	<b>\$ 14,389</b>	<b>\$ 1,380</b>	<b>\$ 15,769</b>	<b>100.0%</b>

**Table of Contents**

At September 30, 2014, approximately \$1.3 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent agencies at loan origination, compared with \$1.4 billion at December 31, 2013. In addition to residential mortgages, at September 30, 2014, \$3 billion of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, unchanged from December 31, 2013. 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 .4 percent of total assets at September 30, 2014, compared with .5 percent at December 31, 2013. 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 \$880 million in loans with negative-amortization payment options at September 30, 2014, compared with \$986 million at December 31, 2013. 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 \$15.8 billion at September 30, 2014, compared with \$15.4 billion at December 31, 2013, and included \$5.0 billion of home equity lines in a first lien position and \$10.8 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at September 30, 2014, included approximately \$4.1 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 September 30, 2014:

(Dollars in Millions)	Junior Liens Behind		
	Company		Total
	Owned or Serviced First Lien	Third Party First Lien	
Total	\$ 4,070	\$ 6,739	\$ 10,809
Percent 30-89 days past due	.44%	.58%	.53%
Percent 90 days or more past due	.09%	.13%	.11%
Weighted-average CLTV	76%	74%	75%
Weighted-average credit score	749	743	745

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

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

	September 30, 2014	December 31, 2013
90 days or more past due <b>excluding</b> nonperforming loans		
<b>Commercial</b>		
Commercial	.05%	.08%
Lease financing		
Total commercial	.05	.08
<b>Commercial Real Estate</b>		
Commercial mortgages	.01	.02
Construction and development	.11	.30
Total commercial real estate	.03	.07
<b>Residential Mortgages (a)</b>	.41	.65
<b>Credit Card</b>	1.10	1.17
<b>Other Retail</b>		
Retail leasing	.02	
Other	.17	.21
Total other retail (b)	.16	.18
Total loans, excluding covered loans	.22	.31
<b>Covered Loans</b>	6.10	5.63
Total loans	.39%	.51%
	September 30,	December 31,
90 days or more past due <b>including</b> nonperforming loans	2014	2013
Commercial	.27%	.27%
Commercial real estate	.62	.83
Residential mortgages (a)	2.02	2.16
Credit card	1.32	1.60
Other retail (b)	.53	.58
Total loans, excluding covered loans	.84	.97
Covered loans	7.34	7.13
Total loans	1.03%	1.19%

(a) Delinquent loan ratios exclude \$3.1 billion at September 30, 2014, and \$3.7 billion at December 31, 2013, 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 7.91 percent at September 30, 2014, and 9.34 percent at December 31, 2013.

(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 .84 percent at September 30, 2014, and .93 percent at December 31, 2013.

**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 \$962 million (\$532 million excluding covered loans) at September 30, 2014, compared with \$1.2 billion (\$713 million excluding covered loans) at December 31, 2013. 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 .39 percent (.22 percent excluding covered loans) at September 30, 2014, compared with .51 percent (.31 percent excluding covered loans) at December 31, 2013.

**Table of Contents**

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
<b>Residential Mortgages (a)</b>				
30-89 days	\$ 243	\$ 358	.46%	.70%
90 days or more	211	333	.41	.65
Nonperforming	841	770	1.62	1.51
Total	\$ 1,295	\$ 1,461	2.49%	2.86%
<b>Credit Card</b>				
30-89 days	\$ 219	\$ 226	1.23%	1.25%
90 days or more	196	210	1.10	1.17
Nonperforming	40	78	.22	.43
Total	\$ 455	\$ 514	2.55%	2.85%
<b>Other Retail</b>				
<b>Retail Leasing</b>				
30-89 days	\$ 9	\$ 11	.14%	.18%
90 days or more	1		.02	
Nonperforming	1	1	.02	.02
Total	\$ 11	\$ 12	.18%	.20%
<b>Home Equity and Second Mortgages</b>				
30-89 days	\$ 80	\$ 102	.51%	.66%
90 days or more	41	49	.26	.32
Nonperforming	166	167	1.05	1.08
Total	\$ 287	\$ 318	1.82%	2.06%
<b>Other (b)</b>				
30-89 days	\$ 133	\$ 132	.49%	.50%
90 days or more	34	37	.13	.14
Nonperforming	17	23	.06	.09
Total	\$ 184	\$ 192	.68%	.73%

(a) Excludes \$422 million of loans 30-89 days past due and \$3.1 billion of loans 90 days or more past due at September 30, 2014, purchased from GNMA mortgage pools that continue to accrue interest, compared with \$440 million and \$3.7 billion at December 31, 2013, 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:

	September 30, 2014	December 31, 2013
Residential mortgages (a)		
<b>Prime Borrowers</b>		
30-89 days	.39%	.55%
90 days or more	.34	.55
Nonperforming	1.38	1.31
Total	2.11%	2.41%
<b>Sub-Prime Borrowers</b>		
30-89 days	4.65%	7.60%
90 days or more	3.70	6.02
Nonperforming	16.08	13.19
Total	24.43%	26.81%

Edgar Filing: US BANCORP \DE\ - Form 10-Q

<b>Other Borrowers</b>		
30-89 days	1.20%	1.65%
90 days or more	1.31	1.43
Nonperforming	3.11	2.09
<b>Total</b>	<b>5.62%</b>	<b>5.17%</b>

(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.

	September 30, 2014	December 31, 2013
Home equity and second mortgages		
<b>Prime Borrowers</b>		
30-89 days	.43%	.57%
90 days or more	.24	.27
Nonperforming	.94	.98
<b>Total</b>	<b>1.61%</b>	<b>1.82%</b>
<b>Sub-Prime Borrowers</b>		
30-89 days	3.59%	4.39%
90 days or more	1.19	2.03
Nonperforming	5.58	4.73
<b>Total</b>	<b>10.36%</b>	<b>11.15%</b>
<b>Other Borrowers</b>		
30-89 days	1.20%	1.24%
90 days or more	.40	.62
Nonperforming	2.20	1.86
<b>Total</b>	<b>3.80%</b>	<b>3.72%</b>

**Table of Contents**

The following table provides summary delinquency information for covered loans:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
30-89 days	\$ 102	\$ 166	1.44%	1.96%
90 days or more	430	476	6.10	5.63
Nonperforming	88	127	1.25	1.50
Total	\$ 620	\$ 769	8.79%	9.09%

**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. At September 30, 2014, performing TDRs were \$5.5 billion, compared with \$6.0 billion at December 31, 2013. 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.

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

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

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



**Table of Contents**

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

At September 30, 2014	As a Percent of Performing TDRs				
	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	Total TDRs
(Dollars in Millions)					
Commercial	\$ 235	1.5%	1.6%	\$ 92(a)	\$ 327
Commercial real estate	284	1.3	.6	95(b)	379
Residential mortgages	1,899	4.7	4.7	539	2,438(d)
Credit card	216	8.9	6.6	40(c)	256
Other retail	184	6.2	4.7	64(c)	248(e)
TDRs, excluding GNMA and covered loans	2,818	4.5	4.2	830	3,648
Loans purchased from GNMA mortgage pools	2,478	8.1	53.8		2,478(f)
Covered loans	207	7.8	1.6	38	245
<b>Total</b>	<b>\$ 5,503</b>	<b>6.3%</b>	<b>26.4%</b>	<b>\$ 868</b>	<b>\$ 6,371</b>

- (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 \$318 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$99 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
- (e) Includes \$140 million of other retail loans to borrowers that have had debt discharged through bankruptcy and \$6 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
- (f) Includes \$492 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$665 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

**Short-term Modifications** The Company makes short-term modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modified loans were not material at September 30, 2014.

**Table of Contents****Table 6** Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2014	December 31, 2013
<b>Commercial</b>		
Commercial	\$ 161	\$ 122
Lease financing	12	12
Total commercial	173	134
<b>Commercial Real Estate</b>		
Commercial mortgages	147	182
Construction and development	94	121
Total commercial real estate	241	303
<b>Residential Mortgages (b)</b>	841	770
<b>Credit Card</b>	40	78
<b>Other Retail</b>		
Retail leasing	1	1
Other	183	190
Total other retail	184	191
Total nonperforming loans, excluding covered loans	1,479	1,476
<b>Covered Loans</b>	88	127
Total nonperforming loans	1,567	1,603
<b>Other Real Estate (c)(d)</b>	275	327
<b>Covered Other Real Estate (d)</b>	72	97
<b>Other Assets</b>	9	10
Total nonperforming assets	\$ 1,923	\$ 2,037
Total nonperforming assets, excluding covered assets	\$ 1,763	\$ 1,813
<b>Excluding covered assets</b>		
Accruing loans 90 days or more past due (b)	\$ 532	\$ 713
Nonperforming loans to total loans	.62%	.65%
Nonperforming assets to total loans plus other real estate (c)	.74%	.80%
<b>Including covered assets</b>		
Accruing loans 90 days or more past due (b)	\$ 962	\$ 1,189
Nonperforming loans to total loans	.64%	.68%
Nonperforming assets to total loans plus other real estate (c)	.78%	.86%

**Changes in Nonperforming Assets**

(Dollars in Millions)	Commercial and Real Estate	Credit Card, Other Retail and Residential Mortgages	Covered Assets	Total
<b>Balance December 31, 2013</b>	\$ 494	\$ 1,319	\$ 224	\$ 2,037
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	362	512	55	929
Advances on loans	42			42
Total additions	404	512	55	971
Reductions in nonperforming assets				
Paydowns, payoffs	(145)	(199)	(69)	(413)
Net sales	(104)	(93)	(47)	(244)
Return to performing status	(18)	(100)	(2)	(120)
Charge-offs (e)	(174)	(133)	(1)	(308)
Total reductions	(441)	(525)	(119)	(1,085)
Net additions to (reductions in) nonperforming assets	(37)	(13)	(64)	(114)
<b>Balance September 30, 2014</b>	\$ 457	\$ 1,306	\$ 160	\$ 1,923

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

(b) Excludes \$3.1 billion and \$3.7 billion at September 30, 2014, and December 31, 2013, 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)

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

*Foreclosed GNMA loans of \$623 million and \$527 million at September 30, 2014, and December 31, 2013, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.*

- (d) Includes equity investments in entities whose principal assets are other real estate owned.*
- (e) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.*

**Table of Contents**

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

At September 30, 2014, total nonperforming assets were \$1.9 billion, compared with \$2.0 billion at December 31, 2013. Excluding covered assets, nonperforming assets were \$1.8 billion at September 30, 2014, representing a \$50 million (2.8 percent) decrease from December 31, 2013. The decrease in nonperforming assets, excluding covered assets, was primarily driven by reductions in the commercial mortgage portfolio, as well as by improvement in construction and development and credit card loans. Nonperforming covered assets at September 30, 2014, were \$160 million, compared with \$224 million at December 31, 2013. The loss sharing agreement for the majority of the nonperforming covered assets expires in the fourth quarter of 2014. The ratio of total nonperforming assets to total loans and other real estate was .78 percent (.74 percent excluding covered assets) at September 30, 2014, compared with .86 percent (.80 percent excluding covered assets) at December 31, 2013. The Company expects total nonperforming assets to remain relatively stable in the fourth quarter of 2014.

Other real estate owned, excluding covered assets, was \$275 million at September 30, 2014, compared with \$327 million at December 31, 2013, 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	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
<b>Residential</b>				
Florida	\$ 18	\$ 17	1.10%	1.03%
Minnesota	15	15	.24	.24
Illinois	14	14	.32	.36
Washington	13	16	.32	.40
Colorado	12	13	.28	.31
All other states	164	191	.35	.41
Total residential	236	266	.35	.40
<b>Commercial</b>				
California	11	14	.06	.08
Missouri	5	14	.11	.30
Tennessee	3	5	.13	.25
Indiana	3		.22	
Virginia	3	2	.19	.16
All other states	14	26	.02	.03
Total commercial	39	61	.03	.06
Total	\$ 275	\$ 327	.12%	.14%

**Analysis of Loan Net Charge-Offs** Total loan net charge-offs were \$336 million for the third quarter and \$1.0 billion for the first nine months of 2014, compared with \$328 million and \$1.2 billion for the same periods of 2013. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the third quarter and first nine months of 2014 was .55 percent and .57 percent, respectively, compared with .57 percent and .68 percent for the third quarter and first nine months of 2013, respectively. The year-over-year changes in total net charge-offs reflected higher commercial loan charge-offs and lower recoveries in commercial and commercial real estate, offset by improvements in residential mortgages and home equity and second mortgages. Given current economic conditions, the Company expects the level of net charge-offs to remain relatively stable in the fourth quarter of 2014.

Commercial and commercial real estate loan net charge-offs for the third quarter of 2014 were \$62 million (.21 percent of average loans outstanding on an annualized basis), compared with \$5 million (.02 percent of average loans outstanding on an annualized basis) for the third

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

quarter of 2013. Commercial and commercial real estate loan net charge-offs for the first nine months of 2014 were \$146 million (.17 percent of average loans outstanding on an annualized basis), compared with \$80 million (.10 percent of average loans outstanding on an annualized basis) for the first nine months of 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Commercial</b>				
Commercial	.29%	.11%	.27%	.18%
Lease financing	.46	(.53)	.29	
Total commercial	.30	.06	.27	.17
<b>Commercial Real Estate</b>				
Commercial mortgages	.01	.03	(.03)	.11
Construction and development	.13	(.46)	.05	(.59)
Total commercial real estate	.04	(.06)	(.01)	(.01)
<b>Residential Mortgages</b>	.32	.46	.40	.63
<b>Credit Card</b>	3.53	3.75	3.80	3.96
<b>Other Retail</b>				
Retail leasing		.07	.02	.02
Home equity and second mortgages	.61	1.09	.67	1.45
Other	.72	.83	.70	.81
Total other retail	.59	.83	.61	.94
Total loans, excluding covered loans	.56	.58	.59	.70
<b>Covered Loans</b>	.05	.33	.14	.36
Total loans	.55%	.57%	.57%	.68%

Residential mortgage loan net charge-offs for the third quarter of 2014 were \$42 million (.32 percent of average loans outstanding on an annualized basis), compared with \$57 million (.46 percent of average loans outstanding on an annualized basis) for the third quarter of 2013. Residential mortgage loan net charge-offs for the first nine months of 2014 were \$156 million (.40 percent of average loans outstanding on an annualized basis), compared with \$223 million (.63 percent of average loans outstanding on an annualized basis) for the first nine months of 2013. Credit card loan net charge-offs for the third quarter of 2014 were \$158 million (3.53 percent of average loans outstanding on an annualized basis), compared with \$160 million (3.75 percent of average loans outstanding on an annualized basis) for the third quarter of 2013. Credit card loan net charge-offs for the first nine months of 2014 were \$498 million (3.80 percent of average loans outstanding on an annualized basis), compared with \$493 million (3.96 percent of average loans outstanding on an annualized basis) for the first nine months of 2013. Other retail loan net charge-offs for the third quarter of 2014 were \$73 million (.59 percent of average loans outstanding on an annualized basis), compared with \$98 million (.83 percent of average loans outstanding on an annualized basis) for the third quarter of 2013. Other retail loan net charge-offs for the first nine months of 2014 were \$218 million (.61 percent of average loans outstanding on an annualized basis), compared with \$329 million (.94 percent of average loans outstanding on an annualized basis) for the first nine months of 2013. The year-over-year decreases in total residential mortgage, credit card and other retail loan net charge-offs reflected the improvement in economic conditions.

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

(Dollars in Millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Residential Mortgages</b>								
Prime borrowers	\$ 44,247	\$ 41,224	.26%	.40%	\$ 43,844	\$ 39,187	.32%	.55%
Sub-prime borrowers	1,284	1,450	3.40	3.28	1,322	1,500	4.35	4.90
Other borrowers	845	903	.94	.88	873	875	.92	1.07
Loans purchased from GNMA mortgage pools (a)	5,618	5,562	.07	.07	5,760	5,493	.07	.02
Total	\$ 51,994	\$ 49,139	.32%	.46%	\$ 51,799	\$ 47,055	.40%	.63%
<b>Home Equity and Second Mortgages</b>								

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

Prime borrowers	\$ 14,949	\$ 14,885	.50%	.99%	\$ 14,703	\$ 15,248	.58%	1.29%
Sub-prime borrowers	255	312	6.22	6.36	269	333	5.46	8.03
Other borrowers	500	451	.79	.88	495	440	.81	2.13
<b>Total</b>	<b>\$ 15,704</b>	<b>\$ 15,648</b>	<b>.61%</b>	<b>1.09%</b>	<b>\$ 15,467</b>	<b>\$ 16,021</b>	<b>.67%</b>	<b>1.45%</b>

(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.*

U.S. Bancorp

19

---

**Table of Contents**

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

The allowance recorded for loans in the commercial lending segment is based on reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. In the migration analysis applied to risk-rated loan portfolios, the Company currently examines up to a 13-year period of historical loss experience. For each loan type, this historical loss experience is adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions. The results of the analysis are evaluated quarterly to confirm an appropriate historical timeframe is selected for each commercial loan type. The allowance recorded for impaired loans greater than \$5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or the fair value of the collateral for collateral-dependent loans, rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends.

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

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At September 30, 2014, the Company serviced the first lien on 38 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 \$357 million or 2.3 percent of the total home equity portfolio at September 30, 2014, represented junior liens where the first lien was delinquent or modified.

The Company uses historical loss experience on the loans and lines in a junior lien position where the first lien is serviced by the Company, or can be identified in credit bureau data, to establish loss estimates for junior lien loans and lines the Company services that are current, but the first lien is delinquent or modified. Historically, the number of junior lien defaults in any period has been a small percentage of the total portfolio (for example, only 1.1 percent for the twelve months ended September 30, 2014), and the long-term average loss rate on the small percentage of loans that default has been approximately 80 percent. In addition, the Company obtains updated credit scores on its home equity portfolio each quarter, and in some cases more frequently, and uses this information to qualitatively supplement its loss estimation methods. Credit score distributions for the portfolio are monitored monthly and any changes in the distribution are one of the factors considered in assessing the Company's loss estimates. In its evaluation of the allowance for credit losses, the Company also considers the increased risk of loss associated with home equity lines that are contractually scheduled to convert from a revolving status to a fully amortizing payment and with residential lines and loans that have a balloon payoff provision.

---

**Table of Contents**

The allowance for the covered loan segment is evaluated each quarter in a manner similar to that described for non-covered loans, and reflects decreases in expected cash flows on those loans after the acquisition date. The provision for credit losses for covered loans considers the indemnification provided by the FDIC.

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

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

Subsequent to the purchase date, the expected cash flows of purchased loans are subject to evaluation. Decreases in expected cash flows are recognized by recording an allowance for credit losses with the related provision for credit losses reduced for the amount reimbursable by the FDIC, where applicable. If the expected cash flows on the purchased loans increase such that a previously recorded impairment allowance can be reversed, the Company records a reduction in the allowance with a related reduction in losses reimbursable by the FDIC, where applicable. Increases in expected cash flows of purchased loans, when there are no reversals of previous impairment allowances, are recognized over the remaining life of the loans and resulting decreases in expected cash flows of the FDIC indemnification assets are amortized over the shorter of the remaining contractual term of the indemnification agreements or the remaining life of the loans. Refer to Note 5 of the Notes to Consolidated Financial Statements, for more information.

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 and Determination of the Allowance for Credit Losses in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on the analysis and determination of the allowance for credit losses.

At September 30, 2014, the allowance for credit losses was \$4.4 billion (1.80 percent of total loans and 1.81 percent of loans excluding covered loans), compared with \$4.5 billion (1.93 percent of total loans and 1.94 percent of loans excluding covered loans) at December 31, 2013. The ratio of the allowance for credit losses to nonperforming loans was 282 percent (291 percent excluding covered loans) at September 30, 2014, compared with 283 percent (297 percent excluding covered loans) at December 31, 2013. The ratio of the allowance for credit losses to annualized loan net charge-offs was 331 percent at September 30, 2014, compared with 310 percent of full year 2013 net charge-offs at December 31, 2013, reflecting the impact of improving economic conditions over the past year.

**Table of Contents****Table 8** Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$ 4,449	\$ 4,612	\$ 4,537	\$ 4,733
<b>Charge-Offs</b>				
<b>Commercial</b>				
Commercial	71	57	197	157
Lease financing	9	8	22	27
Total commercial	80	65	219	184
<b>Commercial real estate</b>				
Commercial mortgages	5	14	15	57
Construction and development	5	3	12	19
Total commercial real estate	10	17	27	76
Residential mortgages	48	62	171	243
Credit card	174	175	546	559
<b>Other retail</b>				
Retail leasing	1	1	4	4
Home equity and second mortgages	31	51	98	195
Other	64	70	189	213
Total other retail	96	122	291	412
Covered loans (a)	2	9	10	31
Total charge-offs	410	450	1,264	1,505
<b>Recoveries</b>				
<b>Commercial</b>				
Commercial	19	39	59	73
Lease financing	3	15	11	27
Total commercial	22	54	70	100
<b>Commercial real estate</b>				
Commercial mortgages	4	12	21	32
Construction and development	2	11	9	48
Total commercial real estate	6	23	30	80
Residential mortgages	6	5	15	20
Credit card	16	15	48	66
<b>Other retail</b>				
Retail leasing	1		3	3
Home equity and second mortgages	7	8	20	21
Other	15	16	50	59
Total other retail	23	24	73	83
Covered loans (a)	1	1	2	3
Total recoveries	74	122	238	352
<b>Net Charge-Offs</b>				
<b>Commercial</b>				
Commercial	52	18	138	84
Lease financing	6	(7)	11	
Total commercial	58	11	149	84
<b>Commercial real estate</b>				
Commercial mortgages	1	2	(6)	25
Construction and development	3	(8)	3	(29)
Total commercial real estate	4	(6)	(3)	(4)
Residential mortgages	42	57	156	223
Credit card	158	160	498	493
<b>Other retail</b>				
Retail leasing		1	1	1
Home equity and second mortgages	24	43	78	174
Other	49	54	139	154
Total other retail	73	98	218	329
Covered loans (a)	1	8	8	28
Total net charge-offs	336	328	1,026	1,153
Provision for credit losses	311	298	941	1,063
Other changes (b)	(10)	(4)	(38)	(65)
Balance at end of period (c)	\$ 4,414	\$ 4,578	\$ 4,414	\$ 4,578

Edgar Filing: US BANCORP \DE\ - Form 10-Q

<b>Components</b>		
Allowance for loan losses	\$ 4,065	\$ 4,258
Liability for unfunded credit commitments	349	320
Total allowance for credit losses	\$ 4,414	\$ 4,578
<b>Allowance for Credit Losses as a Percentage of</b>		
Period-end loans, excluding covered loans	1.81%	1.99%
Nonperforming loans, excluding covered loans	291	294
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	214	211
Nonperforming assets, excluding covered assets	245	235
Annualized net charge-offs, excluding covered loans	324	348
Period-end loans	1.80%	1.98%
Nonperforming loans	282	276
Nonperforming and accruing loans 90 days or more past due	175	166
Nonperforming assets	230	207
Annualized net charge-offs	331	352

- (a) Relates to covered loan charge-offs and recoveries not reimbursable by the FDIC.
- (b) Includes net changes in credit losses to be reimbursed by the FDIC and reductions in the allowance for covered loans where the reversal of a previously recorded allowance was offset by an associated decrease in the indemnification asset, and the impact of any loan sales.
- (c) At September 30, 2014 and 2013, \$1.7 billion of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

## Table of Contents

**Residual Value Risk Management** The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2014, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2013. 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, 2013, 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. Business managers maintain 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, 2013, for further discussion on operational risk management.

**Compliance Risk Management** The Company may suffer legal or regulatory sanctions, material financial loss, or damage to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct. The Company has controls and processes in place to ensure assessment, identification, monitoring, management and reporting of compliance risks and issues.

**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. The table below summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALCO policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At September 30, 2014, and December 31, 2013, 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, 2013, for further discussion on net interest income simulation analysis.

**Market Value of Equity Modeling** The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company's assets and liabilities and off-balance sheet instruments will change given a change in interest rates. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The ALCO policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. A 200 bps increase would have resulted in a 4.3 percent decrease in the market value of equity at September 30, 2014, compared with a 5.1 percent decrease at December 31, 2013. A 200 bps decrease, where possible given current rates, would have resulted in a 4.4 percent decrease in the market value of equity at September 30, 2014, compared with a .8 percent decrease at December 31, 2013. 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, 2013, for further discussion on market value of equity modeling.

### Sensitivity of Net Interest Income

	September 30, 2014				December 31, 2013			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	*	1.30%	*	1.75%	*	1.07%	*	1.53%

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

**Table of Contents**

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

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

To manage these risks, the Company may enter into exchange-traded, centrally cleared and over-the-counter derivative contracts, including interest rate swaps, swaptions, futures, forwards and options. 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 historically has minimized the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers. In 2014, the Company began to actively manage the risks from its exposure to customer-related interest rate positions on a portfolio basis by entering into other derivative or non-derivative financial instruments that partially or fully offset the exposure from these customer-related positions. The Company does not utilize derivatives for speculative purposes.

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

Additionally, the Company uses forward commitments to sell TBAs and other commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At September 30, 2014, the Company had \$6.6 billion of forward commitments to sell, hedging \$3.1 billion of mortgage loans held for sale and \$4.4 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedging activities. The Company has elected the fair value option for the mortgage loans held for sale.

Derivatives are subject to credit risk associated with counterparties to the contracts. Credit risk associated with derivatives is measured by the Company based on the probability of counterparty default. The Company manages the credit risk of its derivative positions by diversifying its positions among various counterparties, by entering into master netting agreements, and, where possible by requiring collateral agreements. 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 clearing houses to further mitigate counterparty credit risk.

For additional information on derivatives and hedging activities, refer to Notes 13 and 14 in the Notes to Consolidated Financial Statements.

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

**Table of Contents**

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 VaR amounts for the Company's trading positions were as follows:

Nine Months Ended September 30

(Dollars in Millions)	2014	2013
Average	\$ 1	\$ 1
High	2	3
Low	1	1
Period-end	1	2

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR by more than a negligible amount during the nine months ended September 30, 2014 and 2013. 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 Stressed VaR amounts for the Company's trading positions were as follows:

Nine Months Ended September 30

(Dollars in Millions)	2014	2013
Average	\$ 4	\$ 4
High	8	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 differences. Significant differences 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 material variances approved by the Company's risk management department.

The Company also measures the market risk of its hedging activities related to residential mortgage loans held for sale and MSR's using the Historical Simulation method. The VaR's 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 residential mortgage loans held for sale and related hedges. A seven-year look-back period is used to obtain past market data for the MSR's and related hedges.

The average, high and low VaR amounts for the residential mortgage loans held for sale and related hedges and the MSR's and related hedges were as follows:

Nine Months Ended September 30

2014 2013

(Dollars in Millions)

**Residential Mortgage Loans Held For Sale and Related Hedges**

Average	\$ 1	\$ 2
High	2	4
Low		

**Mortgage Servicing Rights and Related Hedges**

Average	\$ 3	\$ 3
High	8	6
Low	2	1

**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 Risk Management Committee of the Company’s Board of Directors oversees the Company’s liquidity risk management process, and approves the Company’s liquidity policy and contingency funding plan. The ALCO reviews and approves the Company’s liquidity policy and guidelines, and regularly assesses the

**Table of Contents**

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 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 Federal Home Loan Bank ( FHLB ) and the Federal Reserve Bank's Discount Window. At September 30, 2014, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled \$82.9 billion, compared with \$61.7 billion at December 31, 2013. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company's ability to pledge loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At September 30, 2014, the Company could have borrowed an additional \$78.9 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 \$273.1 billion at September 30, 2014, compared with \$262.1 billion at December 31, 2013. 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 \$30.8 billion at September 30, 2014, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were \$30.0 billion at September 30, 2014, 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 and maintains sufficient funding to meet expected parent company obligations, without access to the wholesale funding markets or dividends from subsidiaries, for 12 months when forecasted payments of common stock dividends are included and 24 months assuming dividends were reduced to zero. The parent company currently has available funds considerably greater than the amounts required to satisfy these conditions.

At September 30, 2014, parent company long-term debt outstanding was \$13.6 billion, compared with \$11.4 billion at December 31, 2013. The \$2.2 billion increase was due to the issuances of \$2.3 billion of medium-term notes and \$1.0 billion of subordinated notes, partially offset by the maturity of \$1.0 billion of medium-term notes. As of September 30, 2014, there was \$.5 billion of parent company debt scheduled to mature in the remainder of 2014.

In 2010, the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework proposed to enhance international capital and liquidity standards. In September 2014, U.S. banking regulators approved a final regulatory Liquidity Coverage Ratio ( LCR ), similar to the measure proposed by the Basel Committee as part of Basel III, requiring banks to maintain an adequate level of unencumbered high quality liquid assets to meet estimated liquidity needs over a 30-day stressed period. The LCR requirement is effective for the Company beginning January 1, 2015, subject to certain transition provisions over the next two years to full implementation by January 1, 2017. The Company expects it will be compliant with the fully implemented LCR requirement by December 31, 2014.

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, 2013, for further discussion on liquidity risk management.

**European Exposures** Certain European countries have experienced severe credit deterioration. The Company does not hold sovereign debt of any European country, but may have indirect exposure to sovereign debt through its investments in, and transactions with, European banks. At September 30, 2014, the Company had investments in perpetual preferred stock issued by European banks with an amortized cost totaling \$67 million and unrealized losses totaling \$2 million, compared with an amortized cost totaling \$70 million and unrealized losses totaling \$7 million, at December 31, 2013. The Company also transacts with various European banks as counterparties to interest rate, mortgage-related and foreign currency derivatives for its hedging and customer-related activities; however, none of these banks are domiciled in the countries experiencing the most significant credit deterioration. These derivatives are subject to master netting arrangements. In addition, interest rate and foreign currency derivative transactions are subject to collateral arrangements which significantly limit the Company's exposure to loss as they generally require daily posting of collateral. At

**Table of Contents**

September 30, 2014, the Company was in a net receivable position with four banks in the United Kingdom, two banks in France and one bank in Switzerland, totaling \$23 million. The Company was in a net payable position to each of the other European banks.

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

The Company provides merchant processing and corporate trust services in Europe either directly or through banking affiliations in Europe. Operating cash for these businesses is deposited on a short-term basis with certain European banks. However, exposure is mitigated by the Company placing deposits at multiple banks and managing the amounts on deposit at any bank based on institution-specific deposit limits. At September 30, 2014, the Company had an aggregate amount on deposit with European banks of approximately \$314 million.

The money market funds managed by a subsidiary of the Company do not have any investments in European sovereign debt, other than approximately \$480 million at September 30, 2014 guaranteed by the country of Germany. Other than investments in banks in the countries of the Netherlands, France and Germany, those funds do not have any unsecured investments in banks domiciled in the Eurozone.

**Off-Balance Sheet Arrangements** Off-balance sheet arrangements include any contractual arrangements to which an unconsolidated entity is a party, under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. Refer to Note 16 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 6 of the Notes to Consolidated Financial

Statements for further information related to the Company's interests in variable interest entities.

**Capital Management** The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Prior to 2014, the regulatory capital requirements effective for the Company followed the Capital Accord of the Basel Committee on Banking Supervision (Basel I). 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. As of April 1, 2014, the Company exited its parallel run qualification period, resulting in its capital adequacy now being evaluated against the Basel III methodology that is most restrictive. Table 9 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2014 and December 31, 2013. All regulatory ratios exceeded regulatory well-capitalized requirements.

In September 2014, U.S. banking regulators approved a final regulatory Supplementary Leverage Ratio (SLR) requirement for banks calculating capital adequacy using advanced approaches under Basel III. The SLR is defined as tier 1 capital divided by total leverage exposure, which includes both on- and off-balance sheet exposures. The Company is required to calculate and report its SLR beginning in the first quarter 2015; however, the Company is not subject to the minimum SLR requirement until January 1, 2018. The Company believes it currently exceeds the applicable minimum SLR requirement.

Total U.S. Bancorp shareholders' equity was \$43.1 billion at September 30, 2014, compared with \$41.1 billion at December 31, 2013. 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, 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 standardized approach, were 7.6 percent and 9.3 percent, respectively, at September 30, 2014, compared with 7.7 percent and 9.1 percent, respectively, at

**Table of Contents****Table 9** Regulatory Capital Ratios

(Dollars in Millions)	September 30, 2014	December 31, 2013
Basel III transitional standardized approach/Basel I:		
Common equity tier 1 capital (a)	\$ 30,213	
Tier 1 capital	35,377	\$ 33,386
Total risk-based capital	42,509	39,340
Risk-weighted assets	311,914	297,919
Common equity tier 1 capital as a percent of risk-weighted assets (a)	9.7%	
Tier 1 capital as a percent of risk-weighted assets	11.3	11.2%
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.4	9.6
Total risk-based capital as a percent of risk-weighted assets	13.6	13.2
Basel III transitional advanced approaches:		
Common equity tier 1 capital (a)	\$ 30,213	
Tier 1 capital	35,377	
Total risk-based capital	39,822	
Risk-weighted assets	243,909	
Common equity tier 1 capital as a percent of risk-weighted assets (a)	12.4%	
Tier 1 capital as a percent of risk-weighted assets	14.5	
Total risk-based capital as a percent of risk-weighted assets	16.3	

*Note: September 30, 2014 amounts calculated under the Basel III transitional standardized and advanced approaches, with the Company being evaluated for capital adequacy against the approach that is most restrictive. December 31, 2013 amounts calculated under Basel I.*

*(a) Beginning January 1, 2014, the regulatory capital requirements effective for the Company include a common equity tier 1 capital as a percent of risk-weighted assets ratio.*

December 31, 2013. The Company's common equity tier 1 to risk-weighted assets ratio using the Basel III standardized approach as if fully implemented was 9.0 percent at September 30, 2014, compared with 8.8 percent at December 31, 2013. The Company's common equity tier 1 to risk-weighted assets ratio using the Basel III advanced approaches as if fully implemented was 11.8 percent at September 30, 2014. Refer to Non-GAAP Financial Measures for further information regarding the calculation of these ratios.

On March 26, 2014, the Company announced its Board of Directors had approved a one-year authorization to repurchase up to \$2.3 billion of its common stock, from April 1, 2014 through March 31, 2015.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the third quarter of 2014:

Period	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
(Dollars in Millions)				
July	7,896,817(b)	\$ 42.46	7,746,817	\$ 1,340
August	4,712,874	41.65	4,712,874	1,144
September	3,041,437	42.32	3,041,437	1,015
Total	15,651,128(b)	\$ 42.19	15,501,128	\$ 1,015

*(a) All shares were purchased under the stock repurchase program announced on March 26, 2014.*

*(b) Includes 150,000 shares of common stock purchased, at an average price per share of \$42.12, in open-market transactions by U.S. Bank National Association, the Company's principal banking subsidiary, in its capacity as trustee of the Company's Employee Retirement Savings Plan.*

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

On June 17, 2014, the Company announced its Board of Directors had approved a 6.5 percent increase in the Company's dividend rate per common share, from \$.23 per quarter to \$.245 per quarter.

Refer to Management's Discussion and Analysis - Capital Management in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, 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, 2013, 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 2014, certain organization and methodology changes

**Table of Contents**

were made and, accordingly, 2013 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 \$267 million of the Company's net income in the third quarter and \$827 million in the first nine months of 2014, or decreases of \$57 million (17.6 percent) and \$132 million (13.8 percent), respectively, compared with the same periods of 2013. The decreases were primarily driven by higher provision for credit losses and lower net revenue.

Net revenue decreased \$18 million (2.3 percent) in the third quarter and \$61 million (2.6 percent) in the first nine months of 2014, compared with the same periods of 2013. Net interest income, on a taxable-equivalent basis, increased \$12 million (2.4 percent) in the third quarter and \$20 million (1.3 percent) in the first nine months of 2014, compared with the same periods of 2013. The increases were primarily driven by increases in average loans and deposits, partially offset by lower rates and fees on loans. Noninterest income decreased \$30 million (11.3 percent) in the third quarter and \$81 million (9.9 percent) in the first nine months of 2014, compared with the same periods of 2013, driven by lower wholesale transaction activity and other loan-related fees, partially offset by increases in bond underwriting fees and commercial leasing revenue.

Noninterest expense was essentially flat in the third quarter and increased \$7 million (.8 percent) in the first nine months of 2014, compared with the same periods of 2013, primarily due to increases in the FDIC insurance assessment allocation based on the level of commitments, offset by lower professional services expense and net shared services expense. The provision for credit losses increased \$70 million in the third quarter and \$140 million in the first nine months of 2014, compared with the same periods of 2013, due to higher net charge-offs and increases in the reserve allocation due to loan growth. Nonperforming assets were \$264 million at September 30, 2014, \$300 million at June 30, 2014, and \$330 million at September 30, 2013. Nonperforming assets as a percentage of period-end loans were .33 percent at September 30, 2014, .38 percent at June 30, 2014, and .46 percent at September 30, 2013. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

**Consumer and Small Business Banking** Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices, such as mobile phones and tablet computers. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, workplace banking, student banking and 24-hour banking (collectively, the retail banking division), as well as mortgage banking. Consumer and Small Business Banking contributed \$307 million of the Company's net income in the third quarter and \$907 million in the first nine months of 2014, or decreases of \$66 million (17.7 percent) and \$203 million (18.3 percent), respectively, compared with the same periods of 2013. The decreases were due to lower net revenue and higher noninterest expense, partially offset by decreases in the provision for credit losses.

Within Consumer and Small Business Banking, the retail banking division contributed \$170 million of the total net income in the third quarter and \$509 million in the first nine months of 2014, or decreases of \$48 million (22.0 percent) and \$48 million (8.6 percent), respectively, from the same periods of 2013. Mortgage banking contributed \$137 million and \$398 million of Consumer and Small Business Banking's net income in the third quarter and first nine months of 2014, respectively, or decreases of \$18 million (11.6 percent) and \$155 million (28.0 percent), respectively, from the same periods of 2013, reflecting lower mortgage banking activity in 2014.

**Table of Contents****Table 10** Line of Business Financial Performance

Three Months Ended September 30	Wholesale Banking and			Consumer and Small		
	Commercial Real Estate			Business Banking		
	2014	2013	Percent Change	2014	2013	Percent Change
(Dollars in Millions)	2014	2013	Change	2014	2013	Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 518	\$ 506	2.4%	\$ 1,074	\$ 1,153	(6.9)%
Noninterest income	236	266	(11.3)	669	717	(6.7)
Securities gains (losses), net						
Total net revenue	754	772	(2.3)	1,743	1,870	(6.8)
Noninterest expense	304	302	.7	1,169	1,110	5.3
Other intangibles	1	2	(50.0)	12	10	20.0
Total noninterest expense	305	304	.3	1,181	1,120	5.4
Income before provision and income taxes	449	468	(4.1)	562	750	(25.1)
Provision for credit losses	29	(41)	*	79	163	(51.5)
Income before income taxes	420	509	(17.5)	483	587	(17.7)
Income taxes and taxable-equivalent adjustment	153	185	(17.3)	176	214	(17.8)
Net income	267	324	(17.6)	307	373	(17.7)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	\$ 267	\$ 324	(17.6)	\$ 307	\$ 373	(17.7)
<b>Average Balance Sheet</b>						
Commercial	\$ 59,048	\$ 51,302	15.1%	\$ 9,439	\$ 8,584	10.0%
Commercial real estate	21,160	19,683	7.5	18,899	18,069	4.6
Residential mortgages	19	24	(20.8)	50,544	48,130	5.0
Credit card						
Other retail	4	6	(33.3)	46,594	44,727	4.2
Total loans, excluding covered loans	80,231	71,015	13.0	125,476	119,510	5.0
Covered loans	174	340	(48.8)	5,688	6,434	(11.6)
Total loans	80,405	71,355	12.7	131,164	125,944	4.1
Goodwill	1,648	1,604	2.7	3,680	3,515	4.7
Other intangible assets	21	24	(12.5)	2,664	2,650	.5
Assets	87,449	77,708	12.5	145,604	140,621	3.5
Noninterest-bearing deposits	32,684	30,812	6.1	24,696	22,585	9.3
Interest checking	11,270	10,031	12.4	36,881	33,007	11.7
Savings products	19,082	15,067	26.6	51,229	46,532	10.1
Time deposits	17,961	22,362	(19.7)	17,816	20,718	(14.0)
Total deposits	80,997	78,272	3.5	130,622	122,842	6.3
Total U.S. Bancorp shareholders' equity	7,764	7,366	5.4	11,504	12,222	(5.9)

Nine Months Ended September 30	Wholesale Banking and			Consumer and Small		
	Commercial Real Estate			Business Banking		
	2014	2013	Percent Change	2014	2013	Percent Change
(Dollars in Millions)	2014	2013	Change	2014	2013	Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 1,521	\$ 1,501	1.3%	\$ 3,241	\$ 3,459	(6.3)%
Noninterest income	738	819	(9.9)	1,967	2,268	(13.3)
Securities gains (losses), net						
Total net revenue	2,259	2,320	(2.6)	5,208	5,727	(9.1)
Noninterest expense	930	920	1.1	3,421	3,377	1.3
Other intangibles	3	6	(50.0)	29	31	(6.5)
Total noninterest expense	933	926	.8	3,450	3,408	1.2
Income before provision and income taxes	1,326	1,394	(4.9)	1,758	2,319	(24.2)
Provision for credit losses	26	(114)	*	332	573	(42.1)
Income before income taxes	1,300	1,508	(13.8)	1,426	1,746	(18.3)
Income taxes and taxable-equivalent adjustment	473	549	(13.8)	519	636	(18.4)

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Net income	827	959	(13.8)	907	1,110	(18.3)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	\$ 827	\$ 959	(13.8)	\$ 907	\$ 1,110	(18.3)
<b>Average Balance Sheet</b>						
Commercial	\$ 57,029	\$ 50,232	13.5%	\$ 8,903	\$ 8,567	3.9%
Commercial real estate	20,879	19,375	7.8	18,771	17,741	5.8
Residential mortgages	20	27	(25.9)	50,443	46,251	9.1
Credit card						
Other retail	4	7	(42.9)	45,964	44,739	2.7
Total loans, excluding covered loans	77,932	69,641	11.9	124,081	117,298	5.8
Covered loans	205	394	(48.0)	5,871	6,690	(12.2)
Total loans	78,137	70,035	11.6	129,952	123,988	4.8
Goodwill	1,621	1,604	1.1	3,577	3,516	1.7
Other intangible assets	21	26	(19.2)	2,698	2,293	17.7
Assets	85,198	76,455	11.4	143,337	140,056	2.3
Noninterest-bearing deposits	32,029	30,299	5.7	23,218	21,976	5.7
Interest checking	11,042	10,378	6.4	35,832	32,841	9.1
Savings products	17,929	13,320	34.6	49,496	46,106	7.4
Time deposits	18,217	18,450	(1.3)	18,080	21,591	(16.3)
Total deposits	79,217	72,447	9.3	126,626	122,514	3.4
Total U.S. Bancorp shareholders equity	7,653	7,269	5.3	11,480	12,125	(5.3)

\* Not meaningful

**Table of Contents**

Wealth Management and			Payment			Treasury and			Consolidated		
Securities Services			Services			Corporate Support			Company		
Percent			Percent			Percent			Percent		
2014	2013	Change	2014	2013	Change	2014	2013	Change	2014	2013	Change
\$ 96	\$ 82	17.1%	\$ 442	\$ 393	12.5%	\$ 618	\$ 580	6.6%	\$ 2,748	\$ 2,714	1.3%
352	314	12.1	842	822	2.4	146	61	*	2,245	2,180	3.0
						(3)	(3)		(3)	(3)	
448	396	13.1	1,284	1,215	5.7	761	638	19.3	4,990	4,891	2.0
335	324	3.4	582	575	1.2	173	199	(13.1)	2,563	2,510	2.1
8	9	(11.1)	30	34	(11.8)				51	55	(7.3)
343	333	3.0	612	609	.5	173	199	(13.1)	2,614	2,565	1.9
105	63	66.7	672	606	10.9	588	439	33.9	2,376	2,326	2.1
6	6		190	172	10.5	7	(2)	*	311	298	4.4
99	57	73.7	482	434	11.1	581	441	31.7	2,065	2,028	1.8
36	21	71.4	175	158	10.8	39	20	95.0	579	598	(3.2)
63	36	75.0	307	276	11.2	542	421	28.7	1,486	1,430	3.9
			(9)	(10)	10.0	(6)	48	*	(15)	38	*
\$ 63	\$ 36	75.0	\$ 298	\$ 266	12.0	\$ 536	\$ 469	14.3	\$ 1,471	\$ 1,468	.2
\$ 1,968	\$ 1,772	11.1%	\$ 6,681	\$ 6,191	7.9%	\$ 209	\$ 215	(2.8)%	\$ 77,345	\$ 68,064	13.6%
601	655	(8.2)				179	94	90.4	40,839	38,501	6.1
1,430	984	45.3				1	1		51,994	49,139	5.8
			17,753	16,931	4.9				17,753	16,931	4.9
1,436	1,532	(6.3)	664	729	(8.9)				48,698	46,994	3.6
5,435	4,943	10.0	25,098	23,851	5.2	389	310	25.5	236,629	219,629	7.7
3	17	(82.4)	5	5		1,368	2,937	(53.4)	7,238	9,733	(25.6)
5,438	4,960	9.6	25,103	23,856	5.2	1,757	3,247	(45.9)	243,867	229,362	6.3
1,572	1,533	2.5	2,517	2,509	.3				9,417	9,161	2.8
155	166	(6.6)	483	557	(13.3)		2	*	3,323	3,399	(2.2)
8,679	7,751	12.0	31,407	30,123	4.3	112,684	95,958	17.4	385,823	352,161	9.6
14,900	13,500	10.4	702	714	(1.7)	1,144	653	75.2	74,126	68,264	8.6
5,729	4,741	20.8	573	455	25.9	1	1		54,454	48,235	12.9
30,373	26,326	15.4	81	60	35.0	100	80	25.0	100,865	88,065	14.5
3,939	4,182	(5.8)				1,847	542	*	41,563	47,804	(13.1)
54,941	48,749	12.7	1,356	1,229	10.3	3,092	1,276	*	271,008	252,368	7.4
2,267	2,398	(5.5)	5,690	6,102	(6.8)	15,907	11,848	34.3	43,132	39,936	8.0

Wealth Management and			Payment			Treasury and			Consolidated		
Securities Services			Services			Corporate Support			Company		
Percent			Percent			Percent			Percent		
2014	2013	Change	2014	2013	Change	2014	2013	Change	2014	2013	Change
\$ 270	\$ 257	5.1%	\$ 1,271	\$ 1,168	8.8%	\$ 1,895	\$ 1,710	10.8%	\$ 8,198	\$ 8,095	1.3%
1,038	935	11.0	2,449	2,397	2.2	600	191	*	6,792	6,610	2.8
						2	8	(75.0)	2	8	(75.0)
1,308	1,192	9.7	3,720	3,565	4.3	2,497	1,909	30.8	14,992	14,713	1.9
1,002	968	3.5	1,742	1,695	2.8	668	465	43.7	7,763	7,425	4.6
25	27	(7.4)	91	103	(11.7)				148	167	(11.4)
1,027	995	3.2	1,833	1,798	1.9	668	465	43.7	7,911	7,592	4.2
281	197	42.6	1,887	1,767	6.8	1,829	1,444	26.7	7,081	7,121	(.6)
8	7	14.3	573	553	3.6	2	44	(95.5)	941	1,063	(11.5)
273	190	43.7	1,314	1,214	8.2	1,827	1,400	30.5	6,140	6,058	1.4
100	69	44.9	478	442	8.1	163	101	61.4	1,733	1,797	(3.6)

Edgar Filing: US BANCORP \DE\ - Form 10-Q

173	121	43.0	836	772	8.3	1,664	1,299	28.1	4,407	4,261	3.4
			(27)	(29)	6.9	(17)	148	*	(44)	119	*
\$ 173	\$ 121	43.0	\$ 809	\$ 743	8.9	\$ 1,647	\$ 1,447	13.8	\$ 4,363	\$ 4,380	(.4)
\$ 1,910	\$ 1,686	13.3%	\$ 6,402	\$ 6,030	6.2%	\$ 180	\$ 204	(11.8)%	\$ 74,424	\$ 66,719	11.5%
608	656	(7.3)				207	100	*	40,465	37,872	6.8
1,335	776	72.0				1	1		51,799	47,055	10.1
			17,516	16,627	5.3				17,516	16,627	5.3
1,450	1,544	(6.1)	680	744	(8.6)				48,098	47,034	2.3
5,303	4,662	13.7	24,598	23,401	5.1	388	305	27.2	232,302	215,307	7.9
5	14	(64.3)	5	5		1,710	3,272	(47.7)	7,796	10,375	(24.9)
5,308	4,676	13.5	24,603	23,406	5.1	2,098	3,577	(41.3)	240,098	225,682	6.4
1,568	1,529	2.6	2,518	2,508	.4				9,284	9,157	1.4
163	174	(6.3)	494	584	(15.4)		2	*	3,376	3,079	9.6
8,409	7,514	11.9	30,901	29,659	4.2	107,202	97,364	10.1	375,047	351,048	6.8
15,095	13,786	9.5	704	694	1.4	1,228	428	*	72,274	67,183	7.6
5,494	4,683	17.3	559	444	25.9	1	1		52,928	48,347	9.5
28,650	27,070	5.8	76	54	40.7	103	85	21.2	96,254	86,635	11.1
4,111	5,237	(21.5)				1,798	841	*	42,206	46,119	(8.5)
53,350	50,776	5.1	1,339	1,192	12.3	3,130	1,355	*	263,662	248,284	6.2
2,283	2,375	(3.9)	5,675	6,033	(5.9)	15,407	11,873	29.8	42,498	39,675	7.1

U.S. Bancorp

31

**Table of Contents**

Net revenue decreased \$127 million (6.8 percent) in the third quarter and \$519 million (9.1 percent) in the first nine months of 2014, compared with the same periods of 2013. Net interest income, on a taxable-equivalent basis, decreased \$79 million (6.9 percent) in the third quarter and \$218 million (6.3 percent) in the first nine months of 2014, compared with the same periods of 2013. The decreases in net interest income were primarily due to lower loan fees due to the wind down of the CAA product, lower rates on loans, and the impact of lower rates on the margin benefit from deposits, partially offset by higher average loan and deposit balances. Noninterest income decreased \$48 million (6.7 percent) in the third quarter and \$301 million (13.3 percent) in the first nine months of 2014, compared with the same periods of 2013, primarily the result of lower mortgage banking revenue, partially offset by higher deposit service charges and retail lease revenue. The decrease in mortgage banking revenue in the third quarter of 2014, compared with the third quarter of 2013, was principally due to an unfavorable change in the valuation of MSRs, net of hedging activities. The decrease in mortgage banking revenue in the first nine months of 2014, compared with the same period of the prior year, was primarily due to lower origination and sales revenue.

Noninterest expense increased \$61 million (5.4 percent) in the third quarter and \$42 million (1.2 percent) in the first nine months of 2014, compared with the same periods of 2013, the result of mortgage servicing-related expenses and higher compensation and employee benefits expense, partially offset by lower mortgage-related incentive compensation, due to lower mortgage portfolio production, and lower FDIC insurance assessments. The provision for credit losses decreased \$84 million (51.5 percent) in the third quarter and \$241 million (42.1 percent) in the first nine months of 2014, compared with the same periods of 2013. The decreases were due to lower net charge-offs and favorable changes in the reserve allocation, partially offset by higher loan balances. As a percentage of average loans outstanding on an annualized basis, net charge-offs decreased to .35 percent in the third quarter of 2014, compared with .51 percent in the third quarter of 2013. Nonperforming assets were \$1.4 billion at September 30, 2014, \$1.4 billion at June 30, 2014, and \$1.5 billion at September 30, 2013. Nonperforming assets as a percentage of period-end loans were 1.10 percent at September 30, 2014, 1.08 percent at June 30, 2014, and 1.15 percent at September 30, 2013. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

**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 \$63 million of the Company's net income in the third quarter and \$173 million in the first nine months of 2014, or increases of \$27 million (75.0 percent) and \$52 million (43.0 percent), respectively, compared with the same periods of 2013. The increases were primarily due to higher net revenue, partially offset by higher noninterest expense.

Net revenue increased \$52 million (13.1 percent) in the third quarter and \$116 million (9.7 percent) in the first nine months of 2014, compared with the same periods of 2013. The increases were primarily driven by higher noninterest income of \$38 million (12.1 percent) in the third quarter and \$103 million (11.0 percent) in the first nine months of 2014, compared with the same periods of 2013, reflecting the impact of account growth, improved market conditions and business expansion. Net interest income, on a taxable-equivalent basis, increased \$14 million (17.1 percent) in the third quarter and \$13 million (5.1 percent) in the first nine months 2014, compared with the same periods of 2013, principally due to higher average loan and deposit balances and an increase in the margin benefit of corporate trust deposits.

Noninterest expense increased \$10 million (3.0 percent) in the third quarter and \$32 million (3.2 percent) in the first nine months of 2014, compared with the same periods of 2013. The increases in noninterest expense were primarily due to higher compensation and employee benefits expense, including the impact of business expansion, partially offset by lower net shared services expense.

**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 \$298 million of the Company's net income in the third quarter and \$809 million in the first nine months of 2014, or increases of \$32 million (12.0 percent) and \$66 million (8.9 percent), respectively, compared with the same periods of 2013. The increases were primarily due to higher net revenue, partially offset by higher noninterest expense and provision for credit losses.

**Table of Contents**

Net revenue increased \$69 million (5.7 percent) in the third quarter and \$155 million (4.3 percent) in the first nine months of 2014, compared with the same periods of 2013. Net interest income, on a taxable-equivalent basis, increased \$49 million (12.5 percent) in the third quarter and \$103 million (8.8 percent) in the first nine months of 2014, compared with the same periods of 2013, driven by higher average loan balances, higher loan-related fees and improved loan rates. Noninterest income increased \$20 million (2.4 percent) in the third quarter and \$52 million (2.2 percent) in the first nine months of 2014, compared with the same periods of 2013, primarily due to increases in credit and debit card revenue on higher transaction volumes, and higher merchant processing services revenue due to higher volumes and increases in fee-based product revenue, partially offset by lower rates.

Noninterest expense increased \$3 million (.5 percent) in the third quarter and \$35 million (1.9 percent) in the first nine months of 2014, compared with the same periods of 2013, primarily due to higher compensation and employee benefits expenses, including the impact of business initiatives, partially offset by reductions in technology and communications expense and other intangibles expense. The provision for credit losses increased \$18 million (10.5 percent) in the third quarter and \$20 million (3.6 percent) in the first nine months of 2014, compared with the same periods of 2013, primarily due to unfavorable changes in the reserve allocation. As a percentage of average loans outstanding, net charge-offs were 2.94 percent in the third quarter of 2014, compared with 3.16 percent in the third quarter of 2013.

**Treasury and Corporate Support** Treasury and Corporate Support includes the Company's investment portfolios, most covered commercial and commercial real estate loans and related other real estate owned, funding, capital management, interest rate risk management, the net effect of transfer pricing related to average balances, income taxes not allocated to 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 \$536 million in the third quarter and \$1.6 billion in the first nine months of 2014, compared with \$469 million and \$1.4 billion in the same periods of 2013, respectively.

Net revenue increased \$123 million (19.3 percent) in the third quarter and \$588 million (30.8 percent) in the first nine months of 2014, compared with the same periods of 2013. Net interest income, on a taxable-equivalent basis, increased \$38 million (6.6 percent) in the third quarter and \$185 million (10.8 percent) in the first nine months of 2014, compared with the same periods of 2013, principally due to increases in average balances in the investment securities portfolio and lower rates on short-term borrowings, partially offset by lower income from the run-off of acquired assets. Noninterest income increased \$85 million in the third quarter and \$403 million in the first nine months of 2014, compared with the same periods of 2013, primarily due to higher equity investment income and commercial products revenue. In addition, noninterest income was higher in the first nine months of 2014, compared with the same period of the prior year, due to the second quarter 2014 Visa sale.

Noninterest expense decreased \$26 million (13.1 percent) in the third quarter of 2014, compared with the third quarter of 2013, principally due to a decrease in employee benefits expense resulting from lower pension costs, and lower costs related to investments in tax-advantaged projects related to a change in the first quarter of 2014 accounting for affordable housing investments, partially offset by increased compensation expense. Noninterest expense increased \$203 million (43.7 percent) in the first nine months of 2014, compared with the first nine months of 2013, principally driven by the second quarter 2014 FHA DOJ settlement, insurance-related recoveries in the prior year and increased compensation expense, partially offset by decreases in employee benefits expense and lower costs related to investments in tax-advantaged projects.

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,
- Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches, and for additional information,
- Tier 1 common equity to risk-weighted assets using Basel I definition.

**Table of Contents**

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)	September 30, 2014	December 31, 2013
Total equity	\$ 43,829	\$ 41,807
Preferred stock	(4,756)	(4,756)
Noncontrolling interests	(688)	(694)
Goodwill (net of deferred tax liability) (1)	(8,503)	(8,343)
Intangible assets, other than mortgage servicing rights	(877)	(849)
Tangible common equity (a)	29,005	27,165
Tangible common equity (as calculated above)	29,005	27,165
Adjustments (2)	187	224
Common equity tier 1 capital estimated for the Basel III fully implemented standardized and advanced approaches (b)	29,192	27,389
Tier 1 capital, determined in accordance with prescribed regulatory requirements using Basel I definition		33,386
Preferred stock		(4,756)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital		(688)
Tier 1 common equity using Basel I definition (c)		27,942
Total assets	391,284	364,021
Goodwill (net of deferred tax liability) (1)	(8,503)	(8,343)
Intangible assets, other than mortgage servicing rights	(877)	(849)
Tangible assets (d)	381,904	354,829
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (3)(e)	311,914	297,919
Adjustments (4)	12,837	13,712
Risk-weighted assets estimated for the Basel III fully implemented standardized approach (f)	324,751	311,631
Risk-weighted assets, determined in accordance with prescribed transitional advanced approaches regulatory requirements	243,909	
Adjustments (5)	3,443	
Risk-weighted assets estimated for the Basel III fully implemented advanced approaches (g)	247,352	
<b>Ratios</b>		
Tangible common equity to tangible assets (a)/(d)	7.6%	7.7%
Tangible common equity to risk-weighted assets (a)/(e)	9.3	9.1
Tier 1 common equity to risk-weighted assets using Basel I definition (c)/(e)		9.4
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)/(f)	9.0	8.8
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)/(g)	11.8	

(1) Includes goodwill related to certain investments in unconsolidated financial institutions per prescribed regulatory requirements beginning March 31, 2014.

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

(3) September 30, 2014, calculated under the Basel III transitional standardized approach; December 31, 2013, calculated under Basel I.

(4) Includes higher risk-weighting for unfunded loan commitments, investment securities, residential mortgages, mortgage servicing rights and other adjustments.

(5) *Primarily reflects higher risk-weighting for mortgage servicing rights.*

**Table of Contents**

**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, 2013.

**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.

**Table of Contents**

## U.S. Bancorp

## Consolidated Balance Sheet

	September 30,	December 31,
(Dollars in Millions)	2014	2013
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 6,183	\$ 8,477
Investment securities		
Held-to-maturity (fair value \$44,094 and \$38,368, respectively; including \$366 and \$994 at fair value pledged as collateral, respectively) (a)	44,231	38,920
Available-for-sale (\$274 and \$1,106 pledged as collateral, respectively) (a)	52,674	40,935
Loans held for sale (including \$3,918 and \$3,263 of mortgage loans carried at fair value, respectively)	3,939	3,268
Loans		
Commercial	78,878	70,033
Commercial real estate	40,909	39,885
Residential mortgages	51,957	51,156
Credit card	17,858	18,021
Other retail	48,935	47,678
Total loans, excluding covered loans	238,537	226,773
Covered loans	7,054	8,462
Total loans	245,591	235,235
Less allowance for loan losses	(4,065)	(4,250)
Net loans	241,526	230,985
Premises and equipment	2,608	2,606
Goodwill	9,401	9,205
Other intangible assets	3,338	3,529
Other assets (including \$142 and \$111 of trading securities at fair value pledged as collateral, respectively) (a)	27,384	26,096
Total assets	\$ 391,284	\$ 364,021
<b>Liabilities and Shareholders' Equity</b>		
Deposits		
Noninterest-bearing	\$ 78,641	\$ 76,941
Interest-bearing	165,070	156,165
Time deposits greater than \$100,000	29,386	29,017
Total deposits	273,097	262,123
Short-term borrowings	30,045	27,608
Long-term debt	30,768	20,049
Other liabilities	13,545	12,434
Total liabilities	347,455	322,214
Shareholders' equity		
Preferred stock	4,756	4,756
Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/14 and 12/31/13 2,125,725,742 shares	21	21
Capital surplus	8,293	8,216
Retained earnings	41,543	38,667
Less cost of common stock in treasury: 9/30/14 330,882,734 shares; 12/31/13 300,977,274 shares	(10,836)	(9,476)
Accumulated other comprehensive income (loss)	(636)	(1,071)
Total U.S. Bancorp shareholders' equity	43,141	41,113
Noncontrolling interests	688	694
Total equity	43,829	41,807
Total liabilities and equity	\$ 391,284	\$ 364,021

(a) Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral. See Notes to Consolidated Financial Statements.



**Table of Contents**

U.S. Bancorp

**Consolidated Statement of Income**

(Unaudited)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
(Dollars and Shares in Millions, Except Per Share Data)				
<b>Interest Income</b>				
Loans	\$ 2,518	\$ 2,568	\$ 7,572	\$ 7,682
Loans held for sale	36	46	87	172
Investment securities	476	420	1,378	1,222
Other interest income	27	34	89	141
Total interest income	3,057	3,068	9,126	9,217
<b>Interest Expense</b>				
Deposits	115	134	348	433
Short-term borrowings	72	98	204	270
Long-term debt	178	178	543	587
Total interest expense	365	410	1,095	1,290
Net interest income	2,692	2,658	8,031	7,927
Provision for credit losses	311	298	941	1,063
Net interest income after provision for credit losses	2,381	2,360	7,090	6,864
<b>Noninterest Income</b>				
Credit and debit card revenue	251	244	749	702
Corporate payment products revenue	195	192	550	540
Merchant processing services	387	371	1,127	1,091
ATM processing services	81	83	241	248
Trust and investment management fees	315	280	930	842
Deposit service charges	185	180	513	493
Treasury management fees	136	134	409	408
Commercial products revenue	209	207	635	616
Mortgage banking revenue	260	328	774	1,125
Investment products fees	49	46	142	133
Securities gains (losses), net			8	21
Realized gains (losses), net				
Total other-than-temporary impairment	(3)	(2)	(5)	(5)
Portion of other-than-temporary impairment recognized in other comprehensive income		(1)	(1)	(8)
Total securities gains (losses), net	(3)	(3)	2	8
Other	177	115	722	412
Total noninterest income	2,242	2,177	6,794	6,618
<b>Noninterest Expense</b>				
Compensation	1,132	1,088	3,372	3,268
Employee benefits	250	278	796	865
Net occupancy and equipment	249	240	739	709
Professional services	102	94	282	263
Marketing and business development	78	85	253	254
Technology and communications	219	214	644	639
Postage, printing and supplies	81	76	242	230
Other intangibles	51	55	148	167
Other	452	435	1,435	1,197
Total noninterest expense	2,614	2,565	7,911	7,592
Income before income taxes	2,009	1,972	5,973	5,890
Applicable income taxes	523	542	1,566	1,629
Net income	1,486	1,430	4,407	4,261
Net (income) loss attributable to noncontrolling interests	(15)	38	(44)	119
Net income attributable to U.S. Bancorp	\$ 1,471	\$ 1,468	\$ 4,363	\$ 4,380

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

Net income applicable to U.S. Bancorp common shareholders	\$ 1,405	\$ 1,400	\$ 4,163	\$ 4,163
Earnings per common share	\$ .78	\$ .76	\$ 2.30	\$ 2.26
Diluted earnings per common share	\$ .78	\$ .76	\$ 2.29	\$ 2.25
Dividends declared per common share	\$ .245	\$ .230	\$ .720	\$ .655
Average common shares outstanding	1,798	1,832	1,809	1,844
Average diluted common shares outstanding	1,807	1,843	1,819	1,854

*See Notes to Consolidated Financial Statements.*

U.S. Bancorp

37

**Table of Contents**

U.S. Bancorp

**Consolidated Statement of Comprehensive Income**

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(Unaudited)				
Net income	\$ 1,486	\$ 1,430	\$ 4,407	\$ 4,261
<b>Other Comprehensive Income (Loss)</b>				
Changes in unrealized gains and losses on securities available-for-sale	(21)	(237)	486	(1,032)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale		1	1	8
Changes in unrealized gains and losses on derivative hedges	16	(17)	(19)	33
Foreign currency translation	4	13	18	(20)
Changes in unrealized gains and losses on retirement plans		38		37
Reclassification to earnings of realized gains and losses	76	99	221	270
Income taxes related to other comprehensive income	(29)	40	(272)	276
Total other comprehensive income (loss)	46	(63)	435	(428)
Comprehensive income	1,532	1,367	4,842	3,833
Comprehensive (income) loss attributable to noncontrolling interests	(15)	38	(44)	119
Comprehensive income attributable to U.S. Bancorp	\$ 1,517	\$ 1,405	\$ 4,798	\$ 3,952

*See Notes to Consolidated Financial Statements.*

Table of Contents

U.S. Bancorp

## Consolidated Statement of Shareholders' Equity

(Dollars and Shares in Millions)	U.S. Bancorp Shareholders									
	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated	Total		Total Equity
							Comprehensive Income (Loss)	Shareholders'	Noncontrolling Interests	
(Unaudited)										
<b>Balance December 31, 2012</b>	1,869	\$ 4,769	\$ 21	\$ 8,201	\$ 34,720	\$ (7,790)	\$ (923)	\$ 38,998	\$ 1,269	\$ 40,267
Net income (loss)					4,380			4,380	(119)	4,261
Other comprehensive income (loss)							(428)	(428)		(428)
Redemption of preferred stock		(500)		8	(8)			(500)		(500)
Preferred stock dividends					(189)			(189)		(189)
Common stock dividends					(1,211)			(1,211)		(1,211)
Issuance of preferred stock		487						487		487
Issuance of common and treasury stock	15			(114)		459		345		345
Purchase of treasury stock	(52)					(1,843)		(1,843)		(1,843)
Distributions to noncontrolling interests									(45)	(45)
Net other changes in noncontrolling interests									315	315
Stock option and restricted stock grants				93				93		93
<b>Balance September 30, 2013</b>	1,832	\$ 4,756	\$ 21	\$ 8,188	\$ 37,692	\$ (9,174)	\$ (1,351)	\$ 40,132	\$ 1,420	\$ 41,552
<b>Balance December 31, 2013</b>	1,825	\$ 4,756	\$ 21	\$ 8,216	\$ 38,667	\$ (9,476)	\$ (1,071)	\$ 41,113	\$ 694	\$ 41,807
Net income (loss)					4,363			4,363	44	4,407
Other comprehensive income (loss)							435	435		435
Preferred stock dividends					(181)			(181)		(181)
Common stock dividends					(1,306)			(1,306)		(1,306)
Issuance of common and treasury stock	13			(10)		407		397		397
Purchase of treasury stock	(43)					(1,767)		(1,767)		(1,767)
Distributions to noncontrolling interests									(44)	(44)
Net other changes in noncontrolling interests									(6)	(6)
Stock option and restricted stock grants				87				87		87
<b>Balance September 30, 2014</b>	1,795	\$ 4,756	\$ 21	\$ 8,293	\$ 41,543	\$ (10,836)	\$ (636)	\$ 43,141	\$ 688	\$ 43,829

See Notes to Consolidated Financial Statements.

U.S. Bancorp

39

**Table of Contents**

## U.S. Bancorp

## Consolidated Statement of Cash Flows

	Nine Months Ended September 30,	
(Dollars in Millions)	2014	2013
(Unaudited)	2014	2013
<b>Operating Activities</b>		
Net income attributable to U.S. Bancorp	\$ 4,363	\$ 4,380
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	941	1,063
Depreciation and amortization of premises and equipment	225	222
Amortization of intangibles	148	167
Provision for deferred income taxes	(36)	(38)
(Gain) loss on sale of loans held for sale	(565)	(864)
(Gain) loss on sale of securities and other assets	(383)	(42)
Loans originated for sale in the secondary market, net of repayments	(21,374)	(49,411)
Proceeds from sales of loans held for sale	21,160	53,845
Other, net	(13)	(665)
Net cash provided by operating activities	4,466	8,657
<b>Investing Activities</b>		
Proceeds from sales of available-for-sale investment securities	401	766
Proceeds from maturities of held-to-maturity investment securities	7,215	6,854
Proceeds from maturities of available-for-sale investment securities	4,944	8,395
Purchases of held-to-maturity investment securities	(12,571)	(9,439)
Purchases of available-for-sale investment securities	(16,627)	(9,381)
Net increase in loans outstanding	(10,043)	(8,495)
Proceeds from sales of loans	1,165	620
Purchases of loans	(1,703)	(1,883)
Acquisitions, net of cash acquired	3,436	
Other, net	411	(100)
Net cash used in investing activities	(23,372)	(12,663)
<b>Financing Activities</b>		
Net increase in deposits	6,186	12,533
Net increase (decrease) in short-term borrowings	2,437	(174)
Proceeds from issuance of long-term debt	12,978	198
Principal payments or redemption of long-term debt	(2,196)	(2,380)
Proceeds from issuance of preferred stock		487
Proceeds from issuance of common stock	377	331
Redemption of preferred stock		(500)
Repurchase of common stock	(1,704)	(1,779)
Cash dividends paid on preferred stock	(181)	(193)
Cash dividends paid on common stock	(1,285)	(1,154)
Net cash provided by financing activities	16,612	7,369
Change in cash and due from banks	(2,294)	3,363
Cash and due from banks at beginning of period	8,477	8,252
Cash and due from banks at end of period	\$ 6,183	\$ 11,615

See Notes to Consolidated Financial Statements.

---

**Table of Contents****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, 2013. 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 10 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 issued accounting guidance, effective for the Company on January 1, 2017, related to revenue recognition from contracts with customers, which amends certain currently existing revenue recognition accounting guidance. The guidance 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.

**Note 3** Business Combinations

In June 2014, the Company acquired the Chicago-area branch banking operations of the Charter One Bank franchise (Charter One) owned by RBS Citizens Financial Group. The acquisition included Charter One's retail branch network, small business operations and select middle market relationships. The Company acquired approximately \$969 million of loans and \$4.8 billion of deposits with this transaction.

**Table of Contents****Note 4** 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:

(Dollars in Millions)	September 30, 2014				December 31, 2013				Fair Value	
	Amortized Cost	Unrealized Gains	Other-than-temporary (e)	Other (f)	Unrealized Losses	Other-than-temporary (e)	Other (f)			
<b>Held-to-maturity (a)</b>										
U.S. Treasury and agencies	\$ 2,679	\$ 8	\$	\$ (40)	\$ 2,647	\$ 3,114	\$ 5	\$ (79)	\$ 3,040	
Mortgage-backed securities										
Residential										
Agency	41,419	244		(358)	41,305	35,671	187	(665)	35,193	
Non-agency non-prime (d)	1				1	1			1	
Asset-backed securities										
Collateralized debt obligations/Collateralized loan obligations		8			8		9		9	
Other	14	4	(1)		17	16	4	(1)	18	
Obligations of state and political subdivisions	10				10	12			12	
Obligations of foreign governments	9				9	7			7	
Other debt securities	99			(2)	97	99		(11)	88	
<b>Total held-to-maturity</b>	<b>\$ 44,231</b>	<b>\$ 264</b>	<b>\$ (1)</b>	<b>\$ (400)</b>	<b>\$ 44,094</b>	<b>\$ 38,920</b>	<b>\$ 205</b>	<b>\$ (1)</b>	<b>\$ (756)</b>	<b>\$ 38,368</b>
<b>Available-for-sale (b)</b>										
U.S. Treasury and agencies	\$ 2,692	\$ 7	\$	\$ (21)	\$ 2,678	\$ 1,108	\$ 4	\$ (67)	\$ 1,045	
Mortgage-backed securities										
Residential										
Agency	41,734	524		(421)	41,837	31,633	449	(529)	31,553	
Non-agency										
Prime (c)	420	11	(4)	(1)	426	486	4	(8)	478	
Non-prime (d)	270	15	(1)		284	297	5	(5)	297	
Commercial agency	119	3			122	148	4		152	
Asset-backed securities										
Collateralized debt obligations/Collateralized loan obligations	19	4			23	20	4		24	
Other	609	13			622	616	13		629	
Obligations of state and political subdivisions	5,327	239		(3)	5,563	5,673	116	(51)	5,738	
Obligations of foreign governments	6				6	6			6	
Corporate debt securities	690	3		(54)	639	734		(94)	640	
Perpetual preferred securities	201	27		(8)	220	205	24	(17)	212	
Other investments	227	27			254	133	28		161	
<b>Total available-for-sale</b>	<b>\$ 52,314</b>	<b>\$ 873</b>	<b>\$ (5)</b>	<b>\$ (508)</b>	<b>\$ 52,674</b>	<b>\$ 41,059</b>	<b>\$ 651</b>	<b>\$ (13)</b>	<b>\$ (762)</b>	<b>\$ 40,935</b>

- (a) Held-to-maturity investment securities are carried at historical cost or at fair value at the time of transfer from the available-for-sale to held-to-maturity category, adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment.
- (b) Available-for-sale investment securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive income (loss) in shareholders' equity.
- (c) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads). When the Company determines the designation, prime securities typically have a weighted average credit score of 725 or higher and a loan-to-value of 80 percent or lower; however, other pool characteristics may result in designations that deviate from these credit score and loan-to-value thresholds.
- (d) Includes all securities not meeting the conditions to be designated as prime.
- (e) Represents impairment not related to credit for those investment securities that have been determined to be other-than-temporarily impaired.
- (f) Represents unrealized losses on investment securities that have not been determined to be other-than-temporarily impaired.

The weighted-average maturity of the available-for-sale investment securities was 4.9 years at September 30, 2014, compared with 6.0 years at December 31, 2013. The corresponding weighted-average yields were 2.35 percent and 2.64 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 4.4 years at September 30, 2014, compared with 4.5 years at December 31, 2013. The

corresponding weighted-average yields were 1.93 percent and 2.00 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale investment securities outstanding at September 30, 2014, refer to Table 4 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

**Table of Contents**

Investment securities with a fair value of \$12.9 billion at September 30, 2014, and \$17.3 billion at December 31, 2013, were pledged to secure public, private and trust deposits, repurchase agreements and for other purposes required by contractual obligation or law. Included in these amounts were securities where the Company and certain counterparties have agreements granting the counterparties the right to sell or pledge the securities. Investment securities delivered under these types of arrangements had a fair value of \$640 million at September 30, 2014, and \$2.1 billion at December 31, 2013.

The following table provides information about the amount of interest income from taxable and non-taxable investment securities:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Taxable	\$ 419	\$ 357	\$ 1,203	\$ 1,029
Non-taxable	57	63	175	193
Total interest income from investment securities	\$ 476	\$ 420	\$ 1,378	\$ 1,222

The following table provides information about the amount of gross gains and losses realized through the sales of available-for-sale investment securities:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Realized gains	\$	\$	\$ 8	\$ 21
Realized losses				
Net realized gains (losses)	\$	\$	\$ 8	\$ 21
Income tax (benefit) on net realized gains (losses)	\$	\$	\$ 3	\$ 8

The Company conducts a regular assessment of its investment securities with unrealized losses to determine whether investment securities are other-than-temporarily impaired considering, among other factors, the nature of the investment securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, the existence of any government or agency guarantees, market conditions and whether the Company intends to sell or it is more likely than not the Company will be required to sell the investment securities.

The following tables summarize other-than-temporary impairment by investment category:

Three Months Ended September 30 (Dollars in Millions)	2014			2013		
	Losses Recorded in Earnings	Other Gains (Losses) (c)	Total	Losses Recorded in Earnings	Other Gains (Losses) (c)	Total
<b>Available-for-sale</b>						
Mortgage-backed securities						
Non-agency residential						
Prime (a)	\$	\$	\$	\$ (1)	\$	\$ (1)
Non-prime (b)				(2)	1	(1)
Perpetual preferred securities	(3)		(3)			
Total available-for-sale	\$ (3)	\$	\$ (3)	\$ (3)	\$ 1	\$ (2)

- (a) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).
- (b) Includes all securities not meeting the conditions to be designated as prime.
- (c) Losses represent the non-credit portion of other-than-temporary impairment recorded in other comprehensive income (loss) for investment securities determined to be other-than-temporarily impaired during the period. Gains represent recoveries in the fair value of securities that had non-credit other-than-temporary impairment during the period.



**Table of Contents**

Nine Months Ended September 30 (Dollars in Millions)	2014			2013		
	Losses Recorded in Earnings	Other Gains (Losses) (c)	Total	Losses Recorded in Earnings	Other Gains (Losses) (c)	Total
<b>Available-for-sale</b>						
Mortgage-backed securities						
Prime (a)	\$ (1)	\$ 1	\$	\$ (5)	\$ 2	\$ (3)
Non-prime (b)	(2)		(2)	(8)	6	(2)
Perpetual preferred securities	(3)		(3)			
Total available-for-sale	\$ (6)	\$ 1	\$ (5)	\$ (13)	\$ 8	\$ (5)

- (a) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).
- (b) Includes all securities not meeting the conditions to be designated as prime.
- (c) Losses represent the non-credit portion of other-than-temporary impairment recorded in other comprehensive income (loss) for investment securities determined to be other-than-temporarily impaired during the period. Gains represent recoveries in the fair value of securities that had non-credit other-than-temporary impairment during the period.

The Company determined the other-than-temporary impairment recorded in earnings for debt securities not intended to be sold by estimating the future cash flows of each individual investment security, using market information where available, and discounting the cash flows at the original effective rate of the investment security. Other-than-temporary impairment recorded in other comprehensive income (loss) was measured as the difference between that discounted amount and the fair value of each investment security. For perpetual preferred securities determined to be other-than-temporarily impaired, the Company recorded a loss in earnings for the entire difference between the securities' fair value and their amortized cost.

The following table includes the ranges for significant assumptions used for those available-for-sale non-agency mortgage-backed securities determined to be other-than-temporarily impaired during the three months ended September 30, 2014:

	Minimum	Non-Prime (a)	
		Maximum	Average
Estimated lifetime prepayment rates	8%	10%	8%
Lifetime probability of default rates	6	8	8
Lifetime loss severity rates	40	55	42

- (a) Includes all securities not meeting the conditions to be designated as prime.

Changes in the credit losses on debt securities (excluding perpetual preferred securities) are summarized as follows:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$ 111	\$ 124	\$ 116	\$ 134
<b>Additions to Credit Losses Due to Other-than-temporary Impairments</b>				
Decreases in expected cash flows on securities for which other-than-temporary impairment was previously recognized		3	3	13
Total other-than-temporary impairment on debt securities		3	3	13
<b>Other Changes in Credit Losses</b>				
Increases in expected cash flows	(2)	(1)	(4)	(2)
Realized losses (a)	(4)	(4)	(10)	(18)
Credit losses on security sales and securities expected to be sold				(5)
Balance at end of period	\$ 105	\$ 122	\$ 105	\$ 122

- (a)

Edgar Filing: US BANCORP \DE\ - Form 10-Q

*Primarily represents principal losses allocated to mortgage and asset-backed securities in the Company's portfolio under the terms of the securitization transaction documents.*

**Table of Contents**

At September 30, 2014, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2014:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Held-to-maturity</b>						
U.S. Treasury and agencies	\$ 577	\$ (2)	\$ 968	\$ (38)	\$ 1,545	\$ (40)
Residential agency mortgage-backed securities	11,469	(76)	9,607	(282)	21,076	(358)
Other asset-backed securities			6	(1)	6	(1)
Other debt securities			22	(2)	22	(2)
Total held-to-maturity	\$ 12,046	\$ (78)	\$ 10,603	\$ (323)	\$ 22,649	\$ (401)
<b>Available-for-sale</b>						
U.S. Treasury and agencies	\$ 1,173	\$ (1)	\$ 825	\$ (20)	\$ 1,998	\$ (21)
<b>Mortgage-backed securities</b>						
<b>Residential</b>						
Agency	9,519	(91)	8,317	(330)	17,836	(421)
<b>Non-agency (a)</b>						
Prime (b)	40	(1)	114	(4)	154	(5)
Non-prime (c)	12		22	(1)	34	(1)
Other asset-backed securities	2		24		26	
Obligations of state and political subdivisions	15		217	(3)	232	(3)
Obligations of foreign governments	6				6	
Corporate debt securities			453	(54)	453	(54)
Perpetual preferred securities	45		76	(8)	121	(8)
Total available-for-sale	\$ 10,812	\$ (93)	\$ 10,048	\$ (420)	\$ 20,860	\$ (513)

(a) The Company has \$6 million of unrealized losses on residential non-agency mortgage-backed securities. Credit-related other-than-temporary impairment on these securities may occur if there is further deterioration in the underlying collateral pool performance. Borrower defaults may increase if economic conditions worsen. Additionally, deterioration in home prices may increase the severity of projected losses.

(b) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).

(c) Includes all securities not meeting the conditions to be designated as prime.

The Company does not consider these unrealized losses to be credit-related. These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with high investment grade credit ratings or agency mortgage-backed securities. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these investment securities. At September 30, 2014, the Company had no plans to sell investment securities with unrealized losses, and believes it is more likely than not it would not be required to sell such investment securities before recovery of their amortized cost.

**Table of Contents****Note 5** Loans and Allowance for Credit Losses

The composition of the loan portfolio, disaggregated by class and underlying specific portfolio type, was as follows:

(Dollars in Millions)	September 30, 2014		December 31, 2013	
	Amount	Percent of Total	Amount	Percent of Total
<b>Commercial</b>				
Commercial	\$ 73,600	30.0%	\$ 64,762	27.5%
Lease financing	5,278	2.1	5,271	2.3
Total commercial	78,878	32.1	70,033	29.8
<b>Commercial Real Estate</b>				
Commercial mortgages	31,802	13.0	32,183	13.7
Construction and development	9,107	3.7	7,702	3.3
Total commercial real estate	40,909	16.7	39,885	17.0
<b>Residential Mortgages</b>				
Residential mortgages	38,858	15.8	37,545	15.9
Home equity loans, first liens	13,099	5.3	13,611	5.8
Total residential mortgages	51,957	21.1	51,156	21.7
<b>Credit Card</b>	17,858	7.3	18,021	7.7
<b>Other Retail</b>				
Retail leasing	5,999	2.5	5,929	2.5
Home equity and second mortgages	15,769	6.4	15,442	6.6
Revolving credit	3,242	1.3	3,276	1.4
Installment	6,173	2.5	5,709	2.4
Automobile	14,517	5.9	13,743	5.8
Student	3,235	1.3	3,579	1.5
Total other retail	48,935	19.9	47,678	20.2
Total loans, excluding covered loans	238,537	97.1	226,773	96.4
<b>Covered Loans</b>	7,054	2.9	8,462	3.6
Total loans	\$ 245,591	100.0%	\$ 235,235	100.0%

The Company had loans of \$79.4 billion at September 30, 2014, and \$77.2 billion at December 31, 2013, pledged at the Federal Home Loan Bank ( FHLB ), and loans of \$61.8 billion at September 30, 2014, and \$53.0 billion at December 31, 2013, pledged at the Federal Reserve Bank.

Originated loans are reported at the principal amount outstanding, net of unearned interest and deferred fees and costs. Net unearned interest and deferred fees and costs amounted to \$575 million at September 30, 2014, and \$556 million at December 31, 2013. All purchased loans and related indemnification assets are recorded at fair value at the date of purchase. The Company evaluates purchased loans for impairment at the date of purchase in accordance with applicable authoritative accounting guidance. Purchased loans with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are considered purchased impaired loans. All other purchased loans are considered purchased nonimpaired loans.

**Table of Contents**

On the acquisition date, the estimate of the contractually required payments receivable for all purchased nonimpaired loans acquired in the second quarter 2014 acquisition of Charter One were \$1.5 billion. The contractual cash flows not expected to be collected on these loans of \$247 million and the estimated fair value of the loans of \$969 million were determined based upon the estimated remaining life of the underlying loans, which includes the effects of estimated prepayments. The contractual cash flows not expected to be collected primarily reflect a reduction in contractual interest payments resulting from these estimated prepayments. There were no purchased impaired loans acquired in the Charter One acquisition.

Changes in the accretable balance for purchased impaired loans were as follows:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$ 1,487	\$ 1,802	\$ 1,655	\$ 1,709
Accretion	(105)	(119)	(336)	(380)
Disposals	(34)	(51)	(103)	(120)
Reclassifications from nonaccretable difference (a)	38	119	172	177
Other (b)			(2)	365
Balance at end of period	\$ 1,386	\$ 1,751	\$ 1,386	\$ 1,751

(a) Primarily relates to changes in expected credit performance.

(b) The amount for the nine months ended September 30, 2013, primarily represents the reclassification of unamortized decreases in the FDIC asset (which are presented as a separate component within the covered assets table on page 56 beginning in 2013), partially offset by the impact of changes in expectations about retaining covered single-family loans beyond the term of the indemnification agreements.

**Allowance for Credit Losses** The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio, including unfunded credit commitments, and includes certain amounts that do not represent loss exposure to the Company because those losses are recoverable under loss sharing agreements with the Federal Deposit Insurance Corporation (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 13-year period of 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 time frame is selected for each commercial loan type. The allowance recorded for impaired loans greater than \$5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or the fair value of the collateral for collateral-dependent loans, rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, portfolio growth and historical losses, adjusted for current trends. The Company also considers the impacts of any loan modifications made to commercial lending segment loans and any subsequent payment defaults to its expectations of cash flows, principal balance, and current expectations about the borrower's ability to pay in determining the allowance for credit losses.

The allowance recorded for Troubled Debt Restructuring (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 loan-to-value ratios when possible, portfolio growth and historical losses, adjusted for current trends. The Company also considers any modifications made to consumer lending segment loans including the impacts of any subsequent payment defaults since modification in determining the allowance for credit losses, such as the borrower's ability to pay under the restructured terms, and the timing and amount of payments.



**Table of Contents**

The allowance for the covered loan segment is evaluated each quarter in a manner similar to that described for non-covered loans and reflects decreases in expected cash flows of those loans after the acquisition date. The provision for credit losses for covered loans considers the indemnification provided by the FDIC.

In addition, subsequent payment defaults on loan modifications considered TDRs are considered in the underlying factors used in the determination of the appropriateness of the allowance for credit losses. For each loan segment, the Company estimates future loan charge-offs through a variety of analysis, trends and underlying assumptions. With respect to the commercial lending segment, TDRs may be collectively evaluated for impairment where observed performance history, including defaults, is a primary driver of the loss allocation. For commercial TDRs individually evaluated for impairment, attributes of the borrower are the primary factors in determining the allowance for credit losses. However, historical loss experience is also incorporated into the allowance methodology applied to this category of loans. With respect to the consumer lending segment, performance of the portfolio, including defaults on TDRs, is considered when estimating future cash flows.

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.

The Company also assesses the credit risk associated with off-balance sheet loan commitments, letters of credit, and derivatives. Credit risk associated with derivatives is reflected in the fair values recorded for those positions. The liability for off-balance sheet credit exposure related to loan commitments and other credit guarantees is included in other liabilities. Because business processes and credit risks associated with unfunded credit commitments are essentially the same as for loans, the Company utilizes similar processes to estimate its liability for unfunded credit commitments.

Activity in the allowance for credit losses by portfolio class was as follows:

Three Months Ended September 30 (Dollars in Millions)	Commercial					Total Loans, Excluding		Covered Loans	Total Loans
	Commercial	Real Estate	Residential Mortgages	Credit Card	Other Retail	Covered Loans			
<b>2014</b>									
Balance at beginning of period	\$ 1,111	\$ 725	\$ 848	\$ 874	\$ 779	\$ 4,337	\$ 112	\$ 4,449	
Add									
Provision for credit losses	83	(6)	(13)	162	84	310	1	311	
Deduct									
Loans charged off	80	10	48	174	96	408	2	410	
Less recoveries of loans charged off	(22)	(6)	(6)	(16)	(23)	(73)	(1)	(74)	
Net loans charged off	58	4	42	158	73	335	1	336	
Other changes (a)							(10)	(10)	
Balance at end of period	\$ 1,136	\$ 715	\$ 793	\$ 878	\$ 790	\$ 4,312	\$ 102	\$ 4,414	
<b>2013</b>									
Balance at beginning of period	\$ 1,023	\$ 777	\$ 921	\$ 874	\$ 838	\$ 4,433	\$ 179	\$ 4,612	
Add									
Provision for credit losses	19	(22)	70	151	84	302	(4)	298	
Deduct									
Loans charged off	65	17	62	175	122	441	9	450	
Less recoveries of loans charged off	(54)	(23)	(5)	(15)	(24)	(121)	(1)	(122)	
Net loans charged off	11	(6)	57	160	98	320	8	328	
Other changes (a)							(4)	(4)	
Balance at end of period	\$ 1,031	\$ 761	\$ 934	\$ 865	\$ 824	\$ 4,415	\$ 163	\$ 4,578	

(a) 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.

**Table of Contents**

Nine Months Ended September 30 (Dollars in Millions)	Commercial				Total Loans, Excluding			Covered Loans	Total Loans
	Commercial	Real Estate	Residential Mortgages	Credit Card	Other Retail	Covered Loans			
<b>2014</b>									
Balance at beginning of period	\$ 1,075	\$ 776	\$ 875	\$ 884	\$ 781	\$ 4,391	\$ 146	\$ 4,537	
Add									
Provision for credit losses	210	(64)	74	495	227	942	(1)	941	
Deduct									
Loans charged off	219	27	171	546	291	1,254	10	1,264	
Less recoveries of loans charged off	(70)	(30)	(15)	(48)	(73)	(236)	(2)	(238)	
Net loans charged off	149	(3)	156	498	218	1,018	8	1,026	
Other changes (a)				(3)		(3)	(35)	(38)	
Balance at end of period	\$ 1,136	\$ 715	\$ 793	\$ 878	\$ 790	\$ 4,312	\$ 102	\$ 4,414	
<b>2013</b>									
Balance at beginning of period	\$ 1,051	\$ 857	\$ 935	\$ 863	\$ 848	\$ 4,554	\$ 179	\$ 4,733	
Add									
Provision for credit losses	64	(100)	222	495	305	986	77	1,063	
Deduct									
Loans charged off	184	76	243	559	412	1,474	31	1,505	
Less recoveries of loans charged off	(100)	(80)	(20)	(66)	(83)	(349)	(3)	(352)	
Net loans charged off	84	(4)	223	493	329	1,125	28	1,153	
Other changes (a)							(65)	(65)	
Balance at end of period	\$ 1,031	\$ 761	\$ 934	\$ 865	\$ 824	\$ 4,415	\$ 163	\$ 4,578	

(a) 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.

Additional detail of the allowance for credit losses by portfolio class was as follows:

(Dollars in Millions)	Commercial				Total Loans, Excluding			Covered Loans	Total Loans
	Commercial	Real Estate	Residential Mortgages	Credit Card	Other Retail	Covered Loans			
<b>Allowance Balance at September 30, 2014 Related to</b>									
Loans individually evaluated for impairment (a)	\$ 10	\$ 6	\$	\$	\$	\$ 16	\$	\$ 16	
TDRs collectively evaluated for impairment	13	15	308	64	44	444	3	447	
Other loans collectively evaluated for impairment	1,113	662	485	814	746	3,820	2	3,822	
Loans acquired with deteriorated credit quality		32				32	97	129	
Total allowance for credit losses	\$ 1,136	\$ 715	\$ 793	\$ 878	\$ 790	\$ 4,312	\$ 102	\$ 4,414	
<b>Allowance Balance at December 31, 2013 Related to</b>									
Loans individually evaluated for impairment (a)	\$ 15	\$ 17	\$	\$	\$	\$ 32	\$	\$ 32	
TDRs collectively evaluated for impairment	19	26	329	87	55	516	4	520	
Other loans collectively evaluated for impairment	1,041	700	546	797	726	3,810	5	3,815	
Loans acquired with deteriorated credit quality		33				33	137	170	
Total allowance for credit losses	\$ 1,075	\$ 776	\$ 875	\$ 884	\$ 781	\$ 4,391	\$ 146	\$ 4,537	

(a) Represents the allowance for credit losses related to loans greater than \$5 million classified as nonperforming or TDRs.

Additional detail of loan balances by portfolio class was as follows:

(Dollars in Millions)	Commercial				Total Loans, Excluding			Covered Loans (b)	Total Loans
	Commercial	Real Estate	Residential Mortgages	Credit Card	Other Retail	Covered Loans			
<b>September 30, 2014</b>									
Loans individually evaluated for impairment (a)	\$ 237	\$ 158	\$	\$	\$	\$ 395	\$ 52	\$ 447	
TDRs collectively evaluated for impairment	129	273	4,916	256	248	5,822	74	5,896	
Other loans collectively evaluated for impairment	78,511	40,368	47,041	17,602	48,687	232,209	3,615	235,824	
Loans acquired with deteriorated credit quality	1	110				111	3,313	3,424	

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Total loans	\$ 78,878	\$ 40,909	\$ 51,957	\$ 17,858	\$ 48,935	\$ 238,537	\$ 7,054	\$ 245,591
<b>December 31, 2013</b>								
Loans individually evaluated for impairment (a)	\$ 197	\$ 237	\$	\$	\$	\$ 434	\$ 62	\$ 496
TDRs collectively evaluated for impairment	155	358	5,064	310	269	6,156	87	6,243
Other loans collectively evaluated for impairment	69,680	39,129	46,090	17,711	47,409	220,019	4,538	224,557
Loans acquired with deteriorated credit quality	1	161	2			164	3,775	3,939
Total loans	\$ 70,033	\$ 39,885	\$ 51,156	\$ 18,021	\$ 47,678	\$ 226,773	\$ 8,462	\$ 235,235

(a) Represents loans greater than \$5 million classified as nonperforming or TDRs.

(b) Includes expected reimbursements from the FDIC under loss sharing agreements.

U.S. Bancorp

---

**Table of Contents**

**Credit Quality** The quality of the Company's loan portfolios is assessed as a function of net credit losses, levels of nonperforming assets and delinquencies, and credit quality ratings as defined by the Company.

For all loan classes, loans are considered past due based on the number of days delinquent except for monthly amortizing loans which are classified delinquent based upon the number of contractually required payments not made (for example, two missed payments is considered 30 days delinquent). When a loan is placed on nonaccrual status, unpaid accrued interest is reversed.

Commercial lending segment loans are generally placed on nonaccrual status when the collection of principal and interest has become 90 days past due or is otherwise considered doubtful. Commercial lending segment loans are generally fully or partially charged down to the fair value of the collateral securing the loan, less costs to sell, when the loan is considered uncollectible.

Consumer lending segment loans are generally charged-off at a specific number of days or payments past due. Residential mortgages and other retail loans secured by 1-4 family properties are generally charged down to the fair value of the collateral securing the loan, less costs to sell, at 180 days past due, and placed on nonaccrual status in instances where a partial charge-off occurs unless the loan is well secured and in the process of collection. Loans and lines in a junior lien position secured by 1-4 family properties are placed on nonaccrual status at 120 days past due or when behind a first lien that has become 180 days or greater past due or placed on nonaccrual status. Any secured consumer lending segment loan whose borrower has had debt discharged through bankruptcy, for which the loan amount exceeds the fair value of the collateral, is charged down to the fair value of the related collateral and the remaining balance is placed on nonaccrual status. Credit card loans continue to accrue interest until the account is charged off. Credit cards are charged off at 180 days past due. Other retail loans not secured by 1-4 family properties are charged-off at 120 days past due; and revolving consumer lines are charged off at 180 days past due. Similar to credit cards, other retail loans are generally not placed on nonaccrual status because of the relative short period of time to charge-off. Certain retail customers having financial difficulties may have the terms of their credit card and other loan agreements modified to require only principal payments and, as such, are reported as nonaccrual.

For all loan classes, interest payments received on nonaccrual loans are generally recorded as a reduction to the loan carrying amount. Interest payments are generally recorded as reductions to a loan's carrying amount while a loan is on nonaccrual and are recognized as interest income upon payoff of the loan. Interest income may be recognized for interest payments if the remaining carrying amount of the loan is believed to be collectible. In certain circumstances, loans in any class may be restored to accrual status, such as when a loan has demonstrated sustained repayment performance or no amounts are past due and prospects for future payment are no longer in doubt, or when the loan becomes well secured and is in the process of collection. Loans where there has been a partial charge-off may be returned to accrual status if all principal and interest (including amounts previously charged-off) is expected to be collected and the loan is current.

Covered loans not considered to be purchased impaired are evaluated for delinquency, nonaccrual status and charge-off consistent with the class of loan they would be included in had the loss share coverage not been in place. Generally, purchased impaired loans are considered accruing loans. However, the timing and amount of future cash flows for some loans is not reasonably estimable. Those loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of the future cash flows can be reasonably estimated.

**Table of Contents**

The following table provides a summary of loans by portfolio class, including the delinquency status of those that continue to accrue interest, and those that are nonperforming:

(Dollars in Millions)	Current	Accruing 30-89 Days Past Due	90 Days or More Past Due	Nonperforming	Total
<b>September 30, 2014</b>					
Commercial	\$ 78,453	\$ 215	\$ 37	\$ 173	\$ 78,878
Commercial real estate	40,606	50	12	241	40,909
Residential mortgages (a)	50,662	243	211	841	51,957
Credit card	17,403	219	196	40	17,858
Other retail	48,453	222	76	184	48,935
Total loans, excluding covered loans	235,577	949	532	1,479	238,537
Covered loans	6,434	102	430	88	7,054
Total loans	\$ 242,011	\$ 1,051	\$ 962	\$ 1,567	\$ 245,591
<b>December 31, 2013</b>					
Commercial	\$ 69,587	\$ 257	\$ 55	\$ 134	\$ 70,033
Commercial real estate	39,459	94	29	303	39,885
Residential mortgages (a)	49,695	358	333	770	51,156
Credit card	17,507	226	210	78	18,021
Other retail	47,156	245	86	191	47,678
Total loans, excluding covered loans	223,404	1,180	713	1,476	226,773
Covered loans	7,693	166	476	127	8,462
Total loans	\$ 231,097	\$ 1,346	\$ 1,189	\$ 1,603	\$ 235,235

(a) At September 30, 2014, \$422 million of loans 30-89 days past due and \$3.1 billion of loans 90 days or more past due purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, were classified as current, compared with \$440 million and \$3.7 billion at December 31, 2013, respectively.

At September 30, 2014, the amount of foreclosed residential real estate held by the Company, and included in other real estate owned, was \$273 million (\$236 million excluding covered assets). This excludes \$623 million of foreclosed residential real estate related to mortgage loans whose payments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. In addition, the amount of residential mortgage loans secured by residential real estate in the process of foreclosure at September 30, 2014, was \$3.0 billion, of which \$2.1 billion related to loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

The Company classifies its loan portfolios using internal credit quality ratings on a quarterly basis. These ratings include: pass, special mention and classified, and are an important part of the Company's overall credit risk management process and evaluation of the allowance for credit losses. Loans with a pass rating represent those not classified on the Company's rating scale for problem credits, as minimal credit risk has been identified. Special mention loans are those that have a potential weakness deserving management's close attention. Classified loans are those where a well-defined weakness has been identified that may put full collection of contractual cash flows at risk. It is possible that others, given the same information, may reach different reasonable conclusions regarding the credit quality rating classification of specific loans.

**Table of Contents**

The following table provides a summary of loans by portfolio class and the Company's internal credit quality rating:

(Dollars in Millions)	Pass	Special Mention	Criticized Classified (a)	Total Criticized	Total
<b>September 30, 2014</b>					
Commercial	\$ 76,688	\$ 1,396	\$ 794	\$ 2,190	\$ 78,878
Commercial real estate	39,591	474	844	1,318	40,909
Residential mortgages (b)	50,817	8	1,132	1,140	51,957
Credit card	17,622		236	236	17,858
Other retail	48,569	18	348	366	48,935
Total loans, excluding covered loans	233,287	1,896	3,354	5,250	238,537
Covered loans	6,852	3	199	202	7,054
Total loans	\$ 240,139	\$ 1,899	\$ 3,553	\$ 5,452	\$ 245,591
Total outstanding commitments	\$ 494,015	\$ 2,990	\$ 4,201	\$ 7,191	\$ 501,206
<b>December 31, 2013</b>					
Commercial	\$ 68,075	\$ 1,013	\$ 945	\$ 1,958	\$ 70,033
Commercial real estate	38,113	616	1,156	1,772	39,885
Residential mortgages (b)	50,152	5	999	1,004	51,156
Credit card	17,733		288	288	18,021
Other retail	47,313	27	338	365	47,678
Total loans, excluding covered loans	221,386	1,661	3,726	5,387	226,773
Covered loans	8,160	18	284	302	8,462
Total loans	\$ 229,546	\$ 1,679	\$ 4,010	\$ 5,689	\$ 235,235
Total outstanding commitments	\$ 470,046	\$ 2,939	\$ 4,812	\$ 7,751	\$ 477,797

(a) Classified rating on consumer loans primarily based on delinquency status.

(b) At September 30, 2014, \$3.1 billion of GNMA loans 90 days or more past due and \$2.5 billion of restructured GNMA loans whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs were classified with a pass rating, compared with \$3.7 billion and \$2.6 billion at December 31, 2013, respectively.

For all loan classes, a loan is considered to be impaired when, based on current events or information, it is probable the Company will be unable to collect all amounts due per the contractual terms of the loan agreement. Impaired loans include all nonaccrual and TDR loans. For all loan classes, interest income on TDR loans is recognized under the modified terms and conditions if the borrower has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Interest income is generally not recognized on other impaired loans until the loan is paid off. However, interest income may be recognized for interest payments if the remaining carrying amount of the loan is believed to be collectible.

Factors used by the Company in determining whether all principal and interest payments due on commercial and commercial real estate loans will be collected and therefore whether those loans are impaired include, but are not limited to, the financial condition of the borrower, collateral and/or guarantees on the loan, and the borrower's estimated future ability to pay based on industry, geographic location and certain financial ratios. The evaluation of impairment on residential mortgages, credit card loans and other retail loans is primarily driven by delinquency status of individual loans or whether a loan has been modified, and considers any government guarantee where applicable. Individual covered loans, whose future losses are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Company, are evaluated for impairment and accounted for in a manner consistent with the class of loan they would have been included in had the loss sharing coverage not been in place.

**Table of Contents**

A summary of impaired loans by portfolio class was as follows:

(Dollars in Millions)	Period-end Recorded Investment (a)	Unpaid Principal Balance	Valuation Allowance	Commitments to Lend Additional Funds
<b>September 30, 2014</b>				
Commercial	\$ 408	\$ 848	\$ 27	\$ 135
Commercial real estate	525	1,037	30	14
Residential mortgages	2,740	3,678	261	
Credit card	256	256	64	
Other retail	368	413	47	4
Total impaired loans, excluding GNMA and covered loans	4,297	6,232	429	153
Loans purchased from GNMA mortgage pools	2,478	2,478	51	
Covered loans	295	607	20	1
Total	\$ 7,070	\$ 9,317	\$ 500	\$ 154
<b>December 31, 2013</b>				
Commercial	\$ 382	\$ 804	\$ 36	\$ 54
Commercial real estate	693	1,322	51	40
Residential mortgages	2,767	3,492	308	
Credit card	310	310	87	
Other retail	391	593	59	14
Total impaired loans, excluding GNMA and covered loans	4,543	6,521	541	108
Loans purchased from GNMA mortgage pools	2,607	2,607	28	
Covered loans	452	1,008	30	4
Total	\$ 7,602	\$ 10,136	\$ 599	\$ 112

(a) Substantially all loans classified as impaired at September 30, 2014 and December 31, 2013, had an associated allowance for credit losses. Additional information on impaired loans follows:

(Dollars in Millions)	2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Three Months Ended September 30</b>				
Commercial	\$ 425	\$ 4	\$ 380	\$ 5
Commercial real estate	541	4	819	6
Residential mortgages	2,740	33	2,765	32
Credit card	264	1	347	3
Other retail	373	5	417	7
Total impaired loans, excluding GNMA and covered loans	4,343	47	4,728	53
Loans purchased from GNMA mortgage pools	2,647	29	1,883	22
Covered loans	335	5	519	6
Total	\$ 7,325	\$ 81	\$ 7,130	\$ 81
<b>Nine Months Ended September 30</b>				
Commercial	\$ 430	\$ 8	\$ 384	\$ 24
Commercial real estate	598	17	950	27
Residential mortgages	2,744	105	2,744	99
Credit card	281	7	380	12
Other retail	381	13	431	19
Total impaired loans, excluding GNMA and covered loans	4,434	150	4,889	181
Loans purchased from GNMA mortgage pools	2,691	95	1,869	68
Covered loans	389	15	588	21
Total	\$ 7,514	\$ 260	\$ 7,346	\$ 270

**Troubled Debt Restructurings** 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. Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in payments to be received. The Company recognizes interest on

TDRs if the borrower complies with the revised terms and conditions as agreed upon with the Company and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. To the extent a previous restructuring was insignificant, the Company considers the cumulative effect of past restructurings related to the receivable when determining whether a current restructuring is a TDR. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

U.S. Bancorp

**Table of Contents**

The following table provides a summary of loans modified as TDRs during the periods presented by portfolio class:

(Dollars in Millions)	2014			2013		
	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance
<b>Three Months Ended September 30</b>						
Commercial	448	\$ 28	\$ 26	551	\$ 62	\$ 60
Commercial real estate	27	14	13	48	76	73
Residential mortgages	525	71	70	338	42	42
Credit card	6,708	35	36	6,447	39	38
Other retail	810	18	18	847	21	21
Total loans, excluding GNMA and covered loans	8,518	166	163	8,231	240	234
Loans purchased from GNMA mortgage pools	2,273	278	278	2,315	300	284
Covered loans	18	3	3	38	19	11
Total loans	10,809	\$ 447	\$ 444	10,584	\$ 559	\$ 529
<b>Nine Months Ended September 30</b>						
Commercial	1,633	\$ 181	\$ 169	1,962	\$ 150	\$ 140
Commercial real estate	54	33	28	147	193	186
Residential mortgages	1,732	232	231	1,575	214	210
Credit card	20,040	111	112	20,147	122	122
Other retail	2,246	52	52	3,519	86	85
Total loans, excluding GNMA and covered loans	25,705	609	592	27,350	765	743
Loans purchased from GNMA mortgage pools	7,198	816	803	6,450	822	782
Covered loans	38	14	13	109	85	64
Total loans	32,941	\$ 1,439	\$ 1,408	33,909	\$ 1,672	\$ 1,589

Residential mortgages, home equity and second mortgages, and loans purchased from GNMA mortgage pools in the table above include trial period arrangements offered to customers during the periods presented. The post-modification balances for these loans reflect the current outstanding balance until a permanent modification is made. In addition, the post-modification balances typically include capitalization of unpaid accrued interest and/or fees under the various modification programs. For those loans modified as TDRs during the third quarter of 2014, at September 30, 2014, 310 residential mortgages, 49 home equity and second mortgage loans and 1,764 loans purchased from GNMA mortgage pools with outstanding balances of \$40 million, \$3 million and \$231 million, respectively, were in a trial period and have estimated post-modification balances of \$41 million, \$3 million and \$232 million, respectively, assuming permanent modification occurs at the end of the trial period.

The Company has implemented certain restructuring programs that may result in TDRs. However, many of the Company's TDRs are also determined on a case-by-case basis in connection with ongoing loan collection processes.

For the commercial lending segment, modifications generally result in the Company working with borrowers on a case-by-case basis. Commercial and commercial real estate modifications generally include extensions of the maturity date and may be accompanied by an increase or decrease to the interest rate, which may not be deemed a market rate of interest. In addition, the Company may work with the borrower in identifying other changes that mitigate loss to the Company, which may include additional collateral or guarantees to support the loan. To a lesser extent, the Company may waive contractual principal. The Company classifies these concessions as TDRs to the extent the Company determines that the borrower is experiencing financial difficulty.

Modifications for the consumer lending segment are generally part of programs the Company has initiated. The Company participates in the U.S. Department of Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to permanently modify residential mortgage loans and achieve more affordable monthly payments, with the U.S. Department of 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, or 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, extension 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.



**Table of Contents**

Credit card and other retail loan modifications are generally part of distinct restructuring programs providing customers experiencing financial difficulty with modifications whereby balances may be amortized up to 60 months, and generally include waiver of fees and reduced interest rates.

In addition, the Company considers secured loans to consumer borrowers that have debt discharged through bankruptcy where the borrower has not reaffirmed the debt to be TDRs.

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 accounting and disclosure purposes if the loans evidenced credit deterioration as of the acquisition date and are accounted for in pools. Losses associated with the modification on covered loans, including the economic impact of interest rate reductions, are generally eligible for reimbursement under loss sharing agreements with the FDIC.

The following table provides a summary of TDR loans that defaulted (fully or partially charged-off or became 90 days or more past due) during the periods presented that were modified as TDRs within 12 months previous to default:

(Dollars in Millions)	2014		2013	
	Number of Loans	Amount Defaulted	Number of Loans	Amount Defaulted
<b>Three Months Ended September 30</b>				
Commercial	161	\$ 34	143	\$ 37
Commercial real estate	4		30	18
Residential mortgages	147	22	303	41
Credit card	1,665	9	1,485	8
Other retail	146	5	278	10
Total loans, excluding GNMA and covered loans	2,123	70	2,239	114
Loans purchased from GNMA mortgage pools	366	41	492	69
Covered loans	4	1	24	25
Total loans	2,493	\$ 112	2,755	\$ 208
<b>Nine Months Ended September 30</b>				
Commercial	456	\$ 42	483	\$ 42
Commercial real estate	16	10	72	90
Residential mortgages	424	61	673	100
Credit card	4,586	25	5,109	29
Other retail	489	15	1,164	53
Total loans, excluding GNMA and covered loans	5,971	153	7,501	314
Loans purchased from GNMA mortgage pools	542	63	4,795	615
Covered loans	14	5	49	37
Total loans	6,527	\$ 221	12,345	\$ 966

In addition to the defaults in the table above, for the three and nine months ended September 30, 2014, the Company had a total of 435 and 1,313 residential mortgage loans, home equity and second mortgage loans and loans purchased from GNMA mortgage pools with aggregate outstanding balances of \$57 million and \$159 million, respectively, where borrowers did not successfully complete the trial period arrangement and therefore are no longer eligible for a permanent modification under the applicable modification program.

U.S. Bancorp

55

**Table of Contents**

**Covered Assets** Covered assets represent loans and other assets acquired from the FDIC, subject to loss sharing agreements, and include expected reimbursements from the FDIC. Effective December 31, 2014, the loss sharing coverage provided by the FDIC expires on all covered assets, except for single family residential mortgages that remain covered under loss sharing agreements with remaining terms up to five years. The carrying amount of the covered assets consisted of purchased impaired loans, purchased nonimpaired loans and other assets as shown in the following table:

(Dollars in Millions)	September 30, 2014				December 31, 2013			
	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other Assets	Total	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other Assets	Total
Commercial loans	\$ 21	\$ 21	\$ 21	\$ 21	\$ 32	\$ 32	\$ 32	\$ 32
Commercial real estate loans	464	1,093		1,557	738	1,494		2,232
Residential mortgage loans	2,849	774		3,623	3,037	890		3,927
Credit card loans		4		4		5		5
Other retail loans		605		605		666		666
Losses reimbursable by the FDIC (a)			737	737			798	798
Unamortized changes in FDIC asset (b)			507	507			802	802
Covered loans	3,313	2,497	1,244	7,054	3,775	3,087	1,600	8,462
Foreclosed real estate			72	72			97	97
Total covered assets	\$ 3,313	\$ 2,497	\$ 1,316	\$ 7,126	\$ 3,775	\$ 3,087	\$ 1,697	\$ 8,559

(a) Relates to loss sharing agreements with remaining terms up to five years.

(b) Represents decreases in expected reimbursements by the FDIC as a result of decreases in expected losses on the covered loans. These amounts are amortized as a reduction in interest income on covered loans over the shorter of the expected life of the respective covered loans or the remaining contractual term of the indemnification agreements.

At September 30, 2014 and December 31, 2013, \$5 million of the purchased impaired loans included in covered loans were classified as nonperforming assets, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. Interest income is recognized on other purchased impaired loans through accretion of the difference between the carrying amount of those loans and their expected cash flows. The initial determination of the fair value of the purchased loans includes the impact of expected credit losses and, therefore, no allowance for credit losses is recorded at the purchase date. To the extent credit deterioration occurs after the date of acquisition, the Company records an allowance for credit losses.

**Note 6** Accounting for Transfers and Servicing of Financial Assets and Variable Interest Entities

The Company transfers financial assets in the normal course of business. The majority of the Company's financial asset transfers are residential mortgage loan sales primarily to government-sponsored enterprises (GSEs), transfers of tax-advantaged investments, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. Guarantees provided to certain third parties in connection with the transfer of assets are further discussed in Note 16.

For loans sold under participation agreements, the Company also considers whether the terms of the loan participation agreement meet the accounting definition of a participating interest. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. Any gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by the Company are initially recognized at fair value. For further information on mortgage servicing rights (MSRs), refer to Note 7. On a limited basis, the Company may acquire and package high-grade corporate bonds for select corporate customers, in which the Company generally has no continuing involvement with these transactions. Additionally, the Company is an authorized GNMA issuer and issues GNMA securities on a regular basis. The Company has no other asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

The Company is involved in various entities that are considered to be variable interest entities (VIEs). The Company's investments in VIEs are primarily related to investments promoting affordable housing, community development and renewable energy sources. Some of these tax-advantaged investments support the Company's regulatory compliance with the Community Reinvestment Act. The Company's investments in these entities generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, such as tax

deductions from operating losses of the investments, over specified time periods. These tax credits are recognized as

**Table of Contents**

a reduction of tax expense or, for investments qualifying as investment tax credits, as a reduction to the related investment asset. In January 2014, the Financial Accounting Standards Board issued accounting guidance for qualified affordable housing projects. This new guidance permits the Company to present the expense on certain qualified affordable housing investments in tax expense rather than noninterest expense. The Company adopted this guidance January 1, 2014, on a prospective basis, because the impact on prior financial statements was not material. The Company recognized federal and state income tax credits related to its affordable housing and other tax-advantaged investments in tax expense of \$189 million and \$187 million for the three months ended September 30, 2014 and 2013, respectively, and \$546 million and \$527 million for the nine months ended September 30, 2014 and 2013, respectively. The Company also recognized \$262 million and \$254 million of investment tax credits for the three months ended September 30, 2014 and 2013, respectively, and \$582 million and \$454 million for the nine months ended September 30, 2014 and 2013, respectively. The Company recognized \$187 million and \$247 million of expenses related to all of these investments for the three months ended September 30, 2014 and 2013, respectively, of which \$60 million and \$87 million, respectively, was included in tax expense and the remainder was included in noninterest expense. The Company recognized \$517 million and \$686 million of expenses related to all of these investments for the nine months ended September 30, 2014 and 2013, respectively, of which \$190 million and \$267 million, respectively, was included in tax expense and the remainder was included in noninterest expense.

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs. The Company's investments in these unconsolidated VIEs, including funded and unfunded capital commitments, are carried in other assets on the Consolidated Balance Sheet. The Company's unfunded capital and other commitments related to these unconsolidated VIEs are generally carried in other liabilities on the Consolidated Balance Sheet. The Company's maximum exposure to loss from these unconsolidated VIEs include the investment recorded on the Company's Consolidated Balance Sheet, net of unfunded capital commitments, and previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. While the Company believes potential losses from these investments are remote, the maximum exposure was determined by assuming a scenario where the community-based business and housing projects completely fail and do not meet certain government compliance requirements resulting in recapture of the related tax credits.

The following table provides a summary of investments in community development and tax-advantaged VIEs that the Company has not consolidated:

(Dollars in Millions)	September 30, 2014	December 31, 2013
Investment carrying amount	\$ 4,385	\$ 4,178
Unfunded capital and other commitments	1,850	1,661
Maximum exposure to loss	8,038	7,390

The Company's individual net investments in these unconsolidated VIEs, which exclude any unfunded capital commitments, ranged from less than \$1 million to \$54 million at September 30, 2014, compared with less than \$1 million to \$37 million at December 31, 2013.

In addition, the Company sponsors entities to which it transfers tax-advantaged investments to third parties. At September 30, 2014, approximately \$2.6 billion of the Company's assets and \$2.0 billion of its liabilities included on the Consolidated Balance Sheet were related to community development and tax-advantaged investment VIEs which the Company has consolidated, primarily related to these transfers. These amounts compared to \$2.5 billion and \$1.8 billion, respectively, at December 31, 2013. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt and other liabilities. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIEs is generally limited to the carrying value of its variable interests plus any related tax credits previously recognized or transferred to others with a guarantee.

The Company also sponsors a conduit to which it previously transferred high-grade investment securities. The Company consolidates the conduit because of its ability to manage the activities of the conduit. At September 30, 2014, \$114 million of the held-to-maturity investment securities on the Company's Consolidated Balance Sheet were related to the conduit, compared with \$116 million at December 31, 2013.

**Table of Contents**

In addition, the Company sponsors a municipal bond securities tender option bond program. The Company controls the activities of the program's entities, is entitled to the residual returns and provides credit, liquidity and remarketing arrangements to the program. As a result, the Company has consolidated the program's entities. At September 30, 2014, \$4.1 billion of available-for-sale securities and \$3.9 billion of short-term borrowings on the Consolidated Balance Sheet were related to the tender option bond program, compared with \$4.6 billion of available-for-sale securities and \$4.6 billion of short-term borrowings at December 31, 2013.

The Company also has noncontrolling financial investments in private investment funds and partnerships considered VIEs, which are not consolidated. The Company's recorded investment in these entities, carried in other assets on the Consolidated Balance Sheet, was approximately \$97 million at September 30, 2014, compared with \$98 million at December 31, 2013. The maximum exposure to loss related to these VIEs was \$106 million at September 30, 2014 and \$107 million at December 31, 2013, representing the Company's investment balance and its unfunded commitments to invest additional amounts.

**Note 7** Mortgage Servicing Rights

The Company serviced \$224.6 billion of residential mortgage loans for others at September 30, 2014, and \$226.8 billion at December 31, 2013, which include subserviced mortgages with no corresponding MSR asset. The net impact included in mortgage banking revenue of fair value changes of MSRs due to changes in valuation assumptions and derivatives used to economically hedge MSRs were net gains of \$49 million and \$108 million for the three months ended September 30, 2014 and 2013, respectively, and net gains of \$200 million (of which \$44 million related to excess servicing rights sold during the second quarter of 2014) and \$163 million for the nine months ended September 30, 2014 and 2013, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue, were \$178 million and \$192 million for the three months ended September 30, 2014 and 2013, respectively, and \$551 million and \$566 million for the nine months ended September 30, 2014 and 2013, respectively.

Changes in fair value of capitalized MSRs are summarized as follows:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Balance at beginning of period	\$ 2,412	\$ 2,377	\$ 2,680	\$ 1,700
Rights purchased	1	2	3	7
Rights capitalized	109	187	264	674
Rights sold			(141)	
Changes in fair value of MSRs				
Due to fluctuations in market interest rates (a)	29	71	(129)	503
Due to revised assumptions or models (b)	15	42	71	33
Other changes in fair value (c)	(105)	(102)	(287)	(340)
Balance at end of period	\$ 2,461	\$ 2,577	\$ 2,461	\$ 2,577

(a) Includes changes in MSR value associated with changes in market interest rates, including estimated prepayment rates and anticipated earnings on escrow deposits.

(b) Includes changes in MSR value not caused by changes in market interest rates, such as changes in cost to service, ancillary income, and discount rate, as well as the impact of any model changes.

(c) Primarily represents changes due to realization of expected cash flows over time (decay).

The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments was as follows:

(Dollars in Millions)	September 30, 2014						December 31, 2013					
	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps
MSR portfolio	\$ (490)	\$ (212)	\$ (99)	\$ 84	\$ 157	\$ 297	\$ (435)	\$ (199)	\$ (93)	\$ 82	\$ 154	\$ 287
Derivative instrument hedges	391	196	94	(87)	(167)	(319)	399	194	91	(82)	(157)	(301)

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

Net sensitivity	\$ (99)	\$ (16)	\$ (5)	\$ (3)	\$ (10)	\$ (22)	\$ (36)	\$ (5)	\$ (2)	\$ (3)	\$ (14)
-----------------	---------	---------	--------	--------	---------	---------	---------	--------	--------	--------	---------

The fair value of MSRs and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of government-insured mortgages, conventional mortgages and Mortgage Revenue Bond Programs ( MRBP ). The servicing portfolios are predominantly comprised of fixed-rate agency loans with limited adjustable-rate or jumbo mortgage loans. The MRBP division specializes in servicing loans made under state and local housing authority programs. These programs provide mortgages to low-income and moderate-income borrowers and are generally government-insured programs with a favorable rate subsidy, down payment and/or closing cost assistance.

**Table of Contents**

A summary of the Company's MSR's and related characteristics by portfolio was as follows:

(Dollars in Millions)	September 30, 2014				December 31, 2013			
	MRBP	Government	Conventional (b)	Total	MRBP	Government	Conventional (b)	Total
Servicing portfolio	\$ 18,052	\$ 40,600	\$ 163,757	\$ 222,409	\$ 15,896	\$ 41,659	\$ 169,287	\$ 226,842
Fair value	\$ 199	\$ 469	\$ 1,793	\$ 2,461	\$ 180	\$ 500	\$ 2,000	\$ 2,680
Value (bps) (a)	110	116	109	111	113	120	118	118
Weighted-average servicing fees (bps)	37	33	27	29	39	32	29	30
Multiple (value/servicing fees)	2.97	3.52	4.04	3.83	2.90	3.75	4.07	3.93
Weighted-average note rate	4.62%	4.20%	4.15%	4.20%	4.70%	4.24%	4.17%	4.22%
Weighted-average age (in years)	3.7	3.1	3.0	3.1	3.8	2.6	2.5	2.6
Weighted-average expected prepayment (constant prepayment rate)	12.9%	12.4%	10.6%	11.1%	13.5%	11.5%	10.9%	11.2%
Weighted-average expected life (in years)	6.2	6.4	7.0	6.8	6.2	6.9	7.2	7.1
Weighted-average discount rate	11.9%	11.2%	9.6%	10.1%	11.9%	11.2%	9.8%	10.2%

(a) Value is calculated as fair value divided by the servicing portfolio.

(b) Represents loans sold primarily to GSEs.

**Note 8 Preferred Stock**

At September 30, 2014 and December 31, 2013, the Company had authority to issue 50 million shares of preferred stock. The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock were as follows:

(Dollars in Millions)	September 30, 2014				December 31, 2013			
	Shares Issued and Outstanding	Liquidation Preference	Discount	Carrying Amount	Shares Issued and Outstanding	Liquidation Preference	Discount	Carrying Amount
Series A	12,510	\$ 1,251	\$ 145	\$ 1,106	12,510	\$ 1,251	\$ 145	\$ 1,106
Series B	40,000	1,000		1,000	40,000	1,000		1,000
Series F	44,000	1,100	12	1,088	44,000	1,100	12	1,088
Series G	43,400	1,085	10	1,075	43,400	1,085	10	1,075
Series H	20,000	500	13	487	20,000	500	13	487
Total preferred stock (a)	159,910	\$ 4,936	\$ 180	\$ 4,756	159,910	\$ 4,936	\$ 180	\$ 4,756

(a) The par value of all shares issued and outstanding at September 30, 2014 and December 31, 2013, was \$1.00 per share.

**Note 9 Accumulated Other Comprehensive Income (Loss)**

Shareholders' equity is affected by transactions and valuations of asset and liability positions that require adjustments to accumulated other comprehensive income (loss). The reconciliation of the transactions affecting accumulated other comprehensive income (loss) included in shareholders' equity is as follows:

Three Months Ended September 30 (Dollars in Millions)	Unrealized Gains (Losses) on Securities Available-For-Sale	Unrealized Gains (Losses) on Securities Transferred	Unrealized Gains (Losses) on Derivative Hedges	Unrealized Gains (Losses) on Retirement Plans	Foreign Currency Translation	Total
--	--	---	--	---	------------------------------	-------

Edgar Filing: US BANCORP \DE\ - Form 10-Q

From  
Available-For-Sale  
to Held-To-

Maturity

<b>2014</b>							
Balance at beginning of period	\$	233	\$	60	\$	(225)	\$ (682)
Changes in unrealized gains and losses		(21)				16	(5)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale							
Foreign currency translation adjustment							4
Reclassification to earnings of realized gains and losses		3		(7)		45	76
Applicable income taxes		7		3		(23)	(29)
Balance at end of period	\$	222	\$	56	\$	(187)	\$ (636)
<b>2013</b>							
Balance at beginning of period	\$	185	\$	84	\$	(313)	\$ (1,288)
Changes in unrealized gains and losses		(237)				(17)	(216)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale		1					1
Foreign currency translation adjustment							13
Reclassification to earnings of realized gains and losses		3		(13)		47	99
Applicable income taxes		89		5		(11)	(5)
Balance at end of period	\$	41	\$	76	\$	(294)	\$ (1,351)

U.S. Bancorp

**Table of Contents**

Nine Months Ended September 30	Unrealized Gains (Losses) on		Unrealized Gains (Losses) on		Unrealized Gains (Losses) on		Total
	Available-For-Sale	Securities Transferred From Available-For-Sale to Held-To-Maturity	Derivative Hedges	Retirement Plans	Foreign Currency Translation		
<b>2014</b>							
Balance at beginning of period	\$ (77)	\$ 70	\$ (261)	\$ (743)	\$ (60)		\$ (1,071)
Changes in unrealized gains and losses	486		(19)				467
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	1						1
Foreign currency translation adjustment					18		18
Reclassification to earnings of realized gains and losses	(2)	(23)	139	107			221
Applicable income taxes	(186)	9	(46)	(42)	(7)		(272)
Balance at end of period	\$ 222	\$ 56	\$ (187)	\$ (678)	\$ (49)		\$ (636)
<b>2013</b>							
Balance at beginning of period	\$ 679	\$ 107	\$ (404)	\$ (1,265)	\$ (40)		\$ (923)
Changes in unrealized gains and losses	(1,032)		33	37			(962)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	8						8
Foreign currency translation adjustment					(20)		(20)
Reclassification to earnings of realized gains and losses	(8)	(50)	142	186			270
Applicable income taxes	394	19	(65)	(80)	8		276
Balance at end of period	\$ 41	\$ 76	\$ (294)	\$ (1,122)	\$ (52)		\$ (1,351)

Additional detail about the impact to net income for items reclassified out of accumulated other comprehensive income (loss) and into earnings, is as follows:

(Dollars in Millions)	Impact to Net Income				Affected Line Item in the Consolidated Statement of Income
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	
Unrealized gains (losses) on securities available-for-sale					
Realized gains (losses) on sale of securities	\$	\$	\$ 8	\$ 21	Total securities gains (losses), net
Other-than-temporary impairment recognized in earnings	(3)	(3)	(6)	(13)	Total before tax
	(3)	(3)	2	8	
	1	1	(1)	(3)	Applicable income taxes
	(2)	(2)	1	5	Net-of-tax
Unrealized gains (losses) on securities transferred from available-for-sale to held-to-maturity					
Amortization of unrealized gains	7	13	23	50	Interest income
	(3)	(5)	(9)	(19)	Applicable income taxes
	4	8	14	31	Net-of-tax
Unrealized gains (losses) on derivative hedges					
Realized gains (losses) on derivative hedges	(45)	(47)	(139)	(142)	Net interest income
	17	18	53	55	Applicable income taxes
	(28)	(29)	(86)	(87)	Net-of-tax
Unrealized gains (losses) on retirement plans					
	(35)	(62)	(107)	(186)	Employee benefits expense

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

Actuarial gains (losses), prior service cost (credit) and transition obligation (asset) amortization

	14	24	42	72	
	(21)	(38)	(65)	(114)	Applicable income taxes Net-of-tax
<b>Total impact to net income</b>	<b>\$ (47)</b>	<b>\$ (61)</b>	<b>\$ (136)</b>	<b>\$ (165)</b>	

60

U.S. Bancorp

**Table of Contents****Note 10** Earnings Per Share

The components of earnings per share were:

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended		Nine Months	
	September 30,		Ended	
	2014	2013	2014	2013
Net income attributable to U.S. Bancorp	\$ 1,471	\$ 1,468	\$ 4,363	\$ 4,380
Preferred dividends	(60)	(61)	(181)	(189)
Impact of preferred stock redemption (a)				(8)
Earnings allocated to participating stock awards	(6)	(7)	(19)	(20)
Net income applicable to U.S. Bancorp common shareholders	\$ 1,405	\$ 1,400	\$ 4,163	\$ 4,163
Average common shares outstanding	1,798	1,832	1,809	1,844
Net effect of the exercise and assumed purchase of stock awards	9	11	10	10
Average diluted common shares outstanding	1,807	1,843	1,819	1,854
Earnings per common share	\$ .78	\$ .76	\$ 2.30	\$ 2.26
Diluted earnings per common share	\$ .78	\$ .76	\$ 2.29	\$ 2.25

(a) Represents stock issuance costs originally recorded in capital surplus upon the issuance of the Company's Series D Non-Cumulative Perpetual Preferred Stock that were reclassified to retained earnings on the redemption date.

Options outstanding at September 30, 2013, to purchase 9 million common shares were not included in the computation of diluted earnings per share for the nine months ended September 30, 2013, because they were antidilutive.

**Note 11** Employee Benefits

The components of net periodic benefit cost for the Company's retirement plans were:

(Dollars in Millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Plans		Postretirement Welfare Plan		Pension Plans		Postretirement Welfare Plan	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	\$ 38	\$ 42	\$ 1	\$ 1	\$ 114	\$ 126	\$ 3	\$ 3
Interest cost	50	43	1	1	148	128	3	3
Expected return on plan assets	(51)	(44)	(1)		(155)	(132)	(1)	(1)
Prior service cost (credit) and transition obligation (asset) amortization	(2)	(1)	(1)		(4)	(4)	(3)	
Actuarial loss (gain) amortization	39	66	(1)	(3)	118	198	(4)	(8)
Net periodic benefit cost	\$ 74	\$ 106	\$ (2)	\$ (1)	\$ 221	\$ 316	\$ (5)	\$ (3)

**Note 12** Income Taxes

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended		Nine Months	
	September 30,		Ended	
	2014	2013	2014	2013
<b>Federal</b>				
Current	\$ 423	\$ 390	\$ 1,334	\$ 1,506
Deferred	10	57	(19)	(35)
Federal income tax	433	447	1,315	1,471

Edgar Filing: US BANCORP \DE\ - Form 10-Q

<b>State</b>				
Current	101	84	268	161
Deferred	(11)	11	(17)	(3)
State income tax	90	95	251	158
<b>Total income tax provision</b>	<b>\$ 523</b>	<b>\$ 542</b>	<b>\$ 1,566</b>	<b>\$ 1,629</b>

U.S. Bancorp

**Table of Contents**

A reconciliation of expected income tax expense at the federal statutory rate of 35 percent to the Company's applicable income tax expense follows:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Tax at statutory rate	\$ 704	\$ 690	\$ 2,091	\$ 2,061
State income tax, at statutory rates, net of federal tax benefit	62	62	163	102
Tax effect of				
Tax credits and benefits, net of related expenses	(186)	(176)	(535)	(394)
Tax-exempt income	(51)	(52)	(154)	(159)
Noncontrolling interests	(5)	13	(15)	42
Other items	(1)	5	16	(23)
Applicable income taxes	\$ 523	\$ 542	\$ 1,566	\$ 1,629

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of September 30, 2014, the federal taxing authority has completed its examination of the Company through the fiscal year ended December 31, 2010. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax liability was \$1.8 billion at September 30, 2014, and \$1.3 billion at December 31, 2013.

**Note 13** Derivative Instruments

In the ordinary course of business, the Company enters into derivative transactions to manage various risks and to accommodate the business requirements of its customers. The Company recognizes all derivatives on the Consolidated Balance Sheet at fair value in other assets or in other liabilities. On the date the Company enters into a derivative contract, the derivative is designated as either a hedge of the fair value of a recognized asset or liability ( fair value hedge ); a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge ); a hedge of the volatility of an investment in foreign operations driven by changes in foreign currency exchange rates ( net investment hedge ); or a designation is not made as it is a customer-related transaction, an economic hedge for asset/liability risk management purposes or another stand-alone derivative created through the Company's operations ( free-standing derivative ). When a derivative is designated as a fair value, cash flow or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s).

**Fair Value Hedges** These derivatives are interest rate swaps the Company uses to hedge the change in fair value related to interest rate changes of its underlying fixed-rate debt. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. All fair value hedges were highly effective for the nine months ended September 30, 2014, and the change in fair value attributed to hedge ineffectiveness was not material.

**Cash Flow Hedges** These derivatives are interest rate swaps the Company uses to hedge the forecasted cash flows from its underlying variable-rate loans and debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until the cash flows of the hedged items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within other comprehensive income (loss). At September 30, 2014, the Company had \$187 million (net-of-tax) of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with \$261 million (net-of-tax) at December 31, 2013. The estimated amount to be reclassified from other comprehensive income (loss) into earnings during the remainder of 2014 and the next 12 months are losses of \$31 million (net-of-tax) and \$121 million (net-of-tax), respectively. These

**Table of Contents**

amounts include gains and losses related to hedges that were terminated early for which the forecasted transactions are still probable. All cash flow hedges were highly effective for the nine months ended September 30, 2014, and the change in fair value attributed to hedge ineffectiveness was not material.

**Net Investment Hedges** The Company uses forward commitments to sell specified amounts of certain foreign currencies, and occasionally non-derivative debt instruments, to hedge the volatility of its investment in foreign operations driven by fluctuations in foreign currency exchange rates. The ineffectiveness on all net investment hedges was not material for the nine months ended September 30, 2014. There were no non-derivative debt instruments designated as net investment hedges at September 30, 2014 or December 31, 2013.

**Other Derivative Positions** The Company enters into free-standing derivatives to mitigate interest rate risk and for other risk management purposes. These derivatives include forward commitments to sell to-be-announced securities ( TBAs ) and other commitments to sell residential mortgage loans, which are used to economically hedge the interest rate risk related to residential mortgage loans held for sale ( MLHFS ) and unfunded mortgage loan commitments. The Company also enters into interest rate swaps, forward commitments to buy TBAs, U.S. Treasury futures and options on U.S. Treasury futures to economically hedge the change in the fair value of the Company s MSRs. The Company also enters into foreign currency forwards to economically hedge remeasurement gains and losses the Company recognizes on foreign currency denominated assets and liabilities. In addition, the Company acts as a seller and buyer of interest rate derivatives and foreign exchange contracts for its customers. To mitigate the market and liquidity risk associated with these customer derivatives, the Company historically has entered into similar offsetting positions with broker-dealers. In 2014, the Company began to actively manage the risks from its exposure to customer-related interest rate positions 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 s customer derivatives and related hedges are monitored and reviewed by the Company s Market Risk Committee, which establishes policies for market risk management, including exposure limits for each portfolio. The Company also has derivative contracts that are created through its operations, including commitments to originate MLHFS and swap agreements related to the sale of a portion of its Class B common shares of Visa Inc. Refer to Note 16 for further information on the Visa restructuring and related card association litigation.

For additional information on the Company s purpose for entering into derivative transactions and its overall risk management strategies, refer to Management Discussion and Analysis Use of Derivatives to Manage Interest Rate and Other Risks which is incorporated by reference into these Notes to Consolidated Financial Statements.

U.S. Bancorp

**Table of Contents**

The following table summarizes the asset and liability management derivative positions of the Company:

	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
(Dollars in Millions)						
<b>September 30, 2014</b>						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 1,750	\$ 21	3.65	\$ 1,000	\$ 4	9.96
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	1,972	15	3.73	4,084	351	1.81
Receive fixed/pay floating swaps	5,500	6	.15			
Net investment hedges						
Foreign exchange forward contracts	1,043	29	.05			
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	2,981	20	.09	1,422	4	.05
Sell	2,691	10	.10	4,077	22	.11
Options						
Purchased	2,100		.07			
Written	2,349	32	.08	8	1	.08
Receive fixed/pay floating swaps	3,375	6	10.22	232	3	10.22
Pay fixed/receive floating swaps				55		10.22
Foreign exchange forward contracts	1,049	11	.02	3,576	38	.01
Equity contracts	27		1.13	57	1	.72
Credit contracts	1,263	3	3.40	2,288	5	3.04
Other (a)	722	15	.01	1,017	51	1.17
Total	\$ 26,822	\$ 168		\$ 17,816	\$ 480	
<b>December 31, 2013</b>						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 500	\$ 22	2.09	\$	\$	
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	772	26	6.25	4,288	498	2.46
Receive fixed/pay floating swaps	7,000	26	.84			
Net investment hedges						
Foreign exchange forward contracts				1,056	4	.04
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	2,310	9	.07	1,025	7	.06
Sell	5,234	58	.08	346	4	.17
Options						
Purchased	2,300		.07			
Written	1,902	17	.07	2		.08
Receive fixed/pay floating swaps				3,540	56	10.22
Foreign exchange forward contracts	6,813	24	.02	2,121	4	.02
Equity contracts	79	3	1.62			
Credit contracts	1,209	4	4.04	2,352	7	3.08
Total	\$ 28,119	\$ 189		\$ 14,730	\$ 580	

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

- (a) *Includes short-term underwriting purchase and sale commitments with total asset and liability notional values of \$722 million at September 30, 2014, and derivative liability swap agreements related to the sale of a portion of the Company's Class B common shares of Visa Inc. These swap agreements had a total notional value, fair value and weighted average remaining maturity of \$295 million, \$42 million and 4.01 years at September 30, 2014, respectively.*

**Table of Contents**

The following table summarizes the customer-related derivative positions of the Company:

	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
(Dollars in Millions)						
<b>September 30, 2014</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 16,055	\$ 645	5.94	\$ 8,509	\$ 47	4.33
Pay fixed/receive floating swaps	7,215	54	3.98	16,384	638	5.86
Options						
Purchased	4,110	10	3.84	24		2.67
Written	24		2.67	4,096	10	3.85
Futures						
Buy	2,439		.25			
Sell	334		1.28	131		.96
Foreign exchange rate contracts						
Forwards, spots and swaps	13,349	595	.55	13,212	575	.55
Options						
Purchased	751	22	.57			
Written				751	22	.57
Total	\$ 44,277	\$ 1,326		\$ 43,107	\$ 1,292	
<b>December 31, 2013</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 11,717	\$ 600	5.11	\$ 7,291	\$ 106	5.57
Pay fixed/receive floating swaps	6,746	114	6.03	12,361	560	4.90
Options						
Purchased	3,489	33	4.53			
Written				3,489	33	4.53
Foreign exchange rate contracts						
Forwards, spots and swaps	10,970	457	.59	9,975	427	.62
Options						
Purchased	364	11	.53			
Written				364	11	.53
Total	\$ 33,286	\$ 1,215		\$ 33,480	\$ 1,137	

U.S. Bancorp

**Table of Contents**

The table below shows the effective portion of the gains (losses) recognized in other comprehensive income (loss) and the gains (losses) reclassified from other comprehensive income (loss) into earnings (net-of-tax):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Gains (Losses) Recognized in		Gains (Losses) Reclassified from		Gains (Losses) Recognized in		Gains (Losses) Reclassified from	
	Other Comprehensive Income (Loss)		Other Comprehensive Income (Loss) into Earnings		Other Comprehensive Income (Loss)		Other Comprehensive Income (Loss) into Earnings	
(Dollars in Millions)	2014	2013	2014	2013	2014	2013	2014	2013
<b>Asset and Liability Management Positions</b>								
Cash flow hedges								
Interest rate contracts (a)	\$ 10	\$ (11)	\$ (28)	\$ (30)	\$ (12)	\$ 22	\$ (86)	\$ (88)
Net investment hedges								
Foreign exchange forward contracts	\$ 84	(29)			\$ 93	(23)		

Note: Ineffectiveness on cash flow and net investment hedges was not material for the three and nine months ended September 30, 2014 and 2013.

(a) Gains (Losses) reclassified from other comprehensive income (loss) into interest income on loans and interest expense on long-term debt.

The table below shows the gains (losses) recognized in earnings for fair value hedges, other economic hedges and the customer-related positions:

	Location of Gains (Losses) Recognized in Earnings	Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
(Dollars in Millions)					
<b>Asset and Liability Management Positions</b>					
Fair value hedges (a)					
Interest rate contracts	Other noninterest income	\$ (19)	\$	\$ (13)	\$ (7)
Other economic hedges					
Interest rate contracts					
Futures and forwards	Mortgage banking revenue	6	33	(69)	569
Purchased and written options	Mortgage banking revenue	64	54	210	200
Receive fixed/pay floating swaps	Mortgage banking revenue	17	(5)	238	(264)
Foreign exchange forward contracts	Commercial products revenue	(24)	(16)	(41)	18
Equity contracts	Compensation expense			1	1
Credit contracts	Other noninterest income/expense		2		1
Other	Other noninterest income/expense	1		(42)	
<b>Customer-Related Positions</b>					
Interest rate contracts					
Receive fixed/pay floating swaps	Other noninterest income	(20)	13	329	(288)
Pay fixed/receive floating swaps	Other noninterest income	28	(10)	(307)	298
Foreign exchange rate contracts					
Forwards, spots and swaps	Commercial products revenue	13	15	45	36

(a) Gains (Losses) on items hedged by interest rate contracts included in noninterest income (expense), were \$19 million and zero million for the three months ended September 30, 2014 and 2013, respectively, and \$13 million and \$7 million for the nine months ended September 30, 2014 and 2013, respectively. The ineffective portion was immaterial for the three and nine months ended September 30, 2014 and 2013.

Derivatives are subject to credit risk associated with counterparties to the derivative contracts. The Company measures that credit risk using a credit valuation adjustment and includes it within the fair value of the derivative. The Company manages counterparty credit risk through

diversification of its derivative positions among various counterparties, by entering into master netting arrangements and, where possible, by requiring collateral arrangements. A master netting arrangement allows two counterparties, who have multiple derivative contracts with each other, the ability to net settle amounts under all contracts, including any related collateral, through a single payment and in a single currency. Collateral arrangements require the counterparty to deliver collateral (typically cash or U.S. Treasury and agency securities) equal to the Company's net derivative receivable, subject to minimum transfer and credit rating requirements.

The Company's collateral arrangements are predominately bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral arrangements, the counterparties to the derivatives could request immediate additional collateral coverage up to and including full collateral coverage for derivatives in a net liability position. The aggregate fair value of all derivatives under collateral arrangements that were in a net liability position at September 30, 2014, was \$868 million. At September 30, 2014, the Company had \$697 million of cash posted as collateral against this net liability position.

---

**Table of Contents****Note 14** Netting Arrangements for Certain Financial Instruments

The majority of the Company's derivative portfolio consists of bilateral over-the-counter trades. However, per current regulations, certain interest rate swaps and forwards and credit contracts need to be centrally cleared through clearinghouses. In addition, a portion of the Company's derivative positions are exchange-traded. These are predominately U.S. Treasury futures or options on U.S. Treasury futures. Of the Company's \$132.0 billion total notional amount of derivative positions at September 30, 2014, \$27.6 billion related to those centrally cleared through clearinghouses and \$3.3 billion related to those that were exchange-traded. Irrespective of how derivatives are traded, the Company's derivative contracts include offsetting rights (referred to as netting arrangements), and depending on expected volume, credit risk, and counterparty preference, collateral maintenance may be required. For all derivatives under collateral support agreements, fair value is determined daily and, depending on the collateral maintenance requirements, the Company and a counterparty may receive or deliver collateral, based upon the net fair value of all derivative positions between the Company and the counterparty. Collateral is typically cash, but securities may be allowed under collateral arrangements with certain counterparties. Receivables and payables related to cash collateral are included in other assets and other liabilities on the Consolidated Balance Sheet, along with the related derivative asset and liability fair values. Any securities pledged to counterparties as collateral remain on the Consolidated Balance Sheet. Securities received from counterparties as collateral are not recognized on the Consolidated Balance Sheet, unless the counterparty defaults. In general, securities used as collateral can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Refer to Note 13 for further discussion of the Company's derivatives, including collateral arrangements.

As part of the Company's treasury and broker-dealer operations, the Company executes transactions that are treated as securities sold under agreements to repurchase or securities purchased under agreements to resell, both of which are accounted for as collateralized financings. Securities sold under agreements to repurchase include repurchase agreements and securities loaned transactions. Securities purchased under agreements to resell include reverse repurchase agreements and securities borrowed transactions. For securities sold under agreements to repurchase, the Company records a liability for the cash received, which is included in short-term borrowings on the Consolidated Balance Sheet. For securities purchased under agreements to resell, the Company records a receivable for the cash paid, which is included in other assets on the Consolidated Balance Sheet.

Securities transferred to counterparties under repurchase agreements and securities loaned transactions continue to be recognized on the Consolidated Balance Sheet, are measured at fair value, and are included in investment securities or other assets. Securities received from counterparties under reverse repurchase agreements and securities borrowed transactions are not recognized on the Consolidated Balance Sheet unless the counterparty defaults. In connection with all of these transactions, the fair values of the securities are determined daily, and additional cash is obtained or refunded to counterparties where appropriate. The securities transferred under repurchase and reverse repurchase transactions typically are U.S. Treasury securities or agency mortgage-backed securities. The securities loaned or borrowed typically are high-grade corporate bonds traded by the Company's broker-dealer. In general, the securities transferred can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party.

The Company executes its derivative, repurchase/reverse repurchase and securities loaned/borrowed transactions under the respective industry standard agreements. These agreements include master netting arrangements that allow for multiple contracts executed with the same counterparty to be viewed as a single arrangement. This allows for net settlement of a single amount on a daily basis. In the event of default, the master netting arrangement provides for close-out netting, which allows all of these positions with the defaulting counterparty to be terminated and net settled with a single payment amount.

The Company has elected to offset the assets and liabilities under netting arrangements for the balance sheet presentation of the majority of its derivative counterparties, excluding centrally cleared derivative contracts due to current uncertainty about the legal enforceability of netting arrangements with the clearinghouses. The netting occurs at the counterparty level, and includes all assets and liabilities related to the derivative contracts, including those associated with cash collateral received or delivered. The Company has not elected to offset the assets and liabilities under netting arrangements for the balance sheet presentation of repurchase/reverse repurchase and securities loaned/borrowed transactions.

**Table of Contents**

The following tables provide information on the Company's netting adjustments, and items not offset on the Consolidated Balance Sheet but available for offset in the event of default:

(Dollars in Millions)	Gross Recognized	Gross Amounts Offset on the Consolidated	Net Amounts Presented on the Consolidated	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments (b)	Collateral Received (c)	
	Assets	Balance Sheet (a)	Balance Sheet			
<b>September 30, 2014</b>						
Derivative assets (d)	\$ 1,363	\$ (670)	\$ 693	\$ (36)	\$	\$ 657
Reverse repurchase agreements	107		107	(56)	(51)	
Securities borrowed	583		583	(14)	(551)	18
Total	\$ 2,053	\$ (670)	\$ 1,383	\$ (106)	\$ (602)	\$ 675
<b>December 31, 2013</b>						
Derivative assets (d)	\$ 1,349	\$ (599)	\$ 750	\$ (21)	\$	\$ 729
Reverse repurchase agreements	87		87	(59)	(28)	
Securities borrowed	723		723		(698)	25
Total	\$ 2,159	\$ (599)	\$ 1,560	\$ (80)	\$ (726)	\$ 754

- (a) Includes \$156 million and \$124 million of cash collateral related payables that were netted against derivative assets at September 30, 2014 and December 31, 2013, respectively.
- (b) For derivative assets this includes any derivative liability fair values that could be offset in the event of counterparty default; for reverse repurchase agreements this includes any repurchase agreement payables that could be offset in the event of counterparty default; for securities borrowed this includes any securities loaned payables that could be offset in the event of counterparty default.
- (c) Includes the fair value of securities received by the Company from the counterparty. These securities are not included on the Consolidated Balance Sheet unless the counterparty defaults.
- (d) Excludes \$131 million and \$55 million of derivative assets centrally cleared or otherwise not subject to netting arrangements at September 30, 2014 and December 31, 2013, respectively.

(Dollars in Millions)	Gross Recognized	Gross Amounts Offset on the Consolidated	Net Amounts Presented on the Consolidated	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments (b)	Collateral Pledged (c)	
	Liabilities	Balance Sheet (a)	Balance Sheet			
<b>September 30, 2014</b>						
Derivative liabilities (d)	\$ 1,569	\$ (1,127)	\$ 442	\$ (36)	\$	\$ 406
Repurchase agreements	686		686	(56)	(630)	
Securities loaned	87		87	(14)	(72)	1
Total	\$ 2,342	\$ (1,127)	\$ 1,215	\$ (106)	\$ (702)	\$ 407
<b>December 31, 2013</b>						
Derivative liabilities (d)	\$ 1,598	\$ (1,192)	\$ 406	\$ (21)	\$	\$ 385
Repurchase agreements	2,059		2,059	(59)	(2,000)	
Securities loaned						
Total	\$ 3,657	\$ (1,192)	\$ 2,465	\$ (80)	\$ (2,000)	\$ 385

- (a) Includes \$613 million and \$717 million of cash collateral related receivables that were netted against derivative liabilities at September 30, 2014 and December 31, 2013, respectively.
- (b) For derivative liabilities this includes any derivative asset fair values that could be offset in the event of counterparty default; for repurchase agreements this includes any reverse repurchase agreement receivables that could be offset in the event of counterparty default; for securities loaned this includes any securities borrowed receivables that could be offset in the event of counterparty default.
- (c) Includes the fair value of securities pledged by the Company to the counterparty. These securities are included on the Consolidated Balance Sheet unless the Company defaults.
- (d)

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

*Excludes \$203 million and \$119 million of derivative liabilities centrally cleared or otherwise not subject to netting arrangements at September 30, 2014 and December 31, 2013, respectively.*

### **Note 15** Fair Values of Assets and Liabilities

The Company uses fair value measurements for the initial recording of certain assets and liabilities, periodic remeasurement of certain assets and liabilities, and disclosures. Derivatives, trading and available-for-sale investment securities, MSRs and substantially all MLHFS are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value measurement reflects all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance.

## Table of Contents

The Company groups its assets and liabilities measured at fair value into a three-level hierarchy for valuation techniques used to measure financial assets and financial liabilities at fair value. This hierarchy is based on whether the valuation inputs are observable or unobservable. These levels are:

**Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 includes U.S. Treasury and exchange-traded instruments.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 includes debt securities that are traded less frequently than exchange-traded instruments and which are typically valued using third party pricing services; derivative contracts and other assets and liabilities, including securities, whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data; and MLHFS whose values are determined using quoted prices for similar assets or pricing models with inputs that are observable in the market or can be corroborated by observable market data.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes MSRs, certain debt securities and certain derivative contracts.

When the Company changes its valuation inputs for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period in which the transfers occur. During the nine months ended September 30, 2014 and 2013, there were no transfers of financial assets or financial liabilities between the hierarchy levels.

The Company has processes and controls in place to increase the reliability of estimates it makes in determining fair value measurements. Items quoted on an exchange are verified to the quoted price. Items provided by a third party pricing service are subject to price verification procedures as described in more detail in the specific valuation discussions below. For fair value measurements modeled internally, the Company's valuation models are subject to the Company's Model Risk Governance Policy and Program, as maintained by the Company's risk management department. The purpose of model validation is to assess the accuracy of the models' input, processing, and reporting components. All models are required to be independently reviewed and approved prior to being placed in use, and are subject to formal change control procedures. Under the Company's Model Risk Governance Policy, models are required to be reviewed at least annually to ensure they are operating as intended. Inputs into the models are market observable inputs whenever available. When market observable inputs are not available, the inputs are developed based upon analysis of historical experience and evaluation of other relevant market data. Significant unobservable model inputs are subject to review by senior management in corporate functions, who are independent from the modeling. Significant unobservable model inputs are also compared to actual results, typically on a quarterly basis. Significant Level 3 fair value measurements are also subject to corporate-level review and are benchmarked to market transactions or other market data, when available. Additional discussion of processes and controls are provided in the valuation methodologies section that follows.

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities at fair value and for estimating fair value for financial instruments not recorded at fair value as required under disclosure guidance related to the fair value of financial instruments. In addition, the following section includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified. Where appropriate, the description includes information about the valuation models and key inputs to those models. During the nine months ended September 30, 2014 and 2013, there were no significant changes to the valuation techniques used by the Company to measure fair value.

**Cash and Due From Banks** The carrying value of cash and due from banks approximate fair value and are classified within Level 1. Fair value is provided for disclosure purposes only.

**Federal Funds Sold and Securities Purchased Under Resale Agreements** The carrying value of federal funds sold and securities purchased under resale agreements approximate fair value because of the relatively short time between the

**Table of Contents**

origination of the instrument and its expected realization and are classified within Level 2. Fair value is provided for disclosure purposes only.

**Investment Securities** When quoted market prices for identical securities are available in an active market, these prices are used to determine fair value and these securities are classified within Level 1 of the fair value hierarchy. Level 1 investment securities are predominantly U.S. Treasury securities.

For other securities, quoted market prices may not be readily available for the specific securities. When possible, the Company determines fair value based on market observable information, including quoted market prices for similar securities, inactive transaction prices, and broker quotes. These securities are classified within Level 2 of the fair value hierarchy. Level 2 valuations are generally provided by a third party pricing service. The Company reviews the valuation methodologies utilized by the pricing service and, on a quarterly basis, reviews the security level prices provided by the pricing service against management's expectation of fair value, based on changes in various benchmarks and market knowledge from recent trading activity. Additionally, each quarter, the Company validates the fair value provided by the pricing services by comparing them to recent observable market trades (where available), broker provided quotes, or other independent secondary pricing sources. Prices obtained from the pricing service are adjusted if they are found to be inconsistent with observable market data. Level 2 investment securities are predominantly agency mortgage-backed securities, certain other asset-backed securities, municipal securities, corporate debt securities, agency debt securities and perpetual preferred securities.

The fair value of securities for which there are no market trades, or where trading is inactive as compared to normal market activity, are classified within Level 3 of the fair value hierarchy. The Company determines the fair value of these securities by using a discounted cash flow methodology and incorporating observable market information, where available. These valuations are modeled by a unit within the Company's treasury department. The valuations use assumptions regarding housing prices, interest rates and borrower performance. Inputs are refined and updated at least quarterly to reflect market developments and actual performance. The primary valuation drivers of these securities are the prepayment rates, default rates and default severities associated with the underlying collateral, as well as the discount rate used to calculate the present value of the projected cash flows. Level 3 fair values, including the assumptions used, are subject to review by senior management in corporate functions, who are independent from the modeling. The fair value measurements are also compared to fair values provided by third party pricing services, where available. Securities classified within Level 3 include non-agency mortgage-backed securities, non-agency commercial mortgage-backed securities, certain asset-backed securities, certain collateralized debt obligations and collateralized loan obligations and certain corporate debt securities.

**Mortgage Loans Held For Sale** MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. MLHFS are classified within Level 2. Included in mortgage banking revenue was a \$4 million net gain and a \$5 million net loss for the three months ended September 30, 2014 and 2013, respectively, and a \$102 million net gain and a \$326 million net loss for the nine months ended September 30, 2014 and 2013, respectively, from the changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. Interest income for MLHFS is measured based on contractual interest rates and reported as interest income on the Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

**Loans** The loan portfolio includes adjustable and fixed-rate loans, the fair value of which is estimated using discounted cash flow analyses and other valuation techniques. The expected cash flows of loans consider historical prepayment experiences and estimated credit losses and are discounted using current rates offered to borrowers with similar credit characteristics. Generally, loan fair values reflect Level 3 information. Fair value is provided for disclosure purposes only, with the exception of impaired collateral-based loans that are measured at fair value on a non-recurring basis utilizing the underlying collateral fair value.

**Mortgage Servicing Rights** MSRs are valued using a discounted cash flow methodology. Accordingly, MSRs are classified within Level 3. The Company determines fair value by estimating the present value of the asset's future cash flows using prepayment rates, discount rates, and other assumptions. The MSR valuations, as well as the assumptions used, are developed by the mortgage banking division and are subject to review by senior management in corporate

**Table of Contents**

functions, who are independent from the modeling. The MSR valuations and assumptions are validated through comparison to trade information, publicly available data and industry surveys when available, and are also compared to independent third party valuations each quarter. Risks inherent in MSR valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. There is minimal observable market activity for MSRs on comparable portfolios, and, therefore the determination of fair value requires significant management judgment. Refer to Note 7 for further information on MSR valuation assumptions.

**Derivatives** The majority of derivatives held by the Company are executed over-the-counter and are valued using standard cash flow, Black-Derman-Toy and Monte Carlo valuation techniques. The models incorporate inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. In addition, all derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk as well as external assessments of credit risk, where available. The Company monitors and manages its nonperformance risk by considering its ability to net derivative positions under master netting arrangements, as well as collateral received or provided under collateral arrangements. Accordingly, the Company has elected to measure the fair value of derivatives, at a counterparty level, on a net basis. The majority of the derivatives are classified within Level 2 of the fair value hierarchy, as the significant inputs to the models, including nonperformance risk, are observable. However, certain derivative transactions are with counterparties where risk of nonperformance cannot be observed in the market, and therefore the credit valuation adjustments result in these derivatives being classified within Level 3 of the fair value hierarchy. The credit valuation adjustments for nonperformance risk are determined by the Company's treasury department using credit assumptions provided by the risk management department. The credit assumptions are compared to actual results quarterly and are recalibrated as appropriate.

The Company also has other derivative contracts that are created through its operations, including commitments to purchase and originate mortgage loans and swap agreements executed in conjunction with the sale of a portion of its Class B common shares of Visa Inc. (the Visa swaps). Refer to Note 16 for further information on the Visa restructuring and related card association litigation. The mortgage loan commitments are valued by pricing models that include market observable and unobservable inputs, which result in the commitments being classified within Level 3 of the fair value hierarchy. The unobservable inputs include assumptions about the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value, both of which are developed by the Company's mortgage banking division. The closed loan percentages for the mortgage loan commitments are monitored on an on-going basis, as these percentages are also used for the Company's economic hedging activities. The inherent MSR value for the commitments are generated by the same models used for the Company's MSRs and thus are subject to the same processes and controls as described for the MSRs above. The Visa swaps require payments by either the Company or the purchaser of the Visa Inc. Class B common shares when there are changes in the conversion rate of the Visa Inc. Class B common shares to Visa Inc. Class A common shares, as well as quarterly payments to the purchaser based on specified terms of the agreements. The fair value of the Visa swaps are calculated using a discounted cash flow methodology which includes unobservable inputs about the timing and settlement amounts related to the resolution of certain Visa related litigation, as the expected litigation resolution impacts the Visa Inc. Class B common share to Visa Inc. Class A common share conversion rate, as well as the ultimate termination date for the Visa swaps. Accordingly, the Visa swaps are classified within Level 3. The Company's corporate development department determines the valuation for the Visa swaps. Management reviews and updates the Visa swaps fair value in conjunction with its review of Visa related litigation contingencies, and the associated escrow funding.

**Other Financial Instruments** Other financial instruments include cost method equity investments and certain community development and tax-advantaged related assets and liabilities. The majority of the Company's cost method equity investments are in Federal Home Loan Bank and Federal Reserve Bank stock, for which the carrying amounts approximate fair value and are classified within Level 2. Investments in private equity and other limited partnership funds are estimated using fund provided net asset values. These equity investments are classified within Level 3. The community development and tax-advantaged related asset balances primarily represent the underlying assets of consolidated community development and tax-advantaged entities. The community development and tax-advantaged related liabilities represent the underlying liabilities of the consolidated entities (included in long-term debt) and liabilities related to other third party interests (included in other liabilities). The carrying value of the community development and tax-advantaged related asset and other liability balances are a reasonable estimate of fair value and

---

## **Table of Contents**

are classified within Level 3. Refer to Note 6 for further information on community development and tax-advantaged related assets and liabilities. Fair value is provided for disclosure purposes only.

**Deposit Liabilities** The fair value of demand deposits, savings accounts and certain money market deposits is equal to the amount payable on demand. The fair value of fixed-rate certificates of deposit was estimated by discounting the contractual cash flow using current market rates. Deposit liabilities are classified within Level 2. Fair value is provided for disclosure purposes only.

**Short-term Borrowings** Federal funds purchased, securities sold under agreements to repurchase, commercial paper and other short-term funds borrowed have floating rates or short-term maturities. The fair value of short-term borrowings was determined by discounting contractual cash flows using current market rates. Short-term borrowings are classified within Level 2. Included in short-term borrowings is the Company's obligation on securities sold short, which is required to be accounted for at fair value per applicable accounting guidance. Fair value for other short-term borrowings is provided for disclosure purposes only.

**Long-term Debt** The fair value for most long-term debt was determined by discounting contractual cash flows using current market rates. Junior subordinated debt instruments were valued using market quotes. Long-term debt is classified within Level 2. Fair value is provided for disclosure purposes only.

**Loan Commitments, Letters of Credit and Guarantees** The fair value of commitments, letters of credit and guarantees represents the estimated costs to terminate or otherwise settle the obligations with a third party. Other loan commitments, letters of credit and guarantees are not actively traded, and the Company estimates their fair value based on the related amount of unamortized deferred commitment fees adjusted for the probable losses for these arrangements. These arrangements are classified within Level 3. Fair value is provided for disclosure purposes only.

### **Significant Unobservable Inputs of Level 3 Assets and Liabilities**

The following section provides information on the significant inputs used by the Company to determine the fair value measurements of Level 3 assets and liabilities recorded at fair value on the Consolidated Balance Sheet. In addition, the following section includes a discussion of the sensitivity of the fair value measurements to changes in the significant inputs and a description of any interrelationships between these inputs for Level 3 assets and liabilities recorded at fair value on a recurring basis. The discussion below excludes nonrecurring fair value measurements of collateral value used for impairment measures for loans and other real estate owned. These valuations utilize third party appraisal or broker price opinions, and are classified as Level 3 due to the significant judgment involved.

**Available-For-Sale Investment Securities** The significant unobservable inputs used in the fair value measurement of the Company's modeled Level 3 available-for-sale investment securities are prepayment rates, probability of default and loss severities associated with the underlying collateral, as well as the discount margin used to calculate the present value of the projected cash flows. Increases in prepayment rates for Level 3 securities will typically result in higher fair values, as increased prepayment rates accelerate the receipt of expected cash flows and reduce exposure to credit losses. Increases in the probability of default and loss severities will result in lower fair values, as these increases reduce expected cash flows. Discount margin is the Company's estimate of the current market spread above the respective benchmark rate. Higher discount margin will result in lower fair values, as it reduces the present value of the expected cash flows.

Prepayment rates generally move in the opposite direction of market interest rates. In the current environment, an increase in the probability of default will generally be accompanied with an increase in loss severity, as both are impacted by underlying collateral values. Discount margins are influenced by market expectations about the security's collateral performance, and therefore may directionally move with probability and severity of default; however, discount margins are also impacted by broader market forces, such as competing investment yields, sector liquidity, economic news, and other macroeconomic factors.

**Table of Contents**

The following table shows the significant valuation assumption ranges for Level 3 available-for-sale investment securities at September 30, 2014:

	Minimum	Maximum	Average
<b>Residential Prime Non-Agency Mortgage-Backed Securities (a)</b>			
Estimated lifetime prepayment rates	6%	20%	14%
Lifetime probability of default rates		8	4
Lifetime loss severity rates	15	75	36
Discount margin	2	4	3
<b>Residential Non-Prime Non-Agency Mortgage-Backed Securities (b)</b>			
Estimated lifetime prepayment rates	3%	10%	6%
Lifetime probability of default rates	4	14	8
Lifetime loss severity rates	20	70	53
Discount margin	1	5	2
<b>Other Asset-Backed Securities</b>			
Estimated lifetime prepayment rates	6%	6%	6%
Lifetime probability of default rates	5	5	5
Lifetime loss severity rates	40	40	40
Discount margin	6	6	6

(a) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).

(b) Includes all securities not meeting the conditions to be designated as prime.

**Mortgage Servicing Rights** The significant unobservable inputs used in the fair value measurement of the Company's MSR's are expected prepayments and the discount rate used to calculate the present value of the projected cash flows. Significant increases in either of these inputs in isolation would result in a significantly lower fair value measurement. Significant decreases in either of these inputs in isolation would result in a significantly higher fair value measurement. There is no direct interrelationship between prepayments and discount rate. Prepayment rates generally move in the opposite direction of market interest rates. Discount rates are generally impacted by changes in market return requirements.

The following table shows the significant valuation assumption ranges for MSR's at September 30, 2014:

	Minimum	Maximum	Average
Expected prepayment	10%	20%	11%
Discount rate	9	13	10

**Derivatives** The Company has two distinct Level 3 derivative portfolios: (i) the Company's commitments to purchase and originate mortgage loans that meet the requirements of a derivative and (ii) the Company's asset/liability and customer-related derivatives that are Level 3 due to unobservable inputs related to measurement of risk of nonperformance by the counterparty. In addition, the Company's Visa swaps are classified within Level 3.

The significant unobservable inputs used in the fair value measurement of the Company's derivative commitments to purchase and originate mortgage loans are the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value. A significant increase in the rate of loans that close would result in a larger derivative asset or liability. A significant increase in the inherent MSR value would result in an increase in the derivative asset or a reduction in the derivative liability. Expected loan close rates and the inherent MSR values are directly impacted by changes in market rates and will generally move in the same direction as interest rates.

The following table shows the significant valuation assumption ranges for the Company's derivative commitments to purchase and originate mortgage loans at September 30, 2014:

	Minimum	Maximum	Average
Expected loan close rate	42%	100%	76%
Inherent MSR value (basis points per loan)	48	214	129

The significant unobservable input used in the fair value measurement of certain of the Company's asset/liability and customer-related derivatives is the credit valuation adjustment related to the risk of counterparty nonperformance. A significant increase in the credit valuation adjustment would result in a lower fair value measurement. A significant decrease in the credit valuation adjustment would result in a higher fair value measurement. The credit valuation adjustment is impacted by changes in the Company's assessment of the counterparty's credit position. At September 30, 2014, the minimum, maximum and average credit valuation adjustment as a percentage of the derivative contract fair value prior to adjustment was 0 percent, 93 percent and 7 percent, respectively.

U.S. Bancorp

**Table of Contents**

The significant unobservable inputs used in the fair value measurement of the Visa swaps are management's estimate of the probability of certain litigation scenarios, and the timing of the resolution of the related litigation loss estimates in excess, or shortfall, of the Company's proportional share of escrow funds. An increase in the loss estimate or a delay in the resolution of the related litigation would result in an increase in the derivative liability. A decrease in the loss estimate or an acceleration of the resolution of the related litigation would result in a decrease in the derivative liability.

The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis:

(Dollars in Millions)	Level 1	Level 2	Level 3	Netting	Total
<b>September 30, 2014</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$ 1,345	\$ 1,333	\$	\$	\$ 2,678
Mortgage-backed securities					
Residential					
Agency		41,837			41,837
Non-agency					
Prime (a)			426		426
Non-prime (b)			284		284
Commercial					
Agency		122			122
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations		23			23
Other		558	64		622
Obligations of state and political subdivisions		5,563			5,563
Obligations of foreign governments		6			6
Corporate debt securities		630	9		639
Perpetual preferred securities		220			220
Other investments	235	19			254
Total available-for-sale	1,580	50,311	783		52,674
Mortgage loans held for sale		3,918			3,918
Mortgage servicing rights			2,461		2,461
Derivative assets		937	557	(670)	824
Other assets	157	1,026			1,183
Total	\$ 1,737	\$ 56,192	\$ 3,801	\$ (670)	\$ 61,060
Derivative liabilities	\$	\$ 1,680	\$ 92	\$ (1,127)	\$ 645
Short-term borrowings (c)	160	608			768
Total	\$ 160	\$ 2,288	\$ 92	\$ (1,127)	\$ 1,413
<b>December 31, 2013</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$ 7	\$ 1,038	\$	\$	\$ 1,045
Mortgage-backed securities					
Residential					
Agency		31,553			31,553
Non-agency					
Prime (a)			478		478
Non-prime (b)			297		297
Commercial					
Agency		152			152
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations		24			24
Other		566	63		629
Obligations of state and political subdivisions		5,738			5,738
Obligations of foreign governments		6			6
Corporate debt securities		631	9		640
Perpetual preferred securities		212			212
Other investments	141	20			161
Total available-for-sale	148	39,940	847		40,935
Mortgage loans held for sale		3,263			3,263
Mortgage servicing rights			2,680		2,680
Derivative assets		889	515	(599)	805

Edgar Filing: US BANCORP \DE\ - Form 10-Q

Other assets		143	588			731
Total	\$	291	\$ 44,680	\$ 4,042	\$ (599)	\$ 48,414
Derivative liabilities	\$		\$ 1,647	\$ 70	\$ (1,192)	\$ 525
Short-term borrowings (c)		112	551			663
Total	\$	112	\$ 2,198	\$ 70	\$ (1,192)	\$ 1,188

- (a) *Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).*
- (b) *Includes all securities not meeting the conditions to be designated as prime.*
- (c) *Represents the Company's obligation on securities sold short required to be accounted for at fair value per applicable accounting guidance.*

**Table of Contents**

The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30:

(Dollars in Millions)	Beginning of Period Balance	Net Gains (Losses) Included in Comprehensive Income (Loss)	Purchases	Sales	Principal Payments	Issuances	Settlements	Net Change in	
								End of Period Balance	Unrealized Gains (Losses) Relating to Assets and Liabilities Still Held at End of Period
<b>2014</b>									
Available-for-sale securities									
Mortgage-backed securities									
Residential non-agency									
Prime (a)	\$ 447	\$ 2	\$	\$	\$ (23)	\$	\$	\$ 426	\$ 2
Non-prime (b)	286	6			(8)			284	6
Asset-backed securities									
Other	66				(2)			64	
Corporate debt securities	9							9	
Total available-for-sale	808	8 (e)			(33)			783	8
Mortgage servicing rights	2,412	(61) (c)	1			109 (f)		2,461	(61) (c)
Net derivative assets and liabilities	558	95 (d)			(1)		(187)	465	(15) (g)
<b>2013</b>									
Available-for-sale securities									
Mortgage-backed securities									
Residential non-agency									
Prime (a)	\$ 547	\$ (2)	\$ (4)	\$	\$ (41)	\$	\$	\$ 500	\$ (4)
Non-prime (b)	319	(3)	(4)		(9)			303	(4)
Asset-backed securities									
Other	40	1	(2)	3	(2)			40	(2)
Corporate debt securities	9							9	
Total available-for-sale	915	(4) (h)	(10) (e)	3	(52)			852	(10)
Mortgage servicing rights	2,377	11 (c)		2		187 (f)		2,577	11 (c)
Net derivative assets and liabilities	423	182 (i)			(2)		14	617	55 (j)

(a) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).

(b) Includes all securities not meeting the conditions to be designated as prime.

(c) Included in mortgage banking revenue.

(d) Approximately \$7 million included in other noninterest income and \$88 million included in mortgage banking revenue.

(e) Included in changes in unrealized gains and losses on securities available-for-sale.

(f) Represents MSRs capitalized during the period.

(g) Approximately \$(65) million included in other noninterest income and \$50 million included in mortgage banking revenue.

(h) Approximately \$(3) million included in securities gains (losses) and \$(1) million included in interest income.

(i) Approximately \$89 million included in other noninterest income and \$93 million included in mortgage banking revenue.

(j) Approximately \$(28) million included in other noninterest income and \$83 million included in mortgage banking revenue.

**Table of Contents**

The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30:

(Dollars in Millions)	Beginning Period Balance	Net Gains (Losses) in Net Income	Net Gains (Losses) Included in Other Comprehensive Income (Loss)	Purchases	Principal Sales	Principal Payments	Issuances	Settlements	Net Change in	
									Unrealized Gains (Losses) Relating to Assets and Liabilities Still Held at End of Period	End of Period Balance
<b>2014</b>										
Available-for-sale securities										
Mortgage-backed securities										
Residential non-agency										
Prime (a)	\$ 478	\$	\$ 14	\$	\$	\$ (66)	\$	\$	\$ 426	\$ 14
Non-prime (b)	297	(4)	14			(23)			284	14
Asset-backed securities										
Other	63	2	1	4		(6)			64	1
Corporate debt securities	9								9	
Total available-for-sale	847	(2) (c)	29 (f)	4		(95)			783	29
Mortgage servicing rights	2,680	(345) (d)		3	(141)		264 (g)		2,461	(345) (d)
Net derivative assets and liabilities	445	568 (e)		1	(1)			(548)	465	80 (h)
<b>2013</b>										
Available-for-sale securities										
Mortgage-backed securities										
Residential non-agency										
Prime (a)	\$ 624	\$ (6)	\$ 4	\$	\$	\$ (122)	\$	\$	\$ 500	\$ 4
Non-prime (b)	355	(11)	13			(20)	(34)		303	14
Asset-backed securities										
Other	15	2	(1)	28		(4)			40	(1)
Corporate debt securities	9								9	
Total available-for-sale	1,003	(15) (i)	16 (f)	28	(20)	(160)			852	17
Mortgage servicing rights	1,700	196 (d)		7			674 (g)		2,577	196 (d)
Net derivative assets and liabilities	1,179	(34) (j)		1	(4)			(525)	617	(218) (k)

(a) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads).

(b) Includes all securities not meeting the conditions to be designated as prime.

(c) Included in securities gains (losses).

(d) Included in mortgage banking revenue.

(e) Approximately \$215 million included in other noninterest income and \$353 million included in mortgage banking revenue.

(f) Included in changes in unrealized gains and losses on securities available-for-sale.

(g) Represents MSRs capitalized during the period.

(h) Approximately \$30 million included in other noninterest income and \$50 million included in mortgage banking revenue.

(i) Approximately \$(13) million included in securities gains (losses) and \$(2) million included in interest income.

(j) Approximately \$(122) million included in other noninterest income and \$88 million included in mortgage banking revenue.

(k) Approximately \$(301) million included in other noninterest income and \$83 million included in mortgage banking revenue.

The Company is also required periodically to measure certain other financial assets at fair value on a nonrecurring basis. These measurements of fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

The following table summarizes the balances of assets measured at fair value on a nonrecurring basis:

Edgar Filing: US BANCORP \DE\ - Form 10-Q

(Dollars in Millions)	September 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans (a)	\$	\$	\$ 142	\$ 142	\$	\$	\$ 128	\$ 128
Other assets (b)			84	84			150	150

(a) Represents the carrying value of loans for which adjustments were based on the fair value of the collateral, excluding loans fully charged-off.

(b) Primarily represents the fair value of foreclosed properties that were measured at fair value based on an appraisal or broker price opinion of the collateral subsequent to their initial acquisition.

The following table summarizes losses recognized related to nonrecurring fair value measurements of individual assets or portfolios:

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loans (a)	\$ 21	\$ 22	\$ 68	\$ 55
Other assets (b)	17	14	51	73

(a) Represents write-downs of loans which were based on the fair value of the collateral, excluding loans fully charged-off.

(b) Primarily represents related losses of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

**Table of Contents****Fair Value Option**

The following table summarizes the differences between the aggregate fair value carrying amount of MLHFS for which the fair value option has been elected and the aggregate unpaid principal amount that the Company is contractually obligated to receive at maturity:

	September 30, 2014			December 31, 2013		
	Fair Value Carrying Amount	Aggregate Unpaid Principal	Carrying Amount Over (Under) Unpaid Principal	Fair Value Carrying Amount	Aggregate Unpaid Principal	Carrying Amount Over (Under) Unpaid Principal
(Dollars in Millions)						
Total loans	\$ 3,918	\$ 3,784	\$ 134	\$ 3,263	\$ 3,195	\$ 68
Nonaccrual loans	8	12	(4)	9	14	(5)
Loans 90 days or more past due	2	2				

**Disclosures about Fair Value of Financial Instruments**

The following table summarizes the estimated fair value for financial instruments as of September 30, 2014 and December 31, 2013, and includes financial instruments that are not accounted for at fair value. In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as the value of goodwill, long-term relationships with deposit, credit card, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other liabilities. Additionally, in accordance with the disclosure guidance, insurance contracts and investments accounted for under the equity method are excluded.

The estimated fair values of the Company's financial instruments are shown in the table below:

	Carrying Amount	September 30, 2014 Fair Value				Carrying Amount	December 31, 2013 Fair Value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>										
Cash and due from banks	\$ 6,183	\$ 6,183	\$	\$	\$ 6,183	\$ 8,477	\$ 8,477	\$	\$	\$ 8,477
Federal funds sold and securities purchased under resale agreements	168		168		168	163		163		163
Investment securities held-to-maturity	44,231	1,905	42,093	96	44,094	38,920	2,589	35,678	101	38,368
Loans held for sale (a)	21			21	21	5			5	5
Loans (b)	241,384			243,700	243,700	230,857			231,480	231,480
Other financial instruments	2,227		944	1,289	2,233	2,443		1,080	1,383	2,463
<b>Financial Liabilities</b>										
Deposits	273,097		273,147		273,147	262,123		262,200		262,200
Short-term borrowings (c)	29,277		29,134		29,134	26,945		26,863		26,863
Long-term debt	30,768		31,220		31,220	20,049		20,391		20,391
Other liabilities	1,307			1,307	1,307	1,263			1,263	1,263

(a) Excludes mortgages held for sale for which the fair value option under applicable accounting guidance was elected.

(b) Excludes loans measured at fair value on a nonrecurring basis.

(c) Excludes the Company's obligation on securities sold short required to be accounted for at fair value per applicable accounting guidance.

The fair value of unfunded commitments, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments and standby letters of credit was \$433 million and \$382 million at September 30, 2014 and December 31, 2013, respectively. The carrying value of other guarantees was \$235 million and \$278 million at September 30, 2014 and December 31, 2013, respectively.

**Note 16** Guarantees and Contingent Liabilities

**Visa Restructuring and Card Association Litigation** The Company's payment services business issues and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively "Visa"). In 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of its initial public offering ("IPO") completed in the first quarter of 2008 (the "Visa Reorganization"). As a part of the Visa Reorganization, the Company received its proportionate number of shares of Visa Inc. common stock, which were subsequently converted to Class B shares of Visa Inc. ("Class B shares"). Visa U.S.A. Inc. ("Visa

U.S. Bancorp

## Table of Contents

U.S.A. ) and MasterCard International (collectively, the Card Associations ) are defendants in antitrust lawsuits challenging the practices of the Card Associations (the Visa Litigation ). Visa U.S.A. member banks have a contingent obligation to indemnify Visa Inc. under the Visa U.S.A. bylaws (which were modified at the time of the restructuring in October 2007) for potential losses arising from the Visa Litigation. The indemnification by the Visa U.S.A. member banks has no specific maximum amount.

Using proceeds from its IPO and through reductions to the conversion ratio applicable to the Class B shares held by Visa U.S.A. member banks, Visa Inc. has funded an escrow account for the benefit of member financial institutions to fund their indemnification obligations associated with the Visa Litigation. The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation contingent liability. On October 19, 2012, Visa signed a settlement agreement to resolve class action claims associated with the multi-district interchange litigation, the largest of the remaining Visa Litigation matters. The settlement has been approved by the court, but has been challenged by some class members and is being appealed. In addition, a number of class members opted out of the settlement and have filed actions against the Card Associations. At September 30, 2014, the carrying amount of the Company's liability related to the Visa Litigation matters, net of its share of the escrow fundings, was \$19 million. The Company sold 3.0 million and .4 million of its Class B shares during the second and third quarters of 2014, respectively. These sales do not impact the Company's liability for the Visa Litigation matters or the receivable related to the escrow account. The remaining 9.2 million Class B shares held by the Company will be eligible for conversion to Class A shares of Visa Inc., and thereby become marketable, upon final settlement of the Visa Litigation. These shares are excluded from the Company's financial instruments disclosures included in Note 15.

## Other Guarantees and Contingent Liabilities

The following table is a summary of other guarantees and contingent liabilities of the Company at September 30, 2014:

(Dollars in Millions)	Collateral Held	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit	\$	\$ 63	\$ 15,201
Third-party borrowing arrangements			16
Securities lending indemnifications	5,166		5,002
Asset sales		160	4,040 (a)
Merchant processing	780	66	92,835
Contingent consideration arrangements		2	2
Tender option bond program guarantee	4,079		3,915
Minimum revenue guarantees		7	7
Other			525

(a) The maximum potential future payments do not include loan sales where the Company provides standard representation and warranties to the buyer against losses related to loan underwriting documentation defects that may have existed at the time of sale that generally are identified after the occurrence of a triggering event such as delinquency. For these types of loan sales, the maximum potential future payments is generally the unpaid principal balance of loans sold measured at the end of the current reporting period. Actual losses will be significantly less than the maximum exposure, as only a fraction of loans sold will have a representation and warranty breach, and any losses on repurchase would generally be mitigated by any collateral held against the loans.

**Merchant Processing** The Company, through its subsidiaries, provides merchant processing services. Under the rules of credit card associations, a merchant processor retains a contingent liability for credit card transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In this situation, the transaction is charged-back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant, it bears the loss for the amount of the refund paid to the cardholder.

The Company currently processes card transactions in the United States, Canada, Europe, Mexico and Brazil through wholly-owned subsidiaries and joint ventures with other financial institutions. In the event a merchant was unable to fulfill product or services subject to delayed delivery, such as airline tickets, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At September 30, 2014, the value of airline tickets purchased to be delivered at a future date was \$6.8 billion. The Company held collateral of \$648 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets.

*Asset Sales* The Company regularly sells loans to GSEs as part of its mortgage banking activities. The Company provides customary representation and warranties to the GSEs in conjunction with these sales. These representations

**Table of Contents**

and warranties generally require the Company to repurchase assets if it is subsequently determined that a loan did not meet specified criteria, such as a documentation deficiency or rescission of mortgage insurance. If the Company is unable to cure or refute a repurchase request, the Company is generally obligated to repurchase the loan or otherwise reimburse the counterparty for losses. At September 30, 2014, the Company had reserved \$62 million for potential losses from representation and warranty obligations, compared with \$83 million at December 31, 2013. The Company's reserve reflects management's best estimate of losses for representation and warranty obligations. The Company's repurchase reserve is modeled at the loan level, taking into consideration the individual credit quality and borrower activity that has transpired since origination. The model applies credit quality and economic risk factors to derive a probability of default and potential repurchase that are based on the Company's historical loss experience, and estimates loss severity based on expected collateral value. The Company also considers qualitative factors that may result in anticipated losses differing from historical loss trends.

The following table is a rollforward of the Company's representation and warranty reserve:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Balance at beginning of period	\$ 69	\$ 190	\$ 83	\$ 240
Net realized losses	(1)	(13)	(13)	(52)
Change in reserve	(6)	(1)	(8)	(12)
Balance at end of period	\$ 62	\$ 176	\$ 62	\$ 176

As of September 30, 2014 and December 31, 2013, the Company had \$29 million and \$89 million, respectively, of unresolved representation and warranty claims from the GSEs. The Company does not have a significant amount of unresolved claims from investors other than the GSEs.

**Litigation and Regulatory Matters** The Company is subject to various litigation and regulatory matters that arise in the ordinary course of its business. The Company establishes reserves for such matters when potential losses become probable and can be reasonably estimated. The Company believes the ultimate resolution of existing legal and regulatory matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company. However, changes in circumstances or additional information could result in additional accruals or resolution in excess of established accruals, which could adversely affect the Company's results from operations, potentially materially.

The Company is currently subject to investigations and examinations by government agencies and bank regulators concerning mortgage-related practices, including those related to compliance with selling guidelines relating to residential home loans sold to GSEs, foreclosure-related expenses submitted to the Federal Housing Administration or GSEs for reimbursement, and various practices related to lender-placed insurance. The Company is also regularly subject to examinations and inquiries in areas of increasing regulatory scrutiny, such as compliance, risk management, third party management, consumer protection, anti-money laundering and Office of Foreign Assets Control requirements. The Company is cooperating fully with these examinations, inquiries and investigations, any of which could lead to administrative or legal proceedings or settlements. Remedies in these proceedings or settlements may include fines, penalties, restitution or alterations in the Company's business practices (which may increase the Company's operating expenses).

Certain federal and state governmental authorities reached settlement agreements in 2012 and 2013 with other major financial institutions regarding their mortgage origination, servicing, and foreclosure activities. Those governmental authorities have had settlement discussions with other financial institutions, including the Company. The Company has not agreed to any settlement; however, if a settlement were reached it would likely include an agreement to comply with specified servicing standards, and settlement payments to governmental authorities as well as a monetary commitment that could be satisfied under various loan modification programs (in addition to the programs the Company already has in place).

Due to their complex nature, it can be years before litigation and regulatory matters are resolved. For those litigation and regulatory matters where the Company has information to develop an estimate or range of loss, the Company believes the upper end of reasonably possible losses in aggregate, in excess of any reserves established for matters where a loss is considered probable, will not be material to its financial statements. The Company's estimates are subject to significant judgment and uncertainties, and the matters underlying the estimates will change from time to time. Actual results may vary significantly from the current estimates.



**Table of Contents**

For additional information on the nature of the Company's guarantees and contingent liabilities, refer to Note 22 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**Note 17** Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2014 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.

**Table of Contents**

## U.S. Bancorp

**Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)**

(Unaudited)	For the Three Months Ended September 30,						% Change Average Balances
	2014			2013			
(Dollars in Millions)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	
<b>Assets</b>							
Investment securities	\$ 93,141	\$ 508	2.18%	\$ 74,988	\$ 453	2.42%	24.2%
Loans held for sale	3,552	36	4.08	4,965	46	3.77	(28.5)
Loans (b)							
Commercial	77,345	564	2.89	68,064	543	3.17	13.6
Commercial real estate	40,839	397	3.86	38,501	400	4.12	6.1
Residential mortgages	51,994	502	3.86	49,139	495	4.02	5.8
Credit card	17,753	467	10.45	16,931	429	10.06	4.9
Other retail	48,698	517	4.22	46,994	582	4.91	3.6
Total loans, excluding covered loans	236,629	2,447	4.11	219,629	2,449	4.43	7.7
Covered loans	7,238	96	5.31	9,733	143	5.84	(25.6)
Total loans	243,867	2,543	4.15	229,362	2,592	4.49	6.3
Other earning assets	5,862	27	1.86	5,745	34	2.38	2.0
Total earning assets	346,422	3,114	3.58	315,060	3,125	3.95	10.0
Allowance for loan losses	(4,161)			(4,322)			3.7
Unrealized gain (loss) on investment securities	463			221			*
Other assets	43,099			41,202			4.6
Total assets	\$ 385,823			\$ 352,161			9.6
<b>Liabilities and Shareholders Equity</b>							
Noninterest-bearing deposits	\$ 74,126			\$ 68,264			8.6%
Interest-bearing deposits							
Interest checking	54,454	9	.07	48,235	7	.07	12.9
Money market savings	66,250	31	.19	55,982	19	.14	18.3
Savings accounts	34,615	11	.13	32,083	12	.14	7.9
Time deposits less than \$100,000	11,045	29	1.02	12,495	44	1.37	(11.6)
Time deposits greater than \$100,000	30,518	35	.45	35,309	52	.59	(13.6)
Total interest-bearing deposits	196,882	115	.23	184,104	134	.29	6.9
Short-term borrowings	30,961	73	.94	27,495	99	1.42	12.6
Long-term debt	26,658	178	2.67	19,226	178	3.69	38.7
Total interest-bearing liabilities	254,501	366	.57	230,825	411	.71	10.3
Other liabilities	13,379			11,740			14.0
Shareholders equity							
Preferred equity	4,756			4,756			
Common equity	38,376			35,180			9.1
Total U.S. Bancorp shareholders equity	43,132			39,936			8.0
Noncontrolling interests	685			1,396			(50.9)
Total equity	43,817			41,332			6.0
Total liabilities and equity	\$ 385,823			\$ 352,161			9.6
Net interest income		\$ 2,748			\$ 2,714		
Gross interest margin			3.01%			3.24%	
Gross interest margin without taxable-equivalent increments			2.95%			3.17%	
<b>Percent of Earning Assets</b>							
Interest income			3.58%			3.95%	
Interest expense			.42			.52	
Net interest margin			3.16%			3.43%	
Net interest margin without taxable-equivalent increments			3.10%			3.36%	

\* *Not meaningful*

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

(b) *Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.*

U.S. Bancorp

**Table of Contents**

## U.S. Bancorp

**Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)**

(Unaudited)	For the Nine Months Ended September 30,						% Change Average Balances
	2014			2013			
(Dollars in Millions)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	
<b>Assets</b>							
Investment securities	\$ 87,687	\$ 1,473	2.24%	\$ 74,303	\$ 1,325	2.38%	18.0%
Loans held for sale	2,811	87	4.13	6,659	172	3.45	(57.8)
Loans (b)							
Commercial	74,424	1,651	2.96	66,719	1,626	3.26	11.5
Commercial real estate	40,465	1,180	3.90	37,872	1,188	4.19	6.8
Residential mortgages	51,799	1,504	3.88	47,055	1,452	4.12	10.1
Credit card	17,516	1,338	10.21	16,627	1,256	10.10	5.3
Other retail	48,098	1,622	4.51	47,034	1,736	4.93	2.3
Total loans, excluding covered loans	232,302	7,295	4.20	215,307	7,258	4.50	7.9
Covered loans	7,796	352	6.03	10,375	492	6.33	(24.9)
Total loans	240,098	7,647	4.26	225,682	7,750	4.59	6.4
Other earning assets	5,691	89	2.10	7,019	141	2.70	(18.9)
Total earning assets	336,287	9,296	3.69	313,663	9,388	4.00	7.2
Allowance for loan losses	(4,212)			(4,403)			4.3
Unrealized gain (loss) on investment securities	388			785			(50.6)
Other assets	42,584			41,003			3.9
Total assets	\$ 375,047			\$ 351,048			6.8
<b>Liabilities and Shareholders Equity</b>							
Noninterest-bearing deposits	\$ 72,274			\$ 67,183			7.6%
Interest-bearing deposits							
Interest checking	52,928	26	.07	48,347	26	.07	9.5
Money market savings	62,314	81	.17	54,826	54	.13	13.7
Savings accounts	33,940	35	.14	31,809	38	.16	6.7
Time deposits less than \$100,000	11,151	93	1.12	13,082	147	1.50	(14.8)
Time deposits greater than \$100,000	31,055	113	.48	33,037	168	.68	(6.0)
Total interest-bearing deposits	191,388	348	.24	181,101	433	.32	5.7
Short-term borrowings	30,362	207	.91	27,736	273	1.32	9.5
Long-term debt	24,864	543	2.92	21,968	587	3.57	13.2
Total interest-bearing liabilities	246,614	1,098	.60	230,805	1,293	.75	6.8
Other liabilities	12,974			12,033			7.8
Shareholders equity							
Preferred equity	4,756			4,820			(1.3)
Common equity	37,742			34,855			8.3
Total U.S. Bancorp shareholders equity	42,498			39,675			7.1
Noncontrolling interests	687			1,352			(49.2)
Total equity	43,185			41,027			5.3
Total liabilities and equity	\$ 375,047			\$ 351,048			6.8
Net interest income		\$ 8,198			\$ 8,095		
Gross interest margin			3.09%			3.25%	
Gross interest margin without taxable-equivalent increments			3.02%			3.18%	
<b>Percent of Earning Assets</b>							
Interest income			3.69%			4.00%	
Interest expense			.43			.55	
Net interest margin			3.26%			3.45%	
Net interest margin without taxable-equivalent increments			3.19%			3.38%	

- (a) *Interest and rates are presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.*
- (b) *Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.*

**Table of Contents**

**Part II Other Information**

**Item 1. Legal Proceedings** See the information set forth in Note 16 in the Notes to Consolidated Financial Statements under Part I, Item 1 of this Report, which is incorporated herein by reference.

**Item 1A. Risk Factors** There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for discussion of these risks.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** Refer to the Capital Management section within Management's Discussion and Analysis in Part I for information regarding shares repurchased by the Company during the third quarter of 2014.

**Item 6. Exhibits**

- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- 101 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2014, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Income, (iii) the Consolidated Statement of Comprehensive Income, (iv) the Consolidated Statement of Shareholders' Equity, (v) the Consolidated Statement of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

U.S. Bancorp

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. BANCORP

By: /s/ CRAIG E. GIFFORD

Craig E. Gifford  
Controller  
(Principal Accounting Officer and Duly Authorized Officer)

Dated: November 6, 2014

**Table of Contents****EXHIBIT 12****Computation of Ratio of Earnings to Fixed Charges**

(Dollars in Millions)		Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
<b>Earnings</b>			
1.	Net income attributable to U.S. Bancorp	\$ 1,471	\$ 4,363
2.	Applicable income taxes, including expense related to unrecognized tax positions	523	1,566
3.	Net income attributable to U.S. Bancorp before income taxes (1 + 2)	\$ 1,994	\$ 5,929
4.	<b>Fixed charges:</b>		
a.	Interest expense excluding interest on deposits*	\$ 250	\$ 747
b.	Portion of rents representative of interest and amortization of debt expense	28	84
c.	Fixed charges excluding interest on deposits (4a + 4b)	\$ 278	\$ 831
d.	Interest on deposits	115	348
e.	Fixed charges including interest on deposits (4c + 4d)	\$ 393	\$ 1,179
5.	Amortization of interest capitalized	\$	\$
6.	Earnings excluding interest on deposits (3 + 4c + 5)	2,272	6,760
7.	Earnings including interest on deposits (3 + 4e + 5)	2,387	7,108
8.	Fixed charges excluding interest on deposits (4c)	278	831
9.	Fixed charges including interest on deposits (4e)	393	1,179
<b>Ratio of Earnings to Fixed Charges</b>			
10.	Excluding interest on deposits (line 6/line 8)	8.17	8.13
11.	Including interest on deposits (line 7/line 9)	6.07	6.03

\* Excludes interest expense related to unrecognized tax positions

U.S. Bancorp

85

---

**Table of Contents**

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Richard K. Davis, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Edgar Filing: US BANCORP \DE\ - Form 10-Q

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RICHARD K. DAVIS  
Richard K. Davis  
*Chief Executive Officer*

Dated: November 6, 2014

86

U.S. Bancorp

**Table of Contents**

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Andrew Cecere, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Edgar Filing: US BANCORP \DE\ - Form 10-Q

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ANDREW CECERE  
Andrew Cecere  
*Chief Financial Officer*

Dated: November 6, 2014

U.S. Bancorp

87

**Table of Contents**

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Chief Executive Officer and Chief Financial Officer of U.S. Bancorp, a Delaware corporation (the Company), do hereby certify that:

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD K. DAVIS  
Richard K. Davis  
*Chief Executive Officer*

Dated: November 6, 2014

/s/ ANDREW CECERE  
Andrew Cecere  
*Chief Financial Officer*

**Table of Contents**

## Corporate Information

### **Executive Offices**

U.S. Bancorp

800 Nicollet Mall

Minneapolis, MN 55402

### **Common Stock Transfer Agent and Registrar**

Computershare acts as our transfer agent and registrar, dividend paying agent and dividend reinvestment plan administrator, and maintains all shareholder records for the corporation. Inquiries related to shareholder records, stock transfers, changes of ownership, lost stock certificates, changes of address and dividend payment should be directed to the transfer agent at:

Computershare

P.O. Box 30170

College Station, TX 77842-3170

Phone: 888-778-1311 or 201-680-6578 (international calls)

Internet: [www.computershare.com/investor](http://www.computershare.com/investor)

Registered or Certified Mail:

Computershare

211 Quality Circle, Suite 210

College Station, TX 77845

Telephone representatives are available weekdays from 8:00 a.m. to 6:00 p.m. Central Standard Time, and automated support is available 24 hours a day, 7 days a week. Specific information about your account is available on Computershare's Investor Centre™ website.

### **Independent Auditor**

Ernst & Young LLP serves as the independent auditor for U.S. Bancorp's financial statements.

### **Common Stock Listing and Trading**

U.S. Bancorp common stock is listed and traded on the New York Stock Exchange under the ticker symbol USB.

### **Dividends and Reinvestment Plan**

U.S. Bancorp currently pays quarterly dividends on our common stock on or about the 15th day of January, April, July and October, subject to approval by our Board of Directors. U.S. Bancorp shareholders can choose to participate in a plan that provides automatic reinvestment of dividends and/or optional cash purchase of additional shares of U.S. Bancorp common stock. For more information, please contact our transfer agent, Computershare.

### **Investor Relations Contact**

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

Sean C. O Connor, CFA

Senior Vice President, Investor Relations

sean.oconnor@usbank.com

Phone: 612-303-0778 or 866-775-9668

### Financial Information

U.S. Bancorp news and financial results are available through our website and by mail.

**Website** For information about U.S. Bancorp, including news, financial results, annual reports and other documents filed with the Securities and Exchange Commission, access our home page on the internet at [usbank.com](http://usbank.com), click on *About U.S. Bank*.

**Mail** At your request, we will mail to you our quarterly earnings, news releases, quarterly financial data reported on Form 10-Q, Form 10-K and additional copies of our annual reports. Please contact:

U.S. Bancorp Investor Relations

800 Nicollet Mall

Minneapolis, MN 55402

investorrelations@usbank.com

Phone: 866-775-9668

### Media Requests

Dana Ripley

Senior Vice President, Corporate Communications

dana.ripley@usbank.com

Phone: 612-303-3167

### Privacy

U.S. Bancorp is committed to respecting the privacy of our customers and safeguarding the financial and personal information provided to us. To learn more about the U.S. Bancorp commitment to protecting privacy, visit [usbank.com](http://usbank.com) and click on *Privacy*.

### Code of Ethics

At U.S. Bancorp, we value high ethical standards above all else. Our ethical principles—integrity, respect, responsibility and good citizenship—guide everything we do. Demonstrating these principles through our words and actions is how we put the power of US to work for our employees, customers, shareholders and communities. Each year, every employee certifies compliance with the letter and spirit of our Code of Ethics and Business Conduct. For details about our Code of Ethics and Business Conduct, visit [usbank.com](http://usbank.com) and click on *About U.S. Bank* and *Working at U.S. Bank*.

### Diversity and Inclusion

U.S. Bancorp and our subsidiaries are committed to developing and maintaining a workplace that reflects the diversity of the communities we serve. We value creating a culture of inclusion where individual differences are valued and respected, which enables us to innovate and drive business success. We support a work environment where each individual who shares the fundamental values of the Company has an opportunity to contribute and grow based on merit.

### Equal Opportunity and Affirmative Action

## Edgar Filing: US BANCORP \DE\ - Form 10-Q

U.S. Bancorp and our subsidiaries are committed to providing Equal Employment Opportunity to all employees and applicants for employment. In keeping with this commitment, employment decisions are made based on abilities, not race, color, religion, national origin or ancestry, gender, age, disability, veteran status, sexual orientation, marital status, gender identity or expression, genetic information or any other factors protected by law. The corporation complies with municipal, state and federal fair employment laws, including regulations applying to federal contractors.

U.S. Bancorp, including each of our subsidiaries, is an Equal Opportunity Employer committed to creating a diverse workforce.

### **Accessibility**

U.S. Bancorp is committed to providing ready access to our products and services so all of our customers, including people with disabilities, can succeed financially. To learn more, visit [usbank.com](http://usbank.com) and click on *Accessibility*.

This report has been produced on recycled paper.