

US BANCORP \DE\
Form 10-Q
November 01, 2013

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Form 10-Q/September 30, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

800 Nicollet Mall
Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

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651-466-3000

(Registrant's telephone number, including area code)

(not applicable)

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

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

YES NO

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

YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

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

Class	Outstanding as of October 31, 2013
Common Stock, \$.01 Par Value	1,826,304,944 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which 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; effects of mergers and acquisitions and related integration; effects of critical

accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, and liquidity risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, 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.

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Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	Percent Change	September 30, 2013	September 30, 2012	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	\$ 2,714	\$ 2,783	(2.5)%	\$ 8,095	\$ 8,186	(1.1)%
Noninterest income	2,180	2,395	(9.0)	6,610	7,008	(5.7)
Securities gains (losses), net	(3)	1	*	8	(18)	*
Total net revenue	4,891	5,179	(5.6)	14,713	15,176	(3.1)
Noninterest expense	2,565	2,609	(1.7)	7,592	7,770	(2.3)
Provision for credit losses	298	488	(38.9)	1,063	1,439	(26.1)
Income before taxes	2,028	2,082	(2.6)	6,058	5,967	1.5
Taxable-equivalent adjustment	56	57	(1.8)	168	168	
Applicable income taxes	542	593	(8.6)	1,629	1,684	(3.3)
Net income	1,430	1,432	(.1)	4,261	4,115	3.5
Net (income) loss attributable to noncontrolling interests	38	42	(9.5)	119	112	6.3
Net income attributable to U.S. Bancorp	\$ 1,468	\$ 1,474	(.4)	\$ 4,380	\$ 4,227	3.6
Net income applicable to U.S. Bancorp common shareholders	\$ 1,400	\$ 1,404	(.3)	\$ 4,163	\$ 4,034	3.2
Per Common Share						
Earnings per share	\$.76	\$.74	2.7%	\$ 2.26	\$ 2.13	6.1%
Diluted earnings per share	.76	.74	2.7	2.25	2.12	6.1
Dividends declared per share	.230	.195	17.9	.655	.585	12.0
Book value per share	19.31	18.03	7.1			
Market value per share	36.58	34.30	6.6			
Average common shares outstanding	1,832	1,886	(2.9)	1,844	1,892	(2.5)
Average diluted common shares outstanding	1,843	1,897	(2.8)	1,854	1,901	(2.5)
Financial Ratios						
Return on average assets	1.65%	1.70%		1.67%	1.66%	
Return on average common equity	15.8	16.5		16.0	16.4	
Net interest margin (taxable-equivalent basis) (a)	3.43	3.59		3.45	3.59	
Efficiency ratio (b)	52.4	50.4		51.6	51.1	
Net charge-offs as a percent of average loans outstanding	.57	.99		.68	1.02	
Average Balances						
Loans	\$ 229,362	\$ 216,928	5.7%	\$ 225,682	\$ 213,731	5.6%
Loans held for sale	4,965	8,432	(41.1)	6,659	7,557	(11.9)
Investment securities (c)	74,988	72,454	3.5	74,303	72,371	2.7
Earning assets	315,060	308,959	2.0	313,663	304,269	3.1
Assets	352,161	345,653	1.9	351,048	340,807	3.0
Noninterest-bearing deposits	68,264	68,127	.2	67,183	65,423	2.7
Deposits	252,368	239,281	5.5	248,284	232,978	6.6
Short-term borrowings	27,495	27,843	(1.2)	27,736	28,942	(4.2)
Long-term debt	19,226	27,112	(29.1)	21,968	29,388	(25.2)
Total U.S. Bancorp shareholders equity	39,936	38,619	3.4	39,675	37,105	6.9

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	September 30, 2013	December 31, 2012	
Period End Balances			
Loans	\$ 231,379	\$ 223,329	3.6%
Investment securities	76,211	74,528	2.3
Assets	360,681	353,855	1.9
Deposits	261,716	249,183	5.0
Long-term debt	18,750	25,516	(26.5)
Total U.S. Bancorp shareholders equity	40,132	38,998	2.9
Asset Quality			
Nonperforming assets	\$ 2,212	\$ 2,671	(17.2)
Allowance for credit losses	4,578	4,733	(3.3)
Allowance for credit losses as a percentage of period-end loans	1.98%	2.12%	
Capital Ratios			
Tier 1 capital	11.2%	10.8%	
Total risk-based capital	13.3	13.1	
Leverage	9.6	9.2	
Tangible common equity to tangible assets (d)	7.4	7.2	
Tangible common equity to risk-weighted assets using Basel I definition (d)	8.9	8.6	
Tier 1 common equity to risk-weighted assets using Basel I definition (d)	9.3	9.0	
Common equity tier 1 to risk-weighted assets estimated using the Basel III capital regulations released by the Federal Reserve Board in July 2013 (d)	8.6		
Common equity tier 1 to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (d)		8.1	

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

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 2013, or \$.76 per diluted common share, compared with \$1.5 billion, or \$.74 per diluted common share for the third quarter of 2012. Return on average assets and return on average common equity were 1.65 percent and 15.8 percent, respectively, for the third quarter of 2013, compared with 1.70 percent and 16.5 percent, respectively, for the third quarter of 2012. The provision for credit losses was \$30 million lower than net charge-offs for the third quarter of 2013, compared with \$50 million lower than net charge-offs for the third quarter of 2012.

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2013 was \$288 million (5.6 percent) lower than the third quarter of 2012, reflecting a 2.5 percent decrease in net interest income and a 9.1 percent decrease in noninterest income. The decrease in net interest income from a year ago was the result of an increase in average earning assets, offset by a decrease in the net interest margin. Noninterest income decreased from a year ago, primarily due to lower mortgage banking revenue.

Noninterest expense in the third quarter of 2013 was \$44 million (1.7 percent) lower than the third quarter of 2012, primarily due to a reduction in mortgage servicing review-related professional services expense and lower compensation expense, partially offset by higher employee benefits expense.

The provision for credit losses for the third quarter of 2013 of \$298 million was \$190 million (38.9 percent) lower than the third quarter of 2012. Net charge-offs in the third quarter of 2013 were \$328 million, compared with \$538 million in the third quarter of 2012. 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 2013 was \$4.4 billion, or \$2.25 per

diluted common share, compared with \$4.2 billion, or \$2.12 per diluted common share for the first nine months of 2012. Return on average assets and return on average common equity were 1.67 percent and 16.0 percent, respectively, for the first nine months of 2013, compared with 1.66 percent and 16.4 percent, respectively, for the first nine months of 2012. The provision for credit losses was \$90 million lower than net charge-offs for the first nine months of 2013, compared with \$190 million lower than net charge-offs for the first nine months of 2012.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2013 was \$463 million (3.1 percent) lower than the first nine months of 2012, reflecting a 1.1 percent decrease in net interest income and a 5.3 percent decrease in noninterest income. The decrease in net interest income from the prior year was the result of an increase in average earning assets, offset by a decrease in the net interest margin. Noninterest income decreased from the prior year, primarily due to lower mortgage banking revenue and other revenue, partially offset by increases in trust and investment management fees, payments-related revenue and investment products fees, and a favorable change in net securities gains (losses).

Noninterest expense for the first nine months of 2013 was \$178 million (2.3 percent) lower than the first nine months of 2012, reflecting lower professional services expense, the impact of a 2012 accrual for the Company's portion of an indemnification obligation associated with Visa Inc. litigation matters (Visa accrual) and decreases in insurance-related costs and other expenses, partially offset by higher employee benefits expense.

The provision for credit losses of \$1.1 billion for the first nine months of 2013 was \$376 million (26.1 percent) lower than the first nine months of 2012. Net charge-offs in the first nine months of 2013 were \$1.2 billion, compared with \$1.6 billion in the first nine months of 2012. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

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STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was \$2.7 billion in the third quarter and \$8.1 billion in the first nine months of 2013, representing decreases of \$69 million (2.5 percent) and \$91 million (1.1 percent), respectively, compared with the same periods of 2012. The decreases were the result of lower net interest margin, partially offset by higher average earning assets. The net interest margin in the third quarter and first nine months of 2013 was 3.43 percent and 3.45 percent, respectively, compared with 3.59 percent in both the third quarter and first nine months of 2012. The decreases in the net interest margin primarily reflected lower rates on investment securities and loans, partially offset by lower rates on deposits and a reduction in higher cost long-term debt. Average earning assets increased \$6.1 billion (2.0 percent) in the third quarter and \$9.4 billion (3.1 percent) in the first nine months of 2013, compared with the same periods of 2012, driven by increases in loans and investment securities, partially offset by decreases in loans held for sale and in other earning assets, primarily due to the deconsolidation of certain consolidated variable interest entities (VIEs) in the second quarter of 2013. 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 2013 were \$12.4 billion (5.7 percent) and \$12.0 billion (5.6 percent) higher, respectively, than the same periods of 2012, driven by growth in residential mortgages, commercial loans and commercial real estate loans. These increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by declines in other retail loans and 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 \$2.9 billion (22.7 percent) in the third quarter and \$3.2 billion (23.8 percent) in the first nine months of 2013, compared with the same periods of 2012, respectively.

Average investment securities in the third quarter and first nine months of 2013 were \$2.5 billion (3.5 percent) and \$1.9 billion (2.7 percent) higher, respectively, than the same periods of 2012, primarily due to purchases of U.S. government agency-backed securities, net of prepayments and maturities.

Average total deposits for the third quarter and first nine months of 2013 were \$13.1 billion (5.5 percent) and \$15.3 billion (6.6 percent) higher, respectively, than the same periods of 2012. Average noninterest-bearing deposits for the third quarter of 2013 were relatively stable with an increase of \$137 million (.2 percent) over the third quarter of 2012. Average noninterest-bearing deposits for the first nine months of 2013 were \$1.8 billion (2.7 percent) higher than the same period of 2012, driven by growth in Consumer and Small Business Banking balances. Average total savings deposits for the third quarter and first nine months of 2013 were \$15.8 billion (13.1 percent) and \$14.1 billion (11.7 percent) higher, respectively, than the same periods of 2012, the result of growth in Consumer and Small Business Banking, Wholesale and Commercial Real Estate, and corporate trust balances. Average time certificates of deposit less than \$100,000 for the third quarter and first nine months of 2013 were \$1.9 billion (13.0 percent) and \$1.6 billion (11.0 percent) lower, respectively, than the same periods of 2012, due to maturities. Average time deposits greater than \$100,000 were \$1.0 billion (2.8 percent) lower in the third quarter and \$1.1 billion (3.3 percent) higher in the first nine months of 2013, compared with the same periods of 2012, respectively. Time deposits greater than \$100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing.

Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	Percent Change	2013	2012	Percent Change
Credit and debit card revenue	\$ 244	\$ 213	14.6%	\$ 702	\$ 650	8.0%
Corporate payment products revenue	192	201	(4.5)	540	566	(4.6)
Merchant processing services	371	345	7.5	1,091	1,041	4.8
ATM processing services	83	87	(4.6)	248	263	(5.7)
Trust and investment management fees	280	265	5.7	842	779	8.1
Deposit service charges	180	174	3.4	493	483	2.1
Treasury management fees	134	135	(.7)	408	411	(.7)
Commercial products revenue	207	225	(8.0)	616	652	(5.5)
Mortgage banking revenue	328	519	(36.8)	1,125	1,461	(23.0)
Investment products fees	46	38	21.1	133	111	19.8
Securities gains (losses), net	(3)	1	*	8	(18)	*
Other	115	193	(40.4)	412	591	(30.3)
Total noninterest income	\$ 2,177	\$ 2,396	(9.1)%	\$ 6,618	\$ 6,990	(5.3)%

* Not meaningful.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2013 decreased \$190 million (38.9 percent) and \$376 million (26.1 percent), respectively, from the same periods of 2012. Net charge-offs decreased \$210 million (39.0 percent) and \$476 million (29.2 percent) in the third quarter and first nine months of 2013, respectively, compared with the same periods of 2012, principally due to improvement in the commercial, commercial real estate, residential mortgages and home equity and second mortgages portfolios. The provision for credit losses was lower than net charge-offs by \$30 million in the third quarter and \$90 million in the first nine months of 2013, compared with \$50 million in the third quarter and \$190 million in the first nine months of 2012. 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 \$6.6 billion in the first nine months of 2013, reflecting decreases of \$219 million (9.1 percent) and \$372 million (5.3 percent), respectively, compared with the same periods of 2012. The decreases from a year ago were principally due to lower mortgage banking revenue due to lower origination and sales revenue, partially offset by higher servicing income and favorable changes in the valuation of mortgage servicing rights (MSRs), net of hedging

activities. Growth in several fee categories partially offset the decline in mortgage banking revenue. Credit and debit card revenue increased over the prior year due to higher transaction volumes, including the impact of business expansion. Merchant processing services revenue was higher as a result of higher volumes and an increase in fee-based product revenue. Trust and investment management fees increased, reflecting improved market conditions and business expansion, while investment products fees increased due to higher sales volumes and fees. In addition, net securities gains (losses) for the first nine months of 2013 reflected a favorable variance, as compared with the same period of the prior year, as the Company recognized impairment on certain money center bank securities during

the second quarter of 2012 following rating agency downgrades. Offsetting these positive variances were declines in corporate payment products revenue due to lower government-related transactions, and ATM processing services revenue due to lower volumes. Commercial products revenue was also lower, primarily driven by lower standby letters of credit fees and capital markets revenue. Other income also declined in the third quarter and first nine months of 2013, compared with the same periods of the prior year. The decline in the third quarter of 2013 was principally the result of a gain on the sale of a credit card portfolio in the third quarter 2012. The decline in the first nine months of 2013 was driven by the third quarter 2012 gain on the sale of a credit card portfolio, and lower retail lease and equity investment revenue.

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Table 3 Noninterest Expense

(Dollars in Millions)	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	Percent Change	2013	2012	Percent Change
Compensation	\$ 1,088	\$ 1,109	(1.9)%	\$ 3,268	\$ 3,237	1.0%
Employee benefits	278	225	23.6	865	714	21.1
Net occupancy and equipment	240	233	3.0	709	683	3.8
Professional services	94	144	(34.7)	263	364	(27.7)
Marketing and business development	85	96	(11.5)	254	285	(10.9)
Technology and communications	214	205	4.4	639	607	5.3
Postage, printing and supplies	76	75	1.3	230	226	1.8
Other intangibles	55	67	(17.9)	167	208	(19.7)
Other	435	455	(4.4)	1,197	1,446	(17.2)
Total noninterest expense	\$ 2,565	\$ 2,609	(1.7)%	\$ 7,592	\$ 7,770	(2.3)%
Efficiency ratio (a)	52.4%	50.4%		51.6%	51.1%	

(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.

Noninterest Expense Noninterest expense was \$2.6 billion in the third quarter and \$7.6 billion in the first nine months of 2013, reflecting decreases of \$44 million (1.7 percent) and \$178 million (2.3 percent), respectively, compared with the same periods of 2012. The decreases in noninterest expense from a year ago were primarily due to reductions in professional services and other expense. Professional services expense was lower due to reductions in mortgage servicing review-related costs. Other expense decreased due to reductions in litigation-related expenses and lower costs related to other real estate owned and FDIC insurance expense, partially offset by higher costs related to investments in affordable housing and other tax-advantaged projects. Other expense for the first nine months of 2013 was also lower than the same period of the prior year due to lower insurance-related costs and the 2012 Visa accrual. In addition, marketing and business development expense decreased due to the timing of marketing programs, while other intangibles expense decreased due to the reduction or completion of the amortization of certain intangibles. Compensation expense decreased in the third quarter of 2013, compared with the same period of the prior year, primarily as a result of lower incentive expense. Compensation expense increased in first nine months of 2013, compared with the same period of the prior year, primarily attributable to the growth in staffing for business initiatives and business expansion, and merit increases, partially offset by lower incentive expense. Employee benefits expense increased in the third quarter and first nine months of 2013, compared with the same periods of the prior year, principally due to higher pension and medical costs and staffing levels. In addition, net occupancy and equipment expense was higher due to business initiatives and higher rent expense and maintenance costs, while technology and communications expense increased due to business expansion and technology projects.

Income Tax Expense The provision for income taxes was \$542 million (an effective rate of 27.5 percent) for the third quarter and \$1.6 billion (an effective rate of 27.7 percent) for the first nine months of 2013, compared with \$593 million (an effective rate of 29.3 percent) and \$1.7 billion (an effective rate of 29.0 percent) for the same periods of 2012. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company's loan portfolio was \$231.4 billion at September 30, 2013, compared with \$223.3 billion at December 31, 2012, an increase of \$8.1 billion (3.6 percent). The increase was driven primarily by increases in residential mortgages, commercial loans and commercial real estate loans, partially offset by lower credit card, other retail and covered loans.

Residential mortgages held in the loan portfolio increased \$6.2 billion (14.0 percent) at September 30, 2013, compared with December 31, 2012, reflecting origination and refinancing activity due to the low interest rate environment during the period. 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, it is transferred to loans held for sale.

Commercial loans and commercial real estate loans increased \$2.7 billion (4.1 percent) and \$1.7 billion (4.7 percent), respectively, at September 30, 2013, compared with December 31, 2012, reflecting higher demand from new and existing customers.

Credit card loans were essentially unchanged at September 30, 2013, compared with December 31, 2012. Other retail loans, which include retail leasing, home equity and second mortgages and other retail loans, decreased \$598 million (1.3 percent) at September 30, 2013, compared with December 31, 2012. The decrease was primarily driven by lower home equity and second mortgages and student loan balances, partially offset by higher auto, retail leasing and installment loans.

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, 2013, compared with \$8.0 billion at December 31, 2012. The decrease in loans held for sale was principally due to lower residential mortgage loan originations during the third quarter of 2013, as compared with the fourth quarter of 2012.

Most of the residential mortgage loans the Company originates or purchases follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises.

Investment Securities Investment securities totaled \$76.2 billion at September 30, 2013, compared with \$74.5 billion at December 31, 2012. The \$1.7 billion (2.3 percent) increase primarily reflected \$2.8 billion of net investment purchases, partially offset by a \$1.0 billion unfavorable change in net unrealized gains (losses) on available-for-sale investment securities. Held-to-maturity securities were \$36.9 billion at September 30, 2013, compared with \$34.4 billion at December 31, 2012, primarily reflecting net purchases of U.S government agency-backed 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, 2013, the Company's net unrealized gains on available-for-sale securities were \$67 million, compared with \$1.1 billion at December 31, 2012. The unfavorable change in net unrealized gains was primarily due to decreases in the fair value of agency mortgage-backed and state and political securities as a result of increases in interest rates. Gross unrealized losses on available-for-sale securities totaled \$624 million at September 30, 2013, compared with \$147 million at December 31, 2012.

The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying assets, any government or agency guarantees and market conditions. At September 30, 2013, 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.

There is limited market activity for non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management's assessment of various other market factors, which are judgmental in nature. The Company recorded \$3 million and \$13 million of impairment charges in earnings during the third quarter and first nine months of 2013, respectively, on non-agency mortgage-backed securities. These impairment charges were due to changes in expected cash flows, primarily resulting from changes in voluntary prepayment and default assumptions in the underlying mortgage pools. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 2 and 13 in the Notes to Consolidated Financial Statements for further information on investment securities.

U. S. Bancorp

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Table 4 Investment Securities

At September 30, 2013 (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)
U.S. Treasury and Agencies								
Maturing in one year or less	\$ 578	\$ 578	.2	.95%	\$ 2,112	\$ 2,120	.4	.98%
Maturing after one year through five years	48	51	3.1	3.39	80	81	1.7	1.36
Maturing after five years through ten years	740	703	8.9	2.11	1,116	1,056	8.7	1.99
Maturing after ten years	201	189	12.1	1.84	60	60	11.4	1.77
Total	\$ 1,567	\$ 1,521	5.9	1.69%	\$ 3,368	\$ 3,317	3.4	1.34%
Mortgage-Backed Securities (a)								
Maturing in one year or less	\$ 482	\$ 486	.7	1.98%	\$ 23	\$ 23	.6	2.13%
Maturing after one year through five years	16,679	16,697	3.8	2.17	23,127	23,060	3.6	2.17
Maturing after five years through ten years	11,086	11,126	5.9	1.90	9,496	9,331	5.6	1.75
Maturing after ten years	1,874	1,883	12.8	1.23	734	746	12.2	1.27
Total	\$ 30,121	\$ 30,192	5.1	2.01%	\$ 33,380	\$ 33,160	4.3	2.03%
Asset-Backed Securities (a)								
Maturing in one year or less	\$	\$		7.65%	\$	\$.3	.41%
Maturing after one year through five years	56	62	2.7	2.58	11	14	3.6	.85
Maturing after five years through ten years	562	573	6.8	2.66	5	5	6.7	.90
Maturing after ten years			17.8	5.19	2	10	21.3	.77
Total	\$ 618	\$ 635	6.4	2.66%	\$ 18	\$ 29	6.3	.85%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	\$ 62	\$ 63	.5	6.16%	\$	\$.5	7.31%
Maturing after one year through five years	4,810	4,930	2.9	6.73	3	3	2.2	9.29
Maturing after five years through ten years	486	477	7.0	5.81	2	2	7.4	7.74
Maturing after ten years	374	350	20.2	6.14	12	12	14.0	5.34
Total	\$ 5,732	\$ 5,820	4.3	6.61%	\$ 17	\$ 17	11.2	6.24%
Other Debt Securities								
Maturing in one year or less	\$ 6	\$ 6	.4	1.16%	\$ 4	\$ 4	.6	1.46%
Maturing after one year through five years					91	91	2.3	1.15
Maturing after five years through ten years					26	14	7.1	1.01
Maturing after ten years	734	642	21.8	2.73				
Total	\$ 740	\$ 648	21.6	2.71%	\$ 121	\$ 109	3.3	1.13%
Other Investments	\$ 462	\$ 491	14.0	2.12%	\$	\$		%
Total investment securities (d)	\$ 39,240	\$ 39,307	5.5	2.70%	\$ 36,904	\$ 36,632	4.2	1.97%

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

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

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

par.

- (d) The weighted-average maturity of the available-for-sale investment securities was 4.1 years at December 31, 2012, with a corresponding weighted-average yield of 2.93 percent. The weighted-average maturity of the held-to-maturity investment securities was 3.3 years at December 31, 2012, with a corresponding weighted-average yield of 1.94 percent. The increases in the weighted-average maturities from December 31, 2012 to September 30, 2013 related to the impact of higher interest rates on anticipated prepayments on mortgage-backed securities.
- (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, 2013		December 31, 2012	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 4,935	6.5%	\$ 4,365	5.9%
Mortgage-backed securities	63,501	83.4	61,019	83.1
Asset-backed securities	636	.8	637	.9
Obligations of state and political subdivisions	5,749	7.6	6,079	8.3
Other debt securities and investments	1,323	1.7	1,329	1.8
Total investment securities	\$ 76,144	100.0%	\$ 73,429	100.0%

Deposits Total deposits were \$261.7 billion at September 30, 2013, compared with \$249.2 billion December 31, 2012, the result of increases in time deposits greater than \$100,000, money market deposits and savings deposits, partially offset by decreases in time certificates less than \$100,000, noninterest bearing deposits and interest checking balances. Time deposits greater than \$100,000 increased \$7.5 billion (25.8 percent) at September 30, 2013, compared with December 31, 2012. Time deposits greater than \$100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing. Money market balances increased \$8.1 billion (15.9 percent) primarily due to higher Wholesale Banking and Commercial Real Estate and Wealth Management and Securities Services balances. Savings account balances increased \$1.3 billion (4.1 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking. Time certificates less than \$100,000 decreased \$1.6 billion (11.4 percent) at September 30, 2013, compared with December 31, 2012, primarily due to maturities. Noninterest-bearing deposits decreased \$1.8 billion (2.5 percent), primarily due to a decrease in Wealth Management and Securities Services balances, partially offset by higher Wholesale Banking and Commercial Real Estate and Consumer and

Small Business Banking balances. Interest checking balances decreased \$927 million (1.8 percent) primarily due to lower broker-dealer balances, partially offset by higher Wholesale Banking and Commercial Real Estate and corporate trust balances.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were \$26.1 billion at September 30, 2013, compared with \$26.3 billion at December 31, 2012. The \$.2 billion (.7 percent) decrease in short-term borrowings was primarily due to lower repurchase agreement and federal funds purchased balances, partially offset by an increase in commercial paper and other short-term borrowings. Long-term debt was \$18.8 billion at September 30, 2013, compared with \$25.5 billion at December 31, 2012. The \$6.7 billion (26.5 percent) decrease was primarily due to a \$4.5 billion decrease in long-term debt related to the deconsolidation of certain consolidated VIEs and \$2.4 billion of medium-term note maturities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

Overview Managing risks is an essential part of successfully operating a financial services company. The Company's most prominent risk exposures are credit, residual value, operational, interest rate, market, liquidity and reputation risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Operational risk includes risks related to fraud, processing errors, technology, breaches of internal controls and in data security, and business continuation and disaster recovery. Operational risk also includes legal and compliance risks, including risks arising from the failure to adhere to laws, rules, regulations and internal policies and procedures. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the repricing 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, certain 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. Further, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company's stock value, customer base, funding sources or revenue. 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, 2012, for a detailed discussion of these factors.

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 of the Company's Board of

Directors oversees the Company's credit risk management process.

In addition, credit quality ratings, as defined by the Company, are an important part of the Company's overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those 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, those considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company's internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to compute estimated loan-to-value (LTV) ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not considered the primary source of repayment. Refer to Note 3 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, 2012, 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 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. At September 30, 2013, 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.

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 the Company 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, 2013:

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	\$ 2,157	\$ 34,410	\$ 36,567	86.6%
Over 80% through 90%	384	2,356	2,740	6.5
Over 90% through 100%	329	994	1,323	3.1
Over 100%	511	984	1,495	3.6
No LTV available		84	84	.2
Total	\$ 3,381	\$ 38,828	\$ 42,209	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	\$ 2	\$ 637	\$ 639	44.6%
Over 80% through 90%	2	234	236	16.5
Over 90% through 100%	3	213	216	15.1
Over 100%	5	337	342	23.8
No LTV available				
Total	\$ 12	\$ 1,421	\$ 1,433	100.0%
Other Borrowers				
Less than or equal to 80%	\$ 11	\$ 425	\$ 436	48.1%
Over 80% through 90%	2	206	208	22.9
Over 90% through 100%	1	78	79	8.7
Over 100%	2	182	184	20.3
No LTV available				
Total	\$ 16	\$ 891	\$ 907	100.0%
Loans Purchased From GNMA Mortgage Pools (a)				
Total	\$	\$ 5,621	\$ 5,621	100.0%
Total				
Less than or equal to 80%	\$ 2,170	\$ 35,472	\$ 37,642	75.0%
Over 80% through 90%	388	2,796	3,184	6.4
Over 90% through 100%	333	1,285	1,618	3.2
Over 100%	518	1,503	2,021	4.0
No LTV available		84	84	.2
Loans purchased from GNMA mortgage pools (a)		5,621	5,621	11.2
Total	\$ 3,409	\$ 46,761	\$ 50,170	100.0%

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

Home equity and second mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	\$ 8,857	\$ 567	\$ 9,424	63.8%

Over 80% through 90%	2,070	253	2,323	15.7
Over 90% through 100%	1,069	151	1,220	8.3
Over 100%	1,291	267	1,558	10.5
No LTV/CLTV available	237	16	253	1.7
Total	\$ 13,524	\$ 1,254	\$ 14,778	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	\$ 44	\$ 30	\$ 74	24.2%
Over 80% through 90%	16	26	42	13.7
Over 90% through 100%	13	38	51	16.7
Over 100%	28	111	139	45.4
No LTV/CLTV available				
Total	\$ 101	\$ 205	\$ 306	100.0%
Other Borrowers				
Less than or equal to 80%	\$ 346	\$ 8	\$ 354	77.0%
Over 80% through 90%	62	5	67	14.6
Over 90% through 100%	16	2	18	3.9
Over 100%	15	4	19	4.1
No LTV/CLTV available	2		2	.4
Total	\$ 441	\$ 19	\$ 460	100.0%
Total				
Less than or equal to 80%	\$ 9,247	\$ 605	\$ 9,852	63.4%
Over 80% through 90%	2,148	284	2,432	15.7
Over 90% through 100%	1,098	191	1,289	8.3
Over 100%	1,334	382	1,716	11.0
No LTV/CLTV available	239	16	255	1.6
Total	\$ 14,066	\$ 1,478	\$ 15,544	100.0%

At September 30, 2013, approximately \$1.4 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 \$1.6 billion at December 31, 2012. In addition to residential mortgages, at September 30, 2013, \$.3 billion of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, compared with \$.4 billion at December 31, 2012. 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 .5 percent of total assets at September 30, 2013, compared with .6 percent at December 31, 2012. 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 at loan origination 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 \$1.0 billion in loans with negative-amortization payment options at September 30, 2013, compared with \$1.3 billion at December 31, 2012. 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 \$15.5 billion at September 30, 2013, compared with \$16.7 billion at December 31, 2012, and included \$4.8 billion of home equity lines in a first lien position and \$10.7 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, 2013, included approximately \$3.8 billion of loans and lines for which the Company also serviced the

related first lien loan, and approximately \$6.9 billion where the Company did not service the related first lien loan. The Company was able

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

	September 30, 2013	December 31, 2012
90 days or more past due excluding nonperforming loans		
Commercial		
Commercial	.08%	.10%
Lease financing		
Total commercial	.07	.09
Commercial Real Estate		
Commercial mortgages	.02	.02
Construction and development	.03	.02
Total commercial real estate	.02	.02
Residential Mortgages (a)	.53	.64
Credit Card	1.11	1.27
Other Retail		
Retail leasing	.02	.02
Other	.18	.22
Total other retail (b)	.16	.20
Total loans, excluding covered loans	.27	.31
Covered Loans	5.47	5.86
Total loans	.48%	.59%
	September 30, 2013	December 31, 2012
90 days or more past due including nonperforming loans		
Commercial	.24%	.27%
Commercial real estate	.94	1.50
Residential mortgages (a)	1.99	2.14
Credit card	1.66	2.12
Other retail (b)	.60	.66
Total loans, excluding covered loans	.94	1.11
Covered loans	7.13	9.28
Total loans	1.20%	1.52%

(a) Delinquent loan ratios exclude \$3.5 billion at September 30, 2013, and \$3.2 billion at December 31, 2012, 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 9.05 percent at September 30, 2013, and 9.45 percent at December 31, 2012.

(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 .96 percent at September 30, 2013, and 1.08 percent at December 31, 2012.

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, 2013:

(Dollars in Millions)	Junior Liens Behind		
	Company Owned or Serviced First Lien	Third Party First Lien	Total
Total	\$ 3,804	\$ 6,884	\$ 10,688
Percent 30 - 89 days past due	.51%	.76%	.67%
Percent 90 days or more past due	.13%	.15%	.14%
Weighted-average CLTV	79%	77%	77%
Weighted-average credit score	747	741	743

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

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company's loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$1.1 billion (\$591 million excluding covered loans) at September 30, 2013, compared with \$1.3 billion (\$660 million excluding covered loans) at December 31, 2012. The \$69 million (10.5 percent) decrease, excluding covered loans, reflected improvement in residential mortgages, credit card and other retail loan portfolios during the first nine months of 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 .48 percent (.27 percent excluding covered loans) at September 30, 2013, compared with .59 percent (.31 percent excluding covered loans) at December 31, 2012.

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, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Residential Mortgages (a)				
30-89 days	\$ 350	\$ 348	.70%	.79%
90 days or more	268	281	.53	.64
Nonperforming	732	661	1.46	1.50
Total	\$ 1,350	\$ 1,290	2.69%	2.93%
Credit Card				
30-89 days	\$ 212	\$ 227	1.25%	1.33%
90 days or more	190	217	1.11	1.27
Nonperforming	94	146	.55	.85
Total	\$ 496	\$ 590	2.91%	3.45%
Other Retail				
Retail Leasing				
30-89 days	\$ 9	\$ 12	.15%	.22%
90 days or more	1	1	.02	.02
Nonperforming	1	1	.02	.02
Total	\$ 11	\$ 14	.19%	.26%
Home Equity and Second Mortgages				
30-89 days	\$ 101	\$ 126	.65%	.76%
90 days or more	39	51	.25	.30
Nonperforming	179	189	1.15	1.13
Total	\$ 319	\$ 366	2.05%	2.19%

Other (b)

30-89 days	\$ 124	\$ 152	.48%	.59%
90 days or more	36	44	.14	.17
Nonperforming	26	27	.10	.11
Total	\$ 186	\$ 223	.72%	.87%

(a) Excludes \$399 million of loans 30-89 days past due and \$3.5 billion of loans 90 days or more past due at September 30, 2013, purchased from GNMA mortgage pools that continue to accrue interest, compared with \$441 million and \$3.2 billion at December 31, 2012, 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, 2013	December 31, 2012
Residential mortgages (a)		
Prime Borrowers		
30-89 days	.56%	.65%
90 days or more	.46	.58
Nonperforming	1.30	1.36
Total	2.32%	2.59%
Sub-Prime Borrowers		
30-89 days	6.91%	6.41%
90 days or more	4.47	3.89
Nonperforming	11.72	9.60
Total	23.10%	19.90%
Other Borrowers		
30-89 days	1.43%	.97%
90 days or more	1.21	.97
Nonperforming	1.77	1.83
Total	4.41%	3.77%

(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, 2013	December 31, 2012
Home equity and second mortgages		
Prime Borrowers		
30-89 days	.56%	.64%
90 days or more	.24	.28
Nonperforming	1.04	1.03
Total	1.84%	1.95%
Sub-Prime Borrowers		
30-89 days	3.92%	4.92%
90 days or more	.65	1.36
Nonperforming	5.23	4.10
Total	9.80%	10.38%
Other Borrowers		
30-89 days	1.52%	1.41%
90 days or more	.22	.47
Nonperforming	1.96	2.35
Total	3.70%	4.23%

The following table provides summary delinquency information for covered loans:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
30-89 days	\$ 142	\$ 359	1.51%	3.18%
90 days or more	514	663	5.47	5.86
Nonperforming	156	386	1.66	3.41
Total	\$ 812	\$ 1,408	8.64%	12.45%

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. 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. The Company offers a workout program providing customers modification solutions over a specified time period, generally up to 60 months. The Company also provides modification programs to qualifying customers experiencing a temporary financial hardship in which reductions are made to monthly required minimum payments for up to 12 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.

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, 2013	As a Percent of Performing TDRs				
	Performing TDRs	30-89 Days		Nonperforming TDRs	Total TDRs
Past Due		Past 90 Days or More Past Due			
(Dollars in Millions)					
Commercial	\$ 259	2.2%	1.2%	\$ 71(a)	\$ 330
Commercial real estate	365	3.0		173(b)	538
Residential mortgages	2,030	6.6	5.8	412	2,442(d)
Credit card	241	8.5	5.6	94(c)	335
Other retail	202	6.7	2.4	79(c)	281(e)
	3,097	5.9	4.5	829	3,926

TDRs, excluding GNMA and covered loans

Loans purchased from GNMA mortgage pools	1,915	7.0	57.7		1,915(f)
Covered loans	347	.7	9.7	66	413
Total	\$ 5,359	6.0%	23.9%	\$ 895	\$ 6,254

- (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 \$280 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$92 million in trial period arrangements.
- (e) Includes \$152 million of other retail loans to borrowers that have had debt discharged through bankruptcy and \$2 million in trial period arrangements.
- (f) Includes \$376 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$494 million in trial period arrangements.

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 the 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 modifications were not material at September 30, 2013.

Table 6 Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2013	December 31, 2012
Commercial		
Commercial	\$ 104	\$ 107
Lease financing	12	16
Total commercial	116	123
Commercial Real Estate		
Commercial mortgages	210	308
Construction and development	146	238
Total commercial real estate	356	546
Residential Mortgages (b)	732	661
Credit Card	94	146
Other Retail		
Retail leasing	1	1
Other	205	216
Total other retail	206	217
Total nonperforming loans, excluding covered loans	1,504	1,693
Covered Loans	156	386
Total nonperforming loans	1,660	2,079
Other Real Estate (c)(d)	366	381
Covered Other Real Estate (d)	176	197
Other Assets	10	14
Total nonperforming assets	\$ 2,212	\$ 2,671
Total nonperforming assets, excluding covered assets	\$ 1,880	\$ 2,088
Excluding covered assets		
Accruing loans 90 days or more past due (b)	\$ 591	\$ 660
Nonperforming loans to total loans	.68%	.80%
Nonperforming assets to total loans plus other real estate (c)	.85%	.98%
Including covered assets		
Accruing loans 90 days or more past due (b)	\$ 1,105	\$ 1,323
Nonperforming loans to total loans	.72%	.93%
Nonperforming assets to total loans plus other real estate (c)	.95%	1.19%
Changes in Nonperforming Assets		

(Dollars in Millions)	Commercial and Commercial	Credit Card, Other	Covered Assets	Total
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	Real Estate	Retail and Residential Mortgages		
Balance December 31, 2012	\$ 780	\$ 1,308	\$ 583	\$ 2,671
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	303	813	122	1,238
Advances on loans	28			28
Total additions	331	813	122	1,266
Reductions in nonperforming assets				
Paydowns, payoffs	(194)	(231)	(200)	(625)
Net sales	(156)	(121)	(166)	(443)
Return to performing status	(21)	(136)	(7)	(164)
Charge-offs (e)	(191)	(302)		(493)
Total reductions	(562)	(790)	(373)	(1,725)
Net additions to (reductions in) nonperforming assets	(231)	23	(251)	(459)
Balance September 30, 2013	\$ 549	\$ 1,331	\$ 332	\$ 2,212

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$3.5 billion and \$3.2 billion at September 30, 2013, and December 31, 2012, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
- (c) Foreclosed GNMA loans of \$487 million and \$548 million at September 30, 2013, and December 31, 2012, 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.

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. Interest payments collected from assets on nonaccrual status are typically 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, 2013, total nonperforming assets were \$2.2 billion, compared with \$2.7 billion at December 31, 2012. Excluding covered assets, nonperforming assets were \$1.9 billion at September 30, 2013, compared with \$2.1 billion at December 31, 2012. The \$208 million (10.0 percent) decrease in nonperforming assets, excluding covered assets, was primarily driven by reductions in the commercial mortgage and construction and development portfolios, as well as credit card loans. Nonperforming covered assets at September 30, 2013, were \$332 million, compared with \$583 million at December 31, 2012. These assets are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Company. The ratio of total nonperforming assets to total loans and other real estate was .95 percent (.85 percent excluding covered assets) at September 30, 2013, compared with 1.19 percent (.98 percent excluding covered assets) at December 31, 2012. The Company expects total nonperforming assets to remain relatively stable in the fourth quarter of 2013.

Other real estate owned, excluding covered assets, was \$366 million at September 30, 2013, compared with \$381 million at December 31, 2012, and was related to foreclosed properties that previously secured loan balances. Other real estate owned includes properties vacated by the borrower and maintained by the Company, regardless of whether title in the property has been transferred to the Company. 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, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Residential				
Florida	\$ 19	\$ 14	1.17%	1.55%
Washington	17	14	.43	.38
Minnesota	17	20	.27	.34
California	17	16	.15	.18
Ohio	15	13	.46	.51
All other states	199	191	.51	.49
Total residential	284	268	.43	.44
Commercial				
Missouri	14	17	.29	.37
Wisconsin	11	3	.22	.06
Arizona	9	10	.60	.83
California	8	8	.05	.05
Washington	6	7	.09	.11

All other states	34	68	.05	.10
Total commercial	82	113	.08	.11
Total	\$ 366	\$ 381	.16%	.18%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were \$328 million for the third quarter and \$1.2 billion for the first nine months of 2013, compared with \$538 million and \$1.6 billion for the same periods of 2012. 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 2013 was .57 percent and .68 percent, respectively, compared with .99 percent and 1.02 percent for the same periods of 2012. The year-over-year decreases in total net charge-offs primarily reflected improvement in the commercial, commercial real estate, residential mortgages and home equity and second mortgages portfolios, as economic conditions continue to slowly improve. Given current economic conditions, the Company expects the level of net charge-offs to be relatively stable in the fourth quarter of 2013.

Commercial and commercial real estate loan net charge-offs for the third quarter of 2013 were \$5 million (.02 percent of average loans outstanding on an annualized basis), compared with \$91 million (.37 percent of average loans outstanding on an annualized basis) for the third quarter of 2012.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Commercial				
Commercial	.11%	.41%	.18%	.48%
Lease financing	(.53)	.50		.71
Total commercial	.06	.42	.17	.50
Commercial Real Estate				
Commercial mortgages	.03	.26	.11	.45
Construction and development	(.46)	.33	(.59)	1.05
Total commercial real estate	(.06)	.27	(.01)	.55
Residential Mortgages				
	.46	1.17	.63	1.16
Credit Card (a)				
	3.75	4.01	3.96	4.05
Other Retail				
Retail leasing	.07		.02	.03
Home equity and second mortgages	1.09	2.04	1.45	1.71
Other	.83	1.06	.81	.95
Total other retail	.83	1.30	.94	1.13
Total loans, excluding covered loans	.58	1.04	.70	1.09
Covered Loans				
	.33	.06	.36	.03
Total loans	.57%	.99%	.68%	1.02%

(a) Net charge-off as a percent of average loans outstanding, excluding portfolio purchases where the acquired loans were recorded at fair value at the purchase date, were 3.75 percent and 4.17 percent for the three months ended September 30, 2013 and 2012, respectively, and 3.99 percent and 4.21 percent for the nine months ended September 30, 2013 and 2012, respectively.

Commercial and commercial real estate loan net charge-offs for the first nine months of 2013 were \$80 million (.10 percent of average loans outstanding on an annualized basis), compared with \$372 million (.52 percent of average loans outstanding on an annualized basis) for the first nine months of 2012. The decreases reflected the impact of more stable economic conditions and a higher level of recoveries.

Residential mortgage loan net charge-offs for the third quarter of 2013 were \$57 million (.46 percent of average loans outstanding on an annualized basis), compared with \$121 million (1.17 percent of average loans outstanding on an annualized basis) for the third quarter of 2012. Residential mortgage loan net charge-offs for the first nine months of 2013 were \$223 million (.63 percent of average loans outstanding on an annualized basis), compared with \$342 million (1.16 percent of average loans outstanding on an annualized basis) for the first nine months of 2012. Credit card loan net charge-offs for the third quarter of 2013 were \$160 million (3.75 percent of average loans outstanding on an annualized basis), compared with \$167 million (4.01 percent of average loans outstanding on an annualized basis) for the third quarter of 2012. Credit card loan net charge-offs for the first nine months of 2013 were \$493 million (3.96 percent of average loans

outstanding on an annualized basis), compared with \$506 million (4.05 percent of average loans outstanding on an annualized basis) for the first nine months of 2012. Other retail loan net charge-offs for the third quarter of 2013 were \$98 million (.83 percent of average loans outstanding on an annualized basis), compared with \$157 million

(1.30 percent of average loans outstanding on an annualized basis) for the third quarter of 2012. Other retail loan net charge-offs for the first nine months of 2013 were \$329 million (.94 percent of average loans outstanding on an annualized basis), compared with \$406 million (1.13 percent of average loans outstanding on an annualized basis) for the first nine months of 2012. The year-over-year decreases in total residential mortgage, credit card and other retail loan net charge-offs reflected the impact of more stable 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	
	2013	2012	2013	2012	2013	2012	2013	2012
Residential Mortgages								
Prime borrowers	\$ 41,224	\$ 33,501	.40%	.99%	\$ 39,187	\$ 31,894	.55%	1.02%
Sub-prime borrowers	1,450	1,699	3.28	7.49	1,500	1,757	4.90	6.61
Other borrowers	903	765	.88	2.60	875	724	1.07	2.03
Loans purchased from GNMA mortgage pools (a)	5,562	5,004	.07	.08	5,493	4,953	.02	.03
Total	\$ 49,139	\$ 40,969	.46%	1.17%	\$ 47,055	\$ 39,328	.63%	1.16%
Home Equity and Second Mortgages								
Prime borrowers	\$ 14,885	\$ 16,507	.99%	1.83%	\$ 15,248	\$ 16,780	1.29%	1.52%
Sub-prime borrowers	312	398	6.36	11.00	333	417	8.03	8.65
Other borrowers	451	424	.88	1.88	440	422	2.13	2.54
Total	\$ 15,648	\$ 17,329	1.09%	2.04%	\$ 16,021	\$ 17,619	1.45%	1.71%

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

Analysis and Determination of the Allowance for Credit Losses The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio 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 uses a 12-year period of historical losses in considering actual loss experience, because it believes that period best reflects the losses incurred in the portfolio. This timeframe and the results of the analysis are evaluated quarterly to determine if they are appropriate. 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 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, 2013, the Company serviced the first lien on 36 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 \$434 million or 2.8 percent of the total home equity portfolio at September 30, 2013, 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 when they 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 1.5 percent for the 12 months ended September 30, 2013), 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.

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

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

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

Subsequent to the purchase date, the expected cash flows of purchased loans are subject to evaluation.

Decreases in the present value of 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 3 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, 2012, for further discussion on the analysis and determination of the allowance for credit losses.

At September 30, 2013, the allowance for credit losses was \$4.6 billion (1.98 percent of total loans and 1.99 percent of loans excluding covered loans), compared with an allowance of \$4.7 billion (2.12 percent of total loans and 2.15 percent of loans excluding covered loans) at December 31, 2012. The decrease reflected continued overall improvement in economic conditions affecting incurred losses, partially offset by growth in the loan portfolios. The ratio of the allowance for credit losses to nonperforming loans was 276 percent (294 percent excluding covered loans) at September 30, 2013, compared with 228 percent (269 percent excluding covered loans) at December 31, 2012, due to the

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Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Balance at beginning of period	\$ 4,612	\$ 4,864	\$ 4,733	\$ 5,014
Charge-Offs				
Commercial				
Commercial	57	75	157	243
Lease financing	8	15	27	53
Total commercial	65	90	184	296
Commercial real estate				
Commercial mortgages	14	33	57	123
Construction and development	3	14	19	83
Total commercial real estate	17	47	76	206
Residential mortgages	62	127	243	357
Credit card	175	186	559	585
Other retail				
Retail leasing	1	3	4	7
Home equity and second mortgages	51	96	195	245
Other	70	88	213	251
Total other retail	122	187	412	503
Covered loans (a)	9	2	31	4
Total charge-offs	450	639	1,505	1,951
Recoveries				
Commercial				
Commercial	39	16	73	50
Lease financing	15	8	27	23
Total commercial	54	24	100	73
Commercial real estate				
Commercial mortgages	12	13	32	21
Construction and development	11	9	48	36
Total commercial real estate	23	22	80	57
Residential mortgages	5	6	20	15
Credit card	15	19	66	79
Other retail				
Retail leasing		3	3	6
Home equity and second mortgages	8	7	21	19
Other	16	20	59	72
Total other retail	24	30	83	97
Covered loans (a)	1		3	1
Total recoveries	122	101	352	322
Net Charge-Offs				
Commercial				
Commercial	18	59	84	193
Lease financing	(7)	7		30
Total commercial	11	66	84	223
Commercial real estate				
Commercial mortgages	2	20	25	102

Construction and development	(8)	5	(29)	47
Total commercial real estate	(6)	25	(4)	149
Residential mortgages	57	121	223	342
Credit card	160	167	493	506
Other retail				
Retail leasing	1		1	1
Home equity and second mortgages	43	89	174	226
Other	54	68	154	179
Total other retail	98	157	329	406
Covered loans (a)	8	2	28	3
Total net charge-offs	328	538	1,153	1,629
Provision for credit losses	298	488	1,063	1,439
Other changes (b)	(4)	(43)	(65)	(53)
Balance at end of period (c)	\$ 4,578	\$ 4,771	\$ 4,578	\$ 4,771
Components				
Allowance for loan losses	\$ 4,258	\$ 4,481		
Liability for unfunded credit commitments	320	290		
Total allowance for credit losses	\$ 4,578	\$ 4,771		
Allowance for Credit Losses as a Percentage of				
Period-end loans, excluding covered loans	1.99%	2.26%		
Nonperforming loans, excluding covered loans	294	244		
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	211	182		
Nonperforming assets, excluding covered assets	235	213		
Annualized net charge-offs, excluding covered loans	348	219		
Period-end loans	1.98%	2.19%		
Nonperforming loans	276	202		
Nonperforming and accruing loans 90 days or more past due	166	129		
Nonperforming assets	207	168		
Annualized net charge-offs	352	223		

(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 for the three and nine months ended September 30, 2013, 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.

(c) At September 30, 2013 and 2012, \$1.7 billion and \$1.8 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

continued improvement in the commercial, commercial real estate and credit card portfolios. The ratio of the allowance for credit losses to annualized loan net charge-offs was 352 percent at September 30, 2013, compared with 226 percent of full year 2012 net charge-offs at December 31, 2012, as net charge-offs continue to decline due to stabilizing economic conditions.

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, 2013, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2012. 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, 2012, for further discussion on residual value risk management.

Operational Risk Management The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Risk Management Committee of the Company's Board of Directors provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Management Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. In addition, enterprise risk management is responsible for establishing a culture of compliance and compliance program standards and policies, and performing risk assessments on the business lines' adherence to laws, rules, regulations and internal policies and procedures. 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, 2012, for further discussion on operational risk management.

Interest Rate Risk Management In the banking industry, changes in interest rates are a significant risk that can impact earnings, market valuations and the safety and soundness of an entity. To minimize the volatility of 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, 2013 and December 31, 2012, 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, 2012, 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 4.5 percent decrease in the market value of equity at September 30, 2013, compared with a 2.5 percent decrease at December 31, 2012. A

Sensitivity of Net Interest Income

	September 30, 2013				December 31, 2012			
	Down 200 bps		Up 200 bps		Down 200 bps		Up 200 bps	
	Down 50 bps Immediate	Up 50 bps Immediate	Gradual	Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Gradual	Gradual
Net interest income	*	1.12%	*	1.45%	*	1.42%	*	1.90%

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

200 bps decrease, where possible given current rates, would have resulted in a 2.2 percent decrease in the market value of equity at September 30, 2013, compared with a 5.3 percent decrease at December 31, 2012. 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, 2012, for further discussion on market value of equity modeling.

Use of Derivatives to Manage Interest Rate and Other Risks To reduce the sensitivity of earnings 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 minimizes the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers. 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, 2013, the Company had \$6.2 billion of forward commitments to sell, hedging \$3.1 billion of mortgage loans held for sale and \$4.2 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedging activities. The Company has elected the fair value option for the mortgage loans held for sale.

Derivatives are subject to credit risk associated with counterparties to the contracts. Credit risk associated with derivatives is measured by the Company based on the probability of counterparty default. The Company manages the credit risk of its derivative positions by diversifying its positions among various counterparties, by entering into master netting arrangements, and, where possible by requiring collateral arrangements. The Company may also transfer counterparty credit risk related to interest rate swaps to third parties through the use of risk participation agreements. In addition, effective in 2013, certain interest rate swaps 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 11 and 12 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. The Company's Market Risk Committee (MRC), within the framework of the ALCO, oversees market risk management. The MRC monitors and reviews the Company's trading positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the statistical risk of loss the Company has to adverse market movements over a one-day time horizon. The Company uses the Historical Simulation method to calculate VaR for its trading businesses measured at the ninety-ninth percentile using a one-year look-back period for distributions derived from past market data. The market factors used in the calculations include those pertinent to market risks inherent in the underlying trading portfolios, principally those that affect its investment grade 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)	2013	2012
Average	\$ 1	\$ 2
High	3	3
Low	1	1
Period-end	2	1

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 first nine months of 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 for the nine months ended September 30, 2013 were \$4 million, \$8 million, \$2 million, and \$4 million, respectively.

The Company also measures the market risk of its hedging activities related to MSRs and residential mortgage loans held for sale using the Historical Simulation method. The VaRs are measured at the ninety-ninth percentile and employ factors pertinent to the market risks inherent in the valuation of the assets and hedges. A three-year look-back period is used to obtain past market data. The Company monitors the effectiveness of the models through back-testing, updating the data and regular validations. The average, high and low VaR amounts for the MSRs and related hedges for the nine months ended September 30, 2013,

were \$3 million, \$6 million and \$1 million, respectively, compared with \$4 million, \$8 million and \$2 million, respectively, for the nine months ended September 30, 2012. The average, high and low VaR amounts for residential mortgage loans held for sale and related hedges for the nine months ended September 30, 2013, were \$2 million, \$4 million and less than \$1 million, respectively, compared with \$2 million, \$7 million and \$1 million, respectively, for the nine months ended September 30, 2012.

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, approves the Company's liquidity policy and reviews the contingency funding plan. The ALCO reviews and approves the Company's liquidity policy and guidelines, and regularly assesses the Company's ability to meet funding requirements arising from adverse company-specific or market events.

The Company regularly projects its funding needs under various stress scenarios and maintains contingency plans 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, 2013, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled \$60.0 billion, compared with \$54.1 billion at December 31, 2012. 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, 2013, the Company could have borrowed an additional \$67.2 billion at the FHLB and Federal Reserve Bank based on collateral available for additional borrowings.

The Company's diversified deposit base provides a sizeable source of relatively stable and low-cost funding, while reducing the Company's reliance on the wholesale markets. Total deposits were \$261.7 billion at September 30, 2013, compared with \$249.2 billion at December 31, 2012. 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 \$18.8 billion at September 30, 2013, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were \$26.1 billion at September 30, 2013, 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.

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, 2012, for further discussion on liquidity risk management.

At September 30, 2013, parent company long-term debt outstanding was \$10.4 billion, compared with \$12.8 billion at December 31, 2012. The \$2.4 billion decrease was due to medium-term note maturities during the first nine months of 2013. As of September 30, 2013, there was \$500 million of parent company debt scheduled to mature in the remainder of 2013.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiary after meeting the regulatory capital requirements for well-capitalized banks was approximately \$7.2 billion at September 30, 2013.

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, 2013, the Company had investments in perpetual preferred stock issued by European banks with an amortized cost totaling \$70 million and unrealized losses totaling \$10 million, unchanged from December 31, 2012. 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 September 30, 2013, the Company was in a net payable position to each of these European banks.

Table 9 Regulatory Capital Ratios

	September 30,	December 31,
(Dollars in Millions)	2013	2012
Tier 1 capital	\$ 32,707	\$ 31,203
As a percent of risk-weighted assets	11.2%	10.8%
As a percent of adjusted quarterly average assets (leverage ratio)	9.6%	9.2%
Total risk-based capital	\$ 38,873	\$ 37,780
As a percent of risk-weighted assets	13.3%	13.1%

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, 2013, the Company had an aggregate amount on deposit with European banks of \$347 million.

The money market funds managed by a subsidiary of the Company do not have any investments in European sovereign debt. 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 14 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 4 of the Notes to Consolidated Financial Statements for further information related to the Company's interests in VIEs.

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. These requirements follow the Capital Accord of the Basel Committee on Banking Supervision (Basel I). Table 9 provides a summary of regulatory capital ratios defined by banking regulators under the FDIC Improvement Act prompt corrective action provisions applicable to all banks, in effect at September 30, 2013 and December 31, 2012. All regulatory ratios exceeded regulatory well-capitalized requirements. In 2010, the Basel Committee on Banking Supervision issued Basel III, a global

regulatory framework, proposed to enhance international capital standards. In June 2012, U.S. banking regulators proposed regulatory enhancements to the regulatory capital requirements for U.S. banks, which implement aspects of Basel III and the Dodd-Frank Act, such as redefining the regulatory capital elements and minimum capital ratios, introducing regulatory capital buffers above those minimums, revising the rules for calculating risk-weighted assets and introducing a new Tier 1 common equity ratio. In July 2013, certain U.S. banking regulators approved final regulatory capital rule enhancements, effective for the Company beginning January 1, 2014, that are largely consistent with the June 2012 proposals. The Company continues to evaluate these rules, but does not expect their impact to be material to the financial statements.

Total U.S. Bancorp shareholders' equity was \$40.1 billion at September 30, 2013, compared with \$39.0 billion at December 31, 2012. The increase was primarily the result of corporate earnings, partially offset by dividends, common share repurchases and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive

income. 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, 2012, for further discussion on capital management.

The Company believes certain capital ratios in addition to regulatory capital ratios defined by banking regulators under the FDIC Improvement Act prompt corrective action provisions are useful in evaluating its capital adequacy. The Company's Tier 1 common equity (using Basel I definition) and tangible common equity, as a percent of risk-weighted assets, were 9.3 percent and 8.9 percent, respectively, at September 30, 2013, compared with 9.0 percent and 8.6 percent, respectively, at December 31, 2012. The Company's tangible common equity divided by tangible assets was 7.4 percent at September 30, 2013, compared with 7.2 percent at December 31, 2012. The Company's estimated common equity tier 1 to risk-weighted assets ratio using the Basel III capital regulations released by the Federal Reserve Board in July 2013, was 8.6 percent at September 30, 2013. Refer to Non-GAAP Financial Measures for further information regarding the calculation of these ratios.

On March 14, 2013, the Company announced its Board of Directors had approved a one-year authorization to repurchase up to \$2.25 billion of its common stock, from April 1, 2013 through March 31, 2014.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the third quarter of 2013:

Period (Dollars in Millions)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July	8,880,368	\$ 37.23	8,880,368	\$ 1,309
August	5,939,665	37.03	5,939,665	1,089
September	2,935,731	36.91	2,935,731	981
Total	17,755,764	\$ 37.11	17,755,764	\$ 981

(a) All shares were purchased under the stock repurchase program announced on March 14, 2013.

On June 18, 2013, the Company announced its Board of Directors had approved an 18 percent increase in the Company's dividend rate per common share, from \$.195 per quarter to \$.23 per quarter.

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, 2012, 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 2013, certain organization and methodology changes were made and, accordingly, 2012 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 \$333 million of the Company's net income in the third quarter and \$991 million in the first nine months of 2013, or increases of \$7 million (2.1 percent) and \$6 million (.6 percent), respectively, compared with the same periods of 2012. The increases were driven by a lower provision for credit losses and a decrease in noninterest expense, partially offset by lower net revenue.

Net revenue decreased \$34 million (4.1 percent) in the third quarter and \$138 million (5.5 percent) in the first nine months of 2013, compared with the same

periods of 2012. Net interest income, on a taxable-equivalent basis, decreased \$2 million (.4 percent) in the third quarter and \$27 million (1.7 percent) in the first nine months of 2013, compared with the same periods of 2012. The decreases were primarily driven by 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 and higher loan fees. Noninterest income decreased \$32 million (10.7 percent) in the third quarter and \$111 million (11.9 percent) in the first nine months of 2013, compared with the same periods of 2012, driven by lower commercial products revenue, primarily due to lower standby letters of credit and other loan-related fees and capital markets revenue.

Noninterest expense decreased \$7 million (2.2 percent) in the third quarter and \$24 million (2.5 percent) in the first nine months of 2013, compared with the same periods of 2012, primarily due to lower compensation and employee benefits costs, driven by a reduction in incentives expense. In addition, noninterest expense for the first nine months of 2013 was lower than the same period of the prior year due to lower costs related to other real estate owned and FDIC insurance expense. The provision for credit losses decreased \$38 million in the third quarter and \$123 million in the first nine months of 2013, compared with the same periods of 2012, due to lower net charge-offs, partially offset by lower reserve releases. Nonperforming assets were \$351 million at September 30, 2013, \$406 million at June 30, 2013, and \$600 million at September 30, 2012. Nonperforming assets as a percentage of period-end loans were .48 percent at September 30, 2013, .56 percent at June 30, 2013, and .90 percent at September 30, 2012. 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 over mobile devices, such as mobile phones and tablet computers. It encompasses community banking,

metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, workplace banking, student banking and 24-hour banking. Consumer and Small Business Banking contributed \$343 million of the Company's net income in the third quarter and \$1.0 billion in the first nine months of 2013, or an increase of \$9 million (2.7 percent) and a decrease of \$89 million (8.1 percent), respectively, compared with the same periods of 2012, reflecting the net impact of lower net revenue, offset by decreases in the provision for credit losses and noninterest expense.

Within Consumer and Small Business Banking, the retail banking division contributed \$190 million of the total net income in the third quarter and \$459 million in the first nine months of 2013, or increases of \$104 million and \$54 million (13.3 percent), respectively, from the same periods of 2012. Mortgage banking contributed \$153 million and \$546 million of Consumer and Small Business Banking's net income in the third quarter and first nine months of 2013, respectively, or decreases of \$95 million (38.3 percent) and \$143 million (20.8 percent), respectively, from the same periods of 2012.

Net revenue decreased \$263 million (12.4 percent) and \$552 million (8.8 percent) in the third quarter and first nine months of 2013, respectively, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, decreased \$52 million (4.4 percent) in the third quarter and \$128 million (3.6 percent) in the first nine months of 2013, compared with the same periods of 2012. The decreases in net interest income were primarily due to lower loan rates, the impact of lower rates on the margin benefit from deposits and lower average loans held-for-sale balances, partially offset by higher average loan and deposit balances. Noninterest income decreased \$211 million (22.7 percent) in the third quarter and \$424 million (15.7 percent) in the first nine months of 2013, compared with the same periods of 2012, primarily the result of lower mortgage origination and sales revenue and retail lease revenue, partially offset by higher servicing income and favorable changes in the valuation of MSRs, net of hedging activities.

Table 10 Line of Business Financial Performance

Three Months Ended September 30 (Dollars in Millions)	Wholesale Banking and Commercial Real Estate			Consumer and Small Business Banking		
	2013	2012	Percent Change	2013	2012	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	\$ 526	\$ 528	(.4)%	\$ 1,141	\$ 1,193	(4.4)%
Noninterest income	267	299	(10.7)	719	930	(22.7)
Securities gains (losses), net						
Total net revenue	793	827	(4.1)	1,860	2,123	(12.4)
Noninterest expense	305	310	(1.6)	1,150	1,236	(7.0)
Other intangibles	2	4	(50.0)	10	13	(23.1)
Total noninterest expense	307	314	(2.2)	1,160	1,249	(7.1)
Income before provision and income taxes	486	513	(5.3)	700	874	(19.9)
Provision for credit losses	(38)		*	160	349	(54.2)
Income before income taxes	524	513	2.1	540	525	2.9
Income taxes and taxable-equivalent adjustment	191	187	2.1	197	191	3.1
Net income	333	326	2.1	343	334	2.7
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	\$ 333	\$ 326	2.1	\$ 343	\$ 334	2.7
Average Balance Sheet						
Commercial	\$ 51,409	\$ 46,131	11.4%	\$ 8,475	\$ 8,423	.6%
Commercial real estate	20,663	19,661	5.1	17,084	16,203	5.4
Residential mortgages	24	54	(55.6)	48,131	40,530	18.8
Credit card						
Other retail	6	7	(14.3)	44,728	45,653	(2.0)
Total loans, excluding covered loans	72,102	65,853	9.5	118,418	110,809	6.9
Covered loans	340	813	(58.2)	6,434	7,384	(12.9)
Total loans	72,442	66,666	8.7	124,852	118,193	5.6
Goodwill	1,604	1,604		3,515	3,515	
Other intangible assets	24	34	(29.4)	2,650	1,764	50.2
Assets	78,785	72,579	8.6	139,539	135,715	2.8
Noninterest-bearing deposits	30,925	31,167	(.8)	22,460	20,981	7.0
Interest checking	10,038	7,897	27.1	32,971	30,020	9.8
Savings products	15,103	10,358	45.8	46,483	43,647	6.5
Time deposits	22,376	21,247	5.3	20,716	23,624	(12.3)

Total deposits	78,442	70,669	11.0	122,630	118,272	3.7
Total U.S. Bancorp shareholders equity	7,434	6,378	16.6	12,154	11,551	5.2

Nine Months Ended September 30	Wholesale Banking and Commercial Real Estate			Consumer and Small Business Banking		
	(Dollars in Millions)	2013	2012	Percent Change	2013	2012
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	\$ 1,557	\$ 1,584	(1.7)%	\$ 3,427	\$ 3,555	(3.6)%
Noninterest income	819	930	(11.9)	2,276	2,700	(15.7)
Securities gains (losses), net						
Total net revenue	2,376	2,514	(5.5)	5,703	6,255	(8.8)
Noninterest expense	932	950	(1.9)	3,514	3,618	(2.9)
Other intangibles	6	12	(50.0)	30	39	(23.1)
Total noninterest expense	938	962	(2.5)	3,544	3,657	(3.1)
Income before provision and income taxes	1,438	1,552	(7.3)	2,159	2,598	(16.9)
Provision for credit losses	(120)	3	*	578	878	(34.2)
Income before income taxes	1,558	1,549	.6	1,581	1,720	(8.1)
Income taxes and taxable-equivalent adjustment	567	564	.5	576	626	(8.0)
Net income	991	985	.6	1,005	1,094	(8.1)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	\$ 991	\$ 985	.6	\$ 1,005	\$ 1,094	(8.1)

Average Balance Sheet

Commercial	\$ 50,331	\$ 44,296	13.6%	\$ 8,468	\$ 8,123	4.2%
Commercial real estate	20,305	19,594	3.6	16,806	16,065	4.6
Residential mortgages	28	61	(54.1)	46,251	38,884	18.9
Credit card						
Other retail	9	5	80.0	44,737	45,602	(1.9)
Total loans, excluding covered loans	70,673	63,956	10.5	116,262	108,674	7.0
Covered loans	394	1,010	(61.0)	6,690	7,629	(12.3)
Total loans	71,067	64,966	9.4	122,952	116,303	5.7
Goodwill	1,604	1,604		3,515	3,515	
Other intangible assets	26	38	(31.6)	2,293	1,784	28.5
Assets	77,479	70,806	9.4	139,027	132,973	4.6
Noninterest-bearing deposits	30,407	30,762	(1.2)	21,843	19,638	11.2
Interest checking	10,385	10,621	(2.2)	32,801	29,621	10.7
Savings products	13,354	8,962	49.0	46,061	43,022	7.1

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Time deposits	18,459	17,255	7.0	21,590	24,047	(10.2)
Total deposits	72,605	67,600	7.4	122,295	116,328	5.1
Total U.S. Bancorp shareholders equity	7,331	6,325	15.9	12,062	11,135	8.3

* *Not meaningful*

Wealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2013	2012	Percent Change	2013	2012	Percent Change	2013	2012	Percent Change	2013	2012	Percent Change
85	\$ 87	(2.3)%	\$ 393	\$ 382	2.9%	\$ 569	\$ 593	(4.0)%	\$ 2,714	\$ 2,783	(2.5)%
305	282	8.2	822	854	(3.7)	67	30	*	2,180	2,395	(9.0)
						(3)	1	*	(3)	1	*
390	369	5.7	1,215	1,236	(1.7)	633	624	1.4	4,891	5,179	(5.6)
322	288	11.8	493	452	9.1	240	256	(6.3)	2,510	2,542	(1.3)
9	10	(10.0)	34	40	(15.0)				55	67	(17.9)
331	298	11.1	527	492	7.1	240	256	(6.3)	2,565	2,609	(1.7)
59	71	(16.9)	688	744	(7.5)	393	368	6.8	2,326	2,570	(9.5)
6	4	50.0	172	135	27.4	(2)		*	298	488	(38.9)
53	67	(20.9)	516	609	(15.3)	395	368	7.3	2,028	2,082	(2.6)
19	24	(20.8)	188	222	(15.3)	3	26	(88.5)	598	650	(8.0)
34	43	(20.9)	328	387	(15.2)	392	342	14.6	1,430	1,432	(.1)
			(10)	(10)		48	52	(7.7)	38	42	(9.5)
34	\$ 43	(20.9)	\$ 318	\$ 377	(15.6)	\$ 440	\$ 394	11.7	\$ 1,468	\$ 1,474	(.4)
1,774	\$ 1,361	30.3%	\$ 6,191	\$ 6,062	2.1%	\$ 215	\$ 215	%	\$ 68,064	\$ 62,192	9.4%
653	624	4.6				101	142	(28.9)	38,501	36,630	5.1
983	384	*				1	1		49,139	40,969	19.9
			16,931	16,551	2.3				16,931	16,551	2.3
1,531	1,529	.1	729	802	(9.1)				46,994	47,991	(2.1)
4,941	3,898	26.8	23,851	23,415	1.9	317	358	(11.5)	219,629	204,333	7.5
17	11	54.5	5	5		2,937	4,382	(33.0)	9,733	12,595	(22.7)
4,958	3,909	26.8	23,856	23,420	1.9	3,254	4,740	(31.4)	229,362	216,928	5.7
1,533	1,469	4.4	2,509	2,346	6.9				9,161	8,934	2.5
166	165	.6	557	646	(13.8)	2	4	(50.0)	3,399	2,613	30.1
7,749	6,688	15.9	30,123	29,517	2.1	95,965	101,154	(5.1)	352,161	345,653	1.9
13,510	14,862	(9.1)	714	623	14.6	655	494	32.6	68,264	68,127	.2
4,770	3,943	21.0	455	1,346	(66.2)	1	1		48,235	43,207	11.6
26,339	23,089	14.1	60	40	50.0	80	139	(42.4)	88,065	77,273	14.0
4,170	5,463	(23.7)				542	340	59.4	47,804	50,674	(5.7)
48,789	47,357	3.0	1,229	2,009	(38.8)	1,278	974	31.2	252,368	239,281	5.5

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2,398	2,240	7.1	6,102	5,667	7.7	11,848	12,783	(7.3)	39,936	38,619	3.4
Wealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
			2013	2012	Percent Change	2013	2012	Percent Change	2013	2012	Percent Change
\$ 267	\$ 264	1.1%	\$ 1,168	\$ 1,154	1.2%	\$ 1,676	\$ 1,629	2.9%	\$ 8,095	\$ 8,186	(1.1)%
910	827	10.0	2,397	2,402	(.2)	208	149	39.6	6,610	7,008	(5.7)
						8	(18)	*	8	(18)	*
1,177	1,091	7.9	3,565	3,556	.3	1,892	1,760	7.5	14,713	15,176	(3.1)
962	854	12.6	1,454	1,344	8.2	563	796	(29.3)	7,425	7,562	(1.8)
27	30	(10.0)	104	127	(18.1)				167	208	(19.7)
989	884	11.9	1,558	1,471	5.9	563	796	(29.3)	7,592	7,770	(2.3)
188	207	(9.2)	2,007	2,085	(3.7)	1,329	964	37.9	7,121	7,406	(3.8)
7	5	40.0	553	548	.9	45	5	*	1,063	1,439	(26.1)
181	202	(10.4)	1,454	1,537	(5.4)	1,284	959	33.9	6,058	5,967	1.5
65	73	(11.0)	529	560	(5.5)	60	29	*	1,797	1,852	(3.0)
116	129	(10.1)	925	977	(5.3)	1,224	930	31.6	4,261	4,115	3.5
			(29)	(30)	3.3	148	142	4.2	119	112	6.3
\$ 116	\$ 129	(10.1)	\$ 896	\$ 947	(5.4)	\$ 1,372	\$ 1,072	28.0	\$ 4,380	\$ 4,227	3.6
\$ 1,687	\$ 1,264	33.5%	\$ 6,030	\$ 5,904	2.1%	\$ 203	\$ 203	%	\$ 66,719	\$ 59,790	11.6%
654	607	7.7				107	123	(13.0)	37,872	36,389	4.1
775	379	*				1	4	(75.0)	47,055	39,328	19.6
			16,627	16,675	(.3)				16,627	16,675	(.3)
1,544	1,516	1.8	744	817	(8.9)				47,034	47,940	(1.9)
4,660	3,766	23.7	23,401	23,396		311	330	(5.8)	215,307	200,122	7.6
14	12	16.7	5	5		3,272	4,953	(33.9)	10,375	13,609	(23.8)
4,674	3,778	23.7	23,406	23,401		3,583	5,283	(32.2)	225,682	213,731	5.6
1,529	1,468	4.2	2,509	2,349	6.8				9,157	8,936	2.5
174	172	1.2	584	717	(18.5)	2	4	(50.0)	3,079	2,715	13.4
7,513	6,477	16.0	29,659	29,684	(.1)	97,370	100,867	(3.5)	351,048	340,807	3.0
13,807	13,904	(.7)	694	638	8.8	432	481	(10.2)	67,183	65,423	2.7
4,716	3,950	19.4	444	1,329	(66.6)	1	1		48,347	45,522	6.2
27,081	23,203	16.7	54	37	45.9	85	136	(37.5)	86,635	75,360	15.0
5,228	4,892	6.9				842	479	75.8	46,119	46,673	(1.2)
50,832	45,949	10.6	1,192	2,004	(40.5)	1,360	1,097	24.0	248,284	232,978	6.6
2,375	2,223	6.8	6,033	5,698	5.9	11,874	11,724	1.3	39,675	37,105	6.9

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Noninterest expense decreased \$89 million (7.1 percent) in the third quarter and \$113 million (3.1 percent) in the first nine months of 2013, compared with the same periods of 2012. The decreases reflected reductions in mortgage servicing review-related costs, compensation and employee benefits expense, costs related to other intangibles expense and other real estate owned, partially offset by higher net shared services costs.

The provision for credit losses decreased \$189 million (54.2 percent) in the third quarter and \$300 million (34.2 percent) in the first nine months of 2013, compared with the same periods of 2012, due to lower net charge-offs and a favorable change in the reserve allocation. As a percentage of average loans outstanding on an annualized basis, net charge-offs decreased to .52 percent in the third quarter of 2013, compared with .99 percent in the third quarter of 2012. Nonperforming assets were \$1.4 billion at September 30, 2013, June 30, 2013 and September 30, 2012. Nonperforming assets as a percentage of period-end loans were 1.14 percent at September 30, 2013, 1.13 percent at June 30, 2013, and 1.16 percent at September 30, 2012. 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 \$34 million of the Company's net income in the third quarter and \$116 million in the first nine months of 2013, or decreases of \$9 million (20.9 percent) and \$13 million (10.1 percent), respectively, compared with the same periods of 2012, reflecting the impact of higher noninterest expense, partially offset by higher net revenue.

Net revenue increased \$21 million (5.7 percent) in the third quarter and \$86 million (7.9 percent) in the first nine months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, decreased \$2 million (2.3 percent) in the third quarter and increased \$3 million (1.1 percent) in the first nine months of 2013, compared with the same periods of 2012, reflecting the net impact of higher average loan and deposit balances, offset by lower rates on the margin benefit of deposits. Noninterest income increased \$23 million (8.2 percent) in the third quarter and \$83 million (10.0 percent) in the first nine months

of 2013, compared with the same periods of 2012, due to the impact of improved market conditions, business expansion and higher investment products fees. Noninterest expense increased \$33 million (11.1 percent) in the third quarter and \$105 million (11.9 percent) in the first nine months of 2013, compared with the same periods of 2012. The increases in noninterest expense were primarily due to higher total compensation and employee benefits expense, and an increase in net shared services costs, including the impact of business expansion and higher litigation-related costs.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed \$318 million and \$896 million of the Company's net income in the third quarter and first nine months of 2013, respectively, or decreases of \$59 million (15.6 percent) and \$51 million (5.4 percent), respectively, compared with the same periods of 2012. The decrease in the third quarter of 2013 from the third quarter of 2012 was driven by higher noninterest expense and provision for credit losses and lower net revenue. The decrease for the first nine months of 2013 from the same period of 2012 was driven by higher noninterest expense and provision for credit losses, partially offset by higher net revenue.

Net revenue decreased \$21 million (1.7 percent) in the third quarter and increased \$9 million (.3 percent) in the first nine months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, increased \$11 million (2.9 percent) in the third quarter and \$14 million (1.2 percent) in the first nine months of 2013, compared with the same periods of 2012, primarily due to higher average loan balances, improved loan rates and lower rebate costs on the Company's government card program. Noninterest income decreased \$32 million (3.7 percent) in the third quarter and \$5 million (.2 percent) in the first nine months of 2013, compared with the same

periods of 2012, due to the impact of the gain on a credit card portfolio sale in the third quarter of 2012 and lower corporate payment products revenue due to a reduction in government-related transactions, partially offset by higher credit and debit card revenue, primarily due to higher volumes and business expansion. Merchant processing services revenue was also higher over the prior year due to higher volumes and fee-based product revenue.

Noninterest expense increased \$35 million (7.1 percent) in the third quarter and \$87 million (5.9 percent) in the first nine months of 2013, compared with the same periods of 2012, primarily due to higher

total compensation and employee benefits expense, technology and communications expense and net shared services expense, including the impact of business expansion, partially offset by reductions in other intangibles expense. The provision for credit losses increased \$37 million (27.4 percent) in the third quarter and \$5 million (.9 percent) in the first nine months of 2013, compared with the same periods of 2012, principally due to lower reserve releases, partially offset by lower net charge-offs. As a percentage of average loans outstanding, net charge-offs were 3.16 percent in the third quarter of 2013, compared with 3.43 percent in the third quarter of 2012.

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 tax-advantaged investments, 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 \$440 million in the third quarter and \$1.4 billion in the first nine months of 2013, compared with \$394 million and \$1.1 billion in the same periods of 2012, respectively.

Net revenue increased \$9 million (1.4 percent) in the third quarter and \$132 million (7.5 percent) in the first nine months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, decreased \$24 million (4.0 percent) in the third quarter and increased \$47 million (2.9 percent) in the first nine months of 2013, compared with the same periods of 2012, reflecting the net impact of lower rates on loans and investment securities, offset by lower long-term funding costs. Noninterest income increased \$33 million in the third quarter and \$85 million (64.9 percent) in the first nine months of 2013, compared with the same periods of 2012, primarily due to higher commercial products revenue. In addition, noninterest income for the third quarter of 2013 was higher than the third quarter of 2012 due to increased equity investment revenue. Noninterest income for the first nine months of 2013 was also higher than the same period of the prior year due to a favorable change in net securities gains (losses) as the Company recognized impairments on a number of securities in the second quarter of 2012.

Noninterest expense decreased \$16 million (6.3 percent) in the third quarter and \$233 million (29.3

percent) in the first nine months of 2013, compared with the same periods of 2012, principally reflecting a reduction in litigation-related costs and net shared services expense. These decreases were partially offset by increases in total compensation and employee benefits expense and higher costs related to investments in affordable housing and other tax-advantaged projects. In addition, noninterest expense for the first nine months of 2013 was lower than the same period of the prior year due to the prior year Visa accrual and lower insurance-related costs.

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 under the FDIC Improvement Act prompt corrective action provisions that are currently effective, 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 using Basel I definition,
- Tier 1 common equity to risk-weighted assets using Basel I definition,
- Common equity tier 1 to risk-weighted assets estimated using the Basel III capital regulations released by the Federal Reserve Board in July 2013, and for additional information,
- Common equity tier 1 to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012.

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 the currently effective capital ratios defined by banking regulations principally in that the numerator excludes trust preferred securities and 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, 2013	December 31, 2012
Total equity	\$ 41,552	\$ 40,267
Preferred stock	(4,756)	(4,769)
Noncontrolling interests	(1,420)	(1,269)
Goodwill (net of deferred tax liability)	(8,319)	(8,351)
Intangible assets, other than mortgage servicing rights	(878)	(1,006)
Tangible common equity (a)	26,179	24,872
Tier 1 capital, determined in accordance with prescribed regulatory requirements using Basel I definition	32,707	31,203
Preferred stock	(4,756)	(4,769)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital	(686)	(685)
Tier 1 common equity using Basel I definition (b)	27,265	25,749
Tangible common equity (as calculated above)	26,179	
Adjustments (1)	258	
Common equity tier 1 estimated using the Basel III capital regulations released by the Federal Reserve Board in July 2013 (c)	26,437	
Tangible common equity (as calculated above)		24,872
Adjustments (2)		126
Common equity tier 1 approximated using proposed rules for the Basel III standardized approach released June 2012 (d)		24,998
Total assets	360,681	353,855
Goodwill (net of deferred tax liability)	(8,319)	(8,351)
Intangible assets, other than mortgage servicing rights	(878)	(1,006)
Tangible assets (e)	351,484	344,498
Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (f)	293,155	
Adjustments (3)	13,473	
Risk-weighted assets estimated using the Basel III capital regulations released by the Federal Reserve Board in July 2013 (g)	306,628	
Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (f)		287,611
Adjustments (4)		21,233

Risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (h)		308,844
Ratios		
Tangible common equity to tangible assets (a)/(e)	7.4%	7.2%
Tangible common equity to risk-weighted assets using Basel I definition (a)/(f)	8.9	8.6
Tier 1 common equity to risk-weighted assets using Basel I definition (b)/(f)	9.3	9.0
Common equity tier 1 to risk-weighted assets estimated using the Basel III capital regulations released by the Federal Reserve Board in July 2013 (c)/(g)	8.6	
Common equity tier 1 to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (d)/(h)		8.1

- (1) Includes net losses on cash flow hedges included in accumulated other comprehensive income and unrealized losses on securities transferred from available-for-sale to held-to-maturity included in accumulated other comprehensive income.
- (2) Includes net losses on cash flow hedges included in accumulated other comprehensive income, unrealized losses on securities transferred from available-for-sale to held-to-maturity included in accumulated other comprehensive income and disallowed mortgage servicing rights.
- (3) Includes higher risk-weighting for unfunded loan commitments, investment securities and mortgage servicing rights, and other adjustments.
- (4) Includes higher risk-weighting for residential mortgages, unfunded loan commitments, investment securities and mortgage servicing rights, and other adjustments.

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, 2012.

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.

U.S. Bancorp

Consolidated Balance Sheet

(Dollars in Millions)	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	\$ 11,615	\$ 8,252
Investment securities		
Held-to-maturity (fair value \$36,632 and \$34,952, respectively; including \$937 and \$1,482 at fair value pledged as collateral, respectively) (a)	36,904	34,389
Available-for-sale (\$1,105 and \$2,042 pledged as collateral, respectively) (a)	39,307	40,139
Loans held for sale (including \$3,844 and \$7,957 of mortgage loans carried at fair value, respectively)	3,858	7,976
Loans		
Commercial	68,958	66,223
Commercial real estate	38,678	36,953
Residential mortgages	50,170	44,018
Credit card	17,063	17,115
Other retail	47,114	47,712
Total loans, excluding covered loans	221,983	212,021
Covered loans	9,396	11,308
Total loans	231,379	223,329
Less allowance for loan losses	(4,258)	(4,424)
Net loans	227,121	218,905
Premises and equipment	2,608	2,670
Goodwill	9,173	9,143
Other intangible assets	3,455	2,706
Other assets (including \$168 and \$47 of trading securities at fair value pledged as collateral, respectively) (a)	26,640	29,675
Total assets	\$ 360,681	\$ 353,855
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	\$ 72,333	\$ 74,172
Interest-bearing	152,861	145,972
Time deposits greater than \$100,000	36,522	29,039
Total deposits	261,716	249,183
Short-term borrowings	26,128	26,302
Long-term debt	18,750	25,516
Other liabilities	12,535	12,587
Total liabilities	319,129	313,588
Shareholders equity		
Preferred stock	4,756	4,769
Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/13 and 12/31/12 2,125,725,742 shares	21	21
Capital surplus	8,188	8,201
Retained earnings	37,692	34,720

Less cost of common stock in treasury: 9/30/13 294,069,246 shares;		
12/31/12 256,294,227 shares	(9,174)	(7,790)
Accumulated other comprehensive income (loss)	(1,351)	(923)
Total U.S. Bancorp shareholders equity	40,132	38,998
Noncontrolling interests	1,420	1,269
Total equity	41,552	40,267
Total liabilities and equity	\$ 360,681	\$ 353,855

(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.

U.S. Bancorp

Consolidated Statement of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2013	2012	2013	2012
Interest Income				
Loans	\$ 2,568	\$ 2,650	\$ 7,682	\$ 7,919
Loans held for sale	46	76	172	208
Investment securities	420	438	1,222	1,376
Other interest income	34	63	141	184
Total interest income	3,068	3,227	9,217	9,687
Interest Expense				
Deposits	134	172	433	530
Short-term borrowings	98	103	270	353
Long-term debt	178	226	587	786
Total interest expense	410	501	1,290	1,669
Net interest income	2,658	2,726	7,927	8,018
Provision for credit losses	298	488	1,063	1,439
Net interest income after provision for credit losses	2,360	2,238	6,864	6,579
Noninterest Income				
Credit and debit card revenue	244	213	702	650
Corporate payment products revenue	192	201	540	566
Merchant processing services	371	345	1,091	1,041
ATM processing services	83	87	248	263
Trust and investment management fees	280	265	842	779
Deposit service charges	180	174	493	483
Treasury management fees	134	135	408	411
Commercial products revenue	207	225	616	652
Mortgage banking revenue	328	519	1,125	1,461
Investment products fees	46	38	133	111
Securities gains (losses), net				
Realized gains (losses), net		16	21	46
Total other-than-temporary impairment	(2)	(13)	(5)	(61)
Portion of other-than-temporary impairment recognized in other comprehensive income	(1)	(2)	(8)	(3)
Total securities gains (losses), net	(3)	1	8	(18)
Other	115	193	412	591
Total noninterest income	2,177	2,396	6,618	6,990
Noninterest Expense				
Compensation	1,088	1,109	3,268	3,237
Employee benefits	278	225	865	714
Net occupancy and equipment	240	233	709	683
Professional services	94	144	263	364

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Marketing and business development	85	96	254	285
Technology and communications	214	205	639	607
Postage, printing and supplies	76	75	230	226
Other intangibles	55	67	167	208
Other	435	455	1,197	1,446
Total noninterest expense	2,565	2,609	7,592	7,770
Income before income taxes	1,972	2,025	5,890	5,799
Applicable income taxes	542	593	1,629	1,684
Net income	1,430	1,432	4,261	4,115
Net (income) loss attributable to noncontrolling interests	38	42	119	112
Net income attributable to U.S. Bancorp	\$ 1,468	\$ 1,474	\$ 4,380	\$ 4,227
Net income applicable to U.S. Bancorp common shareholders	\$ 1,400	\$ 1,404	\$ 4,163	\$ 4,034
Earnings per common share	\$.76	\$.74	\$ 2.26	\$ 2.13
Diluted earnings per common share	\$.76	\$.74	\$ 2.25	\$ 2.12
Dividends declared per common share	\$.230	\$.195	\$.655	\$.585
Average common shares outstanding	1,832	1,886	1,844	1,892
Average diluted common shares outstanding	1,843	1,897	1,854	1,901

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Comprehensive Income

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(Unaudited)				
Net income	\$ 1,430	\$ 1,432	\$ 4,261	\$ 4,115
Other Comprehensive Income (Loss)				
Changes in unrealized gains and losses on securities available-for-sale	(237)	300	(1,032)	738
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	1	2	8	3
Changes in unrealized gains and losses on derivative hedges	(17)	(30)	33	(68)
Foreign currency translation	13	26	(20)	34
Changes in unrealized gains and losses on retirement plans	38		37	
Reclassification to earnings of realized gains and losses	99	69	270	260
Income taxes related to other comprehensive income	40	(140)	276	(370)
Total other comprehensive income (loss)	(63)	227	(428)	597
Comprehensive income	1,367	1,659	3,833	4,712
Comprehensive (income) loss attributable to noncontrolling interests	38	42	119	112
Comprehensive income attributable to U.S. Bancorp	\$ 1,405	\$ 1,701	\$ 3,952	\$ 4,824

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Shareholders Equity

(Unaudited) (Dollars and Shares in Millions)	U.S. Bancorp Shareholders										
	Common			Capital Surplus	Retained Earnings	Treasury Stock	Accumulated		Total U.S. Bancorp Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares Outstanding	Preferred Stock	Common Stock				Income	Other (Loss)			
Balance December 31, 2011	1,910	\$ 2,606	\$ 21	\$ 8,238	\$ 30,785	\$ (6,472)	\$ (1,200)	\$ 33,978	\$ 993	\$ 34,971	
Net income (loss)					4,227			4,227	(112)	4,115	
Other comprehensive income (loss)							597	597		597	
Preferred stock dividends					(174)			(174)		(174)	
Common stock dividends					(1,108)			(1,108)		(1,108)	
Issuance of preferred stock		2,163						2,163		2,163	
Issuance of common and treasury stock	16			(111)		495		384		384	
Purchase of treasury stock	(46)					(1,465)		(1,465)		(1,465)	
Distributions to noncontrolling interests									(60)	(60)	
Net other changes in noncontrolling interests									343	343	
Stock option and restricted stock grants				59				59		59	
Balance September 30, 2012	1,880	\$ 4,769	\$ 21	\$ 8,186	\$ 33,730	\$ (7,442)	\$ (603)	\$ 38,661	\$ 1,164	\$ 39,825	
Balance December 31, 2012	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	
Balance September 30, 2013	1,832	\$ 4,756	\$ 21	\$ 8,188	\$ 37,692	\$ (9,174)	\$ (1,351)	\$ 40,132	\$ 1,420	\$ 41,552	

See Notes to Consolidated Financial Statements.

U. S. Bancorp

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U.S. Bancorp

Consolidated Statement of Cash Flows

(Dollars in Millions)	Nine Months Ended	
	September 30, 2013	2012
(Unaudited)		
Operating Activities		
Net income attributable to U.S. Bancorp	\$ 4,380	\$ 4,227
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,063	1,439
Depreciation and amortization of premises and equipment	222	212
Amortization of intangibles	167	208
Provision for deferred income taxes	(38)	29
(Gain) loss on sale of loans held for sale	(864)	(1,982)
(Gain) loss on sale of securities and other assets	(42)	(198)
Loans originated for sale in the secondary market, net of repayments	(49,411)	(60,331)
Proceeds from sales of loans held for sale	53,845	59,052
Other, net	(665)	1,219
Net cash provided by operating activities	8,657	3,875
Investing Activities		
Proceeds from sales of available-for-sale investment securities	766	1,753
Proceeds from maturities of held-to-maturity investment securities	6,854	4,005
Proceeds from maturities of available-for-sale investment securities	8,395	11,664
Purchases of held-to-maturity investment securities	(9,439)	(8,003)
Purchases of available-for-sale investment securities	(9,381)	(12,065)
Net increase in loans outstanding	(8,495)	(9,518)
Proceeds from sales of loans	620	1,614
Purchases of loans	(1,883)	(2,139)
Acquisitions, net of cash acquired		94
Other, net	(100)	(668)
Net cash used in investing activities	(12,663)	(13,263)
Financing Activities		
Net increase in deposits	12,533	13,099
Net decrease in short-term borrowings	(174)	(2,616)
Proceeds from issuance of long-term debt	198	4,553
Principal payments or redemption of long-term debt	(2,380)	(10,271)
Proceeds from issuance of preferred stock	487	2,163
Proceeds from issuance of common stock	331	342
Redemption of preferred stock	(500)	
Repurchase of common stock	(1,779)	(1,343)
Cash dividends paid on preferred stock	(193)	(139)
Cash dividends paid on common stock	(1,154)	(980)
Net cash provided by financing activities	7,369	4,808
Change in cash and due from banks	3,363	(4,580)
Cash and due from banks at beginning of period	8,252	13,962
Cash and due from banks at end of period	\$ 11,615	\$ 9,382

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. 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 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, 2013				December 31, 2012				Fair Value	
	Amortized Cost	Unrealized Gains	Other-than-temporary (e)	Other (f)	Unrealized Losses	Unrealized Gains	Other-than-temporary (e)	Other (f)		
Held-to-maturity (a)										
U.S. Treasury and agencies	\$ 3,368	\$ 9	\$	\$ (60)	\$ 3,317	\$ 3,154	\$ 27	\$	\$ 3,181	
Mortgage-backed securities										
Residential										
Agency	33,378	234		(454)	33,158	31,064	545	(6)	31,603	
Non-agency										
non-prime (d)	1				1	1			1	
Commercial										
non-agency	1				1	2			2	
Asset-backed securities										
Collateralized debt obligations/										
Collateralized loan obligations	2	9			11	7	15		22	
Other	16	4	(1)	(1)	18	19	2	(3)	17	
Obligations of state and political subdivisions	17				17	20	1		21	
Obligations of foreign governments	7				7	7			7	
Other debt securities	114			(12)	102	115		(17)	98	
Total held-to-maturity	\$ 36,904	\$ 256	\$ (1)	\$ (527)	\$ 36,632	\$ 34,389	\$ 590	\$ (3)	\$ (24)	\$ 34,952
Available-for-sale (b)										
U.S. Treasury and agencies	\$ 1,567	\$ 5	\$	\$ (51)	\$ 1,521	\$ 1,211	\$ 16	\$	\$ (1)	\$ 1,226
Mortgage-backed securities										
Residential										
Agency	29,136	476		(392)	29,220	28,754	746	(5)	29,495	
Non-agency										
Prime (c)	513	2	(10)	(5)	500	641	3	(16)	(4)	624
Non-prime (d)	307	3	(6)	(1)	303	372	4	(20)	(1)	355
Commercial agency	165	4			169	185	8			193
Asset-backed securities										
Collateralized debt obligations/	20	5			25	32	10			42

Collateralized loan obligations										
Other	598	13	(1)	610	579	14	(1)	592		
Obligations of state and political subdivisions	5,732	134	(46)	5,820	6,059	396		6,455		
Obligations of foreign governments	6			6	6			6		
Corporate debt securities	734		(92)	642	814	2	(85)	731		
Perpetual preferred securities	205	24	(20)	209	205	27	(14)	218		
Other investments	257	25		282	182	20		202		
Total available-for-sale	\$ 39,240	\$ 691	\$ (16)	\$ (608)	\$ 39,307	\$ 39,040	\$ 1,246	\$ (36)	\$ (111)	\$ 40,139

(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 5.5 years at September 30, 2013, compared with 4.1 years at December 31, 2012. The corresponding weighted-average yields were 2.70 percent and 2.93 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 4.2 years at September 30, 2013, and 3.3 years at December 31, 2012. The corresponding weighted-average yields were 1.97 percent and 1.94 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, 2013, refer to Table 4 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

Investment securities with a fair value of \$15.5 billion at September 30, 2013, and \$20.1 billion at December 31, 2012, 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 \$2.0 billion at September 30, 2013, and \$3.5 billion at December 31, 2012.

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Taxable	\$ 357	\$ 369	\$ 1,029	\$ 1,166
Non-taxable	63	69	193	210
Total interest income from investment securities	\$ 420	\$ 438	\$ 1,222	\$ 1,376

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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Realized gains	\$	\$ 115	\$ 21	\$ 145
Realized losses		(99)		(99)
Net realized gains (losses)	\$	\$ 16	\$ 21	\$ 46
Income tax (benefit) on net realized gains (losses)	\$	\$ 7	\$ 8	\$ 18

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	2013		2012		Total
	Losses Recorded in Earnings	Other Gains (Losses) (c)	Losses Recorded in Earnings	Other Gains (Losses) (c)	
(Dollars in Millions)					
Available-for-sale					
Mortgage-backed securities					
Non-agency residential					
Prime (a)	\$ (1)	\$	\$ (1)	\$ (5)	\$ (8)
Non-prime (b)	(2)	1	(1)	(10)	(5)
Total available-for-sale	\$ (3)	\$ 1	\$ (2)	\$ (15)	\$ (13)

(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.

Nine Months Ended September 30 (Dollars in Millions)	2013		2012		Total
	Losses Recorded in Earnings	Other Gains (Losses) (c)	Losses Recorded in Earnings	Other Gains (Losses) (c)	
Available-for-sale					
Mortgage-backed securities					
Non-agency residential					
Prime (a)	\$ (5)	\$ 2	\$ (3)	\$ (8)	\$ (12)
Non-prime (b)	(8)	6	(2)	(27)	15
Commercial non-agency				(1)	(1)
Other asset-backed securities				(1)	1
Perpetual preferred securities				(27)	(27)
Total available-for-sale	\$ (13)	\$ 8	\$ (5)	\$ (64)	\$ 3

(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 principal assumptions used for those available-for-sale non-agency mortgage-backed securities determined to be other-than-temporarily impaired:

	Prime (a)			Non-Prime (b)		
	Minimum	Maximum	Average	Minimum	Maximum	Average
September 30, 2013						
Estimated lifetime prepayment rates	12%	18%	13%	4%	10%	6%
Lifetime probability of default rates	3	5	4	5	10	7
Lifetime loss severity rates	25	50	48	15	60	51
December 31, 2012						
Estimated lifetime prepayment rates	6%	22%	14%	3%	10%	6%
Lifetime probability of default rates	3	6	4	3	10	7
Lifetime loss severity rates	40	50	47	45	65	56

(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.

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Balance at beginning of period	\$ 124	\$ 277	\$ 134	\$ 298
Additions to Credit Losses Due to Other-than-temporary Impairments				
Credit losses on securities not previously considered other-than-temporarily impaired		2		5
Decreases in expected cash flows on securities for which other-than-temporary impairment was previously recognized	3	13	13	32
Total other-than-temporary impairment on debt securities	3	15	13	37
Other Changes in Credit Losses				
Increases in expected cash flows	(1)		(2)	(14)
Realized losses (a)	(4)	(4)	(18)	(33)
Credit losses on security sales and securities expected to be sold		(142)	(5)	(142)

Balance at end of period	\$ 122	\$ 146	\$ 122	\$ 146
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(a) Primarily represents principal losses allocated to mortgage and asset-backed securities in the Company's portfolio under the terms of the securitization transaction documents.

At September 30, 2013, 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, 2013:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity						
U.S. Treasury and agencies	\$ 1,056	\$ (60)	\$	\$	\$ 1,056	\$ (60)
Mortgage-backed securities						
Residential agency	20,034	(452)	85	(2)	20,119	(454)
Commercial non-agency	1				1	
Other asset-backed securities			10	(2)	10	(2)
Obligations of state and political subdivisions	8				8	
Other debt securities			13	(12)	13	(12)
Total held-to-maturity	\$ 21,099	\$ (512)	\$ 108	\$ (16)	\$ 21,207	\$ (528)
Available-for-sale						
U.S. Treasury and agencies	\$ 853	\$ (51)	\$	\$	\$ 853	\$ (51)
Mortgage-backed securities						
Residential						
Agency	13,540	(389)	343	(3)	13,883	(392)
Non-agency (a)						
Prime (b)	137	(2)	206	(13)	343	(15)
Non-prime (c)	128	(2)	81	(5)	209	(7)
Commercial agency	61				61	
Other asset-backed securities	25	(1)	3		28	(1)
Obligations of state and political subdivisions	1,382	(46)	10		1,392	(46)
Corporate debt securities	214	(5)	420	(87)	634	(92)
Perpetual preferred securities			112	(20)	112	(20)
Total available-for-sale	\$ 16,340	\$ (496)	\$ 1,175	\$ (128)	\$ 17,515	\$ (624)

- (a) The Company has \$22 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, 2013, 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.

Note 3 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, 2013		December 31, 2012	
	Amount	Percent of Total	Amount	Percent of Total
Commercial				
Commercial	\$ 63,696	27.5%	\$ 60,742	27.2%
Lease financing	5,262	2.3	5,481	2.5
Total commercial	68,958	29.8	66,223	29.7
Commercial Real Estate				
Commercial mortgages	31,467	13.6	31,005	13.9
Construction and development	7,211	3.1	5,948	2.6
Total commercial real estate	38,678	16.7	36,953	16.5
Residential Mortgages				
Residential mortgages	36,484	15.8	32,648	14.6
Home equity loans, first liens	13,686	5.9	11,370	5.1
Total residential mortgages	50,170	21.7	44,018	19.7
Credit Card				
	17,063	7.4	17,115	7.7
Other Retail				
Retail leasing	5,761	2.5	5,419	2.4
Home equity and second mortgages	15,544	6.7	16,726	7.5
Revolving credit	3,289	1.4	3,332	1.5
Installment	5,717	2.4	5,463	2.4
Automobile	13,130	5.7	12,593	5.6
Student	3,673	1.6	4,179	1.9
Total other retail	47,114	20.3	47,712	21.3
Total loans, excluding covered loans	221,983	95.9	212,021	94.9
Covered Loans				
	9,396	4.1	11,308	5.1
Total loans	\$ 231,379	100.0%	\$ 223,329	100.0%

The Company had loans of \$75.3 billion at September 30, 2013, and \$74.1 billion at December 31, 2012, pledged at the Federal Home Loan Bank (FHLB), and loans of \$51.6 billion at September 30, 2013, and \$48.6 billion at December 31, 2012, 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 \$539 million at September 30, 2013, and \$753 million at December 31, 2012. 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.

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

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 1,802	\$ 2,431	\$ 1,709	\$ 2,619
Purchases				13
Accretion	(119)	(109)	(380)	(337)
Disposals	(51)	(37)	(120)	(135)
Reclassifications (to)/from nonaccretable difference (a)	119	58	177	191
Other (b)		(14)	365	(22)
Balance at end of period	\$ 1,751	\$ 2,329	\$ 1,751	\$ 2,329

(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 now presented as a separate component within the covered assets table on page 55), 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 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 uses a 12-year period of historical losses in considering actual loss experience, because it believes that period best reflects the losses incurred in the portfolio. This timeframe and the results of the analysis are evaluated quarterly to determine if they are appropriate. 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.

The allowance for the covered loan segment is evaluated each quarter in a manner similar to that described for non-covered loans and represents any decreases in expected cash flows 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, incorporation of loss history is factored 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			Total Loans
	Commercial	Residential Estates	Residential Mortgages	Credit Card	Other Retail	Covered Loans	Covered Loans	
2013								
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
2012								
Balance at beginning of period	\$ 1,037	\$ 941	\$ 939	\$ 996	\$ 828	\$ 4,741	\$ 123	\$ 4,864
Add								
Provision for credit losses	63	(22)	143	119	185	488		488
Deduct								
Loans charged off	90	47	127	186	187	637	2	639
Less recoveries of loans charged off	(24)	(22)	(6)	(19)	(30)	(101)		(101)
Net loans charged off	66	25	121	167	157	536	2	538
Other changes (a)				(33)		(33)	(10)	(43)
Balance at end of period	\$ 1,034	\$ 894	\$ 961	\$ 915	\$ 856	\$ 4,660	\$ 111	\$ 4,771

(a) Includes net changes in credit losses to be reimbursed by the FDIC and for the three months ended September 30, 2013, 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.

Nine Months Ended September 30 (Dollars in Millions)	Commercial				Total Loans, Excluding			Total Loans
	Commercial	Residential Estates	Residential Mortgages	Credit Card	Other Retail	Covered Loans	Covered Loans	
2013								
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								

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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
2012								
Balance at beginning of period	\$ 1,010	\$ 1,154	\$ 927	\$ 992	\$ 831	\$ 4,914	\$ 100	\$ 5,014
Add								
Provision for credit losses	247	(111)	376	462	431	1,405	34	1,439
Deduct								
Loans charged off	296	206	357	585	503	1,947	4	1,951
Less recoveries of loans charged off	(73)	(57)	(15)	(79)	(97)	(321)	(1)	(322)
Net loans charged off	223	149	342	506	406	1,626	3	1,629
Other changes (a)				(33)		(33)	(20)	(53)
Balance at end of period	\$ 1,034	\$ 894	\$ 961	\$ 915	\$ 856	\$ 4,660	\$ 111	\$ 4,771

(a) Includes net changes in credit losses to be reimbursed by the FDIC and for the nine months ended September 30, 2013, 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.

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

(Dollars in Millions)	Commercial				Credit Card	Other Retail	Total Loans, Excluding Covered Loans		Total Loans
	Commercial	Real Estate	Residential Mortgages				Covered Loans	Covered Loans	
Allowance Balance at September 30, 2013 Related to									
Loans individually evaluated for impairment (a)	\$ 9	\$ 7	\$	\$	\$	\$	\$ 16	\$	\$ 16
TDRs collectively evaluated for impairment	21	21	341	101	83	567	5	572	
Other loans collectively evaluated for impairment	1,001	719	593	764	741	3,818	10	3,828	
Loans acquired with deteriorated credit quality		14				14	148	162	
Total allowance for credit losses	\$ 1,031	\$ 761	\$ 934	\$ 865	\$ 824	\$ 4,415	\$ 163	\$ 4,578	
Allowance Balance at December 31, 2012 Related to									
Loans individually evaluated for impairment (a)	\$ 10	\$ 30	\$	\$	\$	\$ 40	\$	\$ 40	
TDRs collectively evaluated for impairment	28	29	446	153	97	753	1	754	
Other loans collectively evaluated for impairment	1,013	791	489	710	751	3,754	17	3,771	
Loans acquired with deteriorated credit quality		7				7	161	168	
Total allowance for credit losses	\$ 1,051	\$ 857	\$ 935	\$ 863	\$ 848	\$ 4,554	\$ 179	\$ 4,733	

(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				Credit Card	Other Retail	Total Loans, Excluding Covered Loans		Total Loans
	Commercial	Real Estate	Residential Mortgages				Covered Loans	Covered Loans (b)	
September 30, 2013									
Loans individually evaluated for impairment (a)	\$ 171	\$ 253	\$	\$	\$	\$ 424	\$ 48	\$ 472	

TDRs collectively evaluated for impairment	171	360	4,357	335	281	5,504	100	5,604
Other loans collectively evaluated for impairment	68,615	37,979	45,812	16,728	46,833	215,967	5,172	221,139
Loans acquired with deteriorated credit quality	1	86	1			88	4,076	4,164
Total loans	\$ 68,958	\$ 38,678	\$ 50,170	\$ 17,063	\$ 47,114	\$ 221,983	\$ 9,396	\$ 231,379

December 31, 2012

Loans individually evaluated for impairment (a)	\$ 171	\$ 510	\$	\$	\$	\$ 681	\$ 48	\$ 729
TDRs collectively evaluated for impairment	185	391	4,199	442	313	5,530	145	5,675
Other loans collectively evaluated for impairment	65,863	35,952	39,813	16,673	47,399	205,700	5,814	211,514
Loans acquired with deteriorated credit quality	4	100	6			110	5,301	5,411
Total loans	\$ 66,223	\$ 36,953	\$ 44,018	\$ 17,115	\$ 47,712	\$ 212,021	\$ 11,308	\$ 223,329

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

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

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.

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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 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.

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		Nonperforming	Total
		30-89 Days Past Due	90 Days or More Past Due		
September 30, 2013					
Commercial	\$ 68,573	\$ 219	\$ 50	\$ 116	\$ 68,958
Commercial real estate	38,253	62	7	356	38,678
Residential mortgages (a)	48,820	350	268	732	50,170
Credit card	16,567	212	190	94	17,063
Other retail	46,598	234	76	206	47,114
Total loans, excluding covered loans	218,811	1,077	591	1,504	221,983
Covered loans	8,584	142	514	156	9,396
Total loans	\$ 227,395	\$ 1,219	\$ 1,105	\$ 1,660	\$ 231,379
December 31, 2012					
Commercial	\$ 65,701	\$ 341	\$ 58	\$ 123	\$ 66,223
Commercial real estate	36,241	158	8	546	36,953
Residential mortgages (a)	42,728	348	281	661	44,018
Credit card	16,525	227	217	146	17,115
Other retail	47,109	290	96	217	47,712
Total loans, excluding covered loans	208,304	1,364	660	1,693	212,021
Covered loans	9,900	359	663	386	11,308
Total loans	\$ 218,204	\$ 1,723	\$ 1,323	\$ 2,079	\$ 223,329

(a) At September 30, 2013, \$399 million of loans 30-89 days past due and \$3.5 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 \$441 million and \$3.2 billion at December 31, 2012, respectively.

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.

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

(Dollars in Millions)	Pass	Criticized		Total Criticized	Total
		Special Mention	Classified (a)		
September 30, 2013					
Commercial	\$ 66,791	\$ 1,103	\$ 1,064	\$ 2,167	\$ 68,958
Commercial real estate	36,796	578	1,304	1,882	38,678
Residential mortgages (b)	49,052	6	1,112	1,118	50,170
Credit card	16,779		284	284	17,063
Other retail	46,744	34	336	370	47,114
Total loans, excluding covered loans	216,162	1,721	4,100	5,821	221,983
Covered loans	9,061	39	296	335	9,396
Total loans	\$ 225,223	\$ 1,760	\$ 4,396	\$ 6,156	\$ 231,379
Total outstanding commitments	\$ 460,484	\$ 3,124	\$ 5,055	\$ 8,179	\$ 468,663
December 31, 2012					
Commercial	\$ 63,906	\$ 1,114	\$ 1,203	\$ 2,317	\$ 66,223
Commercial real estate	34,096	621	2,236	2,857	36,953
Residential mortgages (b)	42,897	18	1,103	1,121	44,018
Credit card	16,752		363	363	17,115
Other retail	47,294	36	382	418	47,712
Total loans, excluding covered loans	204,945	1,789	5,287	7,076	212,021
Covered loans	10,786	61	461	522	11,308
Total loans	\$ 215,731	\$ 1,850	\$ 5,748	\$ 7,598	\$ 223,329
Total outstanding commitments	\$ 442,047	\$ 3,231	\$ 6,563	\$ 9,794	\$ 451,841

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

(b) At September 30, 2013, \$3.5 billion of GNMA loans 90 days or more past due and \$1.9 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 \$3.2 billion and \$2.4 billion at December 31, 2012, 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.

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
September 30, 2013				
Commercial	\$ 375	\$ 857	\$ 38	\$ 25
Commercial real estate	721	1,570	36	14
Residential mortgages	2,762	3,404	323	2
Credit card	335	335	101	
Other retail	408	609	86	3
Total impaired loans, excluding GNMA and covered loans	4,601	6,775	584	44
Loans purchased from GNMA mortgage pools	1,915	1,915	29	
Covered loans	503	1,186	34	7
Total	\$ 7,019	\$ 9,876	\$ 647	\$ 51
December 31, 2012				
Commercial	\$ 404	\$ 1,200	\$ 40	\$ 39
Commercial real estate	1,077	2,251	70	4
Residential mortgages	2,748	3,341	415	
Credit card	442	442	153	
Other retail	443	486	101	3
Total impaired loans, excluding GNMA and covered loans	5,114	7,720	779	46
Loans purchased from GNMA mortgage pools	1,778	1,778	39	
Covered loans	767	1,584	20	12
Total	\$ 7,659	\$ 11,082	\$ 838	\$ 58

(a) Substantially all loans classified as impaired at September 30, 2013 and December 31, 2012, had an associated allowance for credit losses.

Additional information on impaired loans follows:

(Dollars in Millions)	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three Months Ended September 30				
Commercial	\$ 380	\$ 5	\$ 413	\$ 6

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Commercial real estate	819	6	1,250	12
Residential mortgages	2,765	32	2,752	31
Credit card	347	3	495	6
Other retail	417	7	354	3
Total impaired loans, excluding GNMA and covered loans	4,728	53	5,264	58
Loans purchased from GNMA mortgage pools	1,883	22	1,492	20
Covered loans	519	6	883	7
Total	\$ 7,130	\$ 81	\$ 7,639	\$ 85

Nine Months Ended September 30

Commercial	\$ 384	\$ 24	\$ 496	\$ 11
Commercial real estate	950	27	1,371	29
Residential mortgages	2,744	99	2,692	87
Credit card	380	12	529	22
Other retail	431	19	259	7
Total impaired loans, excluding GNMA and covered loans	4,889	181	5,347	156
Loans purchased from GNMA mortgage pools	1,869	68	1,363	51
Covered loans	588	21	1,042	20
Total	\$ 7,346	\$ 270	\$ 7,752	\$ 227

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.

The following table provides a summary of loans modified as TDRs by portfolio class:

(Dollars in Millions)	2013			2012		
	Pre-Modification Number of Loans	Post-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance	Pre-Modification Number of Loans	Post-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance
Three Months Ended September 30						
Commercial	551	\$ 62	\$ 60	1,754	\$ 54	\$ 58
Commercial real estate	48	76	73	63	91	80
Residential mortgages	338	42	42	2,717	344	336
Credit card	6,447	39	38	14,137	52	67
Other retail	847	21	21	6,231	159	156
Total loans, excluding GNMA and covered loans	8,231	240	234	24,902	700	697
Loans purchased from GNMA mortgage pools	2,315	300	284	4,859	660	589
Covered loans	38	19	11	73	49	46
Total loans	10,584	\$ 559	\$ 529	29,834	\$ 1,409	\$ 1,332
Nine Months Ended September 30						
Commercial	1,962	\$ 150	\$ 140	4,081	\$ 215	\$ 195
Commercial real estate	147	193	186	245	416	390
Residential mortgages	1,575	214	210	3,788	529	517
Credit card	20,147	122	122	39,040	189	203
Other retail	3,519	86	85	8,028	194	191
Total loans, excluding GNMA and covered loans	27,350	765	743	55,182	1,543	1,496
Loans purchased from GNMA mortgage pools	6,450	822	782	8,436	1,116	1,087
Covered loans	109	85	64	166	246	234
Total loans	33,909	\$ 1,672	\$ 1,589	63,784	\$ 2,905	\$ 2,817

Residential mortgages, home equity and second mortgages, and loans purchased from Government National Mortgage Association (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 2013, at September 30, 2013, 142 residential mortgages, 5 home equity and second mortgage loans and 1,905 loans purchased from GNMA mortgage pools with outstanding balances of \$18 million, less than \$1 million and \$247 million, respectively, were in a trial period and have estimated post-modification balances of \$16 million, less than \$1 million and \$231 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.

Credit card and other retail loan modifications are generally part of two distinct restructuring programs. The Company offers workout 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. The Company also provides modification programs to qualifying customers experiencing a temporary financial hardship in which reductions are made to monthly required minimum payments for up to 12 months. Balances related to these programs are generally frozen; however, accounts may be reopened upon successful exit of the program, in which account privileges may be restored.

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 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 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)	2013		2012	
	Number of Loans	Amount Defaulted	Number of Loans	Amount Defaulted
Three Months Ended September 30				
Commercial	143	\$ 37	195	\$ 2
Commercial real estate	30	18	13	12
Residential mortgages	303	41	116	30
Credit card	1,485	8	2,536	14
Other retail	278	10	189	4
Total loans, excluding GNMA and covered loans	2,239	114	3,049	62
Loans purchased from GNMA mortgage pools	492	69	248	34
Covered loans	24	25	8	3
Total loans	2,755	\$ 208	3,305	\$ 99
Nine Months Ended September 30				
Commercial	483	\$ 42	652	\$ 33
Commercial real estate	72	90	96	176
Residential mortgages	673	100	427	64
Credit card	5,109	29	7,452	42
Other retail	1,164	53	531	8
Total loans, excluding GNMA and covered loans	7,501	314	9,158	323
Loans purchased from GNMA mortgage pools	4,795	615	731	106
Covered loans	49	37	49	90

Total loans	12,345	\$	966	9,938	\$	519
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In addition to the defaults in the table above, during the three and nine months ended September 30, 2013, the Company had a total of 135 and 441 of residential mortgage loans, home equity and second mortgage loans and loans purchased from GNMA mortgage pools with aggregate outstanding balances of \$18 million and \$59 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.

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. 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, 2013				December 31, 2012			
	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other Assets	Total	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other Assets	Total
Commercial loans	\$	\$ 109	\$	\$ 109	\$	\$ 143	\$	\$ 143
Commercial real estate loans	973	1,803		2,776	1,323	2,695		4,018
Residential mortgage loans	3,103	935		4,038	3,978	1,109		5,087
Credit card loans		5		5		5		5
Other retail loans		683		683		775		775
Losses reimbursable by the FDIC (a)			820	820			1,280	1,280
Unamortized changes in FDIC asset (b)			965	965				
Covered loans	4,076	3,535	1,785	9,396	5,301	4,727	1,280	11,308
Foreclosed real estate			176	176			197	197
Total covered assets	\$ 4,076	\$ 3,535	\$ 1,961	\$ 9,572	\$ 5,301	\$ 4,727	\$ 1,477	\$ 11,505

(a) Relates to loss sharing agreements with remaining terms up to six 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. These amounts were presented within the separate loan categories prior to January 1, 2013.

The Company adopted new indemnification asset accounting guidance effective January 1, 2013 applicable to FDIC loss-sharing agreements. The guidance requires any reduction in expected cash flows from the FDIC resulting from increases in expected cash flows from the covered assets (when there are no previous valuation allowances to reverse) to be amortized over the shorter of the remaining contractual term of the indemnification agreements or the remaining life of the covered assets. Prior to adoption of this guidance, such increases in expected cash flows of purchased loans and decreases in expected cash flows of the FDIC indemnification assets were considered together and recognized over the remaining life of the loans. The adoption of this guidance did not materially affect the Company's financial statements.

At September 30, 2013, \$9 million of the purchased impaired loans included in covered loans were classified as nonperforming assets, compared with \$82 million at December 31, 2012, 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 4 Accounting for Transfers and Servicing of Financial Assets and Variable Interest Entities

The Company sells financial assets in the normal course of business. The majority of the Company's financial asset sales are residential mortgage loan sales primarily to government-sponsored enterprises (GSEs) through established programs, the sale or syndication 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. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest and thus qualify for derecognition. 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. The guarantees provided to certain third-parties in connection with the sale or syndication of certain assets, primarily loan portfolios and tax-advantaged investments, are further discussed in Note 14. When the Company sells financial assets, it may retain servicing rights and/or other interests in the transferred financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and 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 5. 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 primarily represent private investment funds or partnerships that make equity investments or provide debt financing promoting the development of affordable housing, community development and renewable energy sources. Some of these investments support the Company's regulatory compliance with the Community Reinvestment Act. In addition, the Company sponsors entities to which it transfers tax-advantaged investments. The Company's investments in these entities are designed to generate a return primarily through the realization of federal and state income tax credits over specified time periods. The Company realized federal and state income tax credits related to these investments of \$441 million and \$227 million for the three months ended September 30, 2013, and 2012, respectively, and \$981 million and \$581 million for the nine months ended September 30, 2013 and 2012, respectively. These tax credits are recognized as a reduction of tax expense or, for certain investments, as a reduction to the related investment asset. The Company also recognized, in its Consolidated Statement of Income, \$292 million and \$263 million of costs related to these investments for the three months ended September 30, 2013 and 2012, respectively, of which \$132 million and \$123 million, respectively, was included in tax expense and the remainder was included in noninterest expense. The Company recognized \$931 million and \$677 million of costs related to these investments for the nine months ended September 30, 2013 and 2012, respectively, of which \$512 million and \$316 million, respectively, was included in tax expense and the remainder was included in noninterest expense.

During 2013, the Company transferred its control over the most significant activities of certain consolidated community development and tax-advantaged investment VIEs to a third party manager. The third party manager also has provided a guarantee to these VIEs related to the occurrence of certain tax credit recapture events and, therefore, has an obligation to absorb certain losses that could potentially be significant to the VIEs. Previously, the Company consolidated these VIEs because it had a controlling financial interest in the entities. After the transfer of control to the third party manager, the Company no longer had a controlling financial interest and deconsolidated the VIEs. The deconsolidation resulted in a decrease in both assets and liabilities, primarily other assets and long-term debt, respectively, of approximately \$4.6 billion. The deconsolidation and remeasurement of the Company's investment in these unconsolidated VIEs to fair value did not materially impact the Company's Consolidated Statement of Income. The total amount of the Company's investment in the VIEs was \$1.0 billion at September 30, 2013 and is reported in other assets.

At September 30, 2013, approximately \$1.8 billion of the Company's assets and \$434 million of its liabilities included on the Consolidated Balance Sheet were related to community development and tax-advantaged investment VIEs which the Company has consolidated, compared with \$7.1 billion and \$5.2 billion, respectively, at December 31, 2012. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt. 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 sold to others with a guarantee.

In addition, the Company 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, 2013, \$134 million of the held-to-maturity investment securities on the Company's Consolidated Balance Sheet are related to the conduit, compared with \$144 million at December 31, 2012.

The Company also 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, 2013, \$4.8 billion of available-for-sale securities and \$4.7 billion of short-term borrowings on the Consolidated Balance Sheet were related to the tender option bond program, compared with \$5.3 billion of available-for-sale securities and \$5.0 billion of short-term borrowings at December 31, 2012.

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 generally are carried in other assets on the Consolidated Balance Sheet. The Company's investments in unconsolidated VIEs at September 30, 2013 ranged from less than \$1 million to \$40 million, with an aggregate amount of \$2.7 billion, net of \$1.9 billion of liabilities recorded primarily for unfunded capital commitments of the Company to specific project sponsors. The Company's investments in unconsolidated VIEs at December 31, 2012, ranged from less than \$1 million to \$58 million, with an aggregate amount of \$1.9 billion, net of liabilities of \$1.3 billion recorded primarily for unfunded capital commitments. While the Company believes potential losses from these investments are remote, the Company's maximum exposure to loss from these unconsolidated VIEs was \$7.2 billion at September 30, 2013 and \$5.2 billion at December 31, 2012. The maximum exposure to loss was primarily related to community development tax-advantaged investments and included \$2.6 billion at September 30, 2013 and \$1.8 billion at December 31, 2012, on the Company's Consolidated Balance Sheet, and \$4.5 billion at September 30, 2013 and \$3.3 billion at December 31, 2012, of previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. The remaining amounts related to investments in private investment funds and partnerships for which the maximum exposure to loss included amounts recorded on the Consolidated Balance Sheet and any unfunded commitments. The maximum exposure was determined by assuming a scenario where the separate investments within the individual private funds become worthless, and the community-based business and housing projects and related tax credits completely fail and do not meet certain government compliance requirements.

Note 5 Mortgage Servicing Rights

The Company serviced \$226.7 billion of residential mortgage loans for others at September 30, 2013, and \$215.6 billion at December 31, 2012. The net impact included in mortgage banking revenue of fair value changes of MSR's and derivatives used to economically hedge MSR's were net gains of \$108 million and \$10 million for the three months ended September 30, 2013 and 2012, respectively, and net gains of \$163 million and \$72 million for the nine months ended September 30, 2013 and 2012, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue, were \$192 million and \$181 million for the three months ended September 30, 2013 and 2012, respectively, and \$566 million and \$526 million for the nine months ended September 30, 2013 and 2012, respectively.

Changes in fair value of capitalized MSR's are summarized as follows:

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 2,377	\$ 1,594	\$ 1,700	\$ 1,519
Rights purchased	2	10	7	39
Rights capitalized	187	224	674	700
Changes in fair value of MSR's				
Due to fluctuations in market interest rates (a)	71	(123)	503	(298)
Due to revised assumptions or models (b)	42	(2)	33	(19)
Other changes in fair value (c)	(102)	(150)	(340)	(388)
Balance at end of period	\$ 2,577	\$ 1,553	\$ 2,577	\$ 1,553

(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, 2013						December 31, 2012					
	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	\$ (494)	\$ (223)	\$ (107)	\$ 92	\$ 173	\$ 324	\$ (370)	\$ (217)	\$ (118)	\$ 126	\$ 249	\$ 480
Derivative instrument hedges	427	211	102	(93)	(174)	(317)	473	249	124	(121)	(243)	(486)
Net sensitivity	\$ (67)	\$ (12)	\$ (5)	\$ (1)	\$ (1)	\$ 7	\$ 103	\$ 32	\$ 6	\$ 5	\$ 6	\$ (6)

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