US BANCORP \DE\
Form 10-Q
November 06, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934
For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES þ NO ¨

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

YES þ NO ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

YES ¨ NO þ

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

Class	Outstanding as of October 31, 2014
Common Stock, $.01 Par Value	1,789,386,385 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A reversal or slowing of the current moderate economic recovery or another severe contraction could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance is likely to be negatively impacted by recently enacted and future legislation and regulation. U.S. Bancorp s results could also be adversely affected by deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, residual value risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational risk.

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

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Table 1 Selected Financial Data

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

	September 30, 2014	December 31, 2013	
Period End Balances			
Loans	$ 245,591	$ 235,235	4.4%
Investment securities	96,905	79,855	21.4
Assets	391,284	364,021	7.5
Deposits	273,097	262,123	4.2
Long-term debt	30,768	20,049	53.5
Total U.S. Bancorp shareholders equity	43,141	41,113	4.9
Asset Quality			
Nonperforming assets	$ 1,923	$ 2,037	(5.6)
Allowance for credit losses	4,414	4,537	(2.7)
Allowance for credit losses as a percent of period-end loans	1.80%	1.93%	
Capital Ratios			

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

* *Not meaningful.*

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

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

(c) *Excludes unrealized gains and losses on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.*

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

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

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Management s Discussion and Analysis

OVERVIEW

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

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

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

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

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

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

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

The provision for credit losses for the first nine months of 2014 of $941 million was $122 million (11.5 percent) lower than the first nine months of 2013. Net charge-offs in the first nine months of 2014 were $1.0 billion, compared with $1.2 billion in the first nine months of 2013. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

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

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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 $8.2 billion in the first nine months of 2014, or increases of $34 million (1.3 percent) and $103 million (1.3 percent), respectively, compared with the same periods of 2013. The increases were the result of growth in average earning assets and lower cost core deposit funding, partially offset by lower rates on new loans and investment securities and lower loan fees. Average earning assets were $31.4 billion (10.0 percent) higher in the third quarter and $22.6 billion (7.2 percent) higher in the first nine months of 2014, compared with the same periods of 2013, driven by increases in loans and investment securities, partially offset by decreases in loans held for sale. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2014 was 3.16 percent and 3.26 percent, respectively, compared with 3.43 percent and 3.45 percent in the third quarter and first nine months of 2013, respectively. The decreases from the same periods of the prior year primarily reflected lower reinvestment rates on investment securities, as well as growth in the investment portfolio at lower average rates, lower loan fees due to the wind down of the short-term, small dollar advance product, Checking Account Advance (CAA), and strong growth in lower rate commercial loans, partially offset by lower funding costs. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average total loans for the third quarter and first nine months of 2014 were $14.5 billion (6.3 percent) and $14.4 billion (6.4 percent) higher, respectively, than the same periods of 2013, driven by growth in commercial loans, residential mortgages, commercial real estate loans, credit card loans and other retail loans. These increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by a decline in loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC). Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) decreased $2.5 billion (25.6 percent) in the third quarter and $2.6 billion (24.9 percent) in the first nine months of 2014, compared with the same periods of 2013, respectively.

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

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

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Table 2 Noninterest Income

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

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2014 increased $13 million (4.4 percent) and decreased $122 million (11.5 percent), respectively, compared with the same periods of 2013. Net charge-offs increased $8 million (2.4 percent) and decreased $127 million (11.0 percent) in the third quarter and first nine months of 2014, respectively, compared with the same periods of the prior year, reflecting higher commercial loan charge-offs and lower recoveries in commercial real estate in the current year, offset by improvements in residential mortgages and home equity and second mortgages. The provision for credit losses was lower than net charge-offs by $25 million in the third quarter and $85 million in the first nine months of 2014, compared with $30 million in the third quarter and $90 million in the first nine months of 2013. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was $2.2 billion in the third quarter and $6.8 billion in the first nine months of 2014, reflecting increases of $65 million (3.0 percent) and $176 million (2.7 percent), respectively, compared with the same periods of 2013. The increases over a year ago were principally due to increases in a majority of fee revenue categories, partially offset by reductions in mortgage banking revenue. Trust and investment management fees increased, reflecting account growth, improved market conditions and business expansion. Merchant processing services revenue was higher as a result of increases in fee-based product revenue and higher volumes, partially offset by lower rates. Credit and debit card revenue and corporate payment products revenue increased primarily due to higher transaction volumes. Deposit service charges were higher due to account growth, the Charter One acquisition and pricing changes. Other income increased, reflecting higher equity investment income and retail leasing revenue. Other income further increased in the first nine months of 2014, compared with the same period of the prior year, due to the second quarter 2014 Visa sale. In addition, commercial products revenue for the first nine months of 2014 increased compared with the same period of the prior year, principally due to higher syndication fees on tax-advantaged projects and higher bond underwriting fees, partially offset by lower standby letters of credit fees. The decrease in mortgage banking revenue in the third quarter of 2014, compared with the third quarter of 2013, was principally due to an unfavorable change in the valuation of mortgage servicing rights (MSRs), net of hedging activities. The decrease in mortgage banking revenue in the first nine months of 2014, compared with the same period of the prior year, was primarily due to lower origination and sales revenue.

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

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Table 3 Noninterest Expense

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

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

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

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

BALANCE SHEET ANALYSIS

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

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

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

Residential mortgages held in the loan portfolio increased $801 million (1.6 percent) at September 30, 2014, compared with December 31, 2013. Residential mortgages originated and placed in the Company s loan portfolio are primarily well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality. The Company generally retains portfolio loans through maturity; however, the Company s intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company s intent or ability to hold an existing portfolio loan changes, the loan is transferred to loans held for sale.

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

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

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

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

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Table 4 Investment Securities

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

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

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

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

(d) The weighted-average maturity of the available-for-sale investment securities was 6.0 years at December 31, 2013, with a corresponding weighted-average yield of 2.64 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.5 years at December 31, 2013, with a corresponding weighted-average yield of 2.00 percent.

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

(Dollars in Millions)	September 30, 2014 Amortized Cost	Percent of Total	December 31, 2013 Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 5,371	5.5%	$ 4,222	5.3%
Mortgage-backed securities	83,963	87.0	68,236	85.3

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

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

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

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

In December 2013, U.S. banking regulators approved final rules that prohibit banks from holding certain types of investments, such as investments in hedge and private equity funds. The Company does not anticipate the implementation of these final rules will require any significant liquidation of securities held or impairment charges. Refer to Notes 4 and 15 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $273.1 billion at September 30, 2014, compared with $262.1 billion at December 31, 2013, the result of increases in total savings deposits, noninterest-bearing deposits and time deposits greater than $100,000, including the Charter One acquisition, partially offset by a decrease in time deposits less than $100,000. Money market deposit balances increased $6.1 billion (10.3 percent) at September 30, 2014, compared with December 31, 2013, primarily due to higher corporate trust, Wholesale Banking and Commercial Real Estate, and Consumer and Small Business Banking balances, including the Charter One acquisition. Savings account balances increased $2.2 billion (6.7 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking. Interest checking balances increased $1.5 billion (2.8 percent) primarily due to higher Wholesale Banking and Commercial Real Estate, and Consumer and Small Business Banking balances, including the Charter One acquisition, partially offset by lower corporate trust and broker-dealer balances. Noninterest-bearing deposits increased $1.7 billion (2.2 percent) at September 30, 2014, compared with December 31, 2013, primarily due to higher Consumer and Small Business Banking balances, including the Charter One acquisition. Time deposits greater than $100,000 increased $369 million (1.3 percent) at September 30, 2014, compared with December 31, 2013. Time deposits greater than $100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics. Time deposits less than $100,000 decreased $876 million (7.4 percent) at September 30, 2014, compared with December 31, 2013, primarily due to maturities.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $30.0 billion at September 30, 2014, compared with $27.6 billion at December 31, 2013. The $2.4 billion (8.8 percent) increase in short-term borrowings was primarily due to higher commercial paper and other short-term borrowings balances, partially offset by lower repurchase agreement balances. Long-term debt was $30.8 billion at September 30, 2014, compared with $20.0 billion at December 31, 2013. The $10.8 billion (53.5 percent) increase was primarily due to the issuances of $7.6 billion of bank notes, $2.3 billion of medium-term notes and $1.0 billion of subordinated notes, and a $1.8 billion increase in Federal Home Loan Bank advances, partially offset by $1.0 billion of subordinated note and $1.0 billion of medium-term note maturities. These increases in borrowings were used to fund the Company s loan growth and securities purchases. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

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

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

The Company s most prominent risk exposures are credit, residual value, interest rate, market, liquidity, operational, compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the

principal balance of a loan, investment or derivative contract when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the re-pricing of assets and liabilities differently. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale, MSRs and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations to depositors, investors, or borrowers. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events, including the risk of loss resulting from breaches in data security. Compliance risk is the risk that customers may suffer economic loss or other injury, and/or that the Company may suffer regulatory sanctions, material financial loss, or loss to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputational risk is the potential that negative publicity or press regarding the Company s business practices or products, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for a detailed discussion of these factors.

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

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

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

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

In addition, credit quality ratings, as defined by the Company, are an important part of the Company s overall credit risk management and evaluation of its

allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company s rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including all of the Company s loans that are 90 days or more past due and still accruing, nonaccrual loans, loans considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company s internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to compute estimated loan-to-value (LTV) ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not the primary source of repayment. Refer to Note 5 in the Notes to Consolidated Financial Statements for further discussion of the Company s loan portfolios including internal credit quality ratings. In addition, refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into three segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company s three loan portfolio segments are commercial lending, consumer lending and covered loans. The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution, non-profit and public sector customers. Key risk characteristics relevant to commercial lending segment loans include the industry and geography of the borrower s business, purpose of the loan, repayment source, borrower s debt capacity and financial flexibility, loan covenants, and nature of pledged collateral, if any. These risk characteristics, among others, are considered in determining estimates about the likelihood of default by the borrowers and the severity of loss in the event of default. The Company considers these risk characteristics in assigning internal risk ratings to, or forecasting losses on, these loans which are the significant factors in determining the allowance for credit losses for loans in the commercial lending segment.

The consumer lending segment represents loans and leases made to consumer customers including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, student loans, and home equity loans and lines. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10- or 15-year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines in the portfolio are variable rates benchmarked to the prime rate, with a 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 10-year amortization period. A 10-year draw and 20-year amortization product was introduced during 2013 to provide customers the option to repay their outstanding balances over a longer period. At September 30, 2014, substantially all of the Company s home equity lines were in the draw period. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and in some cases, updated LTV information on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

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

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

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

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

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

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

Residential mortgages

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	$ 1,880	$ 37,335	$ 39,215	88.3%
Over 80% through 90%	172	2,450	2,622	5.9
Over 90% through 100%	133	1,020	1,153	2.6
Over 100%	187	1,156	1,343	3.0
No LTV available		98	98	.2
Total	$ 2,372	$ 42,059	$ 44,431	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$	$ 610	$ 610	48.1%
Over 80% through 90%		202	202	15.9
Over 90% through 100%		173	173	13.6
Over 100%		284	284	22.4
No LTV available				
Total	$	$ 1,269	$ 1,269	100.0%
Other Borrowers				
Less than or equal to 80%	$ 5	$ 459	$ 464	55.5%
Over 80% through 90%		153	153	18.3
Over 90% through 100%		66	66	7.9
Over 100%		153	153	18.3
No LTV available				
Total	$ 5	$ 831	$ 836	100.0%
Loans Purchased From GNMA Mortgage Pools (a)	$	$ 5,421	$ 5,421	100.0%
Total				
Less than or equal to 80%	$ 1,885	$ 38,404	$ 40,289	77.6%
Over 80% through 90%	172	2,805	2,977	5.7
Over 90% through 100%	133	1,259	1,392	2.7
Over 100%	187	1,593	1,780	3.4
No LTV available		98	98	.2
Loans purchased from GNMA mortgage pools (a)		5,421	5,421	10.4
Total	$ 2,377	$ 49,580	$ 51,957	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%	$ 9,466	$ 715	$ 10,181	67.8%
Over 80% through 90%	2,027	227	2,254	15.0
Over 90% through 100%	901	103	1,004	6.7
Over 100%	1,206	113	1,319	8.8
No LTV/CLTV available	226	34	260	1.7
Total	$ 13,826	$ 1,192	$ 15,018	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$ 38	$ 31	$ 69	27.5%
Over 80% through 90%	12	23	35	14.0
Over 90% through 100%	10	28	38	15.1
Over 100%	27	79	106	42.2
No LTV/CLTV available		3	3	1.2
Total	$ 87	$ 164	$ 251	100.0%
Other Borrowers				
Less than or equal to 80%	$ 378	$ 13	$ 391	78.2%
Over 80% through 90%	66	7	73	14.6
Over 90% through 100%	14	1	15	3.0
Over 100%	16	3	19	3.8
No LTV/CLTV available	2		2	.4
Total	$ 476	$ 24	$ 500	100.0%
Total				
Less than or equal to 80%	$ 9,882	$ 759	$ 10,641	67.5%
Over 80% through 90%	2,105	257	2,362	15.0
Over 90% through 100%	925	132	1,057	6.7
Over 100%	1,249	195	1,444	9.1
No LTV/CLTV available	228	37	265	1.7
Total	$ 14,389	$ 1,380	$ 15,769	100.0%

At September 30, 2014, approximately $1.3 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent agencies at loan origination, compared with $1.4 billion at December 31, 2013. In addition to residential mortgages, at September 30, 2014, $.3 billion of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, unchanged from December 31, 2013. The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only .4 percent of total assets at September 30, 2014, compared with .5 percent at December 31, 2013. The Company considers sub-prime loans to be those made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company s underwriting programs specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company s program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

Covered loans included $880 million in loans with negative-amortization payment options at September 30, 2014, compared with $986 million at December 31, 2013. Other than covered loans, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

Home equity and second mortgages were $15.8 billion at September 30, 2014, compared with $15.4 billion at December 31, 2013, and included $5.0 billion of home equity lines in a first lien position and $10.8 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at September 30, 2014, included approximately $4.1 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $6.7 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators

for the Company s junior lien positions at September 30, 2014:

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

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

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

90 days or more past due **excluding** nonperforming loans	September 30, 2014	December 31, 2013
Commercial		
Commercial	.05%	.08%
Lease financing		
Total commercial	.05	.08
Commercial Real Estate		
Commercial mortgages	.01	.02
Construction and development	.11	.30
Total commercial real estate	.03	.07
Residential Mortgages (a)	.41	.65
Credit Card	1.10	1.17
Other Retail		
Retail leasing	.02	
Other	.17	.21
Total other retail (b)	.16	.18
Total loans, excluding covered loans	.22	.31
Covered Loans	6.10	5.63
Total loans	.39%	.51%

90 days or more past due **including** nonperforming loans	September 30, 2014	December 31, 2013
Commercial	.27%	.27%
Commercial real estate	.62	.83
Residential mortgages (a)	2.02	2.16
Credit card	1.32	1.60
Other retail (b)	.53	.58
Total loans, excluding covered loans	.84	.97
Covered loans	7.34	7.13
Total loans	1.03%	1.19%

(a) *Delinquent loan ratios exclude $3.1 billion at September 30, 2014, and $3.7 billion at December 31, 2013, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 7.91 percent at September 30, 2014, and 9.34 percent at December 31, 2013.*

(b) *Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including these loans, the ratio of total other retail loans 90 days or more past due including all nonperforming loans was .84 percent at September 30, 2014, and .93 percent at December 31, 2013.*

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $962 million ($532 million excluding covered loans) at September 30, 2014, compared with $1.2 billion ($713 million excluding covered loans) at December 31, 2013. These balances exclude loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was .39 percent (.22 percent excluding covered loans) at September 30, 2014, compared with .51 percent (.31 percent excluding covered loans) at December 31, 2013.

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

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

(a) Excludes $422 million of loans 30-89 days past due and $3.1 billion of loans 90 days or more past due at September 30, 2014, purchased from GNMA mortgage pools that continue to accrue interest, compared with $440 million and $3.7 billion at December 31, 2013, respectively.
(b) Includes revolving credit, installment, automobile and student loans.

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

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

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

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

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

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The following table provides summary delinquency information for covered loans:

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

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

Troubled Debt Restructurings Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. At September 30, 2014, performing TDRs were $5.5 billion, compared with $6.0 billion at December 31, 2013. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

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

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

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

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

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

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

(a) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months) and small business credit cards with a modified rate equal to 0 percent.
(b) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months).
(c) Primarily represents loans with a modified rate equal to 0 percent.
(d) Includes $318 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $99 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(e) Includes $140 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $6 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(f) Includes $492 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $665 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

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

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Table 6 Nonperforming Assets (a)

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

Changes in Nonperforming Assets

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

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

(b) Excludes $3.1 billion and $3.7 billion at September 30, 2014, and December 31, 2013, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

(c)

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

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

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

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

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

Other real estate owned, excluding covered assets, was $275 million at September 30, 2014, compared with $327 million at December 31, 2013, and was related to foreclosed properties that previously secured loan balances. These balances exclude foreclosed GNMA loans whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Residential				
Florida	$ 18	$ 17	1.10%	1.03%
Minnesota	15	15	.24	.24
Illinois	14	14	.32	.36
Washington	13	16	.32	.40
Colorado	12	13	.28	.31
All other states	164	191	.35	.41
Total residential	236	266	.35	.40
Commercial				
California	11	14	.06	.08
Missouri	5	14	.11	.30
Tennessee	3	5	.13	.25
Indiana	3		.22	
Virginia	3	2	.19	.16
All other states	14	26	.02	.03
Total commercial	39	61	.03	.06
Total	$ 275	$ 327	.12%	.14%

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

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

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

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

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

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

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

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

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

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

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

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

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

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At September 30, 2014, the Company serviced the first lien on 38 percent of the home equity loans and lines in a junior lien position. The Company also considers information received from its primary regulator on the status of the first liens that are serviced by other large servicers in the industry and the status of first lien mortgage accounts reported on customer credit bureau files. Regardless of whether or not the Company services the first lien, an assessment is made of economic conditions, problem loans, recent loss experience and other factors in determining the allowance for credit losses. Based on the available information, the Company estimated $357 million or 2.3 percent of the total home equity portfolio at September 30, 2014, represented junior liens where the first lien was delinquent or modified.

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

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

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

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

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

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

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

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

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Table 8 Summary of Allowance for Credit Losses

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

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

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

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

(c) At September 30, 2014 and 2013, $1.7 billion of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

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Residual Value Risk Management The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2014, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2013. Refer to Management s Discussion and Analysis Residual Value Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on residual value risk management.

Operational Risk Management Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company s objectives. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. Business managers maintain a system of controls with the objective of providing proper transaction authorization and execution, proper system operations, proper oversight of third parties with whom they do business, safeguarding of assets from misuse or theft, and ensuring the reliability and security of financial and other data. Refer to Management s Discussion and Analysis Operational Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on operational risk management.

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

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

Net Interest Income Simulation Analysis Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The table below summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALCO policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At September 30, 2014, and December 31, 2013, the Company was within policy. Refer to Management s Discussion and Analysis Net Interest Income Simulation Analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on net interest income simulation analysis.

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts, and flattening or steepening of the yield curve. The ALCO policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. A 200 bps increase would have resulted in a 4.3 percent decrease in the market value of equity at September 30, 2014, compared with a 5.1 percent decrease at December 31, 2013. A 200 bps decrease, where possible given current rates, would have resulted in a 4.4 percent decrease in the market value of equity at September 30, 2014, compared with a .8 percent decrease at December 31, 2013. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on market value of equity modeling.

Sensitivity of Net Interest Income

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

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

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

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

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

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

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

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

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

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

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

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

Nine Months Ended September 30

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

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR by more than a negligible amount during the nine months ended September 30, 2014 and 2013. The Company stress tests its market risk measurements to provide management with perspectives on market events that may not be captured by its VaR models, including worst case historical market movement combinations that have not necessarily occurred on the same date.

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

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

Nine Months Ended September 30

(Dollars in Millions)	2014	2013
Average	$ 4	$ 4
High	8	8
Low	2	2
Period-end	5	4

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

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

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

Nine Months Ended September 30	2014	2013

(Dollars in Millions)		
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$ 1	$ 2
High	2	4
Low		
Mortgage Servicing Rights and Related Hedges		
Average	$ 3	$ 3
High	8	6
Low	2	1

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

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

Company s ability to meet funding requirements arising from adverse company-specific or market events.

The Company regularly projects its funding needs under various stress scenarios and maintains a contingency plan consistent with the Company s access to diversified sources of contingent funding. The Company maintains a substantial level of total available liquidity in the form of on-balance sheet and off-balance sheet funding sources. These include cash at the Federal Reserve Bank, unencumbered liquid assets, and capacity to borrow at the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank s Discount Window. At September 30, 2014, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $82.9 billion, compared with $61.7 billion at December 31, 2013. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company s ability to pledge loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At September 30, 2014, the Company could have borrowed an additional $78.9 billion at the FHLB and Federal Reserve Bank based on collateral available for additional borrowings.

The Company s diversified deposit base provides a sizeable source of relatively stable and low-cost funding, while reducing the Company s reliance on the wholesale markets. Total deposits were $273.1 billion at September 30, 2014, compared with $262.1 billion at December 31, 2013. Refer to Balance Sheet Analysis for further information on the Company s deposits.

Additional funding is provided by long-term debt and short-term borrowings. Long-term debt was $30.8 billion at September 30, 2014, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $30.0 billion at September 30, 2014, and supplement the Company s other funding sources. Refer to Balance Sheet Analysis for further information on the Company s long-term debt and short-term borrowings.

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

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

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

Refer to Management s Discussion and Analysis Liquidity Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on liquidity risk management.

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

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

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

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

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

Off-Balance Sheet Arrangements Off-balance sheet arrangements include any contractual arrangements to which an unconsolidated entity is a party, under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. Refer to Note 16 of the Notes to Consolidated Financial Statements for further information on these arrangements. The Company has not utilized private label asset securitizations as a source of funding. Off-balance sheet arrangements also include any obligation related to a variable interest held in an unconsolidated entity that provides financing, liquidity, credit enhancement or market risk support. Refer to Note 6 of the Notes to Consolidated Financial

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

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. Prior to 2014, the regulatory capital requirements effective for the Company followed the Capital Accord of the Basel Committee on Banking Supervision (Basel I). Beginning January 1, 2014, the regulatory capital requirements effective for the Company follow Basel III, subject to certain transition provisions from Basel I over the following four years to full implementation by January 1, 2018. Basel III includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches. As of April 1, 2014, the Company exited its parallel run qualification period, resulting in its capital adequacy now being evaluated against the Basel III methodology that is most restrictive. Table 9 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2014 and December 31, 2013. All regulatory ratios exceeded regulatory well-capitalized requirements.

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

Total U.S. Bancorp shareholders equity was $43.1 billion at September 30, 2014, compared with $41.1 billion at December 31, 2013. The increase was primarily the result of corporate earnings and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income, partially offset by dividends and common share repurchases.

The Company believes certain capital ratios in addition to statutory regulatory capital ratios are useful in evaluating its capital adequacy. The Company s tangible common equity, as a percent of tangible assets and as a percent of risk-weighted assets calculated under the standardized approach, were 7.6 percent and 9.3 percent, respectively, at September 30, 2014, compared with 7.7 percent and 9.1 percent, respectively, at

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Table 9 Regulatory Capital Ratios

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

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

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

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

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

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

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

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

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

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

Refer to Management s Discussion and Analysis Capital Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on capital management.

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company s business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. The allowance for credit losses and related provision expense are allocated to the lines of business based on the related loan balances managed. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2014, certain organization and methodology changes

were made and, accordingly, 2013 results were restated and presented on a comparable basis.

Wholesale Banking and Commercial Real Estate Wholesale Banking and Commercial Real Estate offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution, non-profit and public sector clients. Wholesale Banking and Commercial Real Estate contributed $267 million of the Company s net income in the third quarter and $827 million in the first nine months of 2014, or decreases of $57 million (17.6 percent) and $132 million (13.8 percent), respectively, compared with the same periods of 2013. The decreases were primarily driven by higher provision for credit losses and lower net revenue.

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

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

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

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

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Table 10 Line of Business Financial Performance

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

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

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

**Not meaningful*

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

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

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

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

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

Wealth Management and Securities Services Wealth Management and Securities Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Securities Services contributed $63 million of the Company s net income in the third quarter and $173 million in the first nine months of 2014, or increases of $27 million (75.0 percent) and $52 million (43.0 percent), respectively, compared with the same periods of 2013. The increases were primarily due to higher net revenue, partially offset by higher noninterest expense.

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

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

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate, government and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed $298 million of the Company s net income in the third quarter and $809 million in the first nine months of 2014, or increases of $32 million (12.0 percent) and $66 million (8.9 percent), respectively, compared with the same periods of 2013. The increases were primarily due to higher net revenue, partially offset by higher noninterest expense and provision for credit losses.

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

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

Treasury and Corporate Support Treasury and Corporate Support includes the Company s investment portfolios, most covered commercial and commercial real estate loans and related other real estate owned, funding, capital management, interest rate risk management, the net effect of transfer pricing related to average balances, income taxes not allocated to business lines, including most investments in tax-advantaged projects, and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of $536 million in the third quarter and $1.6 billion in the first nine months of 2014, compared with $469 million and $1.4 billion in the same periods of 2013, respectively.

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

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

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

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

(1) Includes goodwill related to certain investments in unconsolidated financial institutions per prescribed regulatory requirements beginning March 31, 2014.
(2) Includes net losses on cash flow hedges included in accumulated other comprehensive income and other adjustments.
(3) September 30, 2014, calculated under the Basel III transitional standardized approach; December 31, 2013, calculated under Basel I.
(4) Includes higher risk-weighting for unfunded loan commitments, investment securities, residential mortgages, mortgage servicing rights and other adjustments.

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

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The Company s financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company s financial statements. Critical accounting policies are those policies management believes are the most important to the portrayal of the Company s financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, purchased loans and related indemnification assets, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company s Audit Committee. These accounting policies are discussed in detail in Management s Discussion and Analysis Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

CONTROLS AND PROCEDURES

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

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

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U.S. Bancorp

Consolidated Balance Sheet

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

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

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U.S. Bancorp

Consolidated Statement of Income

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

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

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Comprehensive Income

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

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Shareholders Equity

	U.S. Bancorp Shareholders									
(Dollars and Shares in Millions) (Unaudited)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shareholders Equity	Noncontrolling Interests	Total Equity
Balance December 31, 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
Balance December 31, 2013	1,825	$ 4,756	$ 21	$ 8,216	$ 38,667	$ (9,476)	$ (1,071)	$ 41,113	$ 694	$ 41,807
Net income (loss)					4,363			4,363	44	4,407
Other comprehensive income (loss)							435	435		435
Preferred stock dividends					(181)			(181)		(181)
Common stock dividends					(1,306)			(1,306)		(1,306)
Issuance of common and treasury stock	13			(10)		407		397		397
Purchase of treasury stock	(43)					(1,767)		(1,767)		(1,767)
Distributions to noncontrolling interests									(44)	(44)
Net other changes in noncontrolling interests									(6)	(6)
Stock option and restricted stock grants				87				87		87
Balance September 30, 2014	1,795	$ 4,756	$ 21	$ 8,293	$ 41,543	$ (10,836)	$ (636)	$ 43,141	$ 688	$ 43,829

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Cash Flows

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

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the Company), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs, expenses and other financial elements to each line of business. Table 10 Line of Business Financial Performance included in Management s Discussion and Analysis provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Revenue Recognition In May 2014, the Financial Accounting Standards Board issued accounting guidance, effective for the Company on January 1, 2017, related to revenue recognition from contracts with customers, which amends certain currently existing revenue recognition accounting guidance. The guidance allows for either retrospective application to all periods presented or a modified retrospective approach where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. The Company is currently evaluating the impact of this guidance under the modified retrospective approach and expects the adoption will not be material to its financial statements.

Note 3 Business Combinations

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

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Note 4 Investment Securities

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

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

(a) Held-to-maturity investment securities are carried at historical cost or at fair value at the time of transfer from the available-for-sale to held-to-maturity category, adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment.

(b) Available-for-sale investment securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive income (loss) in shareholders equity.

(c) Prime securities are those designated as such by the issuer at origination. When an issuer designation is unavailable, the Company determines at acquisition date the categorization based on asset pool characteristics (such as weighted-average credit score, loan-to-value, loan type, prevalence of low documentation loans) and deal performance (such as pool delinquencies and security market spreads). When the Company determines the designation, prime securities typically have a weighted average credit score of 725 or higher and a loan-to-value of 80 percent or lower; however, other pool characteristics may result in designations that deviate from these credit score and loan-to-value thresholds.

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

(e) Represents impairment not related to credit for those investment securities that have been determined to be other-than-temporarily impaired.

(f) Represents unrealized losses on investment securities that have not been determined to be other-than-temporarily impaired.

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Losses represent the non-credit portion of other-than-temporary impairment recorded in other comprehensive income (loss) for investment securities determined to be other-than-temporarily impaired during the period. Gains represent recoveries in the fair value of securities that had non-credit other-than-temporary impairment during the period.

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

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

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

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

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

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

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

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

(a)

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

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

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

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

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

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

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

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Note 5 Loans and Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

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

The allowance recorded for Troubled Debt Restructuring (TDR) loans and purchased impaired loans in the consumer lending segment is determined on a homogenous pool basis utilizing expected cash flows discounted using the original effective interest rate of the pool, or the prior quarter effective rate, respectively. The allowance for collateral-dependent loans in the consumer lending segment is determined based on the fair value of the collateral less costs to sell. The allowance recorded for all other consumer lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, delinquency status, refreshed loan-to-value ratios when possible, portfolio growth and historical losses, adjusted for current trends. The Company also considers any modifications made to consumer lending segment loans including the impacts of any subsequent payment defaults since modification in determining the allowance for credit losses, such as the borrower s ability to pay under the restructured terms, and the timing and amount of payments.

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

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

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

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

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

Three Months Ended September 30 (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
2014								
Balance at beginning of period	$ 1,111	$ 725	$ 848	$ 874	$ 779	$ 4,337	$ 112	$ 4,449
Add								
Provision for credit losses	83	(6)	(13)	162	84	310	1	311
Deduct								
Loans charged off	80	10	48	174	96	408	2	410
Less recoveries of loans charged off	(22)	(6)	(6)	(16)	(23)	(73)	(1)	(74)
Net loans charged off	58	4	42	158	73	335	1	336
Other changes (a)							(10)	(10)
Balance at end of period	$ 1,136	$ 715	$ 793	$ 878	$ 790	$ 4,312	$ 102	$ 4,414
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

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

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

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

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

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

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

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

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

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

(a) Represents loans greater than $5 million classified as nonperforming or TDRs.
(b) Includes expected reimbursements from the FDIC under loss sharing agreements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, 2014				
Commercial	$ 408	$ 848	$ 27	$ 135
Commercial real estate	525	1,037	30	14
Residential mortgages	2,740	3,678	261	
Credit card	256	256	64	
Other retail	368	413	47	4
Total impaired loans, excluding GNMA and covered loans	4,297	6,232	429	153
Loans purchased from GNMA mortgage pools	2,478	2,478	51	
Covered loans	295	607	20	1
Total	$ 7,070	$ 9,317	$ 500	$ 154
December 31, 2013				
Commercial	$ 382	$ 804	$ 36	$ 54
Commercial real estate	693	1,322	51	40
Residential mortgages	2,767	3,492	308	
Credit card	310	310	87	
Other retail	391	593	59	14
Total impaired loans, excluding GNMA and covered loans	4,543	6,521	541	108
Loans purchased from GNMA mortgage pools	2,607	2,607	28	
Covered loans	452	1,008	30	4
Total	$ 7,602	$ 10,136	$ 599	$ 112

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

Additional information on impaired loans follows:

	2014		2013	
(Dollars in Millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three Months Ended September 30				
Commercial	$ 425	$ 4	$ 380	$ 5
Commercial real estate	541	4	819	6
Residential mortgages	2,740	33	2,765	32
Credit card	264	1	347	3
Other retail	373	5	417	7
Total impaired loans, excluding GNMA and covered loans	4,343	47	4,728	53
Loans purchased from GNMA mortgage pools	2,647	29	1,883	22
Covered loans				