

The Power of  
**Possible**



2015 Annual Report



The Power of  
**Possible**

Make **Possible** Happen

At U.S. Bancorp, we are in the business of making possible happen. It's what motivates our retail, small business, wholesale and institutional customers and our communities. It's what drives success for our company, employees and shareholders. There's great power in possible, and we live it every day, in everything we do. Because when we invest in the power of possible, we all win.



**U.S. Bancorp** uses its strength and scope to help customers achieve financial security. U.S. Bancorp is a diversified financial services holding company and the parent company of U.S. Bank National Association, the nation's fifth-largest commercial bank.

**FOUR MAJOR LINES OF BUSINESS**

- Consumer + Small Business Banking
- Wholesale Banking + Commercial Real Estate
- Wealth Management + Securities Services
- Payment Services

**BUSINESS SCOPE**

**Regional**

- Consumer + Small Business Banking
- Wealth Management

**National**

- Wholesale Banking + Commercial Real Estate
- Wealth Management + Securities Services

**International**

- Payment Services
- Global Corporate Trust

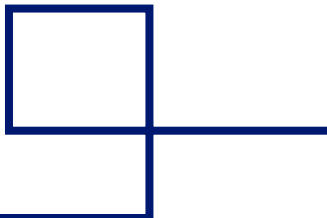
**\$422b**  
in total assets at  
Dec 31, 2015

**67,000**  
employees

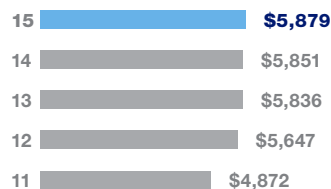
**18.6m**  
customers

Founded in  
**1863**

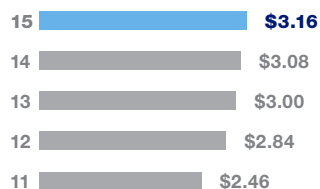




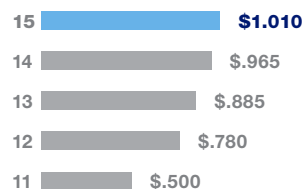
**Net Income Attributable to U.S. Bancorp**



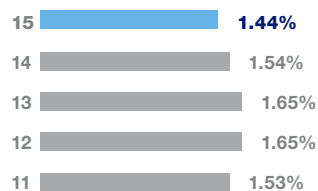
**Diluted Earnings per Common Share**



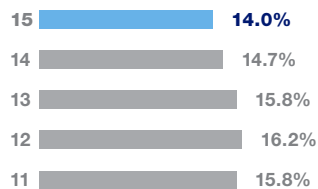
**Dividends Declared per Common Share**



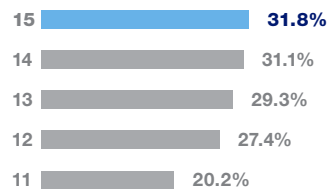
**Return on Average Assets**



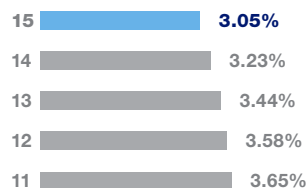
**Return on Average Common Equity**



**Dividend Payout Ratio**



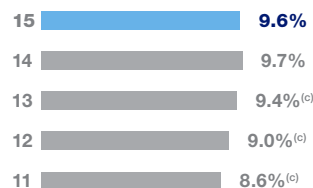
**Net Interest Margin (TEB\*)**



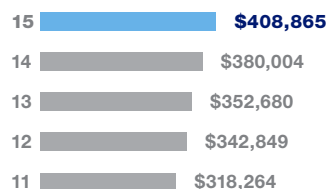
**Efficiency Ratio<sup>(a)</sup>**



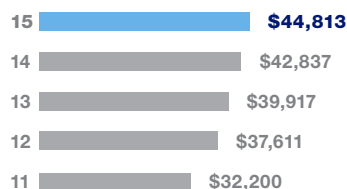
**Common Equity Tier 1 Capital<sup>(b)</sup>**



**Average Assets**



**Average U.S. Bancorp Shareholders' Equity**



**Total Risk-Based Capital<sup>(b)</sup>**



\* Taxable-equivalent basis.

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

(b) December 31, 2015 and 2014, calculated under the Basel III transitional standardized approach; all other periods calculated under Basel I.

(c) See Non-GAAP Financial Measures beginning on page 73.

## FINANCIAL SUMMARY

Years ended December 31 (Dollars and Shares in Millions, Except Per Share Data)	2015	2014	2013	2015 v 2014	2014 v 2013
Total net revenue (taxable-equivalent basis) .....	\$20,306	\$20,161	\$19,602	.7%	2.9%
Noninterest expense .....	10,931	10,715	10,274	2.0	4.3
Provision for credit losses .....	1,132	1,229	1,340	(7.9)	(8.3)
Income taxes and taxable-equivalent adjustment.....	2,310	2,309	2,256	–	2.3
Net income .....	5,933	5,908	5,732	.4	3.1
Net (income) loss attributable to noncontrolling interests.....	(54)	(57)	104	5.3	*
Net income attributable to U.S. Bancorp .....	\$5,879	\$5,851	\$5,836	.5	.3
Net income applicable to U.S. Bancorp common shareholders .....	\$5,608	\$5,583	\$5,552	.4	.6
<b>Per Common Share</b>					
Earnings per share.....	\$3.18	\$3.10	\$3.02	2.6%	2.6%
Diluted earnings per share .....	3.16	3.08	3.00	2.6	2.7
Dividends declared per share.....	1.010	.965	.885	4.7	9.0
Book value per share.....	23.28	21.68	19.92	7.4	8.8
Market value per share .....	42.67	44.95	40.40	(5.1)	11.3
Average common shares outstanding.....	1,764	1,803	1,839	(2.2)	(2.0)
Average diluted common shares outstanding .....	1,772	1,813	1,849	(2.3)	(1.9)
<b>Financial Ratios</b>					
Return on average assets.....	1.44%	1.54%	1.65%		
Return on average common equity .....	14.0	14.7	15.8		
Net interest margin (taxable-equivalent basis) .....	3.05	3.23	3.44		
Efficiency ratio <sup>(a)</sup> .....	53.8	53.2	52.4		
<b>Average Balances</b>					
Loans .....	\$250,459	\$241,692	\$227,474	3.6%	6.3%
Investment securities .....	103,161	90,327	75,046	14.2	20.4
Earning assets.....	367,445	340,994	315,139	7.8	8.2
Assets .....	408,865	380,004	352,680	7.6	7.7
Deposits.....	287,151	266,640	250,457	7.7	6.5
Total U.S. Bancorp shareholders' equity .....	44,813	42,837	39,917	4.6	7.3
<b>Period End Balances</b>					
Loans .....	\$260,849	\$247,851	\$235,235	5.2%	5.4%
Allowance for credit losses .....	4,306	4,375	4,537	(1.6)	(3.6)
Investment securities .....	105,587	101,043	79,855	4.5	26.5
Assets .....	421,853	402,529	364,021	4.8	10.6
Deposits.....	300,400	282,733	262,123	6.2	7.9
Total U.S. Bancorp shareholders' equity .....	46,131	43,479	41,113	6.1	5.8
<b>Capital Ratios</b>					
Common equity tier 1 capital <sup>(b)</sup> .....	9.6%	9.7%	9.4% <sup>(c)</sup>		
Tier 1 capital <sup>(b)</sup> .....	11.3	11.3	11.2		
Total risk-based capital <sup>(b)</sup> .....	13.3	13.6	13.2		
Leverage <sup>(b)</sup> .....	9.5	9.3	9.6		
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches .....	12.5	12.4			
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach <sup>(c)</sup> .....	9.1	9.0	8.8		
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches <sup>(c)</sup> .....	11.9	11.8			
Tangible common equity to tangible assets <sup>(c)</sup> .....	7.6	7.5	7.7		
Tangible common equity to risk-weighted assets <sup>(c)</sup> .....	9.2	9.3	9.1		

\* Not meaningful.

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

(b) December 31, 2015 and 2014, calculated under the Basel III transitional standardized approach; December 31, 2013, calculated under Basel I.

(c) See Non-GAAP Financial Measures beginning on page 73.



**Richard K. Davis**  
Chairman and  
Chief Executive Officer  
U.S. Bancorp



## Fellow Shareholders:

U.S. Bancorp is in the business of “*making possible happen.*”

Every single day. 67,000 committed bankers. We make possible happen for our shareholders, our customers, our communities and each other. It is what our brilliant red shield represents: **the Power of Possible.**

**We make possible happen for our shareholders** by delivering consistent, predictable, repeatable, industry-leading financial results year after year after year. And, by returning capital and running a trustworthy and reputable banking business, our shareholders know that we will do it well and we will do it right.



That’s why we were named one of the World’s Most Ethical Companies™ in 2015 by the Ethisphere Institute — the largest U.S.-based bank ever to make the list. And, we proudly returned to Ethisphere’s list in 2016.

**We make possible happen for our customers** by helping them navigate deeply personal financial milestones — from first paycheck to first day of retirement; by helping small businesses convert back-of-the-envelope drawings into hung shingles and open doors; by helping merchants direct commerce efficiently, effectively, conveniently and securely; by being there for families when they walk into their neighborhood branch or connect with us through their mobile devices; and by helping large commercial enterprises manage their daily activities and expand when new opportunities present themselves.

That’s why, in 2016, we were named the “most admired superregional bank” in the country by *Fortune* magazine for the sixth year in a row.

**We make possible happen for our communities** by investing our time, resources and passion to build and support vibrant communities. Our new corporate responsibility framework is called *Community Possible*, and it focuses our community investments in Work, Home and Play. The building blocks that made our country great — a stable job, a home to call your own



and a community connected through culture, recreation and play — continue to be at the heart of possibility for all of us.

In addition to more than 255,000 volunteer hours and more than \$25.4 million in foundation grants, our Community Development Corporation (CDC) invested \$4.4 billion in the revitalization of communities and economic centers across the country.

That's why we are recognized every year by organizations like Junior Achievement, Americans for the Arts, United Way and local Chambers of Commerce as well as civic partners for making our communities better.

**We make possible happen for our employees** by investing in our collective vision and skills to create value for shareholders and customers while building productive and successful careers. We are **one** U.S. Bank. We make sound financial decisions for the enterprise that protect our employees when the external environment becomes unsteady, like it was in 2015, such as delaying spending and hiring instead of reducing our workforce.

Likewise, we make sound financial decisions for the enterprise that allow us to support and cultivate our employees' futures. We recently made **every** employee a shareholder of U.S. Bancorp by awarding an appreciation stock grant — because we believe in the power of ownership and we want our employees to know their role as visionaries for our future, with a personal stake in our success.

That's why U.S. Bancorp's employee engagement scores remain in the top quartile of all companies, across all industries and across all regions of the world.

### The Power of Possible: Make Value Happen

I am extremely proud of the remarkable financial performance that U.S. Bancorp delivered in 2015 and the value we created for our shareholders.

Remarkable, because it was a year underscored by persistent and historically low interest rates, modest economic growth, increasing regulatory requirements and rapidly evolving customer needs and expectations. More than any year in recent history, 2015 required strong management focus and conviction as we balanced decisions about operating efficiencies with opportunities for investing in future growth.

U.S. Bancorp rose to that challenge, delivering record net income and record diluted EPS for the year and returning 72 percent of our 2015 earnings to shareholders through dividends and share buybacks. In addition, our return on average assets (ROA), return on average equity (ROE) and efficiency ratio continued to lead the industry.

As we managed the twists and turns of a challenging 2015, we also positioned ourselves for growth as we head into 2016 — as was indicated by our record fourth quarter revenue driven by continued momentum in payment-related fees, increasing loan growth and stable net interest margin. We also made solid progress toward achieving positive operating leverage as we finished 2015, due to our continued focus on prudent expense management.

### The Power of Possible: Make Growth Happen

With a solid foundation established, we are well positioned for growth in the years ahead. Our business footprint is attractive, with leadership in the most growth-oriented marketplaces that we have chosen to compete in, including Payments, Treasury Services, Wholesale Banking, Consumer and Small Business Banking and Wealth Management. And, our capital position is strong — having exceptional capital ratios and among the world's best debt ratings in the banking industry.



Plus, we have an innovation engine backing all our financial and competitive strength. *Bank Innovation* recently called U.S. Bank “*arguably the most forward-thinking major financial institution in the United States.*” With consumer behavior changing nearly every day, experience-enhancing innovation permeates our decisions about mobile payments, branch modernization and every other customer touch point we have. It’s central to our growth agenda.

The rapid evolution of consumer behavior required us to evaluate our strategic framework in order to keep current with their pace of change. The bank — as we know it today — exists everywhere, and our customers expect us to be available to them everywhere: branch, ATM, website, phone or

mobile app. This is not the future of banking — it is the present of banking.

Likewise, our institutional and merchant customers — in the United States and across the globe — expect even more from their banking partner. More financial strength. More innovation. More security. More information. More connectivity. More partnership. More flexibility.

Layered with a deeper knowledge of our customers through data analytics and customer relationship management tools, it is imperative that U.S. Bancorp keep pace with the swift strides of change and optimism our customers are experiencing. Whether they are building a small business or a lasting family legacy, we must be available to them in new ways. In 2015, we witnessed this pivot point in

the customer experience, and we are investing in the journey and preparing to grow U.S. Bancorp alongside the evolution of our customers’ financial plans and dreams.

Our core businesses — Wholesale Banking and Commercial Real Estate, Consumer and Small Business Banking, Wealth Management and Securities Services and Payment Services — are all well positioned for growth. In 2015, we focused our strategic framework on three foundational pillars that will guide our activities and investments in our vision for the future:

1. Be the most trusted choice (governance);
2. Get better every day (optimization); and
3. Unify the customer experience (customer focus).

This strategic framework powers our momentum as we invest in the expansion of our leadership presence in the banking industry.

### **The Power of Possible: Make Leadership Happen**

Leadership. It’s an important word. Our nation deserves responsible bankers to lead the way in our economic recovery — to once again — make possible happen.

At U.S. Bancorp, leadership starts with our exceptional Board of Directors. I am grateful for their dedication and guidance. They provide us with the confidence and courage to make the best decisions and they represent our shareholder interests in every action we take. I am also grateful for our Managing Committee, who provides their industry-leading expertise to every decision and turn day-to-day





management into moments for everyday excellence.

We make possible happen every day as we pursue our collective vision for the future. As the economic environment improves and our customers look for a strong and stable banking partner to help them achieve their distinct financial goals and objectives, we will be there for them, leading the way.

As U.S. Bancorp contemplates the opportunities facing us in 2016, we will provide leadership as we help to restore confidence in the banking industry.

**The Power of Possible:  
Make Opportunities Happen**

In 1863, Hugh McCulloch, the country's first Comptroller of the Currency, wrote a letter to all national banks that he titled *Advice to Bankers of 1863*. In the letter he reiterated the basic tenets of effective banking — make good loans, distribute the risk, treat customers well, be fair with employees, make good financial decisions and run the bank with integrity.

Important advice; however, the fundamental theme of his letter was much bigger and more consequential than the banking activities at the beginning of a new era in American history. His advice remains relevant today and applies to all 6,799 banks in the United States as we — once again — stand at the beginning of another new era in American history.

At the heart of McCulloch's letter was his conviction that banks are at the center of the U.S. economy. They are the engine that makes possible happen every day from Maine to California, and Florida to Alaska. It was a resounding reminder of the enormous responsibility and moral imperative of being a banker. Do not enter into this career lightly, for bankers hold the keys to progress, productivity and prosperity. A cup of coffee isn't poured at a neighborhood coffee house, a field of corn isn't harvested, a widget doesn't come off the assembly line, a merchant doesn't protect its customers' personal information, without the expertise and steady ballast of a bank.

In 2016, banks have the opportunity to return to their place of prominence and prestige — being at the center of progress — provided we handle that opportunity with care and responsibility.

I, for one, am proud to be a banker.

It is an honorable profession and McCulloch's bold challenge resonates deeply with me. My focus is forward-looking. My focus is on value creation for our shareholders, customers, communities and employees. My focus is on running an honorable bank that aligns with McCulloch's vision for one of the most important industries in the world.

Because I am in the business of making possible happen. Every single day.

Sincerely,



**Richard K. Davis**

Chairman and  
Chief Executive Officer  
U.S. Bancorp  
February 25, 2016

## AWARDS + RECOGNITIONS

### A 2015 World's Most Ethical Company

– Ethisphere Institute, March 2015

### #1 Most Admired Superregional Bank

– *Fortune*, February 2016 (also in 2011, 2012, 2013, 2014, 2015)

### Most Trusted Companies for Retail Banking

– Ponemon Institute, June 2015 (9 years at #1)

### Corporate Equality Index (perfect score)

– Human Rights Campaign Foundation, 2015

### 2015 Military Friendly® Employers

– G.I. Jobs, 2015

### BCA 10: Best Businesses Partnering for the Arts

– Americans for the Arts, October 2015

### Most Powerful Women in Banking

– Individuals and Team

– *American Banker* Magazine, October 2015

### A Top 25 U.S. Employee Resource Group

– Association of ERGs & Councils, August 2015

### Greenwich Annual Excellence Awards:

### Middle Market Commercial Banking Study

– Greenwich Associates, March 2015

## MANAGING COMMITTEE



### Managing Committee

- 01. **Richard K. Davis** Chairman and Chief Executive Officer
- 02. **Jennie P. Carlson** Executive Vice President, Human Resources
- 03. **Andrew Cecere** President and Chief Operating Officer
- 04. **James L. Chosy** Executive Vice President, General Counsel and Corporate Secretary
- 05. **Terrance R. Dolan** Vice Chairman, Wealth Management and Securities Services
- 06. **John R. Elmore** Vice Chairman, Community Banking and Branch Delivery
- 07. **Leslie V. Godridge** Vice Chairman, Wholesale Banking
- 08. **James B. Kelligrew** Vice Chairman, Wholesale Banking
- 09. **Shailesh M. Kotwal** Vice Chairman, Payment Services
- 10. **P.W. Parker** Vice Chairman and Chief Risk Officer
- 11. **Richard B. Payne, Jr.** Vice Chairman, Wholesale Banking
- 12. **Katherine B. Quinn** Executive Vice President and Chief Strategy and Reputation Officer
- 13. **Kathleen A. Rogers** Vice Chairman and Chief Financial Officer
- 14. **Mark G. Runkel** Executive Vice President and Chief Credit Officer
- 15. **Kent V. Stone** Vice Chairman, Consumer Banking Sales and Support
- 16. **Jeffrey H. von Gillern** Vice Chairman, Technology and Operations Services

## BOARD OF DIRECTORS



### Board of Directors

- 01. Richard K. Davis** Chairman and Chief Executive Officer, U.S. Bancorp
- 17. Douglas M. Baker, Jr.** Chairman and Chief Executive Officer, Ecolab Inc.
- 18. Warner L. Baxter** Chairman, President and Chief Executive Officer, Ameren Corporation
- 19. Arthur D. Collins, Jr.** Retired Chairman and Chief Executive Officer, Medtronic, Inc. (Lead Director)
- 20. Kimberly J. Harris** President and Chief Executive Officer, Puget Energy, Inc. and Puget Sound Energy, Inc.
- 21. Roland A. Hernandez** Founding Principal and Chief Executive Officer, Hernandez Media Ventures
- 22. Doreen Woo Ho** Commissioner, San Francisco Port Commission
- 23. Joel W. Johnson** Retired Chairman and Chief Executive Officer, Hormel Foods Corporation
- 24. Olivia F. Kirtley** Business Consultant
- 25. Karen S. Lynch** President, Aetna Inc.
- 26. David B. O'Maley** Retired Chairman, President and Chief Executive Officer, Ohio National Financial Services, Inc.
- 27. O'dell M. Owens, M.D., M.P.H.** Medical Director, Cincinnati Health Department
- 28. Craig D. Schnuck** Former Chairman and Chief Executive Officer, Schnuck Markets, Inc.
- 29. Patrick T. Stokes** Former Chairman and Former Chief Executive Officer, Anheuser-Busch Companies, Inc.
- 30. Scott W. Wine** Chairman and Chief Executive Officer, Polaris Industries, Inc.







## Our lines of business are where we see the true power of possible.

Driven by our proven stability, our individual and collective expertise and a belief that we can make possible happen, we bring unparalleled strength to all our customers, communities and shareholders. Through our lines of business, we connect with our customers and help them achieve their possible.

The power of possible comes to life in our four core businesses:



CONSUMER + SMALL  
BUSINESS BANKING



WHOLESALE BANKING +  
COMMERCIAL REAL ESTATE



WEALTH MANAGEMENT +  
SECURITIES SERVICES



PAYMENT SERVICES



## Make **Life** Happen

That spark. We see it every day. It flashes in a child's eyes when he hands us a piggy bank full of change and we help him open his first savings account. It lights up the face of an entrepreneur when we give her the green light to convert an old warehouse space into the restaurant she's always dreamed of opening. And it shines in the smile of a newlywed couple when we tell them they're approved to buy their first home.





OPEN

That spark is possibility transforming into reality for the individuals, families and small business customers who choose U.S. Bank. They come to us with goals of all shapes and sizes, and we never tire of helping them bring those goals to life. We bring the best and brightest minds together to listen, ask the right questions and make thoughtful suggestions. All with the purpose of making their possible happen.

### Who We Are for Consumers and Small Businesses

We know that to give our customers the right balance of advice and support, we need to understand what drives them. By learning about their “why,” we can deliver a better “how.”

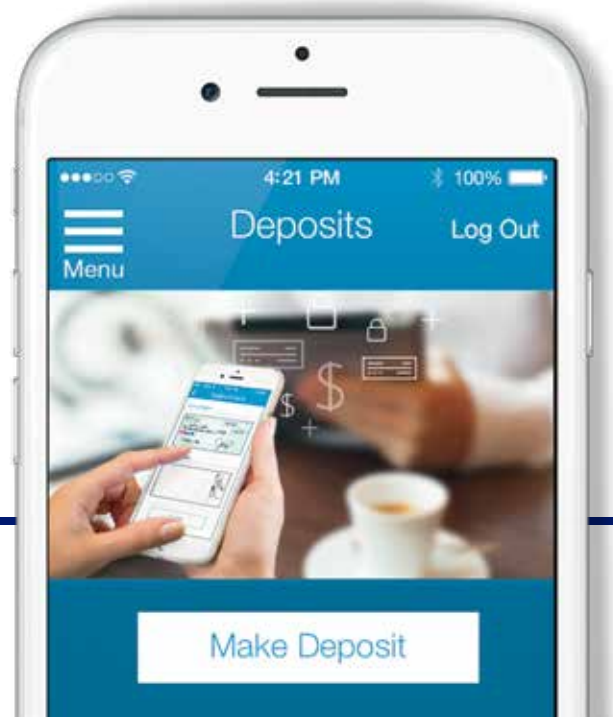
For our consumer banking customers, one part of that is helping them find financial stability. We conducted a study among students to learn how prepared they are to successfully manage their personal finances when they step out on their own. We used the results to launch tools that show young adults how to successfully manage their money and build a solid financial foundation.

For our small business owners, we focus on helping them transform their dreams and ideas into practical and prudent plans. Our annual small business confidence survey helps us learn how small business owners feel about the futures of their businesses. With that knowledge, we help them stay a step ahead, offering guidance about what concerns them and ideas to capture that next big opportunity.

Whatever stage of life a customer is in — whatever their possible is — being a good partner is about asking and listening. When we get to know our customers, we’re better at inspiring them with knowledge and helping them clear the path to financial stability and growth.

### Convenience

We make it easy for customers to take control of their finances by being available when and where they need us. Through all the traditional means, plus new and emerging technologies, we make it easy for customers to take control of their finances. Whether it’s in a branch, at an ATM, over the phone with our 24-hour service centers



or online through social media, our mobile app or at usbank.com, we work hard to make sure every customer feels welcomed, understood, rewarded and secure in every interaction.

### Our Branches

No matter how technology changes business operations, we will always believe in the value of face-to-face interactions. U.S. Bank operates 3,133 banking offices in 25 states, with more than 35,000 friendly faces and voices, ready to welcome customers and help them reach their possible.

As our signature banking model, customers can stop in for full service at U.S. Bank branch locations found in large metropolitan areas or in small rural towns as stand-alone offices or within grocery stores, hospitals, corporate campuses, universities and even iconic spots, such as Churchill Downs.

### Consumer Rewards

We know that every dollar is a hard-earned dollar, so we offer a variety of rewards opportunities and savings options to thank our customers for banking with us. Our START Smart savings program provides an incentive to save by rewarding customers for reaching incremental savings milestones.

### Small Business

No two small businesses are alike, but each needs relevant and timely financial products and support to thrive. U.S. Bank is one of the leading small business lenders in the United States, consistently ranking among the top banks nationally for Small Business Administration (SBA) lending. And each of our small business bankers has an entrepreneur's heart and looks at the world through the customer's eyes.

Beyond loans and checking accounts, we provide networking opportunities for small business owners to exchange ideas and learn from each other at U.S. Bank Connect (usbank.com/connect). This online tool provides a gateway to information-sharing for our small business community, with stories and tips about starting, running and growing a business. And because technology and mobile capabilities are increasingly central to successful business strategies, we offer award-winning mobile banking solutions and online tools for small business owners to access accounts, accept and make payments, organize and manage business operations, get account text alerts and more.

### A Strong Reputation

We believe in putting people first, and our dedication to making ethical decisions and doing the right thing is at the heart of what we do. In fact, U.S. Bank was named as one of the "2015 World's Most Ethical Companies" by an independent organization, Ethisphere Institute.


We work hard to meet the banking needs of the individuals, families and businesses who choose to bank with us by offering competitive products and services, convenient access to their accounts and proven stability.

One of the  
top small  
business  
lenders  
in the United States









“2015 required strong management focus and conviction as we balanced decisions about operating efficiencies with opportunities for investing in future growth.”

**Richard K. Davis**  
Chairman and  
Chief Executive Officer  
U.S. Bancorp



# Make Expansion Happen

As our economy continues to strengthen, businesses are looking for ways to grow. And we're here, offering the financial strength and best-in-class debt ratings that give us a unique advantage while serving our customers.

## Our Impact Is Growing

Over the past 10 years, our Wholesale Banking business has seen tremendous growth, making future-focused decisions even during the economic downturn. In 2015, we opened a new National Corporate Banking office in Dallas, Texas. Our average commercial loans grew 11 percent, and we saw record revenue in a number of areas. We also led more bond issuances and welcomed a growing number of foreign exchange customers. Finally, we brought Commercial Real Estate into Wholesale Banking, enabling us to provide an increased depth of service to our real estate customers.

We also introduced innovative tools, including U.S. Bank VantagePoint™ and U.S. Bank Liquidity Advantage. In January 2015, *Global Finance* named us a "World's Best Treasury & Cash Management Provider 2015."

## Achieving Success Together

We succeed when our customers succeed. So we leverage our proven stability, sound strategies and competitive products and services to help our customers reach their goals.

Our relationship managers are industry experts who partner closely with customers and look for ways to optimize products and services to move them forward.

Our award-winning Working Capital DNA® engagement process is one powerful example of our consultative approach, offering customers a wealth of new ideas.

## Relationships That Inspire

We offer expert guidance backed by strength, stability and experience. That's why more than 90 percent of *Fortune* 500 companies choose us every year. With strong financial performance, a focus on solid relationships and a commitment to ethical leadership, we are positioned to build on the success we saw in 2015 and help our wholesale customers achieve their possible.

Our average  
commercial  
loans  
grew **11%**  
in 2015.

# Make Legacies Happen

Our Wealth Management and Securities Services teams design strategies to help clients achieve their personal and business goals.

## WEALTH MANAGEMENT

Every life is a story. We have the privilege of helping our Wealth Management clients shape their stories and work toward their possible, whether they're beginning to accumulate wealth, enjoying the rewards of success or planning the legacy they'll leave for future generations.

We work at three service levels: The Private Client Group works with affluent individuals and families who are working to build their wealth; The Private Client Reserve works with high-net-worth clients who have complex financial needs; and Ascent Private Capital Management helps ultra-high-net-worth clients make a lasting impact with their wealth. At every level of service we establish solid relationships, getting to know each client's story and goals so we can offer relevant support.

## Continued Growth

Our approach to wealth management has helped us attract and retain clients, affording us growth in deposits, loans and investment assets.

Our assets under management have grown to more than \$124 billion. And U.S. Bank Wealth Management was once again ranked among the top 20 U.S. wealth managers by *Barron's* in 2015.

## SECURITIES SERVICES

Made up of Corporate Trust Services, Institutional Trust and Custody, Fund Services and Asset Management divisions, our Securities Services business is a market leader and provides administrative services for organizations in the U.S. and Europe issuing or managing securities and investments.

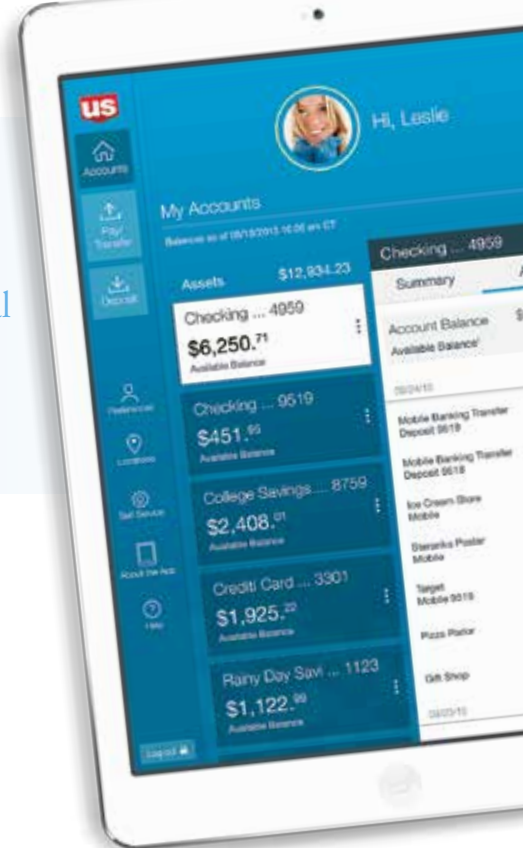
## Investing in Technology

Technology advancement is critical to the success of Securities Services. At the end of 2014, our corporate trust services group launched Pivot, a proprietary online platform for collateralized loan obligation asset managers. This tool sets us apart from the competition for client service and response, data transparency and efficiency. Within our Institutional Trust and Custody division, Pivot has boosted sales and retention, with a





In the U.S. we were the top trustee in market share in two of our three core categories, municipal and structured finance, and second in corporate transactions.



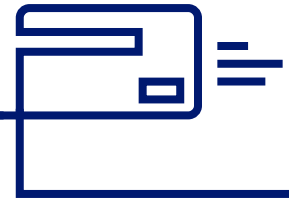
17 percent lift in market share during a time when the overall market declined. Building on this success, we will expand the platform to other segments.

#### Continued Growth

In addition to new technology, our investments in the right people and products resulted in market share growth and industry accolades. In the U.S. we were the top trustee in market share in two of our three core categories, municipal and structured finance, and second in corporate transactions. Our Securities Services teams also received a variety of awards from industry experts such as *GlobalCapital* and *HFMWeek*, in the U.S. and in Europe.

# Make Commerce Happen

In today’s world, cards have largely replaced cash and checkbooks. The payments industry is evolving as rapidly as our purchasing behaviors, playing an important role for businesses, consumers, governments and economies. In this highly competitive marketplace, our Payment Services organization has significant scale and focuses on growth through innovations that boost convenience for our customers and partners.



## PAYMENT SERVICES

In our Retail Payment Solutions and Corporate Payment Systems groups, we issue credit cards and provide convenience-boosting tools for consumers, small businesses and corporate customers. We also process payments and keep commerce alive through our merchant services division, Elavon, Inc., a wholly owned subsidiary.

Supporting businesses across the globe, we are in 14 countries and operate call centers on three continents. We compete in all major areas:

- Corporate Payment Services ranked as the #2 largest bankcard issuer of corporate travel cards and the

#3 largest issuer of commercial purchasing cards in the United States<sup>1</sup>

- Retail Payment Services ranked #5 in the United States for debit card issuing,<sup>2</sup> #5 for Small Business Card<sup>3</sup> and #8 for both credit card issuing and prepaid cards<sup>4</sup>
- Elavon consistently ranks in the top five merchant acquirers in Europe<sup>5</sup> and North America by number of customers<sup>6</sup>

### Investing in Innovation

Innovation keeps us at the forefront of the industry. In 2015, *Bank Innovation* recognized the team of innovators within Payment Services with the #3 ranking on its annual list

of “Innovators to Watch.” And, at our innovation center called “The Grove,” Elavon focuses on new technology and product development for mobile payments. These teams constantly anticipate what customers will want next, building the foundation for how we’ll innovate, grow, service customers’ needs and plan our go-to-market strategies.

Our innovation practice also enabled us to be early adopters and first-to-market with mobile payment solutions that launched in 2015, including Samsung Pay™ and Android Pay™. We lead the market with mobile solutions for account alerts and fraud management for consumer and





enterprise customers. We also piloted both geolocation and Visa® TravelTag™ last year to help travelers use their cards with fewer issues related to fraud management, and we launched RealTime Rewards for our FlexPerks Rewards Cards members to instantly redeem earned rewards for purchases. And more is on the horizon for 2016.

2015 was busy for merchant services too, as the industry worked to enable chip card acceptance across the United States. In 2015, Elavon launched an ambitious effort to enable EMV payments for their customers, prompting MasterCard® to recognize them as the top processor for EMV payments in the United States.

### **Making Convenience Happen**

The payments industry moves fast. That's why we invest in innovation and form partnerships to capture emerging trends, solve problems and stay ahead of the competition, allowing us to provide customers with more convenience and help drive their financial success as they work toward their possible.

1. *Nilson Report*, June 2015 issue #1066
2. *Nilson Report*, April 2015 issue #1062
3. *Nilson Report*, June 2015 issue #1066 (V/M/A issuers, excludes AXP)
4. *Nilson Report*, July 2015 issue #1067 and *Nilson Report*, February 2015 issue #1058
5. *Nilson Report*, June 2015 issue #1065
6. *Nilson Report*, March 2015 issue #1059

“Arguably the most forward-thinking major financial institution in the United States.”

*Bank Innovation*





## Make **Communities** Happen

In any business, it's easy to simply focus on the bottom line — the day-to-day transactions that keep a company running. But businesses wouldn't exist without the foundation of a community. That's why, since the day we first opened our doors for business, we've been deeply committed to our communities.

Strong, vibrant communities are the backbone for stable jobs, quality homes and opportunities for play. We help communities find their possible through financial investments and ongoing volunteer efforts by our employees. Because better communities benefit everyone.

### Community Giving in 2015

We help grow our communities through financial, human and creative resources at both a corporate and a local level. Our work includes national programs and initiatives that promote financial literacy, affordable housing, small business development and economic revitalization. We also extend our reach at a national level by supporting organizations like United Way and the American Red Cross.

In 2015, our company provided \$25.4 million in contributions from the U.S. Bank Foundation.

Through our U.S. Bancorp Community Development Corporation, we provided \$4.4 billion in 2015 in community development lending and tax credit financing throughout the communities we serve. These activities go a long way in helping communities and residents find their possible by creating new jobs, rehabilitating historic buildings, building affordable and market-rate homes, developing renewable energy facilities and generating economic activity in underserved areas.

We also promoted many arts and cultural events in our local markets, including museum exhibits, theater performances, festivals and art shows. Built on a belief that the arts help create more vibrant communities, we've awarded more than \$15 million in grants to the arts over the past five years. And, in 2015, our support for the arts was recognized by Americans for the Arts as a BCA 10: Best Businesses Partnering with the Arts in America honoree. This award recognizes businesses that demonstrate exceptional commitment to the arts through grants, local partnerships, volunteer programs, matching gifts, sponsorships and board memberships.

In addition to our financial contributions, we encourage community involvement by giving our employees paid time off to participate in the community activities they're passionate about. In total, our employees spent more than 255,000 hours volunteering in 2015. Their volunteer activities included beautifying neighborhoods, planting community gardens, cleaning and painting classrooms, leading financial literacy classes for children and adults and building affordable homes with Habitat for Humanity. Thousands of employees also share their financial expertise by serving on the boards of nonprofit charitable organizations.

“Our work to finance and support community and economic development across the country helps make the places where we live, work and play more vibrant and healthy.”

**Reba Dominski**  
President of the  
U.S. Bank Foundation

**\$3B**  
invested in  
environmentally  
beneficial and  
profitable business  
opportunities in 2015.

(LEED-certified  
buildings, renewable  
energy, brownfield  
development)

## OUR COMMUNITIES

### 2016 Snapshot: *Community Possible*

Building on our legacy of giving back to the community, we're excited to introduce *Community Possible* in 2016. This new model for our community giving efforts is built around three key areas: **Work, Home** and **Play**.

Our efforts in the area of **Work** will support programs and organizations that help small businesses thrive, help people succeed in the workplace, help build clearer pathways to higher education and help people gain greater financial literacy. In the area of **Home**, we will work to connect individuals and families to sustainable housing opportunities. And, finally, through **Play** we will focus on investing in community programs that support

ways for children and adults to experience play.

One of our first initiatives in the area of Play is the U.S. Bank Places to Play program. In partnership with the Minnesota Vikings, this three-year, \$1 million effort aims to enhance Minnesota's play spaces. Supported by studies showing that play improves quality of life, we believe that having safe and accessible play spaces is an important way to help communities achieve their possible.

And this is just the beginning. Stay tuned throughout 2016 as we continue to announce exciting new efforts around *Community Possible*.



“We strive to be a responsible steward of the environment and acknowledge that we have a responsibility to our customers, employees, investors and the communities that we serve to better understand the impact of our operations on global climate change and to help reduce that impact. We do this through reducing our use of natural resources, environmentally beneficial lending and investments, developing products and services that help our customers reduce their environmental impact and increased due diligence around our lending practices for high impact industries.”

**Richard K. Davis** Chairman and Chief Executive Officer, U.S. Bancorp





The following pages discuss in detail the financial results we achieved in 2015—  
results that reflect **the power of possible.**

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## THE FOLLOWING INFORMATION APPEARS IN ACCORDANCE WITH THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

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

Additional factors could cause actual results to differ from expectations, including the risks discussed in the “Corporate Risk Profile” section on pages 42–67 and the “Risk Factors” section on pages 156–166 of this report. However, factors other than these also could adversely affect U.S. Bancorp’s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

# Management's Discussion and Analysis

## OVERVIEW

U.S. Bancorp and its subsidiaries (the "Company") delivered record financial performance in 2015, which was a year characterized by persistent and historically low interest rates, modest economic growth, and increasing regulatory requirements. In 2015, the Company effectively balanced decisions on operating efficiencies with opportunities for investing in future growth and addressing its customers' needs. These actions resulted in delivering record full-year net income and diluted earnings per share.

The Company earned \$5.9 billion in 2015, an increase of 0.5 percent over 2014, principally due to higher net interest income, a lower provision for credit losses and prudent management of expenses. Net interest income was higher than the prior year as a result of an increase in average earning assets and continued growth in lower cost deposit funding, partially offset by a decrease in the net interest margin. The Company's loan portfolio credit quality continued to improve throughout the year, as reflected by the decreases in net charge-offs and nonperforming assets. The Company's continued focus on controlling expenses allowed it to achieve an industry-leading efficiency ratio of 53.8 percent in 2015. In addition, the Company's return on average assets and return on common equity were 1.44 percent and 14.0 percent, respectively, the highest among its peers.

During 2015, the Company continued to demonstrate its ability to create value for shareholders and customers by returning 72 percent of its earnings to common shareholders through dividends and common share repurchases. This was accomplished by generating steady growth in commercial and consumer lending, new credit card accounts and total deposits, by building momentum in its core business, particularly within Wealth Management and Securities Services and Payment Services, and by maintaining a very strong capital base.

The Company's common equity tier 1 to risk-weighted assets ratio using the Basel III standardized approach and Basel III advanced approaches, as if fully implemented, were 9.1 percent and 11.9 percent, respectively, at December 31, 2015 — above the Company's targeted ratio of 8.0 percent and well above the minimum ratio of 7.0 percent required when fully implemented. Refer to "Non-GAAP Financial

Measures" for further information on the calculation of these measures. In addition, refer to Table 23 for a summary of the statutory capital ratios in effect for the Company at December 31, 2015 and 2014. Further, credit rating organizations rate the Company's debt among the highest of any bank in the world. This comparative financial strength provides the Company with favorable funding costs, strong liquidity and the ability to attract new customers.

In 2015, average loans and deposits increased \$8.8 billion (3.6 percent) and \$20.5 billion (7.7 percent), respectively, over 2014, reflecting the confidence the Company's customers have in trusting one of the highest rated banks in the world. Loan growth included increases in commercial, commercial real estate, credit card and other retail loans, partially offset by a decline in loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation ("FDIC") ("covered" loans), which is a run-off portfolio. Deposit growth included increases in noninterest-bearing and total savings deposits.

The Company's provision for credit losses decreased \$97 million (7.9 percent) in 2015, compared with 2014. Net charge-offs decreased \$162 million (12.1 percent) in 2015, compared with 2014, principally due to improvement in economic conditions during 2015. The provision for credit losses was \$40 million less than net charge-offs in 2015, compared with \$105 million less than net charge-offs in 2014, reflecting loan growth partially offset by improved economic conditions.

The Company's actions to generate growth in its balance sheet and revenues, combined with making prudent long-term investments to protect its industry-leading competitive positions have put it on a positive forward-looking trajectory. This has been accomplished by helping its customers build financially secure futures, along with deliberate efforts to optimize its expense management initiatives. The Company has positioned itself for growth in 2016, following record fourth quarter 2015 revenue, increasing loan growth and stable net interest margin, while making progress toward achieving positive operating leverage by thoughtfully managing expenses. The Company remains focused on delivering consistent, predictable and repeatable financial results for the benefit of its customers, employees, communities and shareholders.



**TABLE 1 | SELECTED FINANCIAL DATA**

Year Ended December 31

(Dollars and Shares in Millions, Except Per Share Data)

	2015	2014	2013	2012	2011
<b>Condensed Income Statement</b>					
Net interest income (taxable-equivalent basis) <sup>(a)</sup>	\$ 11,214	\$ 10,997	\$ 10,828	\$ 10,969	\$ 10,348
Noninterest income	9,092	9,161	8,765	9,334	8,791
Securities gains (losses), net	—	3	9	(15)	(31)
Total net revenue	20,306	20,161	19,602	20,288	19,108
Noninterest expense	10,931	10,715	10,274	10,456	9,911
Provision for credit losses	1,132	1,229	1,340	1,882	2,343
Income before taxes	8,243	8,217	7,988	7,950	6,854
Taxable-equivalent adjustment	213	222	224	224	225
Applicable income taxes	2,097	2,087	2,032	2,236	1,841
Net income	5,933	5,908	5,732	5,490	4,788
Net (income) loss attributable to noncontrolling interests	(54)	(57)	104	157	84
Net income attributable to U.S. Bancorp	\$ 5,879	\$ 5,851	\$ 5,836	\$ 5,647	\$ 4,872
Net income applicable to U.S. Bancorp common shareholders	\$ 5,608	\$ 5,583	\$ 5,552	\$ 5,383	\$ 4,721
<b>Per Common Share</b>					
Earnings per share	\$ 3.18	\$ 3.10	\$ 3.02	\$ 2.85	\$ 2.47
Diluted earnings per share	3.16	3.08	3.00	2.84	2.46
Dividends declared per share	1.010	.965	.885	.780	.500
Book value per share	23.28	21.68	19.92	18.31	16.43
Market value per share	42.67	44.95	40.40	31.94	27.05
Average common shares outstanding	1,764	1,803	1,839	1,887	1,914
Average diluted common shares outstanding	1,772	1,813	1,849	1,896	1,923
<b>Financial Ratios</b>					
Return on average assets	1.44%	1.54%	1.65%	1.65%	1.53%
Return on average common equity	14.0	14.7	15.8	16.2	15.8
Net interest margin (taxable-equivalent basis) <sup>(a)</sup>	3.05	3.23	3.44	3.58	3.65
Efficiency ratio <sup>(b)</sup>	53.8	53.2	52.4	51.5	51.8
Net charge-offs as a percent of average loans outstanding	.47	.55	.64	.97	1.41
<b>Average Balances</b>					
Loans	\$250,459	\$241,692	\$227,474	\$215,374	\$201,427
Loans held for sale	5,784	3,148	5,723	7,847	4,873
Investment securities <sup>(c)</sup>	103,161	90,327	75,046	72,501	63,645
Earning assets	367,445	340,994	315,139	306,270	283,290
Assets	408,865	380,004	352,680	342,849	318,264
Noninterest-bearing deposits	79,203	73,455	69,020	67,241	53,856
Deposits	287,151	266,640	250,457	235,710	213,159
Short-term borrowings	27,960	30,252	27,683	28,549	30,703
Long-term debt	33,566	26,535	21,280	28,448	31,684
Total U.S. Bancorp shareholders' equity	44,813	42,837	39,917	37,611	32,200
<b>Period End Balances</b>					
Loans	\$260,849	\$247,851	\$235,235	\$223,329	\$209,835
Investment securities	105,587	101,043	79,855	74,528	70,814
Assets	421,853	402,529	364,021	353,855	340,122
Deposits	300,400	282,733	262,123	249,183	230,885
Long-term debt	32,078	32,260	20,049	25,516	31,953
Total U.S. Bancorp shareholders' equity	46,131	43,479	41,113	38,998	33,978
<b>Asset Quality</b>					
Nonperforming assets	\$ 1,523	\$ 1,808	\$ 2,037	\$ 2,671	\$ 3,774
Allowance for credit losses	4,306	4,375	4,537	4,733	5,014
Allowance for credit losses as a percentage of period-end loans	1.65%	1.77%	1.93%	2.12%	2.39%
<b>Capital Ratios</b>					
Common equity tier 1 capital <sup>(d)</sup>	9.6%	9.7%	9.4%(e)	9.0%(e)	8.6%(e)
Tier 1 capital <sup>(d)</sup>	11.3	11.3	11.2	10.8	10.8
Total risk-based capital <sup>(d)</sup>	13.3	13.6	13.2	13.1	13.3
Leverage <sup>(d)</sup>	9.5	9.3	9.6	9.2	9.1
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.5	12.4			
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach <sup>(e)(f)</sup>	9.1	9.0	8.8	8.1	8.2
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches <sup>(e)</sup>	11.9	11.8			
Tangible common equity to tangible assets <sup>(e)</sup>	7.6	7.5	7.7	7.2	6.6
Tangible common equity to risk-weighted assets <sup>(e)</sup>	9.2	9.3	9.1	8.6	8.1

(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) December 31, 2015 and 2014, calculated under the Basel III transitional standardized approach; all other periods calculated under Basel I.

(e) See Non-GAAP Financial Measures beginning on page 73.

(f) December 31, 2015, 2014 and 2013, calculated using final rules for the Basel III fully implemented standardized approach; December 31, 2012, calculated using proposed rules released June 2012; December 31, 2011, calculated using proposed rules released prior to June 2012.

**Earnings Summary** The Company reported net income attributable to U.S. Bancorp of \$5.88 billion in 2015, or \$3.16 per diluted common share, compared with \$5.85 billion, or \$3.08 per diluted common share, in 2014. Return on average assets and return on average common equity were 1.44 percent and 14.0 percent, respectively, in 2015, compared with 1.54 percent and 14.7 percent, respectively, in 2014.

Total net revenue, on a taxable-equivalent basis, for 2015 was \$145 million (0.7 percent) higher than 2014, reflecting a 2.0 percent increase in net interest income, partially offset by a 0.8 percent decrease in noninterest income. The increase in net interest income from the prior year 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 decrease in noninterest income was primarily due to a gain related to an equity interest in Nuveen Investments (“Nuveen gain”) recorded in 2014, lower gains from sales of shares of Visa Inc. Class B common stock, a 2015 market valuation adjustment to write down the value of student loans during the period they were held for sale (“student loan market adjustment”), and lower mortgage banking revenue, partially offset by higher revenue in most other fee businesses and a gain on the sale of a Health Savings Account deposit portfolio (“HSA deposit sale”) recorded in 2015.

Noninterest expense in 2015 was \$216 million (2.0 percent) higher than 2014, primarily due to higher compensation and employee benefits expenses, including higher costs related to risk and compliance activities, partially offset by a settlement relating to the Federal Housing Administration’s insurance program (“FHA DOJ settlement”) recorded in 2014, prior year legal accruals and charitable contributions.

**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.

## **STATEMENT OF INCOME ANALYSIS**

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$11.2 billion in 2015, compared with \$11.0 billion in 2014 and \$10.8 billion in 2013. The \$217 million (2.0 percent) increase in net interest income in 2015, compared with 2014, was primarily the result of growth

in average earning assets and continued growth in lower cost core deposit funding, partially offset by a continued shift in loan portfolio mix, lower reinvestment rates on investment securities and lower loan fees due to the wind down of the short-term, small-dollar deposit advance product, Checking Account Advance (“CAA”). Average earning assets were \$26.4 billion (7.8 percent) higher in 2015, compared with 2014, driven by increases in loans and investment securities. The net interest margin, on a taxable-equivalent basis, in 2015 was 3.05 percent, compared with 3.23 percent in 2014 and 3.44 percent in 2013. The decrease in the net interest margin in 2015, compared with 2014, primarily reflected a change in the loan portfolio mix, growth in the investment portfolio at lower average rates and lower reinvestment rates on investment securities, as well as lower loan fees due to the CAA product wind down. Refer to the “Interest Rate Risk Management” section for further information on the sensitivity of the Company’s net interest income to changes in interest rates.

Average total loans were \$250.5 billion in 2015, compared with \$241.7 billion in 2014. The \$8.8 billion (3.6 percent) increase was driven by growth in commercial, commercial real estate, credit card and other retail loans, partially offset by a decrease in covered loans. Average commercial loans increased \$8.3 billion (11.0 percent), driven by higher demand for loans from new and existing customers. Average commercial real estate loans increased \$1.8 billion (4.5 percent), driven by the reclassification of covered commercial real estate loans resulting from the expiration of loss sharing agreements related to those loans at the end of 2014, as well as higher loan demand. Average credit card balances increased \$422 million (2.4 percent) in 2015, compared with 2014, due to customer growth, including portfolio acquisitions during 2015. The \$726 million (1.5 percent) increase in average other retail loans was primarily due to higher auto and installment loans, partially offset by lower student loan balances, reflecting their classification as held for sale for a portion of 2015. Average residential mortgages were essentially unchanged in 2015, compared with 2014. Average covered loans decreased \$2.6 billion (34.1 percent) in 2015, compared with 2014, the result of portfolio run-off and the expiration of the loss sharing agreements on commercial and commercial real estate loans at the end of 2014.

**TABLE 2 ANALYSIS OF NET INTEREST INCOME (a)**

Year Ended December 31 (Dollars in Millions)	2015	2014	2013	2015 v 2014	2014 v 2013
<b>Components of Net Interest Income</b>					
Income on earning assets (taxable-equivalent basis) . . . . .	\$ 12,619	\$ 12,454	\$ 12,513	\$ 165	\$ (59)
Expense on interest-bearing liabilities (taxable-equivalent basis) . . .	1,405	1,457	1,685	(52)	(228)
Net interest income (taxable-equivalent basis) . . . . .	\$ 11,214	\$ 10,997	\$ 10,828	\$ 217	\$ 169
Net interest income, as reported . . . . .	\$ 11,001	\$ 10,775	\$ 10,604	\$ 226	\$ 171
<b>Average Yields and Rates Paid</b>					
Earning assets yield (taxable-equivalent basis) . . . . .	3.43%	3.65%	3.97%	(.22)%	(.32)%
Rate paid on interest-bearing liabilities (taxable-equivalent basis) . . .	.52	.58	.73	(.06)	(.15)
Gross interest margin (taxable-equivalent basis) . . . . .	2.91%	3.07%	3.24%	(.16)%	(.17)%
Net interest margin (taxable-equivalent basis) . . . . .	3.05%	3.23%	3.44%	(.18)%	(.21)%
<b>Average Balances</b>					
Investment securities <sup>(b)</sup> . . . . .	\$103,161	\$ 90,327	\$ 75,046	\$12,834	\$15,281
Loans . . . . .	250,459	241,692	227,474	8,767	14,218
Earning assets . . . . .	367,445	340,994	315,139	26,451	25,855
Interest-bearing liabilities . . . . .	269,474	249,972	230,400	19,502	19,572

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

(b) 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.

Average investment securities in 2015 were \$12.8 billion (14.2 percent) higher than 2014, primarily due to purchases of U.S. government and agency-backed securities, net of prepayments and maturities, to support regulatory liquidity coverage ratio requirements.

Average total deposits for 2015 were \$20.5 billion (7.7 percent) higher than 2014. Average noninterest-bearing deposits for 2015 were \$5.7 billion (7.8 percent) higher than the prior year, reflecting growth in Consumer and Small Business Banking, and Wholesale Banking and Commercial Real Estate. Average total savings deposits for 2015 were \$21.0 billion (13.8 percent) higher than 2014, reflecting growth in Consumer and Small Business Banking, including the impact of the Charter One branch acquisitions, Wholesale Banking and Commercial Real Estate and corporate trust balances. Average time deposits for 2015 were \$6.2 billion (14.9 percent) lower than 2014. Changes in time deposits are largely related to those deposits managed as an alternative to other wholesale funding sources, based largely on funding needs and relative pricing.

The \$169 million (1.6 percent) increase in net interest income in 2014, compared with 2013, was primarily 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 \$25.9 billion (8.2 percent) higher in 2014, compared with 2013, driven by increases in loans and investment securities, partially offset by decreases in loans

held for sale. The decrease in the net interest margin in 2014, compared with 2013, 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 CAA product wind down, and strong growth in lower margin commercial loans, partially offset by lower funding costs.

Average total loans increased \$14.2 billion (6.3 percent) in 2014, compared with 2013, driven by growth in commercial loans, residential mortgages, commercial real estate loans, credit card loans and other retail loans, partially offset by a decrease in covered loans. Average commercial loans, residential mortgages and commercial real estate loans increased \$8.5 billion (12.6 percent), \$3.8 billion (8.0 percent) and \$2.4 billion (6.2 percent), respectively, driven by higher demand for loans from new and existing customers. Average credit card balances increased \$822 million (4.9 percent) in 2014, compared with 2013, due to customer growth. The \$1.2 billion (2.6 percent) increase in average other retail loans was primarily due to higher auto and installment loans, partially offset by lower student loan balances. Average covered loans decreased \$2.5 billion (24.7 percent) in 2014, compared with 2013.

Average investment securities in 2014 were \$15.3 billion (20.4 percent) higher than 2013, due to purchases of U.S. government and agency-backed securities, net of prepayments and maturities, in preparation for final liquidity coverage ratio requirements.

**TABLE 3 NET INTEREST INCOME – CHANGES DUE TO RATE AND VOLUME (a)**

Year Ended December 31 (Dollars in Millions)	2015 v 2014			2014 v 2013		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Increase (decrease) in						
<b>Interest Income</b>						
Investment securities . . . . .	\$ 282	\$(153)	\$ 129	\$ 359	\$(135)	\$ 224
Loans held for sale . . . . .	108	(30)	78	(92)	17	(75)
Loans						
Commercial . . . . .	245	(192)	53	272	(212)	60
Commercial real estate . . . . .	71	4	75	98	(112)	(14)
Residential mortgages . . . . .	1	(36)	(35)	157	(115)	42
Credit card . . . . .	43	109	152	83	43	126
Other retail . . . . .	32	(153)	(121)	60	(237)	(177)
Total loans, excluding covered loans . . . . .	392	(268)	124	670	(633)	37
Covered loans . . . . .	(154)	(27)	(181)	(159)	(32)	(191)
Total loans . . . . .	238	(295)	(57)	511	(665)	(154)
Other earning assets . . . . .	46	(31)	15	(27)	(27)	(54)
Total earning assets . . . . .	674	(509)	165	751	(810)	(59)
<b>Interest Expense</b>						
Interest-bearing deposits						
Interest checking . . . . .	2	(7)	(5)	3	(4)	(1)
Money market savings . . . . .	28	47	75	12	29	41
Savings accounts . . . . .	4	(10)	(6)	3	(6)	(3)
Time deposits . . . . .	(40)	(32)	(72)	(30)	(103)	(133)
Total interest-bearing deposits . . . . .	(6)	(2)	(8)	(12)	(84)	(96)
Short-term borrowings . . . . .	(20)	2	(18)	33	(123)	(90)
Long-term debt . . . . .	192	(218)	(26)	189	(231)	(42)
Total interest-bearing liabilities . . . . .	166	(218)	(52)	210	(438)	(228)
Increase (decrease) in net interest income . . . . .	\$ 508	\$(291)	\$ 217	\$ 541	\$(372)	\$ 169

(a) This table shows the components of the change in net interest income by volume and rate on a taxable-equivalent basis utilizing a tax rate of 35 percent. This table does not take into account the level of noninterest-bearing funding, nor does it fully reflect changes in the mix of assets and liabilities. The change in interest not solely due to changes in volume or rates has been allocated on a pro-rata basis to volume and yield/rate.

Average total deposits for 2014 were \$16.2 billion (6.5 percent) higher than 2013. Average noninterest-bearing deposits for 2014 were \$4.4 billion (6.4 percent) higher than 2013, reflecting growth in Consumer and Small Business Banking, including the impact of the Charter One branch acquisitions, Wholesale Banking and Commercial Real Estate, and Wealth Management and Securities Services balances. Average total savings deposits for 2014 were \$15.2 billion (11.2 percent) higher than 2013, reflecting growth in Consumer and Small Business Banking, including the impact of the Charter One branch acquisitions, Wholesale Banking and Commercial Real Estate and corporate trust balances. Average time deposits, which are managed based on funding needs and relative pricing, decreased \$3.5 billion (7.6 percent) in 2014, compared with 2013.

**Provision for Credit Losses** The provision for credit losses reflects changes in the size and credit quality of the entire portfolio of loans. The Company maintains an allowance for credit losses considered appropriate by management for probable and estimable incurred losses, based on factors

discussed in the “Analysis and Determination of Allowance for Credit Losses” section.

In 2015, the provision for credit losses was \$1.1 billion, compared with \$1.2 billion and \$1.3 billion in 2014 and 2013, respectively. The provision for credit losses was lower than net charge-offs by \$40 million in 2015, \$105 million in 2014 and \$125 million in 2013. The \$97 million (7.9 percent) decrease in the provision for credit losses in 2015, compared with 2014, reflected improving credit trends and the underlying risk profile of the loan portfolio as economic conditions continued to slowly improve during the period, partially offset by portfolio growth. Nonperforming assets decreased \$285 million (15.8 percent) from December 31, 2014 to December 31, 2015, primarily driven by nonperforming asset reductions in the commercial real estate, residential mortgages, and home equity and second mortgage portfolios, as economic conditions continued to slowly improve during the period. In addition, accruing loans ninety days or more past due decreased by \$114 million (12.1 percent) from December 31, 2014 to December 31, 2015. Net charge-offs decreased \$162 million (12.1 percent) in



2015 from 2014 due to improvement in the residential mortgages, and home equity and second mortgages portfolios, as economic conditions continue to slowly improve in 2015, partially offset by higher commercial loan net charge-offs.

The \$111 million (8.3 percent) decrease in the provision for credit losses in 2014, compared with 2013, reflected improving credit trends in residential mortgages and home equity and second mortgages as economic conditions improved during 2014, partially offset by portfolio growth and higher commercial loan net charge-offs and lower commercial real estate loan recoveries in 2014. Accruing loans ninety days or more past due decreased by \$244 million (20.5 percent) from December 31, 2013 to December 31, 2014, primarily reflecting improvement in the residential mortgages portfolio. Nonperforming assets decreased \$229 million (11.2 percent) from December 31, 2013 to December 31, 2014, primarily driven by reductions in the commercial, commercial mortgage and construction and development portfolios, as well as by improvement in credit card loans. Net charge-offs decreased \$131 million (8.9 percent) in 2014 from 2013 due to the improvement in the residential mortgages and home equity and second mortgages portfolios, reflecting improving economic conditions, partially offset by higher commercial loan net charge-offs and lower commercial real estate loan recoveries in 2014.

Refer to “Corporate Risk Profile” for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income in 2015 was \$9.1 billion, compared with \$9.2 billion in 2014 and \$8.8 billion in 2013. The \$72 million (0.8 percent) decrease in 2015 from 2014 reflected the 2014 Nuveen gain, lower gains from Visa stock sales, the 2015 student loan market adjustment and lower mortgage banking revenue, partially offset by higher revenue in most other fee businesses and the 2015 HSA deposit sale gain. The decrease in mortgage banking revenue in 2015 of 10.2 percent, compared with 2014, was primarily due to an unfavorable change in the valuation of mortgage servicing rights (“MSRs”), net of hedging activities, partially offset by an increase in mortgage production volume. Credit and debit card revenue increased 4.8 percent in 2015 compared with 2014, due to higher transaction volumes. Trust and investment management fees increased 5.5 percent, reflecting the benefits of the Company’s investments in its corporate trust and fund services businesses, as well as account growth, improved market conditions and lower fee waivers. Merchant processing services revenue was 2.4 percent higher as a result of higher transaction volumes, along with account growth and equipment sales to merchants related to new chip technology requirements. Adjusted for the impact of foreign currency rate changes, the increase would have been approximately 6.9 percent. In addition, treasury management fees increased 2.9 percent in 2015 compared with 2014, due to higher transaction volumes, and commercial products revenue increased due to higher syndication and bond underwriting fees and higher commercial leasing revenue, partially offset by lower standby letter of credit fees.

**TABLE 4 NONINTEREST INCOME**

Year Ended December 31 (Dollars in Millions)	2015	2014	2013	2015 v 2014	2014 v 2013
Credit and debit card revenue	\$1,070	\$1,021	\$ 965	4.8%	5.8%
Corporate payment products revenue	708	724	706	(2.2)	2.5
Merchant processing services	1,547	1,511	1,458	2.4	3.6
ATM processing services	318	321	327	(.9)	(1.8)
Trust and investment management fees	1,321	1,252	1,139	5.5	9.9
Deposit service charges	702	693	670	1.3	3.4
Treasury management fees	561	545	538	2.9	1.3
Commercial products revenue	867	854	859	1.5	(.6)
Mortgage banking revenue	906	1,009	1,356	(10.2)	(25.6)
Investment products fees	185	191	178	(3.1)	7.3
Securities gains (losses), net	–	3	9	*	(66.7)
Other	907	1,040	569	(12.8)	82.8
<b>Total noninterest income</b>	<b>\$9,092</b>	<b>\$9,164</b>	<b>\$8,774</b>	<b>(.8)%</b>	<b>4.4%</b>

\* Not meaningful.

The \$390 million (4.4 percent) increase in noninterest income in 2014 from 2013 was principally due to increases in a majority of fee revenue categories and other income, partially offset by a reduction in mortgage banking revenue. Trust and investment management fees increased 9.9 percent in 2014, compared with 2013, reflecting account growth, improved market conditions and business expansion. Merchant processing services revenue was 3.6 percent higher as a result of an increase in fee-based product revenue and higher volumes, partially offset by lower rates. Credit and debit card revenue and corporate payment products revenue increased 5.8 percent and 2.5 percent, respectively, primarily due to higher transaction volumes. Deposit service charges were 3.4 percent higher due to account growth, the Charter One branch acquisitions and pricing changes. Investment products fee revenue increased 7.3 percent primarily due to higher transaction volumes. Other income increased 82.8 percent in 2014, compared with 2013, reflecting higher equity investment income, including 2014 gains on Visa stock sales and the Nuveen gain, and higher retail leasing revenue. The decrease in mortgage banking revenue in 2014 of 25.6 percent, compared with 2013, was primarily due to lower origination and sales revenue, partially offset by favorable changes in the valuation of MSRs, net of hedging activities.

**Noninterest Expense** Noninterest expense in 2015 was \$10.9 billion, compared with \$10.7 billion in 2014 and \$10.3 billion in 2013. The Company's efficiency ratio was 53.8 percent in 2015, compared with 53.2 percent in 2014 and 52.4 percent in 2013. The \$216 million (2.0 percent) increase in noninterest expense in 2015 over 2014 reflected higher compensation, employee benefits and other costs related to compliance activities during 2015. Compensation expense increased 6.4 percent, reflecting the impact of merit increases, higher staffing for risk and compliance activities, as well as the Charter One branch acquisitions. Employee benefits expense increased 12.1 percent, primarily the result of higher pension costs. In addition, technology and communications expense increased 2.8 percent in 2015 over 2014, reflecting higher software license and maintenance costs. Offsetting these increases was a 5.5 percent decrease in marketing and business development expense reflecting higher charitable contributions in 2014, a 9.5 percent decrease in postage, printing and supplies expense due to a 2015 reimbursement from a business partner, and a 12.6 percent decrease in other intangibles expense due to the reduction or completion of amortization of certain intangibles. In addition, other expense decreased 8.0 percent, reflecting the impact of the 2014 FHA DOJ settlement and prior year legal accruals, partially offset by higher current year compliance-related expenses.

**TABLE 5 NONINTEREST EXPENSE**

Year Ended December 31 (Dollars in Millions)	2015	2014	2013	2015 v 2014	2014 v 2013
Compensation	\$ 4,812	\$ 4,523	\$ 4,371	6.4%	3.5%
Employee benefits	1,167	1,041	1,140	12.1	(8.7)
Net occupancy and equipment	991	987	949	.4	4.0
Professional services	423	414	381	2.2	8.7
Marketing and business development	361	382	357	(5.5)	7.0
Technology and communications	887	863	848	2.8	1.8
Postage, printing and supplies	297	328	310	(9.5)	5.8
Other intangibles	174	199	223	(12.6)	(10.8)
Other	1,819	1,978	1,695	(8.0)	16.7
Total noninterest expense	\$10,931	\$10,715	\$10,274	2.0%	4.3%
Efficiency ratio <sup>(a)</sup>	53.8%	53.2%	52.4%		

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

The \$441 million (4.3 percent) increase in noninterest expense in 2014 over 2013 was the result of increases in most noninterest expense categories. Compensation expense increased 3.5 percent, reflecting the impact of merit increases, acquisitions and higher staffing for risk, compliance and internal audit activities (partially offset by lower employee benefits expense of 8.7 percent, driven by lower pension costs). Net occupancy and equipment expense was 4.0 percent higher due to business initiatives and higher maintenance costs, and professional services expense increased 8.7 percent due mainly to mortgage servicing-related and other project costs. Marketing and business development expense increased 7.0 percent primarily due to higher charitable contributions, technology and communications expense increased 1.8 percent as result of business initiatives across most business lines, and postage printing and supplies expense increased 5.8 percent due to higher postage expense and demand for credit and prepaid cards. In addition, other expense increased 16.7 percent in 2014 over 2013, reflecting the 2014 FHA DOJ settlement, accruals related to certain legal matters, Charter One merger integration costs and mortgage servicing-related expenses, partially offset by lower tax-advantaged project costs.

**Pension Plans** Because of the long-term nature of pension plans, the related accounting is complex and can be impacted by several factors, including investment funding policies, accounting methods and actuarial assumptions.

The Company's pension accounting reflects the long-term nature of the benefit obligations and the investment horizon of plan assets. Amounts recorded in the financial statements reflect actuarial assumptions about participant benefits and plan asset returns. Changes in actuarial assumptions and differences in actual plan experience, compared with actuarial assumptions, are deferred and recognized in expense in future periods. Differences related to participant benefits are recognized in expense over the future service period of the employees. Differences related to the expected return on plan assets are included in expense over a period of approximately twelve years.

The Company expects pension expense to decrease approximately \$100 million in 2016, primarily driven by a higher expected return on plan assets due to 2015 actual and 2016 expected contributions, a higher discount rate and lower expected amortization due to recognition of prior losses. Because of the complexity of forecasting pension plan activities, the accounting methods utilized for pension plans, the Company's ability to respond to factors affecting the plans and the hypothetical nature of actuarial assumptions, the actual pension expense decrease may differ from the expected amount.

Refer to Note 17 of the Notes to the Consolidated Financial Statements for further information on the Company's pension plan funding practices, investment policies and asset allocation strategies, and accounting policies for pension plans.

The following table shows an analysis of hypothetical changes in the discount rate and long-term rate of return ("LTROR"):

Discount Rate (Dollars in Millions)	Down 100 Basis Points	Up 100 Basis Points
Incremental benefit (expense) . . . . .	\$ (118)	\$ 95
Percent of 2015 net income . . . . .	(1.23)%	.99%
LTROR (Dollars in Millions)	Down 100 Basis Points	Up 100 Basis Points
Incremental benefit (expense) . . . . .	\$ (35)	\$ 35
Percent of 2015 net income . . . . .	(.37)%	.37%

**Income Tax Expense** The provision for income taxes was \$2.1 billion (an effective rate of 26.1 percent) in 2015 and 2014, and \$2.0 billion (an effective rate of 26.2 percent) in 2013.

For further information on income taxes, refer to Note 19 of the Notes to Consolidated Financial Statements.

#### **BALANCE SHEET ANALYSIS**

Average earning assets were \$367.4 billion in 2015, compared with \$341.0 billion in 2014. The increase in average earning assets of \$26.4 billion (7.8 percent) was primarily due to increases in investment securities of \$12.8 billion (14.2 percent), loans of \$8.8 billion (3.6 percent) and loans held for sale of \$2.6 billion (83.7 percent).

For average balance information, refer to Consolidated Daily Average Balance Sheet and Related Yields and Rates on pages 154 and 155.

**Loans** The Company's loan portfolio was \$260.8 billion at December 31, 2015, compared with \$247.9 billion at December 31, 2014, an increase of \$13.0 billion (5.2 percent). The increase was driven by increases in commercial loans of \$8.0 billion (10.0 percent), credit card loans of \$2.5 billion (13.5 percent), other retail loans of \$1.9 billion (3.9 percent) and residential mortgages of \$1.9 billion (3.6 percent), partially offset by decreases in commercial real estate loans of \$658 million (1.5 percent) and covered loans of \$685 million (13.0 percent). Table 6 provides a summary of the loan distribution by product type, while Table 12 provides a summary of the selected loan maturity distribution by loan category. Average total loans increased \$8.8 billion (3.6 percent) in 2015, compared with 2014. The increase was due to growth in most loan portfolio classes in 2015.

**Commercial** Commercial loans, including lease financing, increased \$8.0 billion (10.0 percent) at December 31, 2015, compared with December 31, 2014. Average commercial loans increased \$8.3 billion (11.0 percent) in 2015, compared with 2014. The growth was primarily driven by higher demand from new and existing customers. Table 7 provides a summary of commercial loans by industry and geographical locations.

**Commercial Real Estate** The Company's portfolio of commercial real estate loans, which includes commercial mortgages and construction and development loans, decreased \$658 million (1.5 percent) at December 31, 2015, compared with December 31, 2014, primarily the result of customers paying down balances in the second half of 2015. Average commercial real estate loans increased \$1.8 billion (4.5 percent) in 2015, compared with 2014. Table 8 provides a summary of commercial real estate loans by property type and geographical location.

The Company reclassifies construction loans to the commercial mortgage category if permanent financing is provided by the Company. In 2015, approximately \$361 million of construction loans were reclassified to the commercial mortgage category. At December 31, 2015 and 2014, \$155 million of tax-exempt industrial development loans were secured by real estate. The Company's commercial mortgage and construction and development loans had unfunded commitments of \$10.4 billion and \$10.7 billion at December 31, 2015 and 2014, respectively.

The Company also finances the operations of real estate developers and other entities with operations related to real estate. These loans are not secured directly by real estate but are subject to terms and conditions similar to commercial loans. These loans were included in the commercial loan category and totaled \$5.8 billion and \$4.6 billion at December 31, 2015 and 2014, respectively.

**TABLE 6 LOAN PORTFOLIO DISTRIBUTION**

At December 31 (Dollars in Millions)	2015		2014		2013		2012		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
<b>Commercial</b>										
Commercial .....	\$ 83,116	31.9%	\$ 74,996	30.2%	\$ 64,762	27.5%	\$ 60,742	27.2%	\$ 50,734	24.2%
Lease financing .....	5,286	2.0	5,381	2.2	5,271	2.3	5,481	2.5	5,914	2.8
Total commercial .....	88,402	33.9	80,377	32.4	70,033	29.8	66,223	29.7	56,648	27.0
<b>Commercial Real Estate</b>										
Commercial mortgages ..	31,773	12.2	33,360	13.5	32,183	13.7	31,005	13.9	29,664	14.1
Construction and development .....	10,364	3.9	9,435	3.8	7,702	3.3	5,948	2.6	6,187	3.0
Total commercial real estate .....	42,137	16.1	42,795	17.3	39,885	17.0	36,953	16.5	35,851	17.1
<b>Residential Mortgages</b>										
Residential mortgages ...	40,425	15.5	38,598	15.6	37,545	15.9	32,648	14.6	28,669	13.7
Home equity loans, first liens .....	13,071	5.0	13,021	5.2	13,611	5.8	11,370	5.1	8,413	4.0
Total residential mortgages .....	53,496	20.5	51,619	20.8	51,156	21.7	44,018	19.7	37,082	17.7
<b>Credit Card</b> .....	21,012	8.1	18,515	7.5	18,021	7.7	17,115	7.7	17,360	8.3
<b>Other Retail</b>										
Retail leasing .....	5,232	2.0	5,871	2.4	5,929	2.5	5,419	2.4	5,118	2.4
Home equity and second mortgages .....	16,384	6.3	15,916	6.4	15,442	6.6	16,726	7.5	18,131	8.6
Revolving credit .....	3,354	1.3	3,309	1.3	3,276	1.4	3,332	1.5	3,344	1.6
Installment .....	7,030	2.7	6,242	2.5	5,709	2.4	5,463	2.4	5,348	2.6
Automobile .....	16,587	6.3	14,822	6.0	13,743	5.8	12,593	5.6	11,508	5.5
Student .....	2,619	1.0	3,104	1.3	3,579	1.5	4,179	1.9	4,658	2.2
Total other retail .....	51,206	19.6	49,264	19.9	47,678	20.2	47,712	21.3	48,107	22.9
Total loans, excluding covered loans ....	256,253	98.2	242,570	97.9	226,773	96.4	212,021	94.9	195,048	93.0
<b>Covered Loans</b> .....	4,596	1.8	5,281	2.1	8,462	3.6	11,308	5.1	14,787	7.0
Total loans .....	\$260,849	100.0%	\$247,851	100.0%	\$235,235	100.0%	\$223,329	100.0%	\$209,835	100.0%



**TABLE 7 COMMERCIAL LOANS BY INDUSTRY GROUP AND GEOGRAPHY**

At December 31 (Dollars in Millions)	2015		2014	
	Loans	Percent	Loans	Percent
<b>Industry Group</b>				
Manufacturing	\$13,404	15.2%	\$12,261	15.3%
Real estate, rental and leasing	9,514	10.8	7,779	9.7
Finance and insurance	8,288	9.4	7,799	9.7
Wholesale trade	8,069	9.1	7,350	9.1
Retail trade	6,846	7.7	6,428	8.0
Healthcare and social assistance	5,802	6.6	5,280	6.6
Public administration	4,190	4.7	4,033	5.0
Information	3,542	4.0	2,702	3.4
Professional, scientific and technical services	3,493	4.0	3,121	3.9
Transport and storage	3,262	3.7	2,941	3.7
Educational services	2,791	3.2	2,286	2.8
Arts, entertainment and recreation	2,772	3.1	2,493	3.1
Mining	2,208	2.5	2,604	3.2
Agriculture, forestry, fishing and hunting	1,721	1.9	1,642	2.0
Other services	1,703	1.9	1,449	1.8
Utilities	1,435	1.6	1,404	1.7
Other	9,362	10.6	8,805	11.0
Total	\$88,402	100.0%	\$80,377	100.0%
<b>Geography</b>				
California	\$11,253	12.7%	\$ 9,961	12.4%
Colorado	3,930	4.5	3,528	4.4
Illinois	4,636	5.3	4,108	5.1
Minnesota	7,166	8.1	6,316	7.9
Missouri	3,309	3.8	2,832	3.5
Ohio	4,063	4.6	3,534	4.4
Oregon	1,938	2.2	2,130	2.6
Washington	3,219	3.6	3,237	4.0
Wisconsin	2,936	3.3	3,090	3.8
Iowa, Kansas, Nebraska, North Dakota, South Dakota	4,543	5.1	4,400	5.5
Arkansas, Indiana, Kentucky, Tennessee	5,106	5.8	4,949	6.2
Idaho, Montana, Wyoming	1,427	1.6	1,475	1.8
Arizona, Nevada, New Mexico, Utah	3,280	3.7	2,951	3.7
Total banking region	56,806	64.3	52,511	65.3
Florida, Michigan, New York, Pennsylvania, Texas	15,819	17.9	14,036	17.5
All other states	15,777	17.8	13,830	17.2
Total outside Company's banking region	31,596	35.7	27,866	34.7
Total	\$88,402	100.0%	\$80,377	100.0%

**Residential Mortgages** Residential mortgages held in the loan portfolio at December 31, 2015, increased \$1.9 billion (3.6 percent) over December 31, 2014, reflecting higher origination and refinancing activity during 2015. Average residential mortgages were essentially flat in 2015, compared with 2014. Residential mortgages originated and placed in the Company's loan portfolio include well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality.

**Credit Card** Total credit card loans increased \$2.5 billion (13.5 percent) at December 31, 2015, compared with December 31, 2014. Average credit card balances increased \$422 million (2.4 percent) in 2015, compared with 2014. The increases reflected new and existing customer growth during the period, including the 2015 acquisitions of credit card portfolios from Fidelity Investments and Auto Club Trust.

**TABLE 8 COMMERCIAL REAL ESTATE LOANS BY PROPERTY TYPE AND GEOGRAPHY**

At December 31 (Dollars in Millions)	2015		2014	
	Loans	Percent	Loans	Percent
<b>Property Type</b>				
Business owner occupied	\$11,186	26.6%	\$11,535	26.9%
Commercial property				
Industrial	1,530	3.6	1,582	3.7
Office	5,480	13.0	5,680	13.3
Retail	4,944	11.7	4,896	11.4
Other commercial	4,165	9.9	4,670	10.9
Multi-family	8,833	21.0	8,548	20.0
Hotel/motel	3,428	8.1	3,624	8.5
Residential homebuilders	2,319	5.5	1,996	4.7
Healthcare facilities	252	.6	264	.6
Total	\$42,137	100.0%	\$42,795	100.0%
<b>Geography</b>				
California	\$10,456	24.8%	\$10,545	24.6%
Colorado	2,004	4.8	1,955	4.6
Illinois	1,810	4.3	2,153	5.0
Minnesota	2,022	4.8	2,031	4.7
Missouri	1,382	3.3	1,453	3.4
Ohio	1,260	3.0	1,391	3.3
Oregon	1,988	4.7	2,012	4.7
Washington	3,422	8.1	3,501	8.2
Wisconsin	2,323	5.5	2,293	5.4
Iowa, Kansas, Nebraska, North Dakota, South Dakota	2,227	5.3	2,202	5.1
Arkansas, Indiana, Kentucky, Tennessee	1,708	4.1	1,764	4.1
Idaho, Montana, Wyoming	1,275	3.0	1,319	3.1
Arizona, Nevada, New Mexico, Utah	3,259	7.7	3,383	7.9
Total banking region	35,136	83.4	36,002	84.1
Florida, Michigan, New York, Pennsylvania, Texas	3,793	9.0	3,656	8.6
All other states	3,208	7.6	3,137	7.3
Total outside Company's banking region	7,001	16.6	6,793	15.9
Total	\$42,137	100.0%	\$42,795	100.0%

**Other Retail** Total other retail loans, which include retail leasing, home equity and second mortgages and other retail loans, increased \$1.9 billion (3.9 percent) at December 31, 2015, compared with December 31, 2014. Average other retail loans increased \$726 million (1.5 percent) in 2015, compared with 2014. The increases were primarily due to higher auto and installment loans, and home equity and second mortgages, partially offset by lower retail leasing and student loan balances. Of the total residential mortgages, credit card and other retail loans outstanding at

December 31, 2015, approximately 73.4 percent were to customers located in the Company's primary banking region compared with 73.0 percent at December 31, 2014. Tables 9, 10 and 11 provide a geographic summary of residential mortgages, credit card loans and other retail loans outstanding, respectively, as of December 31, 2015 and 2014. The collateral for \$3.1 billion of residential mortgages and other retail loans included in covered loans at December 31, 2015 was in California, compared with \$3.5 billion at December 31, 2014.

**TABLE 9 RESIDENTIAL MORTGAGES BY GEOGRAPHY**

At December 31 (Dollars in Millions)	2015		2014	
	Loans	Percent	Loans	Percent
California . . . . .	\$11,994	22.4%	\$ 9,943	19.3%
Colorado . . . . .	3,047	5.7	2,969	5.7
Illinois . . . . .	2,991	5.6	3,085	6.0
Minnesota . . . . .	4,035	7.6	4,002	7.7
Missouri . . . . .	1,955	3.7	2,090	4.0
Ohio . . . . .	2,322	4.3	2,350	4.6
Oregon . . . . .	2,144	4.0	2,071	4.0
Washington . . . . .	3,020	5.6	2,874	5.6
Wisconsin . . . . .	1,556	2.9	1,582	3.1
Iowa, Kansas, Nebraska, North Dakota, South Dakota . . . . .	2,188	4.1	2,225	4.3
Arkansas, Indiana, Kentucky, Tennessee . . . . .	3,287	6.1	3,353	6.5
Idaho, Montana, Wyoming . . . . .	1,209	2.3	1,198	2.3
Arizona, Nevada, New Mexico, Utah . . . . .	3,773	7.1	3,518	6.8
Total banking region . . . . .	43,521	81.4	41,260	79.9
Florida, Michigan, New York, Pennsylvania, Texas . . . . .	4,321	8.1	4,446	8.6
All other states . . . . .	5,654	10.5	5,913	11.5
Total outside Company's banking region . . . . .	9,975	18.6	10,359	20.1
Total . . . . .	\$53,496	100.0%	\$51,619	100.0%

**TABLE 10 CREDIT CARD LOANS BY GEOGRAPHY**

At December 31 (Dollars in Millions)	2015		2014	
	Loans	Percent	Loans	Percent
California . . . . .	\$ 2,161	10.3%	\$ 1,919	10.3%
Colorado . . . . .	787	3.7	699	3.8
Illinois . . . . .	1,046	5.0	922	5.0
Minnesota . . . . .	1,350	6.4	1,219	6.6
Missouri . . . . .	746	3.6	661	3.6
Ohio . . . . .	1,238	5.9	1,109	6.0
Oregon . . . . .	707	3.4	626	3.4
Washington . . . . .	898	4.3	809	4.4
Wisconsin . . . . .	1,050	5.0	959	5.2
Iowa, Kansas, Nebraska, North Dakota, South Dakota . . . . .	996	4.7	897	4.8
Arkansas, Indiana, Kentucky, Tennessee . . . . .	1,613	7.7	1,435	7.7
Idaho, Montana, Wyoming . . . . .	406	1.9	363	1.9
Arizona, Nevada, New Mexico, Utah . . . . .	1,031	4.9	884	4.8
Total banking region . . . . .	14,029	66.8	12,502	67.5
Florida, Michigan, New York, Pennsylvania, Texas . . . . .	3,600	17.1	3,153	17.0
All other states . . . . .	3,383	16.1	2,860	15.5
Total outside Company's banking region . . . . .	6,983	33.2	6,013	32.5
Total . . . . .	\$21,012	100.0%	\$18,515	100.0%



**TABLE 11 OTHER RETAIL LOANS BY GEOGRAPHY**

At December 31 (Dollars in Millions)	2015		2014	
	Loans	Percent	Loans	Percent
California . . . . .	\$ 7,495	14.6%	\$ 6,640	13.5%
Colorado . . . . .	1,995	3.9	1,931	3.9
Illinois . . . . .	3,000	5.8	2,808	5.7
Minnesota . . . . .	3,600	7.0	3,666	7.4
Missouri . . . . .	2,191	4.3	2,142	4.4
Ohio . . . . .	2,740	5.4	2,626	5.3
Oregon . . . . .	1,601	3.1	1,604	3.3
Washington . . . . .	1,724	3.4	1,731	3.5
Wisconsin . . . . .	1,651	3.2	1,729	3.5
Iowa, Kansas, Nebraska, North Dakota, South Dakota . . . . .	2,318	4.5	2,329	4.7
Arkansas, Indiana, Kentucky, Tennessee . . . . .	2,925	5.7	2,819	5.7
Idaho, Montana, Wyoming . . . . .	963	1.9	975	2.0
Arizona, Nevada, New Mexico, Utah . . . . .	2,539	5.0	2,362	4.8
Total banking region . . . . .	34,742	67.8	33,362	67.7
Florida, Michigan, New York, Pennsylvania, Texas . . . . .	8,858	17.3	8,328	16.9
All other states . . . . .	7,606	14.9	7,574	15.4
Total outside Company's banking region . . . . .	16,464	32.2	15,902	32.3
Total . . . . .	\$51,206	100.0%	\$49,264	100.0%

The Company generally retains portfolio loans through maturity; however, the Company's intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company's intent or ability to hold an existing portfolio loan changes, it is transferred to loans held for sale.

**Loans Held for Sale** Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market,

were \$3.2 billion at December 31, 2015, compared with \$4.8 billion at December 31, 2014. The decrease in loans held for sale was principally due to a lower level of mortgage loan closing late in 2015, compared with the same period of 2014. 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").

**TABLE 12** SELECTED LOAN MATURITY DISTRIBUTION

At December 31, 2015 (Dollars in Millions)	One Year or Less	Over One Through Five Years	Over Five Years	Total
Commercial	\$28,529	\$ 55,846	\$ 4,027	\$ 88,402
Commercial real estate	11,074	24,476	6,587	42,137
Residential mortgages	2,705	8,118	42,673	53,496
Credit card	21,012	—	—	21,012
Other retail	9,876	27,382	13,948	51,206
Covered loans	580	774	3,242	4,596
Total loans	\$73,776	\$116,596	\$70,477	\$260,849
Total of loans due after one year with				
Predetermined interest rates				\$ 82,032
Floating interest rates				\$105,041

**Investment Securities** The Company uses its investment securities portfolio to manage enterprise interest rate risk, provide liquidity (including the ability to meet regulatory requirements), generate interest and dividend income, and as collateral for public deposits and wholesale funding sources. While the Company intends to hold its investment securities indefinitely, it may sell available-for-sale securities in response to structural changes in the balance sheet and related interest rate risk and to meet liquidity requirements, among other factors.

Investment securities totaled \$105.6 billion at December 31, 2015, compared with \$101.0 billion at December 31, 2014. The \$4.6 billion (4.5 percent) increase reflected \$5.1 billion of net investment purchases, partially offset by a \$457 million unfavorable change in net unrealized gains (losses) on available-for-sale investment securities.

Average investment securities were \$103.2 billion in 2015, compared with \$90.3 billion in 2014. The weighted-average yield of the available-for-sale portfolio was 2.21 percent at December 31, 2015, compared with 2.32 percent at December 31, 2014. The average maturity of the available-for-sale portfolio was 4.7 years at December 31, 2015, compared with 4.3 years at December 31, 2014. The weighted-average yield of the held-to-maturity portfolio was 1.92 percent at December 31, 2015, unchanged from December 31, 2014. The average maturity of the held-to-maturity portfolio was 4.2 years at December 31, 2015, compared with 4.0 years at December 31, 2014. Investment securities by type are shown in Table 13.

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 December 31, 2015, the Company's net unrealized gains on available-for-sale securities were \$180 million, compared with \$637 million at December 31, 2014. The unfavorable change in net unrealized gains (losses) was primarily due to decreases in the fair value of agency mortgage-backed and state and political securities as a result of increases in interest rates. Gross unrealized losses on available-for-sale securities totaled \$480 million at December 31, 2015, compared with \$343 million at December 31, 2014. The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying assets and market conditions. At December 31, 2015, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

In December 2013, U.S. banking regulators approved final rules that prohibit banks from holding certain types of investments, such as investments in hedge and certain private equity funds. The Company does not anticipate the implementation of these final rules will require any significant liquidation of securities held or impairment charges.

Refer to Notes 5 and 22 in the Notes to Consolidated Financial Statements for further information on investment securities.

**TABLE 13 INVESTMENT SECURITIES**

At December 31, 2015 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield <sup>(e)</sup>	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield <sup>(e)</sup>
<b>U.S. Treasury and Agencies</b>								
Maturing in one year or less . . . . .	\$ 476	\$ 477	.4	2.38%	\$ —	\$ —	—	—%
Maturing after one year through five years . . . . .	1,387	1,393	2.5	1.38	1,097	1,103	2.7	1.42
Maturing after five years through ten years . . . . .	2,747	2,725	6.8	2.05	1,828	1,816	6.9	2.14
Maturing after ten years . . . . .	1	1	11.7	4.15	—	—	—	—
Total . . . . .	<u>\$ 4,611</u>	<u>\$ 4,596</u>	<u>4.8</u>	<u>1.88%</u>	<u>\$ 2,925</u>	<u>\$ 2,919</u>	<u>5.3</u>	<u>1.87%</u>
<b>Mortgage-Backed Securities<sup>(a)</sup></b>								
Maturing in one year or less . . . . .	\$ 360	\$ 363	.6	2.25%	\$ 210	\$ 210	.7	2.08%
Maturing after one year through five years . . . . .	32,988	33,030	4.1	1.92	31,258	31,130	3.7	2.07
Maturing after five years through ten years . . . . .	16,468	16,466	5.7	1.44	8,933	8,962	5.5	1.44
Maturing after ten years . . . . .	829	827	12.3	1.41	219	220	11.7	1.36
Total . . . . .	<u>\$50,645</u>	<u>\$50,686</u>	<u>4.7</u>	<u>1.76%</u>	<u>\$40,620</u>	<u>\$40,522</u>	<u>4.2</u>	<u>1.92%</u>
<b>Asset-Backed Securities<sup>(a)</sup></b>								
Maturing in one year or less . . . . .	\$ —	\$ —	—	—%	\$ —	\$ 1	.1	1.01%
Maturing after one year through five years . . . . .	194	199	3.4	3.27	6	8	3.4	1.05
Maturing after five years through ten years . . . . .	354	361	5.9	2.75	3	3	6.3	1.17
Maturing after ten years . . . . .	—	—	—	—	1	7	11.8	1.18
Total . . . . .	<u>\$ 548</u>	<u>\$ 560</u>	<u>5.0</u>	<u>2.94%</u>	<u>\$ 10</u>	<u>\$ 19</u>	<u>5.2</u>	<u>1.10%</u>
<b>Obligations of State and Political Subdivisions<sup>(b)(c)</sup></b>								
Maturing in one year or less . . . . .	\$ 2,175	\$ 2,216	.5	7.04%	\$ —	\$ —	.5	11.31%
Maturing after one year through five years . . . . .	1,976	2,072	1.8	6.87	1	1	2.6	8.03
Maturing after five years through ten years . . . . .	881	902	7.4	5.52	3	3	8.9	3.94
Maturing after ten years . . . . .	117	126	14.5	7.15	4	4	10.5	2.32
Total . . . . .	<u>\$ 5,149</u>	<u>\$ 5,316</u>	<u>2.5</u>	<u>6.72%</u>	<u>\$ 8</u>	<u>\$ 8</u>	<u>9.1</u>	<u>3.49%</u>
<b>Other Debt Securities</b>								
Maturing in one year or less . . . . .	\$ —	\$ —	—	—%	\$ 1	\$ 1	.6	1.64%
Maturing after one year through five years . . . . .	—	—	—	—	26	24	3.8	1.27
Maturing after five years through ten years . . . . .	—	—	—	—	—	—	—	—
Maturing after ten years . . . . .	677	610	17.6	2.61	—	—	—	—
Total . . . . .	<u>\$ 677</u>	<u>\$ 610</u>	<u>17.6</u>	<u>2.61%</u>	<u>\$ 27</u>	<u>\$ 25</u>	<u>3.6</u>	<u>1.28%</u>
<b>Other Investments</b> . . . . .	<u>\$ 187</u>	<u>\$ 229</u>	<u>22.9</u>	<u>4.59%</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>	<u>—%</u>
<b>Total investment securities<sup>(d)</sup></b> . . . . .	<u>\$61,817</u>	<u>\$61,997</u>	<u>4.7</u>	<u>2.21%</u>	<u>\$43,590</u>	<u>\$43,493</u>	<u>4.2</u>	<u>1.92%</u>

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

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

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

(d) The weighted-average maturity of the available-for-sale investment securities was 4.3 years at December 31, 2014, with a corresponding weighted-average yield of 2.32 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.0 years at December 31, 2014, with a corresponding weighted-average yield of 1.92 percent.

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

At December 31 (Dollars in Millions)	2015		2014	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies . . . . .	\$ 7,536	7.2%	\$ 5,339	5.3%
Mortgage-backed securities . . . . .	91,265	86.6	87,645	87.3
Asset-backed securities . . . . .	558	.5	638	.6
Obligations of state and political subdivisions . . . . .	5,157	4.9	5,613	5.6
Other debt securities and investments . . . . .	891	.8	1,171	1.2
Total investment securities . . . . .	<u>\$105,407</u>	<u>100.0%</u>	<u>\$100,406</u>	<u>100.0%</u>



**TABLE 14 DEPOSITS**

The composition of deposits was as follows:

At December 31 (Dollars in Millions)	2015		2014		2013		2012		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Noninterest-bearing deposits	\$ 83,766	27.9%	\$ 77,323	27.3%	\$ 76,941	29.4%	\$ 74,172	29.8%	\$ 68,579	29.7%
Interest-bearing deposits										
Interest checking	59,169	19.7	55,058	19.5	52,140	19.9	50,430	20.2	45,933	19.9
Money market savings	86,159	28.7	76,536	27.1	59,772	22.8	50,987	20.5	45,854	19.9
Savings accounts	38,468	12.8	35,249	12.4	32,469	12.4	30,811	12.4	28,018	12.1
Total of savings deposits	183,796	61.2	166,843	59.0	144,381	55.1	132,228	53.1	119,805	51.9
Time deposits less than \$100,000	9,050	3.0	10,609	3.8	11,784	4.5	13,744	5.5	14,952	6.5
Time deposits greater than \$100,000										
Domestic	7,272	2.4	10,636	3.8	9,527	3.6	12,148	4.8	12,583	5.4
Foreign	16,516	5.5	17,322	6.1	19,490	7.4	16,891	6.8	14,966	6.5
Total interest-bearing deposits	216,634	72.1	205,410	72.7	185,182	70.6	175,011	70.2	162,306	70.3
Total deposits	\$300,400	100.0%	\$282,733	100.0%	\$262,123	100.0%	\$249,183	100.0%	\$230,885	100.0%

The maturity of time deposits was as follows:

At December 31, 2015 (Dollars in Millions)	Time Deposits Less Than \$100,000		Time Deposits Greater Than \$100,000		Total
			Domestic	Foreign	
Three months or less		\$1,324	\$1,791	\$16,478	\$19,593
Three months through six months		1,087	668	19	1,774
Six months through one year		2,298	1,474	19	3,791
2017		2,018	1,584	—	3,602
2018		994	586	—	1,580
2019		742	535	—	1,277
2020		585	633	—	1,218
Thereafter		2	1	—	3
Total		\$9,050	\$7,272	\$16,516	\$32,838

**Deposits** Total deposits were \$300.4 billion at December 31, 2015, compared with \$282.7 billion at December 31, 2014. The \$17.7 billion (6.2 percent) increase in total deposits reflected growth in total savings and noninterest-bearing deposits, partially offset by a decrease in time deposits. Average total deposits in 2015 increased \$20.5 billion (7.7 percent) over 2014 due to increases in total savings deposits and noninterest-bearing deposits, including those obtained in the Charter One branch acquisitions, partially offset by a decrease in time deposits.

Noninterest-bearing deposits at December 31, 2015, increased \$6.4 billion (8.3 percent) over December 31, 2014, primarily due to higher Wholesale Banking and Commercial Real Estate, Consumer and Small Business Banking, and corporate trust balances. Average noninterest-bearing deposits increased \$5.7 billion (7.8 percent) in 2015, compared with 2014, reflecting growth in Consumer and Small Business Banking and Wholesale Banking and Commercial Real Estate, as well as the impact of the Charter One branch acquisitions.

Interest-bearing savings deposits increased \$17.0 billion (10.2 percent) at December 31, 2015, compared with

December 31, 2014. The increase was related to higher money market, interest checking and savings account balances. Money market deposit balances increased \$9.6 billion (12.6 percent) at December 31, 2015, compared with December 31, 2014, primarily due to higher Wholesale Banking and Commercial Real Estate, and broker-dealer balances. Interest checking balances increased \$4.1 billion (7.5 percent) primarily due to higher Consumer and Small Business Banking, and corporate trust balances, partially offset by lower broker-dealer balances. Savings account balances increased \$3.2 billion (9.1 percent), primarily due to higher Consumer and Small Business Banking balances. Average interest-bearing savings deposits in 2015 increased \$21.0 billion (13.8 percent), compared with 2014, reflecting growth in Consumer and Small Business Banking, Wholesale Banking and Commercial Real Estate and Wealth Management and Securities Services balances, as well as the impact of the Charter One branch acquisitions.

Interest-bearing time deposits at December 31, 2015, decreased \$5.7 billion (14.9 percent), compared with December 31, 2014. Average time deposits decreased \$6.2 billion (14.9 percent) in 2015, compared with 2014. Changes

in time deposits are largely related to those deposits managed as an alternative to other wholesale funding sources, based largely on funding needs and relative pricing.

**Borrowings** The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were \$27.9 billion at December 31, 2015, compared with \$29.9 billion at December 31, 2014. The \$2.0 billion (6.7 percent) decrease in short-term borrowings was primarily due to decreases in other short-term borrowings balances.

Long-term debt was \$32.1 billion at December 31, 2015, compared with \$32.3 billion at December 31, 2014. The \$182 million (0.6 percent) decrease reflected \$1.4 billion of bank note repayments, and \$3.1 billion of medium-term note and subordinated note maturities, partially offset by the issuances of \$2.4 billion of bank notes and a \$1.7 billion increase in Federal Home Loan Bank (“FHLB”) advances.

Refer to Notes 12 and 13 of the Notes to Consolidated Financial Statements for additional information regarding short-term borrowings and long-term debt, and the “Liquidity Risk Management” section for discussion of liquidity management of the Company.

## **CORPORATE RISK PROFILE**

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

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

The Company’s most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance,

strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale (“MLHFS”), MSR and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations or new business at a reasonable cost and in a timely manner. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events, including the risk of loss resulting from breaches in data security. Operational risk can also include failures by third parties with which the Company does business. Compliance risk is the risk of loss arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards, potentially exposing the Company to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk also arises in situations where the laws or rules governing certain Company products or activities of the Company’s customers may be ambiguous or untested. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputational risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company’s competitiveness by affecting its ability to establish new relationships or services, or continue serving existing relationships. In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to “Risk Factors” beginning on page 156, for a detailed discussion of these factors.

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

Directors. The third line of defense, internal audit, is responsible for providing the Audit Committee of the Board of Directors and senior management with independent assessment and assurance regarding the effectiveness of the Company's governance, risk management, and control processes.

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

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

**Credit Risk Management** The Company's strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and management reviews of loans exhibiting deterioration of credit quality. The Risk Management Committee oversees the Company's credit risk management process.

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

credit losses. Loans with a pass rating represent those loans not classified on the Company's rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including loans that are 90 days or more past due and still accruing, nonaccrual loans, those considered troubled debt restructurings ("TDRs"), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company's internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to compute estimated loan-to-value ("LTV") ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not the primary source of repayment. The Company strives to identify potential problem loans early, record any necessary charge-offs promptly and maintain appropriate allowance levels for probable incurred loan losses. Refer to Notes 1 and 6 in the Notes to Consolidated Financial Statements for further discussion of the Company's loan portfolios including internal credit quality ratings.

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 10- or 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 20- or 10-year amortization period, respectively. At December 31, 2015, substantially all of the Company's home equity lines were in the draw period. Approximately \$920 million, or 6 percent, of the outstanding home equity line balances at December 31, 2015, will enter the amortization period within the next 36 months. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers' capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and in some cases, updated LTV information on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

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

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

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. The Company also engages in non-lending activities that may give rise to credit risk, including derivative transactions for balance sheet hedging purposes, foreign exchange transactions, deposit overdrafts and interest rate swap contracts for customers, investments in securities and other financial assets, and settlement risk, including Automated Clearing House transactions and the processing of credit card transactions for merchants. These activities are subject to credit review, analysis and approval processes.

**Economic and Other Factors** In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), collateral values, trends in loan performance and macroeconomic factors, such as changes in unemployment rates, gross domestic product and consumer bankruptcy filings.

Beginning in late 2007, financial markets suffered significant disruptions, leading to and exacerbated by declining real estate values and subsequent economic challenges, both domestically and globally. Median home prices declined across most domestic markets, which had a significant adverse impact on the collectability of residential mortgage loans. Residential mortgage delinquencies increased throughout 2008 and 2009. High unemployment levels beginning in 2009, further increased losses in prime-based residential portfolios and credit cards.

Although economic conditions generally have stabilized from the dramatic downturn experienced in 2008 and 2009, and employment levels, median home prices and the financial markets have slowly improved, business activities across certain industries and regions continue to face challenges due to slow global economic growth. If commodity prices inclusive of energy, remain depressed for an extended period of time, the industry and the overall economy could be negatively impacted.

Credit costs peaked for the Company in late 2009 and have trended downward thereafter. The provision for credit losses was lower than net charge-offs by \$40 million in 2015, \$105 million in 2014 and \$125 million in 2013. The \$97 million (7.9 percent) decrease in the provision for credit losses in 2015, compared with 2014, reflected improving credit trends and the underlying risk profile of the loan portfolio as economic conditions continued to slowly improve throughout 2015, partially offset by portfolio growth and deterioration in certain loans to customers in energy-related businesses.

**Credit Diversification** 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 traditional commercial lending products and specialized products such as asset-based lending, commercial lease financing, agricultural credit, warehouse mortgage lending, small business lending, commercial real estate, health care and correspondent banking. The Company also offers an array of consumer lending products, including residential mortgages, credit card loans, auto loans, retail leases, home equity, revolving credit and other consumer loans. These consumer lending products are primarily offered through the branch office network, home mortgage and loan production offices and indirect distribution channels, such as auto dealers. The Company monitors and manages the portfolio diversification by industry, customer and geography. Table 6 provides information with respect to the overall product diversification and changes in the mix during 2015.

The commercial loan class is diversified among various industries with somewhat higher concentrations in manufacturing, finance and insurance, wholesale trade, and real estate, rental and leasing. Additionally, the commercial loan class is diversified across the Company's geographical markets with 64.3 percent of total commercial loans within the Company's Consumer and Small Business Banking region. Credit relationships outside of the Company's Consumer and Small Business Banking region relate to the corporate banking, mortgage banking, auto dealer and leasing businesses, focusing on large national customers and specifically targeted industries. Loans to mortgage banking customers are primarily warehouse lines which are collateralized with the underlying mortgages. The Company regularly monitors its mortgage collateral position to manage its risk exposure. Table 7 provides a summary of significant industry groups and geographical locations of commercial loans outstanding at December 31, 2015 and 2014. At December 31, 2015, approximately \$3.2 billion of the commercial loans outstanding were to customers in energy-related businesses, compared with \$3.1 billion at December 31, 2014. The decline in energy prices over the past year has resulted in deterioration of a portion of these loans; however, the impact of this deterioration was not significant to the Company during 2015. A further decline in energy prices, or if prices remain at current levels for an extended period of time, could result in an increase in the Company's loan charge-offs and provision for credit losses.

The commercial real estate loan class reflects the Company's focus on serving business owners within its geographic footprint as well as regional and national

investment-based real estate owners and builders. Within the commercial real estate loan class, different property types have varying degrees of credit risk. Table 8 provides a summary of the significant property types and geographical locations of commercial real estate loans outstanding at December 31, 2015 and 2014. At December 31, 2015, approximately 26.6 percent of the commercial real estate loans represented business owner-occupied properties that tend to exhibit less credit risk than non owner-occupied properties. The investment-based real estate mortgages are diversified among various property types with somewhat higher concentrations in multi-family, office and retail properties. From a geographical perspective, the Company's commercial real estate loan class is generally well diversified. However, at December 31, 2015, 24.8 percent of the Company's commercial real estate loans were secured by collateral in California, which has historically experienced higher delinquency levels and credit quality deterioration in recessionary periods due to excess inventory levels and declining valuations. Included in commercial real estate at year-end 2015 was approximately \$681 million in loans related to land held for development and \$676 million of loans related to residential and commercial acquisition and development properties. These loans are subject to quarterly monitoring for changes in local market conditions due to a higher credit risk profile. The commercial real estate loan class is diversified across the Company's geographical markets with 83.4 percent of total commercial real estate loans outstanding at December 31, 2015, within the Company's Consumer and Small Business Banking region.

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 on its outstanding residential mortgages quarterly, based on a

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

The following tables provide summary information for the LTVs of residential mortgages and home equity and second mortgages by borrower type at December 31, 2015:

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
<b>Prime Borrowers</b>				
Less than or equal to 80%	\$1,697	\$40,278	\$41,975	89.3%
Over 80% through 90%	58	2,743	2,801	6.0
Over 90% through 100%	31	956	987	2.1
Over 100%	41	1,065	1,106	2.4
No LTV available	2	118	120	.2
<b>Total</b>	<b>\$1,829</b>	<b>\$45,160</b>	<b>\$46,989</b>	<b>100.0%</b>
<b>Sub-Prime Borrowers</b>				
Less than or equal to 80%	\$ -	\$ 603	\$ 603	56.3%
Over 80% through 90%	-	173	173	16.1
Over 90% through 100%	-	133	133	12.4
Over 100%	-	161	161	15.0
No LTV available	-	2	2	.2
<b>Total</b>	<b>\$ -</b>	<b>\$ 1,072</b>	<b>\$ 1,072</b>	<b>100.0%</b>
<b>Other Borrowers</b>				
Less than or equal to 80%	\$ 2	\$ 387	\$ 389	62.2%
Over 80% through 90%	-	88	88	14.1
Over 90% through 100%	-	46	46	7.4
Over 100%	-	102	102	16.3
No LTV available	-	-	-	-
<b>Total</b>	<b>\$ 2</b>	<b>\$ 623</b>	<b>\$ 625</b>	<b>100.0%</b>
<b>Loans Purchased From</b>				
<b>GNMA Mortgage Pools<sup>(a)</sup></b>	<b>\$ -</b>	<b>\$ 4,810</b>	<b>\$ 4,810</b>	<b>100.0%</b>
<b>Total</b>				
Less than or equal to 80%	\$1,699	\$41,268	\$42,967	80.3%
Over 80% through 90%	58	3,004	3,062	5.7
Over 90% through 100%	31	1,135	1,166	2.2
Over 100%	41	1,328	1,369	2.6
No LTV available	2	120	122	.2
Loans purchased from GNMA mortgage pools <sup>(a)</sup>	-	4,810	4,810	9.0
<b>Total</b>	<b>\$1,831</b>	<b>\$51,665</b>	<b>\$53,496</b>	<b>100.0%</b>

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

Home equity and second mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
<b>Prime Borrowers</b>				
Less than or equal to 80%	\$10,861	\$ 538	\$11,399	72.2%
Over 80% through 90%	2,191	364	2,555	16.2
Over 90% through 100%	804	116	920	5.8
Over 100%	691	121	812	5.2
No LTV/CLTV available	64	32	96	.6
<b>Total</b>	<b>\$14,611</b>	<b>\$1,171</b>	<b>\$15,782</b>	<b>100.0%</b>
<b>Sub-Prime Borrowers</b>				
Less than or equal to 80%	\$ 39	\$ 26	\$ 65	33.3%
Over 80% through 90%	10	19	29	14.9
Over 90% through 100%	8	21	29	14.9
Over 100%	17	54	71	36.4
No LTV/CLTV available	-	1	1	.5
<b>Total</b>	<b>\$ 74</b>	<b>\$ 121</b>	<b>\$ 195</b>	<b>100.0%</b>
<b>Other Borrowers</b>				
Less than or equal to 80%	\$ 242	\$ 12	\$ 254	62.4%
Over 80% through 90%	36	3	39	9.6
Over 90% through 100%	11	1	12	2.9
Over 100%	9	2	11	2.7
No LTV/CLTV available	91	-	91	22.4
<b>Total</b>	<b>\$ 389</b>	<b>\$ 18</b>	<b>\$ 407</b>	<b>100.0%</b>
<b>Total</b>				
Less than or equal to 80%	\$11,142	\$ 576	\$11,718	71.5%
Over 80% through 90%	2,237	386	2,623	16.0
Over 90% through 100%	823	138	961	5.9
Over 100%	717	177	894	5.5
No LTV/CLTV available	155	33	188	1.1
<b>Total</b>	<b>\$15,074</b>	<b>\$1,310</b>	<b>\$16,384</b>	<b>100.0%</b>

At December 31, 2015, approximately \$1.1 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 \$1.2 billion at December 31, 2014. In addition to residential mortgages, at December 31, 2015, \$195 million of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, compared with \$238 million at December 31, 2014. The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only 0.3 percent of total assets at December 31, 2015, compared with 0.4 percent at December 31, 2014. The Company considers sub-prime loans to be those made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company's underwriting programs specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment



performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company's program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

Home equity and second mortgages were \$16.4 billion at December 31, 2015, compared with \$15.9 billion at December 31, 2014, and included \$5.0 billion of home equity lines in a first lien position and \$11.4 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at December 31, 2015, included approximately \$4.5 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately \$6.9 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company's junior lien positions at December 31, 2015:

(Dollars in Millions)	Junior Liens Behind		Total
	Company Owned or Serviced First Lien	Third Party First Lien	
Total	\$4,480	\$6,872	\$11,352
Percent 30-89 days past due	.29%	.43%	.37%
Percent 90 days or more past due	.06%	.08%	.07%
Weighted-average CLTV	74%	71%	72%
Weighted-average credit score	773	766	769

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.

Credit card and other retail loans principally reflect the Company's focus on consumers within its geographical footprint of branches and certain niche lending activities that are nationally focused. Approximately 71.1 percent of the Company's credit card balances at December 31, 2015 relate to cards originated through the Company's branches or co-branded, travel and affinity programs that generally experience better credit quality performance than portfolios generated through other channels.

Tables 9, 10 and 11 provide a geographical summary of the residential mortgage, credit card and other retail loan portfolios, respectively.

Covered assets were acquired by the Company in FDIC-assisted transactions and include loans with characteristics indicative of a high credit risk profile, including a substantial concentration in California and loans with negative-amortization payment options. Because these loans are covered under loss sharing agreements with the FDIC, the Company's financial exposure to losses from these assets is substantially reduced. To the extent actual losses exceed the Company's estimates at acquisition, the Company's financial risk would only be its share of those losses under the loss sharing agreements. As of December 31, 2015, the loss share coverage provided by the FDIC has expired on all previously covered assets, except for residential mortgages and home equity and second mortgage loans that remain covered under loss sharing agreements with remaining terms of up to four years.

**TABLE 15 DELINQUENT LOAN RATIOS AS A PERCENT OF ENDING LOAN BALANCES**

At December 31, 90 days or more past due <b>excluding</b> nonperforming loans	2015	2014	2013	2012	2011
<b>Commercial</b>					
Commercial	.06%	.05%	.08%	.10%	.09%
Lease financing	—	—	—	—	—
Total commercial	.05	.05	.08	.09	.08
<b>Commercial Real Estate</b>					
Commercial mortgages	—	.02	.02	.02	.02
Construction and development	.13	.14	.30	.02	.13
Total commercial real estate	.03	.05	.07	.02	.04
<b>Residential Mortgages<sup>(a)</sup></b>	.33	.40	.65	.64	.98
<b>Credit Card</b>	1.09	1.13	1.17	1.27	1.36
<b>Other Retail</b>					
Retail leasing	.02	.02	—	.02	.02
Home equity and second mortgages	.25	.26	.32	.30	.73
Other	.11	.12	.14	.17	.20
Total other retail <sup>(b)</sup>	.15	.15	.18	.20	.38
Total loans, excluding covered loans	.21	.23	.31	.31	.43
<b>Covered Loans</b>	6.31	7.48	5.63	5.86	6.15
Total loans	.32%	.38%	.51%	.59%	.84%

At December 31, 90 days or more past due <b>including</b> nonperforming loans	2015	2014	2013	2012	2011
Commercial	.25%	.19%	.27%	.27%	.63%
Commercial real estate	.33	.65	.83	1.50	2.55
Residential mortgages <sup>(a)</sup>	1.66	2.07	2.16	2.14	2.73
Credit card	1.13	1.30	1.60	2.12	2.65
Other retail <sup>(b)</sup>	.46	.53	.58	.66	.52
Total loans, excluding covered loans	.67	.83	.97	1.11	1.54
Covered loans	6.48	7.74	7.13	9.28	12.42
Total loans	.78%	.97%	1.19%	1.52%	2.30%

(a) Delinquent loan ratios exclude \$2.9 billion, \$3.1 billion, \$3.7 billion, \$3.2 billion, and \$2.6 billion at December 31, 2015, 2014, 2013, 2012, and 2011, respectively, 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 7.15 percent, 8.02 percent, 9.34 percent, 9.45 percent, and 9.84 percent at December 31, 2015, 2014, 2013, 2012, and 2011, respectively.

(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 .75 percent, .84 percent, .93 percent, 1.08 percent, and .99 percent at December 31, 2015, 2014, 2013, 2012, and 2011, respectively.

**Loan Delinquencies** Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company's loan portfolios. The entire balance of an account is considered delinquent if the minimum payment contractually required to be made is not received by the specified date on the billing statement. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Delinquent loans purchased from Government National Mortgage Association ("GNMA") mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, as well as student loans guaranteed by the federal government, are excluded from delinquency statistics. In addition, in certain situations, a consumer lending customer's account may be re-aged to remove it from delinquent status. Generally, the purpose of re-aging accounts is to assist customers who have recently

overcome temporary financial difficulties, and have demonstrated both the ability and willingness to resume regular payments. To qualify for re-aging, the account must have been open for at least nine months and cannot have been re-aged during the preceding 365 days. An account may not be re-aged more than two times in a five-year period. To qualify for re-aging, the customer must also have made three regular minimum monthly payments within the last 90 days. In addition, the Company may re-age the consumer lending account of a customer who has experienced longer-term financial difficulties and apply modified, concessionary terms and conditions to the account. Such additional re-ages are limited to one in a five-year period and must meet the qualifications for re-aging described above. All re-aging strategies must be independently approved by the Company's risk management department. Commercial lending loans are generally not subject to re-aging policies.

Accruing loans 90 days or more past due totaled \$831 million (\$541 million excluding covered loans) at December 31, 2015, compared with \$945 million (\$550 million excluding covered loans) at December 31, 2014, and \$1.2 billion (\$713 million excluding covered loans) at December 31, 2013. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 0.32 percent (0.21 percent excluding covered loans) at December 31, 2015, compared with 0.38 percent (0.23 percent excluding covered loans) at December 31, 2014, and 0.51 percent (0.31 percent excluding covered loans) at December 31, 2013.

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

At December 31 (Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	2015	2014	2015	2014
<b>Residential Mortgages<sup>(a)</sup></b>				
30-89 days . . . . .	\$ 170	\$ 221	.32%	.43%
90 days or more . . . . .	176	204	.33	.40
Nonperforming . . . . .	712	864	1.33	1.67
Total . . . . .	\$1,058	\$1,289	1.98%	2.50%
<b>Credit Card</b>				
30-89 days . . . . .	\$ 243	\$ 229	1.15%	1.24%
90 days or more . . . . .	228	210	1.09	1.13
Nonperforming . . . . .	9	30	.04	.16
Total . . . . .	\$ 480	\$ 469	2.28%	2.53%
<b>Other Retail</b>				
<b>Retail Leasing</b>				
30-89 days . . . . .	\$ 11	\$ 11	.21%	.18%
90 days or more . . . . .	1	1	.02	.02
Nonperforming . . . . .	3	1	.06	.02
Total . . . . .	\$ 15	\$ 13	.29%	.22%
<b>Home Equity and Second Mortgages</b>				
30-89 days . . . . .	\$ 59	\$ 85	.36%	.54%
90 days or more . . . . .	41	42	.25	.26
Nonperforming . . . . .	136	170	.83	1.07
Total . . . . .	\$ 236	\$ 297	1.44%	1.87%
<b>Other<sup>(b)</sup></b>				
30-89 days . . . . .	\$ 154	\$ 142	.52%	.51%
90 days or more . . . . .	33	32	.11	.12
Nonperforming . . . . .	23	16	.08	.06
Total . . . . .	\$ 210	\$ 190	.71%	.69%

(a) Excludes \$320 million of loans 30-89 days past due and \$2.9 billion of loans 90 days or more past due at December 31, 2015, purchased from GNMA mortgage pools that continue to accrue interest, compared with \$431 million and \$3.1 billion at December 31, 2014, respectively.

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

The following tables provide further information on residential mortgages and home equity and second mortgages as a percent of ending loan balances by borrower type at December 31:

Residential mortgages (a)	2015	2014
<b>Prime Borrowers</b>		
30-89 days . . . . .	.25%	.33%
90 days or more . . . . .	.30	.35
Nonperforming . . . . .	1.12	1.42
Total . . . . .	1.67%	2.10%
<b>Sub-Prime Borrowers</b>		
30-89 days . . . . .	3.92%	5.12%
90 days or more . . . . .	2.52	3.41
Nonperforming . . . . .	15.30	16.73
Total . . . . .	21.74%	25.26%
<b>Other Borrowers</b>		
30-89 days . . . . .	1.60%	1.37%
90 days or more . . . . .	1.12	1.13
Nonperforming . . . . .	4.00	3.50
Total . . . . .	6.72%	6.00%

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

Home equity and second mortgages	2015	2014
<b>Prime Borrowers</b>		
30-89 days . . . . .	.31%	.47%
90 days or more . . . . .	.23	.24
Nonperforming . . . . .	.74	.95
Total . . . . .	1.28%	1.66%
<b>Sub-Prime Borrowers</b>		
30-89 days . . . . .	2.56%	3.36%
90 days or more . . . . .	1.03	1.26
Nonperforming . . . . .	4.62	5.88
Total . . . . .	8.21%	10.50%
<b>Other Borrowers</b>		
30-89 days . . . . .	1.23%	1.18%
90 days or more . . . . .	.74	.40
Nonperforming . . . . .	2.45	2.36
Total . . . . .	4.42%	3.94%

The following table provides summary delinquency information for covered loans:

At December 31 (Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	2015	2014	2015	2014
30-89 days . . . . .	\$ 62	\$ 68	1.35%	1.28%
90 days or more . . . . .	290	395	6.31	7.48
Nonperforming . . . . .	8	14	.17	.27
Total . . . . .	\$360	\$477	7.83%	9.03%



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

**Troubled Debt Restructurings** Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles, which is generally six months or greater. At December 31, 2015, performing TDRs were \$4.7 billion, compared with \$5.1 billion, \$6.0 billion, \$5.6 billion and \$4.9 billion at December 31, 2014, 2013, 2012 and 2011, respectively. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

The Company has also implemented certain residential mortgage loan restructuring programs that may result in TDRs. The Company participates in the U.S. Department of the Treasury Home Affordable Modification Program ("HAMP"). HAMP gives qualifying homeowners an opportunity to permanently modify their loan and achieve more affordable monthly payments, with the U.S. Department of the Treasury compensating the Company for a portion of the reduction in

monthly amounts due from borrowers participating in this program. The Company also modifies residential mortgage loans under Federal Housing Administration, Department of Veterans Affairs, and its own internal programs. Under these programs, the Company provides concessions to qualifying borrowers experiencing financial difficulties. The concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extensions of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement and the loan documents are not modified until that time. The Company reports loans in a trial period arrangement as TDRs and continues to report them as TDRs after the trial period.

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

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

Modifications to covered 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 December 31, 2015 (Dollars in Millions)	As a Percent of Performing TDRs			Nonperforming TDRs	Total TDRs
	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due		
Commercial . . . . .	\$ 346	2.5%	.9%	\$ 89 <sup>(a)</sup>	\$ 435
Commercial real estate . . . . .	209	3.7	3.5	61 <sup>(b)</sup>	270
Residential mortgages . . . . .	1,863	3.3	3.6	465	2,328 <sup>(d)</sup>
Credit card . . . . .	201	10.2	6.1	9 <sup>(c)</sup>	210
Other retail . . . . .	147	4.6	4.4	64 <sup>(c)</sup>	211 <sup>(e)</sup>
TDRs, excluding GNMA and covered loans . . . . .	2,766	3.8	3.5	688	3,454
Loans purchased from GNMA mortgage pools . . . . .	1,913	5.2	67.8	—	1,913 <sup>(f)</sup>
Covered loans . . . . .	31	.6	5.7	4	35
<b>Total . . . . .</b>	<b>\$4,710</b>	<b>4.3%</b>	<b>29.6%</b>	<b>\$692</b>	<b>\$5,402</b>

(a) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months) and small business credit cards with a modified rate equal to 0 percent.

(b) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months).

(c) Primarily represents loans with a modified rate equal to 0 percent.

(d) Includes \$299 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$77 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(e) Includes \$104 million of other retail loans to borrowers that have had debt discharged through bankruptcy and \$19 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(f) Includes \$460 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$668 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 modifications were not material at December 31, 2015.

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. Nonperforming assets include nonaccrual loans, restructured loans not performing in accordance with modified terms and not accruing interest, restructured loans that have not met the performance period required to return to accrual status, other real estate owned (“OREO”) and other nonperforming assets owned by the Company. Nonperforming assets are generally either originated by the Company or acquired under FDIC loss sharing agreements that substantially reduce the risk of credit losses to the Company. Interest payments collected from assets on nonaccrual status are generally applied against the principal

balance and not recorded as income. However, interest income may be recognized for interest payments if the remaining carrying amount of the loan is believed to be collectible.

At December 31, 2015, total nonperforming assets were \$1.5 billion, compared with \$1.8 billion at December 31, 2014 and \$2.0 billion at December 31, 2013. The \$285 million (15.8 percent) decrease in nonperforming assets, from December 31, 2014 to December 31, 2015, was primarily driven by reductions in the commercial real estate loans, residential mortgages and home equity and second mortgage balances, as economic conditions continued to slowly improve during 2015. Nonperforming covered assets at December 31, 2015 were \$40 million, compared with \$51 million at December 31, 2014 and \$224 million at December 31, 2013. The ratio of total nonperforming assets to total loans and other real estate was 0.58 percent at December 31, 2015, compared with 0.73 percent at December 31, 2014, and 0.86 percent at December 31, 2013.

OREO, excluding covered assets, was \$280 million at December 31, 2015, compared with \$288 million at December 31, 2014 and \$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.

**TABLE 16 NONPERFORMING ASSETS (a)**

At December 31 (Dollars in Millions)	2015	2014	2013	2012	2011
<b>Commercial</b>					
Commercial	\$ 160	\$ 99	\$ 122	\$ 107	\$ 280
Lease financing	14	13	12	16	32
Total commercial	174	112	134	123	312
<b>Commercial Real Estate</b>					
Commercial mortgages	92	175	182	308	354
Construction and development	35	84	121	238	545
Total commercial real estate	127	259	303	546	899
<b>Residential Mortgages<sup>(b)</sup></b>	712	864	770	661	650
<b>Credit Card</b>	9	30	78	146	224
<b>Other Retail</b>					
Retail leasing	3	1	1	1	–
Home equity and second mortgages	136	170	167	189	40
Other	23	16	23	27	27
Total other retail	162	187	191	217	67
Total nonperforming loans, excluding covered loans	1,184	1,452	1,476	1,693	2,152
<b>Covered Loans</b>	8	14	127	386	926
Total nonperforming loans	1,192	1,466	1,603	2,079	3,078
<b>Other Real Estate<sup>(c)(d)</sup></b>	280	288	327	381	404
<b>Covered Other Real Estate<sup>(d)</sup></b>	32	37	97	197	274
<b>Other Assets</b>	19	17	10	14	18
Total nonperforming assets	\$1,523	\$1,808	\$2,037	\$2,671	\$3,774
Total nonperforming assets, excluding covered assets	\$1,483	\$1,757	\$1,813	\$2,088	\$2,574
<b>Excluding covered assets</b>					
Accruing loans 90 days or more past due <sup>(b)</sup>	\$ 541	\$ 550	\$ 713	\$ 660	\$ 843
Nonperforming loans to total loans	.46%	.60%	.65%	.80%	1.10%
Nonperforming assets to total loans plus other real estate <sup>(c)</sup>	.58%	.72%	.80%	.98%	1.32%
<b>Including covered assets</b>					
Accruing loans 90 days or more past due <sup>(b)</sup>	\$ 831	\$ 945	\$1,189	\$1,323	\$1,753
Nonperforming loans to total loans	.46%	.59%	.68%	.93%	1.47%
Nonperforming assets to total loans plus other real estate <sup>(c)</sup>	.58%	.73%	.86%	1.19%	1.79%

**CHANGES IN NONPERFORMING ASSETS**

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Covered Assets	Total
<b>Balance December 31, 2014</b>	\$ 431	\$1,326	\$ 51	\$ 1,808
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	394	500	24	918
Advances on loans	54	–	–	54
Total additions	448	500	24	972
Reductions in nonperforming assets				
Paydowns, payoffs	(271)	(275)	(8)	(554)
Net sales	(53)	(129)	(25)	(207)
Return to performing status	(6)	(171)	(1)	(178)
Charge-offs <sup>(e)</sup>	(213)	(104)	(1)	(318)
Total reductions	(543)	(679)	(35)	(1,257)
Net additions to (reductions in) nonperforming assets	(95)	(179)	(11)	(285)
<b>Balance December 31, 2015</b>	\$ 336	\$1,147	\$ 40	\$ 1,523

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

(b) Excludes \$2.9 billion, \$3.1 billion, \$3.7 billion, \$3.2 billion and \$2.6 billion at December 31, 2015, 2014, 2013, 2012 and 2011, 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 \$535 million, \$641 million, \$527 million, \$548 million and \$692 million at December 31, 2015, 2014, 2013, 2012 and 2011, 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.



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

At December 31 (Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	2015	2014	2015	2014
<b>Residential</b>				
Minnesota	\$ 23	\$ 16	.37%	.26%
Illinois	18	16	.42	.37
Florida	17	17	1.12	1.06
Ohio	17	13	.56	.42
Wisconsin	11	10	.49	.44
All other states	164	161	.31	.32
Total residential	250	233	.36	.35
<b>Commercial</b>				
California	11	11	.05	.05
Illinois	5	12	.08	.19
Indiana	2	3	.13	.20
South Carolina	2	2	.48	.44
Tennessee	1	1	.04	.04
All other states	9	26	.01	.03
Total commercial	30	55	.02	.04
Total	\$280	\$288	.11%	.12%

**TABLE 17 NET CHARGE-OFFS AS A PERCENT OF AVERAGE LOANS OUTSTANDING**

Year Ended December 31	2015	2014	2013	2012	2011
<b>Commercial</b>					
Commercial	.26%	.26%	.19%	.43%	.76%
Lease financing	.27	.17	.06	.63	.96
Total commercial	.26	.26	.18	.45	.79
<b>Commercial Real Estate</b>					
Commercial mortgages	.02	(.03)	.08	.37	.73
Construction and development	(.33)	(.05)	(.87)	.86	4.20
Total commercial real estate	(.07)	(.03)	(.09)	.45	1.40
<b>Residential Mortgages</b>	.21	.38	.57	1.09	1.45
<b>Credit Card</b>	3.61	3.73	3.90	4.01	5.19
<b>Other Retail</b>					
Retail leasing	.09	.03	.02	.04	–
Home equity and second mortgages	.24	.61	1.33	1.72	1.66
Other	.65	.71	.81	.94	1.20
Total other retail	.45	.60	.89	1.13	1.25
Total loans, excluding covered loans	.48	.57	.66	1.03	1.53
<b>Covered Loans</b>	–	.15	.32	.08	.07
Total loans	.47%	.55%	.64%	.97%	1.41%

**Analysis of Loan Net Charge-offs** Total loan net charge-offs were \$1.2 billion in 2015, compared with \$1.3 billion in 2014 and \$1.5 billion in 2013. The decrease in total net charge-offs in 2015, compared with 2014, reflected improvement in the residential mortgages and home equity and second mortgages portfolios, as economic conditions continue to slowly improve during the period, partially offset by higher commercial loan net charge-offs. The ratio of total loan net charge-offs to average loans was 0.47 percent in 2015, compared with 0.55 percent in 2014 and 0.64 percent in 2013.

Commercial and commercial real estate loan net charge-offs for 2015 were \$191 million (0.15 percent of average loans outstanding), compared with \$182 million (0.16 percent of average loans outstanding) in 2014 and \$87 million (0.08 percent of average loans outstanding) in 2013. The increase in net charge-offs in 2015, compared with 2014, reflected lower commercial loan recoveries in 2015. The increase in net charge-offs in 2014, compared with 2013, reflected higher commercial loan net charge-offs and lower recoveries in commercial real estate.

Residential mortgage loan net charge-offs for 2015 were \$109 million (0.21 percent of average loans outstanding), compared with \$195 million (0.38 percent of average loans outstanding) in 2014 and \$272 million (0.57 percent of average loans outstanding) in 2013. Credit card loan net charge-offs in 2015 were \$651 million (3.61 percent of average loans outstanding), compared with \$658 million (3.73 percent of average loans outstanding) in 2014 and \$656 million (3.90 percent of average loans outstanding) in 2013. Other retail loan net charge-offs for 2015 were \$221 million (0.45 percent of average loans outstanding), compared with \$288 million (0.60 percent of average loans outstanding) in 2014 and \$418 million (0.89 percent of average loans outstanding) in 2013. The decrease in total residential mortgage, credit card and other retail loan net charge-offs in 2015, compared with 2014, reflected continued improvement in economic conditions during 2015. The decrease in total residential mortgage, credit card and other retail loan net charge-offs in 2014, compared with 2013, reflected improvement in economic conditions during 2014, especially in residential housing prices.

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:

Year Ended December 31 (Dollars in Millions)	Average Loans		Percent of Average Loans	
	2015	2014	2015	2014
<b>Residential Mortgages</b>				
Prime borrowers . . . . .	\$44,980	\$44,006	.15%	.30%
Sub-prime borrowers . . . . .	1,144	1,302	2.62	4.07
Other borrowers . . . . .	714	858	.98	1.05
Loans purchased from GNMA mortgage pools <sup>(a)</sup> . . . . .	5,002	5,652	.06	.05
Total . . . . .	\$51,840	\$51,818	.21%	.38%
<b>Home Equity and Second Mortgages</b>				
Prime borrowers . . . . .	\$15,371	\$14,804	.19%	.53%
Sub-prime borrowers . . . . .	214	262	2.34	5.34
Other borrowers . . . . .	461	498	.87	.60
Total . . . . .	\$16,046	\$15,564	.24%	.61%

(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 evaluation of each element and the overall allowance is based on a continuing assessment of problem loans, recent loss experience and other factors, including external factors such as regulatory guidance and economic conditions. 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, which is included in other liabilities in the Consolidated Balance Sheet. Both the allowance for loan losses and the liability for unfunded credit commitments are included in the Company's analysis of credit losses and reported reserve ratios.

At December 31, 2015, the allowance for credit losses was \$4.3 billion (1.65 percent of period-end loans), compared with an allowance of \$4.4 billion (1.77 percent of period-end loans) at December 31, 2014. The ratio of the allowance for credit losses to nonperforming loans was 361 percent at December 31, 2015, compared with 298 percent at December 31, 2014, reflecting a decrease in nonperforming loans. The ratio of the allowance for credit losses to annual loan net charge-offs at December 31, 2015, was 367 percent, compared with 328 percent at December 31, 2014, reflecting

the impact of improving economic conditions over the past year. Management determined the allowance for credit losses was appropriate at December 31, 2015.

The allowance recorded for loans in the commercial lending segment is based on reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. In the migration analysis applied to risk rated loan portfolios, the Company currently examines up to a 15-year period of historical loss experience. For each loan type, this historical loss experience is adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions. The results of the analysis are evaluated quarterly to confirm an appropriate historical timeframe is selected for each commercial loan type. The allowance recorded for impaired loans greater than \$5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or the fair value of the collateral, less selling costs, for collateral-dependent loans, rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends. The allowance established for commercial lending segment loans was \$2.0 billion at December 31, 2015, compared with \$1.9 billion at December 31, 2014, reflecting growth in the portfolios and the uncertain outlook for commodity prices. At December 31, 2015 the Company had credit reserves of approximately 5 percent of total energy loan balances.

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 December 31, 2015, the Company serviced the first lien on 39 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 \$291 million or 1.8 percent of the total home equity portfolio at December 31, 2015, represented non-delinquent junior liens where the first lien was delinquent or modified.

The Company uses historical loss experience on the loans and lines in a junior lien position where the first lien is serviced by the Company, or can be identified in credit bureau data, to establish loss estimates for junior lien loans and lines the Company services that are current, but the first lien is delinquent or modified. Historically, the number of junior lien defaults in any period has been a small percentage of the total portfolio (for example, only 0.7 percent for the twelve months ended December 31, 2015), 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 established for consumer lending segment loans was \$2.3 billion at December 31, 2015, compared with \$2.4 billion at December 31, 2014. The \$181 million (7.4 percent) decrease in the allowance for consumer lending segment loans at December 31, 2015, compared with December 31, 2014, reflected the impact of more stable economic conditions during 2015, partially offset by portfolio growth.

The allowance for the covered loan segment is evaluated each quarter in a manner similar to that described for non-covered loans, and represents any decreases in expected cash flows on those loans after the acquisition date. The provision for credit losses for covered loans considers the indemnification provided by the FDIC. The allowance established for covered loans was \$38 million at December 31, 2015, compared with \$65 million at December 31, 2014, reflecting expected credit losses in excess of initial fair value adjustments, including \$2 million and \$16 million at December 31, 2015 and 2014, respectively, to be reimbursed by the FDIC.

**TABLE 18 SUMMARY OF ALLOWANCE FOR CREDIT LOSSES**

(Dollars in Millions)	2015	2014	2013	2012	2011
Balance at beginning of year	\$4,375	\$4,537	\$4,733	\$5,014	\$5,531
<b>Charge-Offs</b>					
Commercial					
Commercial	289	278	212	312	423
Lease financing	25	27	34	66	93
Total commercial	314	305	246	378	516
Commercial real estate					
Commercial mortgages	20	21	71	145	231
Construction and development	2	15	21	97	312
Total commercial real estate	22	36	92	242	543
Residential mortgages	135	216	297	461	502
Credit card	726	725	739	769	922
Other retail					
Retail leasing	8	6	5	9	10
Home equity and second mortgages	73	121	237	327	327
Other	238	257	281	330	396
Total other retail	319	384	523	666	733
Covered loans <sup>(a)</sup>	-	13	37	11	13
Total charge-offs	1,516	1,679	1,934	2,527	3,229
<b>Recoveries</b>					
Commercial					
Commercial	84	92	95	72	74
Lease financing	11	18	31	31	36
Total commercial	95	110	126	103	110
Commercial real estate					
Commercial mortgages	15	30	45	31	22
Construction and development	35	19	80	45	23
Total commercial real estate	50	49	125	76	45
Residential mortgages	26	21	25	23	13
Credit card	75	67	83	102	88
Other retail					
Retail leasing	3	4	4	7	10
Home equity and second mortgages	35	26	26	26	19
Other	60	66	75	92	100
Total other retail	98	96	105	125	129
Covered loans <sup>(a)</sup>	-	2	5	1	1
Total recoveries	344	345	469	430	386
<b>Net Charge-Offs</b>					
Commercial					
Commercial	205	186	117	240	349
Lease financing	14	9	3	35	57
Total commercial	219	195	120	275	406
Commercial real estate					
Commercial mortgages	5	(9)	26	114	209
Construction and development	(33)	(4)	(59)	52	289
Total commercial real estate	(28)	(13)	(33)	166	498
Residential mortgages	109	195	272	438	489
Credit card	651	658	656	667	834
Other retail					
Retail leasing	5	2	1	2	-
Home equity and second mortgages	38	95	211	301	308
Other	178	191	206	238	296
Total other retail	221	288	418	541	604
Covered loans <sup>(a)</sup>	-	11	32	10	12
Total net charge-offs	1,172	1,334	1,465	2,097	2,843
Provision for credit losses	1,132	1,229	1,340	1,882	2,343
Other changes <sup>(b)</sup>	(29)	(57)	(71)	(66)	(17)
Balance at end of year	\$4,306	\$4,375	\$4,537	\$4,733	\$5,014
<b>Components</b>					
Allowance for loan losses	\$3,863	\$4,039	\$4,250	\$4,424	\$4,753
Liability for unfunded credit commitments	443	336	287	309	261
Total allowance for credit losses	\$4,306	\$4,375	\$4,537	\$4,733	\$5,014
<b>Allowance for Credit Losses as a Percentage of</b>					
Period-end loans, excluding covered loans	1.67%	1.78%	1.94%	2.15%	2.52%
Nonperforming loans, excluding covered loans	360	297	297	269	228
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	247	215	201	194	164
Nonperforming assets, excluding covered assets	288	245	242	218	191
Net charge-offs, excluding covered loans	364	326	306	218	174
Period-end loans	1.65%	1.77%	1.93%	2.12%	2.39%
Nonperforming loans	361	298	283	228	163
Nonperforming and accruing loans 90 days or more past due	213	181	163	139	104
Nonperforming assets	283	242	223	177	133
Net charge-offs	367	328	310	226	176

(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 beginning in 2013, reductions in the allowance for covered loans where the reversal of a previously recorded allowance was offset by an associated decrease in the indemnification asset, and the impact of any loan sales.



**TABLE 19 ELEMENTS OF THE ALLOWANCE FOR CREDIT LOSSES**

At December 31 (Dollars in Millions)	Allowance Amount					Allowance as a Percent of Loans				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
<b>Commercial</b>										
Commercial	\$1,231	\$1,094	\$1,019	\$ 979	\$ 929	1.48%	1.46%	1.57%	1.61%	1.83%
Lease financing	56	52	56	72	81	1.06	.97	1.06	1.31	1.37
Total commercial	1,287	1,146	1,075	1,051	1,010	1.46	1.43	1.53	1.59	1.78
<b>Commercial Real Estate</b>										
Commercial mortgages	285	479	532	641	850	.90	1.44	1.65	2.07	2.87
Construction and development	439	247	244	216	304	4.24	2.62	3.17	3.63	4.91
Total commercial real estate	724	726	776	857	1,154	1.72	1.70	1.95	2.32	3.22
<b>Residential Mortgages</b>	631	787	875	935	927	1.18	1.52	1.71	2.12	2.50
<b>Credit Card</b>	883	880	884	863	992	4.20	4.75	4.91	5.04	5.71
<b>Other Retail</b>										
Retail leasing	12	14	14	11	12	.23	.24	.24	.20	.23
Home equity and second mortgages	448	470	497	583	536	2.73	2.95	3.22	3.49	2.96
Other	283	287	270	254	283	.96	1.04	1.03	.99	1.14
Total other retail	743	771	781	848	831	1.45	1.57	1.64	1.78	1.73
<b>Covered Loans</b>	38	65	146	179	100	.83	1.23	1.73	1.58	.68
<b>Total allowance</b>	<b>\$4,306</b>	<b>\$4,375</b>	<b>\$4,537</b>	<b>\$4,733</b>	<b>\$5,014</b>	<b>1.65%</b>	<b>1.77%</b>	<b>1.93%</b>	<b>2.12%</b>	<b>2.39%</b>

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 1 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. Table 19 shows the amount of the allowance for credit losses by loan segment, class and underlying portfolio category.

Although the Company determines the amount of each element of the allowance separately and considers this process to be an important credit management tool, the entire allowance for credit losses is available for the entire loan portfolio. The actual amount of losses incurred can vary significantly from the estimated amounts.

**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. Commercial lease originations are subject to the same well-defined underwriting standards referred to in the “Credit Risk Management” section which includes an evaluation of the residual value risk. Retail lease residual value risk is mitigated further by originating longer-term vehicle leases and effective end-of-term marketing of off-lease vehicles.

Included in the retail leasing portfolio was approximately \$4.4 billion of retail leasing residuals at December 31, 2015, compared with \$4.8 billion at December 31, 2014. The Company monitors concentrations of leases by manufacturer and vehicle “make and model.” As of December 31, 2015, vehicle lease residuals related to sport utility vehicles were 36.4 percent of the portfolio, while auto and crossover vehicle classes represented approximately 32.7 percent and 20.0 percent of the portfolio, respectively. At year-end 2015, the largest vehicle-type concentration represented 7.4 percent of the aggregate residual value of the vehicles in the portfolio. At December 31, 2015, the weighted-average origination term of the portfolio was 40 months, compared with 39 months at December 31, 2014. At December 31, 2015, the commercial leasing portfolio had \$511 million of residuals, compared with \$543 million at December 31, 2014. At year-end 2015, lease residuals related to trucks and other transportation equipment were 30.7 percent of the total residual portfolio. Business and office equipment represented 30.3 percent of the aggregate portfolio, and railcars represented 12.7 percent. No other concentrations of more than 10 percent existed at December 31, 2015.

**Operational Risk Management** 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 fraud, litigation and breaches in data security. The Company operates in many different businesses in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company’s objectives. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. The Company maintains a system of controls with the objective of providing proper transaction authorization and execution, proper system operations, proper oversight of third parties with whom it does business, safeguarding of assets from misuse or theft, and ensuring the reliability and security of financial and other data.

Business continuation and disaster recovery planning is also critical to effectively managing operational risks. Each business unit of the Company is required to develop, maintain and test these plans at least annually to ensure that recovery activities, if needed, can support mission critical functions, including technology, networks and data centers supporting customer applications and business operations.

While the Company believes it has designed effective processes to minimize operational risks, there is no absolute assurance that business disruption or operational losses would not occur from an external event or internal control breakdown. On an ongoing basis, management makes process changes and investments to enhance its systems of internal controls and business continuity and disaster recovery plans.

In the past, the Company has experienced attack attempts on its computer systems including various denial-of-service attacks on customer-facing websites. The Company has not experienced any material losses relating to these attempts, as a result of its controls, processes and systems to protect its networks, computers, software and data from attack, damage or unauthorized access. However, attack attempts on the Company’s computer systems are increasing and the Company continues to develop and enhance its controls and processes to protect against these attempts.

**Compliance Risk Management** The Company may suffer legal or regulatory sanctions, material financial loss, or damage to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct, including those related to compliance with Bank Secrecy Act/anti-money laundering requirements, sanctions compliance requirements as administered by the Office of Foreign Assets Control, and other requirements. The Company has controls and processes in place for the assessment, identification, monitoring, management and reporting of compliance risks and issues.

The significant increase in regulation and regulatory oversight initiatives over the past several years has substantially increased the importance of the Company’s compliance risk management personnel and activities. For example, the Consumer Financial Protection Bureau (“CFPB”) has authority to prescribe rules, or issue orders or guidelines pursuant to any federal consumer financial law. The CFPB regulates and examines the Company, its bank and other subsidiaries with respect to matters that relate to these laws and consumer financial services and products. The CFPB’s rulemaking, examination and enforcement authority increases enforcement risk in this area including the potential for fines and penalties. Refer to “Supervision and Regulation” in the Company’s Annual Report on Form 10-K for further discussion of the regulatory framework applicable to bank

holding companies and their subsidiaries, and the substantial changes to that regulation.

**Interest Rate Risk Management** In the banking industry, changes in interest rates are a significant risk that can impact earnings, market valuations and 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** One of the primary tools used to measure interest rate risk and the effect of interest rate changes on net interest income is simulation analysis. The monthly analysis incorporates substantially all of the Company’s assets and liabilities and off-balance sheet instruments, together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Through this simulation, management estimates the impact on net interest income of a 200 basis point (“bps”) upward or downward gradual change of market interest rates over a one-year period. The simulation also estimates the effect of immediate and sustained parallel shifts in the yield curve of 50 bps as well as the effect of immediate and sustained flattening or steepening of the yield curve. This simulation includes assumptions about how the balance sheet is likely to be affected by changes in loan and deposit growth. Assumptions are made to project interest rates for new loans and deposits based on historical analysis, management’s outlook and re-pricing strategies. These assumptions are validated on a periodic basis. A sensitivity analysis is provided for key variables of the simulation. The results are reviewed by the ALCO monthly and are used to guide asset/liability management strategies.

Table 20 summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The Company manages its interest rate risk position by holding assets with desired interest rate risk characteristics on its balance sheet, implementing certain pricing strategies for loans and deposits and through the selection of derivatives and various funding and investment portfolio strategies. The Company manages the overall interest rate risk profile within policy limits. The ALCO policy limits the estimated change in net interest income in a gradual 200 bps rate change scenario to a

4.0 percent decline of forecasted net interest income over the next 12 months. At December 31, 2015 and 2014, the Company was within policy.

**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. The valuation analysis is dependent upon certain key assumptions about the nature of assets and liabilities with non-contractual maturities. Management estimates the average life and rate characteristics of asset and liability accounts based upon historical analysis and management’s expectation of rate behavior. Wholesale prepayment assumptions are based on several key factors, including but not limited to, age, loan term, product type and seasonality, as well as macroeconomic factors including unemployment, interest rates and commercial real estate price indices. These factors are updated regularly based on historical experience and forward market expectations. Mortgage prepayment assumptions are based on many key variables, including, but not limited to, current and projected interest rates compared with underlying contractual rates, the time since origination and period to next reset date if floating rate loans, and other factors including housing price indices and geography, which are updated regularly based on historical experience and forward market expectations. The balance and pricing assumptions of deposits that have no stated maturity are based on historical performance, the competitive environment, customer behavior, and product mix. These assumptions are validated on a periodic basis. A sensitivity analysis of key variables of the valuation analysis is provided to the ALCO monthly and is used to guide asset/liability management strategies.

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 the 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 5.8 percent decrease in the market value of equity at December 31, 2015, compared with a 6.7 percent decrease at December 31, 2014. A 200 bps decrease, where possible given current rates, would have resulted in a 7.0 percent decrease in the market value of equity at December 31, 2015, compared with a 7.1 percent decrease at December 31, 2014. At December 31, 2015 and 2014, the Company was within policy.

**TABLE 20 SENSITIVITY OF NET INTEREST INCOME**

	December 31, 2015				December 31, 2014			
	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 . . . . .	*	1.78%	*	2.69%	*	1.38%	*	1.68%

\* 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 MLHFS and MSRs;
- To mitigate remeasurement volatility of foreign currency denominated balances; and
- To mitigate the volatility of the Company's investment in foreign businesses driven by fluctuations in foreign currency exchange rates.

The Company may enter into derivative contracts that are either exchange-traded, centrally cleared through clearinghouses or over-the-counter. In addition, the Company enters into interest rate and foreign exchange derivative contracts to support the business requirements of its customers (customer-related positions). The Company minimizes the market and liquidity risks of customer-related positions by either entering into similar offsetting positions with broker-dealers, or on a portfolio basis by entering into other derivative or non-derivative financial instruments that partially or fully offset the exposure from these customer-related positions. The Company does not utilize derivatives for speculative purposes.

The Company does not designate all of the derivatives that it enters into for risk management purposes as accounting hedges because of the inefficiency of applying the accounting requirements and may instead elect fair value accounting for the related hedged items. In particular, the Company enters into interest rate swaps, forward commitments to buy to-be-announced securities ("TBAs"), U.S. Treasury and Eurodollar futures and options on U.S. Treasury futures to mitigate fluctuations in the value of its MSRs, but does not designate those derivatives as accounting hedges. The estimated net sensitivity to changes in interest rates of the fair value of the MSRs and the related derivative instruments at December 31, 2015, to an immediate 25, 50 and 100 bps downward movement in interest rates would be a decrease of approximately \$7 million, \$24 million and \$123 million, respectively. An immediate upward movement in interest rates at December 31, 2015 of 25, 50 and 100 bps would

decrease the fair value of the MSRs and related derivative instruments by \$2 million, \$16 million and \$33 million, respectively. Refer to Note 10 of the Notes to Consolidated Financial Statements for additional information regarding MSRs.

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 December 31, 2015, the Company had \$5.4 billion of forward commitments to sell, hedging \$2.1 billion of MLHFS and \$4.1 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedging activities. The Company has elected the fair value option for the MLHFS.

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

For additional information on derivatives and hedging activities, refer to Notes 20 and 21 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 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:

Year Ended December 31 (Dollars in Millions)	2015	2014
Average	\$1	\$1
High	2	2
Low	1	1
Period-end	1	1

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR during 2015 and 2014. 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:

Year Ended December 31 (Dollars in Millions)	2015	2014
Average	\$4	\$4
High	8	8
Low	2	2
Period-end	3	5

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

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

The average, high and low VaR amounts for the residential MLHFS and related hedges and the MSRs and related hedges were as follows:

Year Ended December 31 (Dollars in Millions)	2015	2014
<b>Residential Mortgage Loans Held For Sale and Related Hedges</b>		
Average	\$1	\$1
High	2	2
Low	-	-
<b>Mortgage Servicing Rights and Related Hedges</b>		
Average	\$6	\$4
High	8	8
Low	4	2

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

The Company's Board of Directors approves the Company's liquidity policy. The Risk Management Committee

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

The Company's liquidity policy requires it to maintain diversified wholesale funding sources to avoid maturity, name and market concentrations. The Company operates a Grand Cayman branch for issuing Eurodollar time deposits. In addition, the Company has relationships with dealers to issue national market retail and institutional savings certificates and short-term and medium-term notes. The Company also maintains a significant correspondent banking network and relationships. Accordingly, the Company has access to national federal funds, funding through repurchase agreements and sources of stable certificates of deposit and commercial paper.

The Company regularly projects its funding needs under various stress scenarios and maintains a contingency funding plan consistent with the Company's access to diversified

sources of contingent funding. The Company maintains a substantial level of total available liquidity in the form of on-balance sheet and off-balance sheet funding sources. These include cash at the Federal Reserve Bank, unencumbered liquid assets, and capacity to borrow at the FHLB and the Federal Reserve Bank's Discount Window. Unencumbered liquid assets in the Company's available-for-sale and held-to-maturity investment portfolios provide asset liquidity through the Company's ability to sell the securities or pledge and borrow against them. At December 31, 2015, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled \$92.4 billion, compared with \$86.9 billion at December 31, 2014. Refer to Table 13 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 December 31, 2015, the Company could have borrowed an additional \$74.9 billion at the FHLB and Federal Reserve Bank based on collateral available for additional borrowings.

**TABLE 21 DEBT RATINGS**

	Moody's	Standard & Poor's	Fitch	Dominion Bond Rating Service
<b>U.S. Bancorp</b>				
Long-term issuer rating	A1	A+	AA	AA
Short-term issuer rating		A-1	F1+	R-1 (middle)
Senior unsecured debt	A1	A+	AA	AA
Subordinated debt	A1	A-	AA-	AA (low)
Junior subordinated debt	A2	BBB		AA (low)
Preferred stock	A3	BBB	BBB+	A
Commercial paper	P-1	A-1	F1+	
<b>U.S. Bank National Association</b>				
Long-term issuer rating	A1	AA-	AA	
Short-term issuer rating	P-1	A-1+	F1+	R-1 (high)
Long-term deposits	Aa1		AA+	AA (high)
Short-term deposits	P-1		F1+	
Senior unsecured debt	A1	AA-	AA	AA (high)
Subordinated debt	A1	A	AA-	AA
Commercial paper	P-1	A-1+	F1+	
Counterparty risk assessment	Aa2(cr)/P-1(cr)			

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 \$300.4 billion at December 31, 2015, compared with \$282.7 billion at December 31, 2014. Refer to Table 14 and "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 \$32.1 billion at December 31, 2015, and is an important funding source because of its multi-year borrowing structure. Refer to Note 13 of the Notes to Consolidated Financial Statements for information on the terms and maturities of the Company's long-term debt issuances and "Balance Sheet Analysis" for discussion on long-term debt trends. Short-term borrowings were \$27.9 billion at December 31, 2015, and supplement the Company's other funding sources. Refer to Note 12 of the Notes to Consolidated Financial Statements and "Balance Sheet Analysis" for information on the terms and trends of the Company's short-term borrowings.

The Company's ability to raise negotiated funding at competitive prices is influenced by rating agencies' views of the Company's credit quality, liquidity, capital and earnings. Table 21 details the rating agencies' most recent assessments.

In addition to assessing liquidity risk on a consolidated basis, the Company monitors the parent company's liquidity. The parent company's routine funding requirements consist primarily of operating expenses, dividends paid to shareholders, debt service, repurchases of common stock and funds used for acquisitions. The parent company obtains funding to meet its obligations from dividends collected from its subsidiaries and the issuance of debt and capital

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

Under United States Securities and Exchange Commission rules, the parent company is classified as a "well-known seasoned issuer," which allows it to file a registration statement that does not have a limit on issuance capacity. "Well-known seasoned issuers" generally include those companies with outstanding common securities with a market value of at least \$700 million held by non-affiliated parties or those companies that have issued at least \$1 billion in aggregate principal amount of non-convertible securities, other than common equity, in the last three years. However, the parent company's ability to issue debt and other securities under a registration statement filed with the United States Securities and Exchange Commission under these rules is limited by the debt issuance authority granted by the Company's Board of Directors and/or the ALCO policy.

At December 31, 2015, parent company long-term debt outstanding was \$11.5 billion, compared with \$13.2 billion at December 31, 2014. The decrease was primarily due to the maturity of \$1.7 billion of medium-term notes. At December 31, 2015, there was \$1.9 billion of parent company debt scheduled to mature in 2016. Future debt maturities may be met through medium-term note and capital security issuances and dividends from subsidiaries, as well as from parent company cash and cash equivalents.

**TABLE 22 CONTRACTUAL OBLIGATIONS**

At December 31, 2015 (Dollars in Millions)	Payments Due By Period				Total
	One Year or Less	Over One Through Three Years	Over Three Through Five Years	Over Five Years	
<b>Contractual Obligations<sup>(a)</sup></b>					
Long-term debt <sup>(b)</sup>	\$ 6,359	\$12,930	\$3,552	\$ 9,237	\$32,078
Operating leases	265	445	292	471	1,473
Benefit obligations <sup>(c)</sup>	22	45	48	156	271
Time deposits	25,158	5,182	2,495	3	32,838
Contractual interest payments <sup>(d)</sup>	841	990	657	1,015	3,503
Equity investment commitments	1,948	512	25	36	2,521
Other <sup>(e)</sup>	199	243	70	130	642
<b>Total</b>	<b>\$34,792</b>	<b>\$20,347</b>	<b>\$7,139</b>	<b>\$11,048</b>	<b>\$73,326</b>

(a) Unrecognized tax positions of \$243 million at December 31, 2015, are excluded as the Company cannot make a reasonably reliable estimate of the period of cash settlement with the respective taxing authority.

(b) Includes obligations under capital leases.

(c) Amounts only include obligations related to the unfunded non-qualified pension plans.

(d) Includes accrued interest and future contractual interest obligations.

(e) Primarily includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

Dividend payments to the Company by its subsidiary bank are subject to regulatory review and statutory limitations and, in some instances, regulatory approval. In general, dividends to the parent company from its banking subsidiary are limited by rules which compare dividends to net income for regulatorily-defined periods. For further information, see Note 24 of the Notes to Consolidated Financial Statements.

During 2014, U.S. banking regulators approved a final regulatory Liquidity Coverage Ratio (“LCR”), 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 became effective for the Company January 1, 2015, subject to certain transition provisions over the following two years to full implementation by January 1, 2017. At December 31, 2015, the Company was compliant with the fully implemented LCR requirement based on its interpretation of the final U.S. LCR rule.

**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 December 31, 2015, the Company had investments in perpetual preferred stock issued by European banks with an amortized cost totaling \$22 million and unrealized losses totaling \$1 million, compared with an amortized cost totaling \$66 million and unrealized losses totaling \$2 million, at December 31, 2014. The Company also transacts with various European banks as counterparties to interest rate 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 December 31, 2015, the Company was in a net receivable position with six banks in Europe, totaling \$21 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 in Europe to existing Company customers. While further deterioration in economic

conditions 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 significant 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 December 31, 2015, the Company had an aggregate amount on deposit with European banks of approximately \$2.0 billion, predominately with the Central Bank of Ireland.

The money market funds managed by a subsidiary of the Company do not have any investments in European sovereign debt, other than approximately \$275 million at December 31, 2015 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. 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. The Company has not utilized private label asset securitizations as a source of funding.

Commitments to extend credit are legally binding and generally have fixed expiration dates or other termination clauses. Many of the Company’s commitments to extend credit expire without being drawn, and therefore, total commitment amounts do not necessarily represent future liquidity requirements or the Company’s exposure to credit loss. Commitments to extend credit also include consumer credit lines that are cancelable upon notification to the consumer. Total contractual amounts of commitments to extend credit at December 31, 2015 were \$279.6 billion. The Company also issues and confirms various types of letters of credit, including standby and commercial. Total contractual amounts of letters of credit at December 31, 2015 were \$13.3 billion. For more information on the Company’s commitments to extend credit and letters of credit, refer to Note 23 in the Notes to Consolidated Financial Statements.

The Company’s off-balance sheet arrangements with unconsolidated entities primarily consist of private investment



funds or partnerships that make equity investments, provide debt financing or support community-based investments in tax-advantaged projects. In addition to providing investment returns, these arrangements in many cases assist the Company in complying with requirements of the Community Reinvestment Act. The investments in these entities generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. The entities in which the Company invests are generally considered variable interest entities ("VIEs"). The Company's recorded net investment in these entities as of December 31, 2015 was approximately \$2.8 billion.

The Company also has non-controlling financial investments in private funds and partnerships considered VIEs. The Company's recorded investment in these entities was approximately \$32 million at December 31, 2015, and the Company had unfunded commitments to invest an additional \$15 million. For more information on the Company's interests in unconsolidated VIEs, refer to Note 8 in the Notes to Consolidated Financial Statements.

Guarantees are contingent commitments issued by the Company to customers or other third parties requiring the Company to perform if certain conditions exist or upon the occurrence or nonoccurrence of a specified event, such as a scheduled payment to be made under contract. The Company's primary guarantees include commitments from securities lending activities in which indemnifications are provided to customers; indemnification or buy-back provisions related to sales of loans and tax credit investments; merchant charge-back guarantees through the Company's involvement in providing merchant processing services; and minimum revenue guarantee arrangements. For certain guarantees, the Company may have access to collateral to support the guarantee, or through the exercise of other recourse provisions, be able to offset some or all of any payments made under these guarantees.

The Company and certain of its subsidiaries, along with other Visa U.S.A. Inc. member banks, have a contingent guarantee obligation to indemnify Visa Inc. for potential losses arising from antitrust lawsuits challenging the practices of Visa U.S.A. Inc. and MasterCard International. The indemnification by the Company and other Visa U.S.A. Inc. member banks has no maximum amount. Refer to Note 23 in the Notes to Consolidated Financial Statements for further details regarding guarantees, other commitments, and contingent liabilities, including maximum potential future payments and current carrying amounts.

**Capital Management** The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company continually assesses its business risks and capital position. The Company also manages its capital to exceed regulatory capital requirements for banking organizations. To achieve its capital goals, the Company employs a variety of capital management tools, including dividends, common share repurchases, and the issuance of subordinated debt, non-cumulative perpetual preferred stock, common stock and other capital instruments.

On June 16, 2015, the Company announced its Board of Directors had approved a 4.1 percent increase in the Company's dividend rate per common share, from \$0.245 per quarter to \$0.255 per quarter.

The Company repurchased approximately 52 million shares of its common stock in 2015, compared with approximately 54 million shares in 2014. The average price paid for the shares repurchased in 2015 was \$43.54 per share, compared with \$41.65 per share in 2014. As of December 31, 2015, the approximate dollar value of shares that may yet be purchased by the Company under the current Board of Directors approved authorization was \$1.3 billion. For a more complete analysis of activities impacting shareholders' equity and capital management programs, refer to Note 15 of the Notes to Consolidated Financial Statements.

Total U.S. Bancorp shareholders' equity was \$46.1 billion at December 31, 2015, compared with \$43.5 billion at December 31, 2014. The increase was primarily the result of corporate earnings, partially offset by dividends and common share repurchases.

Beginning January 1, 2014, the regulatory capital requirements effective for the Company follow Basel III, subject to certain transition provisions from Basel I over the following four years to full implementation by January 1, 2018. Basel III includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches, with the Company's capital adequacy being evaluated against the methodology that is most restrictive. Under Basel III, banking regulators define minimum capital requirements for banks and financial services holding companies. These requirements are expressed in the form of a minimum common equity tier 1 capital ratio, tier 1 capital ratio, total risk-based capital ratio, and tier 1 leverage ratio. The minimum required level for these ratios at December 31, 2015, was 4.5 percent, 6.0 percent, 8.0 percent, and 4.0 percent, respectively. The Company targets its regulatory capital levels, at both the bank and bank holding company level, to exceed the "well-capitalized" threshold for these ratios. At December 31, 2015, the minimum "well-capitalized" threshold for the common equity

tier 1 capital ratio, tier 1 capital ratio, total risk-based capital ratio, and tier 1 leverage ratio was 6.5 percent, 8.0 percent, 10.0 percent and 5.0 percent, respectively. The most recent notification from the Office of the Comptroller of the Currency categorized the Company's bank subsidiary as "well-capitalized" under the FDIC Improvement Act prompt corrective action provisions that are applicable to all banks. There are no conditions or events since that notification that management believes have changed the risk-based category of its covered subsidiary bank.

As an approved mortgage seller and servicer, U.S. Bank National Association, through its mortgage banking division, is required to maintain various levels of shareholder's equity, as specified by various agencies, including the United States Department of Housing and Urban Development, Government National Mortgage Association, Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. At December 31, 2015, U.S. Bank National Association met these requirements.

Table 23 provides a summary of statutory regulatory capital ratios in effect for the Company at December 31, 2015 and 2014.

During 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. At December 31, 2015, the Company's SLR exceeds the applicable minimum SLR requirement effective January 1, 2018.

The Company believes certain capital ratios in addition to statutory regulatory capital ratios are useful in evaluating its capital adequacy. The Company's tangible common equity, as a percent of tangible assets and as a percent of risk-weighted assets calculated under the transitional standardized approach, was 7.6 percent and 9.2 percent, respectively, at December 31, 2015, compared with 7.5 percent and 9.3 percent, respectively, at December 31, 2014. The Company's common equity tier 1 to risk-weighted assets ratio using the Basel III standardized approach as if fully implemented was 9.1 percent at December 31, 2015, compared with 9.0 percent at December 31, 2014. The Company's common equity tier 1 to risk-weighted assets ratio using the Basel III advanced approaches as if fully implemented was 11.9 percent at December 31, 2015, compared with 11.8 percent at December 31, 2014. Refer to "Non-GAAP Financial Measures" for further information regarding the calculation of these ratios.

**TABLE 23 REGULATORY CAPITAL RATIOS**

At December 31 (Dollars in Millions)	U.S. Bancorp		U.S. Bank National Association	
	2015	2014	2015	2014
<b>Basel III transitional standardized approach:</b>				
Common equity tier 1 capital	\$ 32,612	\$ 30,856	\$ 33,831	\$ 32,381
Tier 1 capital	38,431	36,020	34,148	32,789
Total risk-based capital	45,313	43,208	41,112	40,008
Risk-weighted assets	341,360	317,398	336,938	313,261
Common equity tier 1 capital as a percent of risk-weighted assets	9.6%	9.7%	10.0%	10.3%
Tier 1 capital as a percent of risk-weighted assets	11.3	11.3	10.1	10.5
Total risk-based capital as a percent of risk-weighted assets	13.3	13.6	12.2	12.8
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.5	9.3	8.5	8.6
<b>Basel III transitional advanced approaches:</b>				
Common equity tier 1 capital	\$ 32,612	\$ 30,856	\$ 33,831	\$ 32,381
Tier 1 capital	38,431	36,020	34,148	32,789
Total risk-based capital	42,262	40,475	38,090	37,299
Risk-weighted assets	261,668	248,596	258,207	245,007
Common equity tier 1 capital as a percent of risk-weighted assets	12.5%	12.4%	13.1%	13.2%
Tier 1 capital as a percent of risk-weighted assets	14.7	14.5	13.2	13.4
Total risk-based capital as a percent of risk-weighted assets	16.2	16.3	14.8	15.2

**Bank Regulatory Capital Requirements**

	Minimum	Well-Capitalized
<b>2015</b>		
Common equity tier 1 capital as a percent of risk-weighted assets	4.5%	6.5%
Tier 1 capital as a percent of risk-weighted assets	6.0	8.0
Total risk-based capital as a percent of risk-weighted assets	8.0	10.0
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	4.0	5.0
<b>2014</b>		
Common equity tier 1 capital as a percent of risk-weighted assets	4.0%	*
Tier 1 capital as a percent of risk-weighted assets	5.5	6.0%
Total risk-based capital as a percent of risk-weighted assets	8.0	10.0
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	4.0	5.0

\* Not applicable.

**FOURTH QUARTER SUMMARY**

The Company reported net income attributable to U.S. Bancorp of \$1.5 billion for the fourth quarter of 2015, or \$0.80 per diluted common share, compared with \$1.5 billion, or \$0.79 per diluted common share, for the fourth quarter of 2014. Return on average assets and return on average common equity were 1.41 percent and 13.7 percent, respectively, for the fourth quarter of 2015, compared with 1.50 percent and 14.4 percent, respectively, for the fourth quarter of 2014.

Total net revenue, on a taxable-equivalent basis for the fourth quarter of 2015, was \$42 million (0.8 percent) higher than the fourth quarter of 2014, reflecting a 2.6 percent increase in net interest income, partially offset by a 1.3 percent decrease in noninterest income. The increase in net interest income from the fourth quarter of 2014 was the result of growth in average earning assets, partially offset by a continued shift in loan portfolio mix. Noninterest income decreased from a year ago primarily due to the impact of the fourth quarter 2014 Nuveen gain, partially offset by fee revenue growth and the HSA deposit sale.

Noninterest expense in the fourth quarter of 2015 was higher than the fourth quarter of 2014, primarily due to increases in compensation and employee benefits expenses and other costs related to risk and compliance activities, partially offset by lower charitable contributions and the impact of prior year legal accruals.

Fourth quarter 2015 net interest income, on a taxable-equivalent basis, was \$2.9 billion, compared with \$2.8 billion in the fourth quarter of 2014. The \$72 million (2.6 percent) increase was principally the result of growth in average earning assets, partially offset by a continued shift in loan portfolio mix. Average earning assets were \$18.1 billion (5.1 percent) higher in the fourth quarter of 2015, compared with the fourth quarter of 2014, driven by increases of \$10.3 billion (4.2 percent) in loans and \$7.4 billion (7.5 percent) in investment securities. The net interest margin, on a taxable-equivalent basis, in the fourth quarter of 2015 was 3.06 percent, compared with 3.14 percent in the fourth quarter of 2014, reflecting a change in the loan portfolio mix, as well as growth in the investment portfolio at lower average rates and lower reinvestment rates on investment securities.

**TABLE 24 FOURTH QUARTER RESULTS**

	Three Months Ended December 31,	
	2015	2014
<b>Condensed Income Statement</b>		
Net interest income (taxable-equivalent basis) <sup>(a)</sup>	\$2,871	\$2,799
Noninterest income	2,339	2,369
Securities gains (losses), net	1	1
Total net revenue	5,211	5,169
Noninterest expense	2,809	2,804
Provision for credit losses	305	288
Income before taxes	2,097	2,077
Taxable-equivalent adjustment	52	55
Applicable income taxes	556	521
Net income	1,489	1,501
Net (income) loss attributable to noncontrolling interests	(13)	(13)
Net income attributable to U.S. Bancorp	\$1,476	\$1,488
Net income applicable to U.S. Bancorp common shareholders	\$1,404	\$1,420
<b>Per Common Share</b>		
Earnings per share	\$ .80	\$ .79
Diluted earnings per share	\$ .80	\$ .79
Dividends declared per share	\$ .255	\$ .245
Average common shares outstanding	1,747	1,787
Average diluted common shares outstanding	1,754	1,796
<b>Financial Ratios</b>		
Return on average assets	1.41%	1.50%
Return on average common equity	13.7	14.4
Net interest margin (taxable-equivalent basis) <sup>(a)</sup>	3.06	3.14
Efficiency ratio	53.9	54.3

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

Noninterest income in the fourth quarter of 2015 was \$2.3 billion, compared with \$2.4 billion in the same period of 2014, representing a decrease of \$30 million (1.3 percent). The decrease was due to the impact of the fourth quarter 2014 Nuveen gain, partially offset by fee revenue growth and the HSA deposit sale. The fee revenue growth reflected higher credit and debit card revenue, trust and investment management fees and merchant processing services revenue, partially offset by a decrease in mortgage banking revenue, primarily due to an unfavorable change in the valuation of MSRs, net of hedging activities. Credit and debit card revenue increased \$22 million (8.1 percent) over the fourth quarter of 2014, due to higher transaction volumes. Trust and investment management fees increased \$14 million (4.3 percent), reflecting the benefits of the Company's investments in its corporate trust and fund services businesses, as well as account growth, improved market conditions and lower fee waivers. Merchant processing services revenue increased \$9 million (2.3 percent) as a result of higher transaction volumes, along with account growth and equipment sales to merchants related to new chip card technology requirements. Adjusted for the approximate \$16

million impact of foreign currency rate changes, year-over-year merchant processing services growth would have been approximately 6.5 percent.

Noninterest expense in the fourth quarter of 2015 was \$2.8 billion, or \$5 million (0.2 percent) higher than the fourth quarter of 2014. Compensation expense increased \$61 million (5.3 percent), reflecting the impact of merit increases and higher staffing for risk and compliance activities, while employee benefits expense was \$27 million (11.0 percent) higher, mainly due to increased pension costs. Offsetting these increases was a \$33 million (25.6 percent) decline in marketing and business development expense, principally due to charitable contributions in the fourth quarter of 2014, and a \$35 million (6.4 percent) decline in other noninterest expense, reflecting the impact of fourth quarter 2014 legal accruals partially offset by higher compliance-related expenses.

The provision for credit losses for the fourth quarter of 2015 was \$305 million, an increase of \$17 million (5.9 percent) from the same period of 2014. The provision for credit losses was equal to net charge-offs in the fourth quarter of 2015 and \$20 million lower than net charge-offs in the fourth quarter of 2014. Net charge-offs were \$305 million



in the fourth quarter of 2015, compared with \$308 million in the fourth quarter of 2014.

The provision for income taxes for the fourth quarter of 2015 resulted in an effective tax rate of 27.2 percent, compared with an effective tax rate of 25.8 percent for the fourth quarter of 2014.

### **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. Goodwill and other intangible assets are assigned to the lines of business based on the mix of business of the acquired entity. Within the Company, capital levels are evaluated and managed centrally; however, capital is allocated to the operating segments to support evaluation of business performance. Business lines are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. Generally, the determination of the amount of capital allocated to each business line includes credit and operational capital allocations following a Basel III regulatory framework. Interest income and expense is determined based on the assets and liabilities managed by the business line. Because funding and asset liability management is a central function, funds transfer-pricing methodologies are utilized to allocate a cost of funds used or credit for funds provided to all business line assets and liabilities, respectively, using a

matched funding concept. Also, each business unit is allocated the taxable-equivalent benefit of tax-exempt products. The residual effect on net interest income of asset/liability management activities is included in Treasury and Corporate Support. Noninterest income and expenses directly managed by each business line, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each segment's financial results in a manner similar to the consolidated financial statements. Occupancy costs are allocated based on utilization of facilities by the lines of business. Generally, operating losses are charged to the line of business when the loss event is realized in a manner similar to a loan charge-off. Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services, primarily measured by the volume of customer activities, number of employees or other relevant factors. These allocated expenses are reported as net shared services expense within noninterest expense. Certain activities that do not directly support the operations of the lines of business or for which the lines of business are not considered financially accountable in evaluating their performance are not charged to the lines of business. The income or expenses associated with these corporate activities is reported within the Treasury and Corporate Support line of business. Income taxes are assessed to each line of business at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support.

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 2015, certain organization and methodology changes were made and, accordingly, 2014 results were restated and presented on a comparable basis.

**TABLE 25 LINE OF BUSINESS FINANCIAL PERFORMANCE**

Year Ended December 31 (Dollars in Millions)	Wholesale Banking and Commercial Real Estate			Consumer and Small Business Banking		
	2015	2014	Percent Change	2015	2014	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 2,034	\$ 2,030	.2%	\$ 4,617	\$ 4,717	(2.1)%
Noninterest income	890	965	(7.8)	2,497	2,601	(4.0)
Securities gains (losses), net	—	—	—	—	—	—
Total net revenue	2,924	2,995	(2.4)	7,114	7,318	(2.8)
Noninterest expense	1,295	1,224	5.8	4,818	4,552	5.8
Other intangibles	4	4	—	40	40	—
Total noninterest expense	1,299	1,228	5.8	4,858	4,592	5.8
Income before provision and income taxes	1,625	1,767	(8.0)	2,256	2,726	(17.2)
Provision for credit losses	235	51	*	127	393	(67.7)
Income before income taxes	1,390	1,716	(19.0)	2,129	2,333	(8.7)
Income taxes and taxable-equivalent adjustment	506	624	(18.9)	775	850	(8.8)
Net income	884	1,092	(19.0)	1,354	1,483	(8.7)
Net (income) loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to U.S. Bancorp	\$ 884	\$ 1,092	(19.0)	\$ 1,354	\$ 1,483	(8.7)
<b>Average Balance Sheet</b>						
Commercial	\$64,369	\$57,864	11.2%	\$ 10,051	\$ 9,070	10.8%
Commercial real estate	19,415	18,452	5.2	19,006	18,825	1.0
Residential mortgages	8	12	(33.3)	50,007	50,405	(.8)
Credit card	—	—	—	—	—	—
Other retail	2	4	(50.0)	46,964	46,220	1.6
Total loans, excluding covered loans	83,794	76,332	9.8	126,028	124,520	1.2
Covered loans	—	190	*	4,934	5,780	(14.6)
Total loans	83,794	76,522	9.5	130,962	130,300	.5
Goodwill	1,647	1,627	1.2	3,682	3,603	2.2
Other intangible assets	20	21	(4.8)	2,594	2,674	(3.0)
Assets	92,205	83,787	10.0	147,832	144,137	2.6
Noninterest-bearing deposits	36,018	32,302	11.5	26,137	23,743	10.1
Interest checking	7,436	10,557	(29.6)	39,957	36,222	10.3
Savings products	28,047	18,321	53.1	53,813	49,974	7.7
Time deposits	15,025	18,140	(17.2)	15,829	17,951	(11.8)
Total deposits	86,526	79,320	9.1	135,736	127,890	6.1
Total U.S. Bancorp shareholders' equity	8,251	7,568	9.0	10,953	11,484	(4.6)

\* Not meaningful

Wealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2015	2014	Percent Change	2015	2014	Percent Change	2015	2014	Percent Change	2015	2014	Percent Change
\$ 386	\$ 383	.8%	\$ 1,930	\$ 1,749	10.3%	\$ 2,247	\$ 2,118	6.1%	\$ 11,214	\$ 10,997	2.0%
1,466	1,396	5.0	3,371	3,292	2.4	868	907	(4.3)	9,092	9,161	(.8)
-	-	-	-	-	-	-	3	*	-	3	*
1,852	1,779	4.1	5,301	5,041	5.2	3,115	3,028	2.9	20,306	20,161	.7
1,420	1,343	5.7	2,540	2,310	10.0	684	1,087	(37.1)	10,757	10,516	2.3
28	33	(15.2)	102	122	(16.4)	-	-	-	174	199	(12.6)
1,448	1,376	5.2	2,642	2,432	8.6	684	1,087	(37.1)	10,931	10,715	2.0
404	403	.2	2,659	2,609	1.9	2,431	1,941	25.2	9,375	9,446	(.8)
-	9	*	787	766	2.7	(17)	10	*	1,132	1,229	(7.9)
404	394	2.5	1,872	1,843	1.6	2,448	1,931	26.8	8,243	8,217	.3
147	143	2.8	681	670	1.6	201	22	*	2,310	2,309	-
257	251	2.4	1,191	1,173	1.5	2,247	1,909	17.7	5,933	5,908	.4
-	-	-	(31)	(35)	11.4	(23)	(22)	(4.5)	(54)	(57)	5.3
\$ 257	\$ 251	2.4	\$ 1,160	\$ 1,138	1.9	\$ 2,224	\$ 1,887	17.9	\$ 5,879	\$ 5,851	.5
\$ 2,321	\$ 1,964	18.2%	\$ 7,059	\$ 6,542	7.9%	\$ 283	\$ 294	(3.7)%	\$ 84,083	\$ 75,734	11.0%
571	602	(5.1)	-	-	-	3,423	2,713	26.2	42,415	40,592	4.5
1,816	1,392	30.5	-	-	-	9	9	-	51,840	51,818	-
-	-	-	18,057	17,635	2.4	-	-	-	18,057	17,635	2.4
1,517	1,457	4.1	596	672	(11.3)	-	-	-	49,079	48,353	1.5
6,225	5,415	15.0	25,712	24,849	3.5	3,715	3,016	23.2	245,474	234,132	4.8
1	5	(80.0)	-	5	*	50	1,580	(96.8)	4,985	7,560	(34.1)
6,226	5,420	14.9	25,712	24,854	3.5	3,765	4,596	(18.1)	250,459	241,692	3.6
1,567	1,568	(.1)	2,474	2,514	(1.6)	-	-	-	9,370	9,312	.6
126	159	(20.8)	411	484	(15.1)	-	-	-	3,151	3,338	(5.6)
9,178	8,500	8.0	31,796	31,097	2.2	127,854	112,483	13.7	408,865	380,004	7.6
14,469	15,157	(4.5)	879	740	18.8	1,700	1,513	12.4	79,203	73,455	7.8
7,944	5,877	35.2	605	555	9.0	32	37	(13.5)	55,974	53,248	5.1
33,984	29,361	15.7	91	78	16.7	481	439	9.6	116,416	98,173	18.6
3,344	3,901	(14.3)	-	-	-	1,360	1,772	(23.3)	35,558	41,764	(14.9)
59,741	54,296	10.0	1,575	1,373	14.7	3,573	3,761	(5.0)	287,151	266,640	7.7
2,308	2,284	1.1	5,868	5,697	3.0	17,433	15,804	10.3	44,813	42,837	4.6

### **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 \$884 million of the Company's net income in 2015, or a decrease of \$208 million (19.0 percent) compared with 2014. The decrease was primarily driven by a higher provision for credit losses, higher noninterest expense and lower net revenue.

Net revenue decreased \$71 million (2.4 percent) in 2015, compared with 2014. Noninterest income decreased \$75 million (7.8 percent) in 2015, compared with 2014, driven by higher loan-related charges, partially offset by higher loan syndication and bond underwriting fees, as well as higher commercial leasing revenue. Net interest income, on a taxable-equivalent basis, increased \$4 million (0.2 percent) in 2015, compared with 2014, driven by increases in average loans and deposits, partially offset by lower rates and fees on loans.

Noninterest expense increased \$71 million (5.8 percent) in 2015, compared with 2014, primarily resulting from higher compensation expense due to higher variable compensation and merit increases, higher benefits expense due to increased pension costs, an increase in the FDIC insurance assessment allocation based on increased loan volumes, and higher net shared services expense. The provision for credit losses increased \$184 million in 2015, compared with 2014, due to an unfavorable change in the reserve allocation driven by a decline in energy prices and an increase in net charge-offs. Nonperforming assets were \$168 million at December 31, 2015, compared with \$170 million at December 31, 2014. Nonperforming assets as a percentage of period-end loans were 0.19 percent at December 31, 2015, compared with 0.21 percent at December 31, 2014. 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 and indirect lending, as well as mortgage banking. Consumer and Small Business Banking contributed \$1.4 billion of the Company's net income in 2015, or a decrease of \$129 million (8.7 percent), compared with 2014. The decrease was due to

lower net revenue and higher noninterest expense, partially offset by a decrease in the provision for credit losses.

Net revenue decreased \$204 million (2.8 percent) in 2015, compared with 2014. Net interest income, on a taxable-equivalent basis, decreased \$100 million (2.1 percent) in 2015, compared with 2014, primarily due to lower rates on loans and lower loan fees due to the wind down of the CAA product, partially offset by higher average loan, deposit and loans held for sale balances. Noninterest income decreased \$104 million (4.0 percent) in 2015, compared with 2014, primarily the result of lower mortgage banking revenue due to an unfavorable change in the valuation of MSR's, net of hedging activities, partially offset by higher mortgage production revenue. Noninterest expense increased \$266 million (5.8 percent) in 2015, compared with 2014, the result of higher compensation, employee benefits and mortgage servicing-related expenses.

The provision for credit losses decreased \$266 million (67.7 percent) in 2015, compared with 2014, due to lower net charge-offs and a favorable change in the reserve allocation driven by improvements in the mortgage portfolio. As a percentage of average loans outstanding, net charge-offs decreased to 0.25 percent in 2015, compared with 0.38 percent in 2014. Nonperforming assets were \$1.3 billion at December 31, 2015, compared with \$1.4 billion at December 31, 2014. Nonperforming assets as a percentage of period-end loans were 0.95 percent at December 31, 2015, compared with 1.10 percent at December 31, 2014. 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 \$257 million of the Company's net income in 2015, an increase of \$6 million (2.4 percent), compared with 2014. The increase from the prior year was primarily due to higher net revenue, partially offset by higher noninterest expense.

Net revenue increased \$73 million (4.1 percent) in 2015, compared with 2014, driven by a \$70 million (5.0 percent) increase in noninterest income, reflecting the impact of account growth, improved market conditions and lower fee waivers. Net interest income, on a taxable-equivalent basis, increased \$3 million (0.8 percent) in 2015, compared with 2014, principally due to higher average loan and deposit



balances, partially offset by a lower loan rates and a decrease in the margin benefit of corporate trust deposits.

Noninterest expense increased \$72 million (5.2 percent) in 2015, compared with 2014. The increase in noninterest expense was primarily due to higher net shared services expense and higher compensation and employee benefits expenses primarily due to merit increases and increased pension costs, respectively.

**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 \$1.2 billion of the Company's net income in 2015, or an increase of \$22 million (1.9 percent) compared with 2014. The increase was primarily due to higher net revenue, partially offset by higher noninterest expense and an increase in the provision for credit losses.

Net revenue increased \$260 million (5.2 percent) in 2015, compared with 2014. Net interest income, on a taxable-equivalent basis, increased \$181 million (10.3 percent) in 2015, compared with 2014, primarily driven by improved loan rates and higher average loan balances and fees. Noninterest income increased \$79 million (2.4 percent) in 2015, compared with 2014, primarily due to an increase in credit and debit card revenue on higher transaction volumes, along with higher merchant processing services revenue, driven by increased transaction volumes and product fees and equipment sales to merchants related to new chip card technology requirements, partially offset by the impact of foreign currency rate changes.

Noninterest expense increased \$210 million (8.6 percent) in 2015, compared with 2014, primarily due to higher net shared services and compensation and marketing expenses. The provision for credit losses increased \$21 million (2.7 percent) in 2015, compared with 2014, primarily due to an unfavorable change in the reserve allocation due to loan growth. As a percentage of average loans outstanding, net charge-offs were 3.01 percent in 2015, compared with 3.11 percent in 2014.

**Treasury and Corporate Support** Treasury and Corporate Support includes the Company's investment portfolios, most covered commercial and commercial real estate loans and related OREO, funding, capital management, interest rate risk management, income taxes not allocated to the business lines, including most investments in tax-advantaged projects, and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of \$2.2 billion in 2015, compared with \$1.9 billion in 2014.

Net revenue increased \$87 million (2.9 percent) in 2015, compared with 2014. Net interest income, on a taxable-equivalent basis, increased \$129 million (6.1 percent) in 2015, compared with 2014, principally due to growth in the investment securities portfolio. Noninterest income decreased \$42 million (4.6 percent) in 2015, compared with 2014, primarily due to lower other income from Visa stock sales, the 2015 student loan market adjustment and the 2014 Nuveen gain, partially offset by the 2015 HSA deposit sale gain and higher commercial products revenue.

Noninterest expense decreased \$403 million (37.1 percent) in 2015, compared with 2014, principally due to a reduction of reserves for losses allocated to the business lines, lower costs related to investments in tax-advantaged projects, the 2014 FHA DOJ settlement and lower charitable contributions, partially offset by higher compensation expense, reflecting the impact of merit increases and staffing for risk and compliance activities, and higher employee benefits expense, reflecting higher pension costs.

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

## **NON-GAAP FINANCIAL MEASURES**

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

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

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

generally accepted accounting principles (“GAAP”), or are not currently effective or defined in federal banking regulations. As a result, these measures disclosed by the Company may be considered non-GAAP financial measures.

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

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

At December 31 (Dollars in Millions)	2015	2014	2013	2012	2011
Total equity	\$ 46,817	\$ 44,168	\$ 41,807	\$ 40,267	\$ 34,971
Preferred stock	(5,501)	(4,756)	(4,756)	(4,769)	(2,606)
Noncontrolling interests	(686)	(689)	(694)	(1,269)	(993)
Goodwill (net of deferred tax liability) <sup>(1)</sup>	(8,295)	(8,403)	(8,343)	(8,351)	(8,239)
Intangible assets, other than mortgage servicing rights	(838)	(824)	(849)	(1,006)	(1,217)
Tangible common equity <sup>(a)</sup>	31,497	29,496	27,165	24,872	21,916
Tangible common equity (as calculated above)	31,497	29,496	27,165	24,872	21,916
Adjustments <sup>(2)</sup>	67	172	224	126	450
Common equity tier 1 capital estimated for the Basel III fully implemented standardized and advanced approaches <sup>(3)(b)</sup>	31,564	29,668	27,389	24,998	22,366
Tier 1 capital, determined in accordance with prescribed regulatory requirements using Basel I definition			33,386	31,203	29,173
Trust preferred securities			–	–	(2,675)
Preferred stock			(4,756)	(4,769)	(2,606)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital			(688)	(685)	(687)
Tier 1 common equity using Basel 1 definition <sup>(c)</sup>			27,942	25,749	23,205
Total assets	421,853	402,529	364,021	353,855	340,122
Goodwill (net of deferred tax liability) <sup>(1)</sup>	(8,295)	(8,403)	(8,343)	(8,351)	(8,239)
Intangible assets, other than mortgage servicing rights	(838)	(824)	(849)	(1,006)	(1,217)
Tangible assets <sup>(d)</sup>	412,720	393,302	354,829	344,498	330,666
Risk-weighted assets, determined in accordance with prescribed transitional standardized approach regulatory requirements <sup>(4)(e)</sup>	341,360	317,398	297,919	287,611	271,333
Adjustments <sup>(5)</sup>	3,892	11,110	13,712	21,233	3,018
Risk-weighted assets estimated for the Basel III fully implemented standardized approach <sup>(3)(f)</sup>	345,252	328,508	311,631	308,844	274,351
Risk-weighted assets, determined in accordance with prescribed transitional advanced approaches regulatory requirements	261,668	248,596			
Adjustments <sup>(6)</sup>	4,099	3,270			
Risk-weighted assets estimated for the Basel III fully implemented advanced approaches <sup>(g)</sup>	265,767	251,866			
<b>Ratios</b>					
Tangible common equity to tangible assets <sup>(a)/(d)</sup>	7.6%	7.5%	7.7%	7.2%	6.6%
Tangible common equity to risk-weighted assets <sup>(a)/(e)</sup>	9.2	9.3	9.1	8.6	8.1
Tier 1 common equity to risk-weighted assets using Basel I definition <sup>(c)/(e)</sup>			9.4	9.0	8.6
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach <sup>(b)/(f)(3)</sup>	9.1	9.0	8.8	8.1	8.2
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches <sup>(b)/(g)</sup>	11.9	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 (loss) and other adjustments.

(3) December 31, 2015, 2014 and 2013, calculated using final rules for the Basel III fully implemented standardized approach; December 31, 2012, calculated using proposed rules for the Basel III fully implemented standardized approach released June 2012; December 31, 2011, calculated using proposed rules for the Basel III fully implemented standardized approach released prior to June 2012.

(4) December 31, 2015 and 2014, calculated under the Basel III transitional standardized approach; all other periods calculated under Basel I.

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

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

## ACCOUNTING CHANGES

Note 2 of the Notes to Consolidated Financial Statements discusses accounting standards recently issued but not yet required to be adopted and the expected impact of these changes in accounting standards. To the extent the adoption of new accounting standards materially affects the Company's financial condition or results of operations, the impacts are discussed in the applicable section(s) of the Management's Discussion and Analysis and the Notes to Consolidated Financial Statements.

## 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. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information (including third party sources or available prices), sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under GAAP. Management has discussed the development and the selection of critical accounting policies with the Company's Audit Committee.

Significant accounting policies are discussed in Note 1 of the Notes to Consolidated Financial Statements. Those policies considered to be critical accounting policies are described below.

**Allowance for Credit Losses** The allowance for credit losses is established to provide for probable losses incurred in the Company's credit portfolio. The methods utilized to estimate the allowance for credit losses, key assumptions and quantitative and qualitative information considered by management in determining the appropriate allowance for credit losses are discussed in the "Credit Risk Management" section.

Management's evaluation of the appropriate allowance for credit losses is often the most critical of all the accounting estimates for a banking institution. It is an inherently subjective process impacted by many factors as discussed throughout the Management's Discussion and Analysis section of the Annual Report. Although methodologies utilized to determine each element of the allowance reflect management's assessment of credit risk as identified through assessments completed of individual credits and of homogenous pools affected by material credit events, degrees of imprecision exist in these measurement tools due in part to subjective judgments involved and an inherent lagging of credit quality measurements relative to the stage of the business cycle. Even determining the stage of the business cycle is highly subjective. As discussed in the "Analysis and Determination of Allowance for Credit Losses" section, management considers the effect of changes in economic conditions, risk management practices, and other factors that contribute to imprecision of loss estimates in determining the allowance for credit losses. If not considered, incurred losses in the portfolio related to imprecision and other subjective factors could have a dramatic adverse impact on the liquidity and financial viability of a banking institution.

Given the many subjective factors affecting the credit portfolio, changes in the allowance for credit losses may not directly coincide with changes in the risk ratings of the credit portfolio reflected in the risk rating process. This is in part due to the timing of the risk rating process in relation to changes in the business cycle, the exposure and mix of loans within risk rating categories, levels of nonperforming loans and the timing of charge-offs and recoveries. For example, the amount of loans within specific risk ratings may change, providing a leading indicator of changing credit quality, while nonperforming loans and net charge-offs may be slower to reflect changes. Also, inherent loss ratios, determined through migration analysis and historical loss performance over the estimated business cycle of a loan, may not change to the same degree as net charge-offs. Because risk ratings and inherent loss ratios primarily drive the allowance specifically allocated to commercial lending segment loans, the degree of change in the commercial lending allowance may differ from the level of changes in nonperforming loans and net charge-offs. Also, management would maintain an appropriate allowance for credit losses by increasing allowance rates during periods of economic uncertainty or changes in the business cycle.

Some factors considered in determining the appropriate allowance for credit losses are quantifiable while other factors require qualitative judgment. Management conducts an analysis with respect to the accuracy of risk ratings and the volatility of inherent losses, and utilizes this analysis along with

qualitative factors that can affect the precision of credit loss estimates, including economic conditions, such as changes in unemployment or bankruptcy rates, and concentration risks, such as risks associated with specific industries, the housing market, and loans to highly leveraged enterprises, in determining the overall level of the allowance for credit losses. The Company's determination of the allowance for commercial lending segment loans is sensitive to the assigned credit risk ratings and inherent loss rates at December 31, 2015. In the event that 10 percent of period ending loan balances (including unfunded commitments) within each risk category of this segment of the loan portfolio experienced downgrades of two risk categories, the allowance for credit losses would increase by approximately \$236 million at December 31, 2015. The Company believes the allowance for credit losses appropriately considers the imprecision in estimating credit losses based on credit risk ratings and inherent loss rates but actual losses may differ from those estimates. In the event that inherent loss or estimated loss rates for commercial lending segment loans increased by 10 percent, the allowance for credit losses would increase by approximately \$158 million at December 31, 2015. The Company's determination of the allowance for consumer lending segment loans is sensitive to changes in estimated loss rates and estimated impairments on restructured loans. In the event that estimated losses for this segment of the loan portfolio increased by 10 percent, the allowance for credit losses would increase by approximately \$183 million at December 31, 2015. Because several quantitative and qualitative factors are considered in determining the allowance for credit losses, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the allowance for credit losses. They are intended to provide insights into the impact of adverse changes in risk rating and inherent losses and do not imply any expectation of future deterioration in the risk rating or loss rates. Given current processes employed by the Company, management believes the risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions that could be significant to the Company's financial statements. Refer to the "Analysis and Determination of the Allowance for Credit Losses" section for further information.

**Fair Value Estimates** A portion of the Company's assets and liabilities are carried at fair value on the Consolidated Balance Sheet, with changes in fair value recorded either through earnings or other comprehensive income (loss) in accordance with applicable accounting principles generally accepted in the United States. These include all of the

Company's available-for-sale investment securities, derivatives and other trading instruments, MSRs and MLHFS. The estimation of fair value also affects other loans held for sale, which are recorded at the lower-of-cost-or-fair value. The determination of fair value is important for certain other assets that are periodically evaluated for impairment using fair value estimates including goodwill and other intangible assets, impaired loans, OREO and other repossessed assets.

Fair value is generally defined as the exit price at which an asset or liability could be exchanged in a current transaction between willing, unrelated parties, other than in a forced or liquidation sale. Fair value is based on quoted market prices in an active market, or if market prices are not available, is estimated using models employing techniques such as matrix pricing or discounting expected cash flows. The significant assumptions used in the models, which include assumptions for interest rates, discount rates, prepayments and credit losses, are independently verified against observable market data where possible. Where observable market data is not available, the estimate of fair value becomes more subjective and involves a high degree of judgment. In this circumstance, fair value is estimated based on management's judgment regarding the value that market participants would assign to the asset or liability. This valuation process takes into consideration factors such as market illiquidity. Imprecision in estimating these factors can impact the amount recorded on the balance sheet for a particular asset or liability with related impacts to earnings or other comprehensive income (loss).

When available, trading and available-for-sale securities are valued based on quoted market prices. However, certain securities are traded less actively and therefore, quoted market prices may not be available. The determination of fair value may require benchmarking to similar instruments or performing a discounted cash flow analysis using estimates of future cash flows and prepayment, interest and default rates. An example is non-agency residential mortgage-backed securities. For more information on investment securities, refer to Note 5 of the Notes to Consolidated Financial Statements.

As few derivative contracts are listed on an exchange, the majority of the Company's derivative positions are valued using valuation techniques that use readily observable market inputs. Certain derivatives, however, must be valued using techniques that include unobservable inputs. For these instruments, the significant assumptions must be estimated and therefore, are subject to judgment. Note 20 of the Notes to Consolidated Financial Statements provides a summary of the Company's derivative positions.

Refer to Note 22 of the Notes to Consolidated Financial Statements for additional information regarding estimations of fair value.



**Purchased Loans and Related Indemnification Assets** In accordance with applicable authoritative accounting guidance effective for the Company beginning January 1, 2009, all purchased loans and related indemnification assets arising from loss-sharing arrangements with the FDIC are recorded at fair value at date of purchase. The initial valuation of these loans and the related indemnification assets requires management to make subjective judgments concerning estimates about how the acquired loans will perform in the future using valuation methods including discounted cash flow analysis and independent third party appraisals. Factors that may significantly affect the initial valuation include, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the foreclosure and liquidation of collateral, expected prepayment rates, required or anticipated loan modifications, unfunded loan commitments, the specific terms and provisions of any loss sharing agreements, and specific industry and market conditions that may impact discount rates and independent third party appraisals.

On an ongoing basis, the accounting for purchased loans and related indemnification assets follows applicable authoritative accounting guidance for purchased non-impaired loans and purchased impaired loans. Refer to Notes 1 and 6 of the Notes to Consolidated Financial Statements for additional information. In addition, refer to the "Analysis and Determination of the Allowance for Credit Losses" section for information on the determination of the required allowance for credit losses, if any, for these loans.

**Mortgage Servicing Rights** MSR are capitalized as separate assets when loans are sold and servicing is retained, or may be purchased from others. The Company records MSR at fair value. Because MSR do not trade in an active market with readily observable prices, the Company determines the fair value by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys and independent third party valuations. Changes in the fair value of MSR are recorded in earnings during the period in which they occur. Risks inherent in the MSR's valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. The Company may utilize derivatives, including interest rate swaps, forward commitments to buy TBAs, and futures and options contracts, to mitigate the valuation risk. Refer to Notes 10 and 22 of the Notes to Consolidated Financial Statements for additional information on the assumptions used in determining the fair value of MSR and an analysis of the sensitivity to

changes in interest rates of the fair value of the MSR portfolio and the related derivative instruments used to mitigate the valuation risk.

**Goodwill and Other Intangibles** The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value. Goodwill is not amortized but is subject, at a minimum, to annual tests for impairment. In certain situations, interim impairment tests may be required if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

The initial recognition of goodwill and other intangible assets and subsequent impairment analysis require management to make subjective judgments concerning estimates of how the acquired assets will perform in the future using valuation methods including discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine over an extended timeframe. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. In determining the reasonableness of cash flow estimates, the Company reviews historical performance of the underlying assets or similar assets in an effort to assess and validate assumptions utilized in its estimates.

In assessing the fair value of reporting units, the Company considers the stage of the current business cycle and potential changes in market conditions in estimating the timing and extent of future cash flows. Also, management often utilizes other information to validate the reasonableness of its valuations, including public market comparables, and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenue, price-to-earnings and tangible capital ratios of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences, including size, operating leverage and other factors. The carrying amount of a reporting unit is determined based on the amount of equity required for the reporting unit's activities, considering the specific assets and liabilities of the reporting unit. The Company determines the amount of equity for each reporting unit on a risk-adjusted basis considering economic and regulatory capital requirements, and includes deductions

and limitations related to certain types of assets including MSRs, purchased credit card relationship intangibles, and capital markets activity in the Company's Wholesale Banking and Commercial Real Estate segment. The Company does not assign corporate assets and liabilities to reporting units that do not relate to the operations of the reporting unit or are not considered in determining the fair value of the reporting unit. These assets and liabilities primarily relate to the Company's investment securities portfolio and other investments (including direct equity investments, bank-owned life insurance and tax-advantaged investments) and corporate debt and other funding liabilities. In the most recent goodwill impairment test, the portion of the Company's total equity allocated to the Treasury and Corporate Support operating segment included approximately \$3 billion in excess of the economic and regulatory capital requirements of that segment.

The Company's annual assessment of potential goodwill impairment was completed during the second quarter of 2015. Based on the results of this assessment, no goodwill impairment was recognized. The Company continues to monitor goodwill and other intangible assets for impairment indicators throughout the year.

**Income Taxes** The Company estimates income tax expense based on amounts expected to be owed to the various tax jurisdictions in which it operates, including federal, state and local domestic jurisdictions, and an insignificant amount to foreign jurisdictions. The estimated income tax expense is reported in the Consolidated Statement of Income. Accrued taxes are reported in other assets or other liabilities on the Consolidated Balance Sheet and represent the net estimated amount due to or to be received from taxing jurisdictions either currently or deferred to future periods. Deferred taxes arise from differences between assets and liabilities measured for financial reporting purposes versus income tax reporting purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit management believes is more likely than not to be realized upon settlement. In estimating accrued taxes, the Company assesses the relative merits and risks of the appropriate tax

treatment considering statutory, judicial and regulatory guidance in the context of the tax position. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment given specific facts and circumstances. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions regarding the estimated amounts of accrued taxes.

Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impacts the relative merits and risks of tax positions. These changes, when they occur, affect accrued taxes and can be significant to the operating results of the Company. Refer to Note 19 of the Notes to Consolidated Financial Statements for additional information regarding income taxes.

## **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.

The annual report of the Company's management on internal control over financial reporting is provided on page 79. The attestation report of Ernst & Young LLP, the Company's independent accountants, regarding the Company's internal control over financial reporting is provided on page 81.

## Report of Management

Responsibility for the financial statements and other information presented throughout this Annual Report rests with the management of U.S. Bancorp. The Company believes the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and present the substance of transactions based on the circumstances and management's best estimates and judgment.

In meeting its responsibilities for the reliability of the financial statements, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's system of internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of publicly filed financial statements in accordance with accounting principles generally accepted in the United States.

To test compliance, the Company carries out an extensive audit program. This program includes a review for compliance with written policies and procedures and a comprehensive review of the adequacy and effectiveness of the system of internal control. Although control procedures are designed and tested, it must be recognized that there are limits inherent in all systems of internal control and, therefore, errors and irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Projection of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board of Directors of the Company has an Audit Committee composed of directors who are independent of U.S. Bancorp. The Audit Committee meets periodically with management, the internal auditors and the independent accountants to consider audit results and to discuss internal accounting control, auditing and financial reporting matters.

Management assessed the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its Internal Control-Integrated Framework (2013 framework). Based on our assessment and those criteria, management believes the Company designed and maintained effective internal control over financial reporting as of December 31, 2015.

The Company's independent accountants, Ernst & Young LLP, have been engaged to render an independent professional opinion on the financial statements and issue an attestation report on the Company's internal control over financial reporting. Their opinion on the financial statements appearing on page 80 and their attestation on internal control over financial reporting appearing on page 81 are based on procedures conducted in accordance with auditing standards of the Public Company Accounting Oversight Board (United States).

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of U.S. Bancorp:

We have audited the accompanying consolidated balance sheets of U.S. Bancorp as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of U.S. Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S. Bancorp at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), U.S. Bancorp's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2016 expressed an unqualified opinion thereon.

The signature of Ernst + Young LLP is written in a cursive, handwritten style. The letters are dark and fluid, with the 'E' and 'Y' being particularly prominent.

Minneapolis, Minnesota  
February 25, 2016



# Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of U.S. Bancorp:

We have audited U.S. Bancorp's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). U.S. Bancorp's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on U.S. Bancorp's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, U.S. Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of U.S. Bancorp as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 25, 2016 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP is written in a black, cursive script font. The words "Ernst" and "Young" are connected by a plus sign, and "LLP" follows "Young".

Minneapolis, Minnesota  
February 25, 2016

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# U.S. Bancorp

## Consolidated Balance Sheet

At December 31 (Dollars in Millions)

2015

2014

### Assets

Cash and due from banks	\$ 11,147	\$ 10,654
Investment securities		
Held-to-maturity (fair value \$43,493 and \$45,140, respectively; including \$526 at fair value pledged as collateral at December 31, 2014) <sup>(a)</sup>	43,590	44,974
Available-for-sale (\$1,018 and \$330 pledged as collateral, respectively) <sup>(a)</sup>	61,997	56,069
Loans held for sale (including \$3,110 and \$4,774 of mortgage loans carried at fair value, respectively)	3,184	4,792
Loans		
Commercial	88,402	80,377
Commercial real estate	42,137	42,795
Residential mortgages	53,496	51,619
Credit card	21,012	18,515
Other retail	51,206	49,264
Total loans, excluding covered loans	256,253	242,570
Covered loans	4,596	5,281
Total loans	260,849	247,851
Less allowance for loan losses	(3,863)	(4,039)
Net loans	256,986	243,812
Premises and equipment	2,513	2,618
Goodwill	9,361	9,389
Other intangible assets	3,350	3,162
Other assets (including \$121 and \$157 of trading securities at fair value pledged as collateral, respectively) <sup>(a)</sup>	29,725	27,059
Total assets	<u>\$421,853</u>	<u>\$402,529</u>

### Liabilities and Shareholders' Equity

Deposits		
Noninterest-bearing	\$ 83,766	\$ 77,323
Interest-bearing <sup>(b)</sup>	216,634	205,410
Total deposits	300,400	282,733
Short-term borrowings	27,877	29,893
Long-term debt	32,078	32,260
Other liabilities	14,681	13,475
Total liabilities	375,036	358,361
Shareholders' equity		
Preferred stock	5,501	4,756
Common stock, par value \$0.01 a share — authorized: 4,000,000,000 shares; issued: 2015 and 2014 — 2,125,725,742 shares	21	21
Capital surplus	8,376	8,313
Retained earnings	46,377	42,530
Less cost of common stock in treasury: 2015 — 380,534,801 shares; 2014 — 339,859,034 shares	(13,125)	(11,245)
Accumulated other comprehensive income (loss)	(1,019)	(896)
Total U.S. Bancorp shareholders' equity	46,131	43,479
Noncontrolling interests	686	689
Total equity	46,817	44,168
Total liabilities and equity	<u>\$421,853</u>	<u>\$402,529</u>

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

(b) Includes time deposits greater than \$250,000 balances of \$2.6 billion and \$5.0 billion at December 31, 2015 and 2014, respectively.

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Income

Year Ended December 31 (Dollars and Shares in Millions, Except Per Share Data)

	2015	2014	2013
<b>Interest Income</b>			
Loans	\$10,059	\$10,113	\$10,277
Loans held for sale	206	128	203
Investment securities	2,001	1,866	1,631
Other interest income	136	121	174
Total interest income	12,402	12,228	12,285
<b>Interest Expense</b>			
Deposits	457	465	561
Short-term borrowings	245	263	353
Long-term debt	699	725	767
Total interest expense	1,401	1,453	1,681
Net interest income	11,001	10,775	10,604
Provision for credit losses	1,132	1,229	1,340
Net interest income after provision for credit losses	9,869	9,546	9,264
<b>Noninterest Income</b>			
Credit and debit card revenue	1,070	1,021	965
Corporate payment products revenue	708	724	706
Merchant processing services	1,547	1,511	1,458
ATM processing services	318	321	327
Trust and investment management fees	1,321	1,252	1,139
Deposit service charges	702	693	670
Treasury management fees	561	545	538
Commercial products revenue	867	854	859
Mortgage banking revenue	906	1,009	1,356
Investment products fees	185	191	178
Securities gains (losses), net			
Realized gains (losses), net	1	11	23
Total other-than-temporary impairment	(1)	(7)	(6)
Portion of other-than-temporary impairment recognized in other comprehensive income	–	(1)	(8)
Total securities gains (losses), net	–	3	9
Other	907	1,040	569
Total noninterest income	9,092	9,164	8,774
<b>Noninterest Expense</b>			
Compensation	4,812	4,523	4,371
Employee benefits	1,167	1,041	1,140
Net occupancy and equipment	991	987	949
Professional services	423	414	381
Marketing and business development	361	382	357
Technology and communications	887	863	848
Postage, printing and supplies	297	328	310
Other intangibles	174	199	223
Other	1,819	1,978	1,695
Total noninterest expense	10,931	10,715	10,274
Income before income taxes	8,030	7,995	7,764
Applicable income taxes	2,097	2,087	2,032
Net income	5,933	5,908	5,732
Net (income) loss attributable to noncontrolling interests	(54)	(57)	104
Net income attributable to U.S. Bancorp	\$ 5,879	\$ 5,851	\$ 5,836
Net income applicable to U.S. Bancorp common shareholders	\$ 5,608	\$ 5,583	\$ 5,552
Earnings per common share	\$ 3.18	\$ 3.10	\$ 3.02
Diluted earnings per common share	\$ 3.16	\$ 3.08	\$ 3.00
Dividends declared per common share	\$ 1.010	\$ .965	\$ .885
Average common shares outstanding	1,764	1,803	1,839
Average diluted common shares outstanding	1,772	1,813	1,849

See Notes to Consolidated Financial Statements.



# U.S. Bancorp

## Consolidated Statement of Comprehensive Income

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Net income	\$5,933	\$5,908	\$ 5,732
<b>Other Comprehensive Income (Loss)</b>			
Changes in unrealized gains and losses on securities available-for-sale	(457)	764	(1,223)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	–	1	8
Changes in unrealized gains and losses on derivative hedges	(25)	(41)	37
Foreign currency translation	20	(4)	(34)
Changes in unrealized gains and losses on retirement plans	(142)	(733)	590
Reclassification to earnings of realized gains and losses	393	297	373
Income taxes related to other comprehensive income (loss)	88	(109)	101
Total other comprehensive income (loss)	(123)	175	(148)
Comprehensive income	5,810	6,083	5,584
Comprehensive (income) loss attributable to noncontrolling interests	(54)	(57)	104
Comprehensive income attributable to U.S. Bancorp	\$5,756	\$6,026	\$ 5,688

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Shareholders' Equity

U.S. Bancorp Shareholders										
(Dollars and Shares in Millions)	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
<b>Balance December 31, 2012</b> . . . . .	1,869	\$4,769	\$21	\$8,201	\$34,720	\$ (7,790)	\$ (923)	\$38,998	\$1,269	\$40,267
Net income (loss) . . . . .					5,836			5,836	(104)	5,732
Other comprehensive income (loss) . . . . .							(148)	(148)		(148)
Redemption of preferred stock . . . . .		(500)		8	(8)			(500)		(500)
Preferred stock dividends . . . . .					(250)			(250)		(250)
Common stock dividends . . . . .					(1,631)			(1,631)		(1,631)
Issuance of preferred stock . . . . .		487						487		487
Issuance of common and treasury stock . . . . .	21			(100)		650		550		550
Purchase of treasury stock . . . . .	(65)					(2,336)		(2,336)		(2,336)
Distributions to noncontrolling interests . . . . .									-	(62)
Net other changes in noncontrolling interests . . . . .									-	(409)
Stock option and restricted stock grants . . . . .				107				107		107
<b>Balance December 31, 2013</b> . . . . .	<u>1,825</u>	<u>\$4,756</u>	<u>\$21</u>	<u>\$8,216</u>	<u>\$38,667</u>	<u>\$ (9,476)</u>	<u>\$ (1,071)</u>	<u>\$41,113</u>	<u>\$ 694</u>	<u>\$41,807</u>
Net income (loss) . . . . .					5,851			5,851	57	5,908
Other comprehensive income (loss) . . . . .							175	175		175
Preferred stock dividends . . . . .					(243)			(243)		(243)
Common stock dividends . . . . .					(1,745)			(1,745)		(1,745)
Issuance of common and treasury stock . . . . .	15			(13)		493		480		480
Purchase of treasury stock . . . . .	(54)					(2,262)		(2,262)		(2,262)
Distributions to noncontrolling interests . . . . .									-	(59)
Net other changes in noncontrolling interests . . . . .									-	(3)
Stock option and restricted stock grants . . . . .				110				110		110
<b>Balance December 31, 2014</b> . . . . .	<u>1,786</u>	<u>\$4,756</u>	<u>\$21</u>	<u>\$8,313</u>	<u>\$42,530</u>	<u>\$ (11,245)</u>	<u>\$ (896)</u>	<u>\$43,479</u>	<u>\$ 689</u>	<u>\$44,168</u>
Net income (loss) . . . . .					5,879			5,879	54	5,933
Other comprehensive income (loss) . . . . .							(123)	(123)		(123)
Preferred stock dividends . . . . .					(247)			(247)		(247)
Common stock dividends . . . . .					(1,785)			(1,785)		(1,785)
Issuance of preferred stock . . . . .		745						745		745
Issuance of common and treasury stock . . . . .	11			(55)		366		311		311
Purchase of treasury stock . . . . .	(52)					(2,246)		(2,246)		(2,246)
Distributions to noncontrolling interests . . . . .									-	(55)
Net other changes in noncontrolling interests . . . . .									-	(2)
Stock option and restricted stock grants . . . . .				118				118		118
<b>Balance December 31, 2015</b> . . . . .	<u>1,745</u>	<u>\$5,501</u>	<u>\$21</u>	<u>\$8,376</u>	<u>\$46,377</u>	<u>\$ (13,125)</u>	<u>\$ (1,019)</u>	<u>\$46,131</u>	<u>\$ 686</u>	<u>\$46,817</u>

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Cash Flows

Year Ended December 31 (Dollars in Millions)

2015

2014

2013

### Operating Activities

Net income attributable to U.S. Bancorp	\$ 5,879	\$ 5,851	\$ 5,836
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	1,132	1,229	1,340
Depreciation and amortization of premises and equipment	307	302	297
Amortization of intangibles	174	199	223
(Gain) loss on sale of loans held for sale	(993)	(801)	(1,044)
(Gain) loss on sale of securities and other assets	(403)	(595)	(74)
Loans originated for sale in the secondary market, net of repayments	(43,312)	(30,858)	(56,698)
Proceeds from sales of loans held for sale	45,211	29,962	61,681
Other, net	787	43	(115)
Net cash provided by operating activities	8,782	5,332	11,446

### Investing Activities

Proceeds from sales of available-for-sale investment securities	690	475	947
Proceeds from maturities of held-to-maturity investment securities	10,567	9,479	8,587
Proceeds from maturities of available-for-sale investment securities	13,395	7,212	10,147
Purchases of held-to-maturity investment securities	(9,234)	(15,597)	(13,218)
Purchases of available-for-sale investment securities	(20,502)	(21,752)	(13,146)
Net increase in loans outstanding	(11,788)	(12,873)	(12,331)
Proceeds from sales of loans	1,723	1,657	819
Purchases of loans	(4,475)	(2,355)	(2,468)
Acquisitions, net of cash acquired	–	3,436	(58)
Other, net	(1,526)	506	(303)
Net cash used in investing activities	(21,150)	(29,812)	(21,024)

### Financing Activities

Net increase in deposits	18,290	15,822	12,940
Net (decrease) increase in short-term borrowings	(2,016)	2,285	1,306
Proceeds from issuance of long-term debt	5,067	16,394	2,041
Principal payments or redemption of long-term debt	(5,311)	(4,128)	(2,883)
Proceeds from issuance of preferred stock	745	–	487
Proceeds from issuance of common stock	295	453	524
Redemption of preferred stock	–	–	(500)
Repurchase of common stock	(2,190)	(2,200)	(2,282)
Cash dividends paid on preferred stock	(242)	(243)	(254)
Cash dividends paid on common stock	(1,777)	(1,726)	(1,576)
Net cash provided by financing activities	12,861	26,657	9,803
Change in cash and due from banks	493	2,177	225
Cash and due from banks at beginning of year	10,654	8,477	8,252
Cash and due from banks at end of year	\$ 11,147	\$ 10,654	\$ 8,477

### Supplemental Cash Flow Disclosures

Cash paid for income taxes	\$ 742	\$ 748	\$ 812
Cash paid for interest	1,434	1,476	1,759
Net noncash transfers to foreclosed property	204	199	323
Acquisitions			
Assets (sold) acquired	\$ –	\$ 1,376	\$ 126
Liabilities sold (assumed)	–	(4,797)	(24)
Net	\$ –	\$ (3,421)	\$ 102

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

## **NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

U.S. Bancorp is a multi-state financial services holding company headquartered in Minneapolis, Minnesota. U.S. Bancorp and its subsidiaries (the “Company”) provide a full range of financial services, including lending and depository services through banking offices principally in the Midwest and West regions of the United States. The Company also engages in credit card, merchant, and ATM processing, mortgage banking, insurance, trust and investment management, brokerage, and leasing activities, principally in domestic markets.

**Basis of Presentation** The consolidated financial statements include the accounts of the Company and its subsidiaries and all variable interest entities (“VIEs”) for which the Company has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance, and the obligation to absorb losses or right to receive benefits of the VIE that could potentially be significant to the VIE. Consolidation eliminates all significant intercompany accounts and transactions. Certain items in prior periods have been reclassified to conform to the current presentation.

**Uses of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual experience could differ from those estimates.

### **BUSINESS SEGMENTS**

Within the Company, financial performance is measured by major lines of business based on the products and services provided to customers through its distribution channels. The Company has five reportable operating segments:

#### **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.

**Consumer and Small Business Banking** Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices, such as mobile phones and tablet computers. It encompasses community banking, metropolitan banking and indirect lending, as well as mortgage banking.

**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.

**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.

**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 (“OREO”), funding, capital management, interest rate risk management, 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.

**Segment Results** Accounting policies for the lines of business are 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 allocate funding costs and benefits, expenses and other financial elements to each line of business. For details of these methodologies and segment results, see “Basis for Financial Presentation” and Table 25 “Line of Business Financial Performance” included in Management’s Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

### **SECURITIES**

Realized gains or losses on securities are determined on a trade date basis based on the specific amortized cost of the investments sold.

**Trading Securities** Debt and equity securities held for resale are classified as trading securities and are included in other assets and reported at fair value. Changes in fair value and realized gains or losses are reported in noninterest income.

**Available-for-sale Securities** These securities are not trading securities but may be sold before maturity in response to changes in the Company’s interest rate risk profile, funding needs, demand for collateralized deposits by public entities or



other reasons. Available-for-sale securities are carried at fair value with unrealized net gains or losses reported within other comprehensive income (loss) in shareholders' equity. Declines in fair value for credit-related other-than-temporary impairment, if any, are reported in noninterest income.

**Held-to-maturity Securities** Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Declines in fair value for credit-related other-than-temporary impairment, if any, are reported in noninterest income.

**Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase**

Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralized financing transactions with a receivable or payable recorded at the amounts at which the securities were acquired or sold, plus accrued interest. Collateral requirements are continually monitored and additional collateral is received or provided as required. The Company records a receivable or payable for cash collateral paid or received.

**EQUITY INVESTMENTS IN OPERATING ENTITIES**

Equity investments in public entities in which the Company's ownership is less than 20 percent are generally accounted for as available-for-sale securities and are carried at fair value. Similar investments in private entities are accounted for using the cost method. Investments in entities where the Company has a significant influence (generally between 20 percent and 50 percent ownership), but does not control the entity, are accounted for using the equity method. Investments in limited partnerships and limited liability companies where the Company's ownership interest is greater than 5 percent are accounted for using the equity method. All equity investments are evaluated for impairment at least annually and more frequently if certain criteria are met.

**LOANS**

The Company offers a broad array of lending products and 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 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 accounting methods for loans differ depending on whether the loans are originated or purchased, and for purchased loans, whether the loans were acquired at a discount related to evidence of credit deterioration since date of origination.

**Originated Loans Held for Investment** Loans the Company originates as held for investment are reported at the principal amount outstanding, net of unearned income, net deferred loan fees or costs, and any direct principal charge-offs. Interest income is accrued on the unpaid principal balances as earned. Loan and commitment fees and certain direct loan origination costs are deferred and recognized over the life of the loan and/or commitment period as yield adjustments.

**Purchased Loans** All purchased loans (non-impaired and impaired) acquired after January 1, 2009 are initially measured at fair value as of the acquisition date in accordance with applicable authoritative accounting guidance. Credit discounts are included in the determination of fair value. An allowance for credit losses is not recorded at the acquisition date for loans purchased after January 1, 2009. In accordance with applicable authoritative accounting guidance, purchased non-impaired loans acquired in a business combination prior to January 1, 2009 were generally recorded at the predecessor's carrying value including an allowance for credit losses.

In determining the acquisition date fair value of purchased impaired loans, and in subsequent accounting, the Company generally aggregates purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics, while accounting for larger balance commercial loans individually. Expected cash flows at the purchase date in excess of the fair value of loans are recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows, other than from decreases in variable interest rates, after the purchase date is recognized by recording an allowance for credit losses. Revolving loans, including lines of credit and credit cards loans, and leases are excluded from purchased impaired loans accounting.

For purchased loans acquired after January 1, 2009 that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan 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 exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

**Covered Assets** Loans covered under loss sharing or similar credit protection agreements with the Federal Deposit Insurance Corporation (“FDIC”) are reported in loans along with the related indemnification asset. Foreclosed real estate covered under similar agreements is recorded in other assets. In accordance with applicable authoritative accounting guidance effective for the Company beginning January 1, 2009, all purchased loans and related indemnification assets are recorded at fair value at the date of purchase.

Effective January 1, 2013, the Company amortizes any reduction in expected cash flows from the FDIC resulting from increases in expected cash flows from the covered assets (when there are no previous valuation allowances to reverse) over the shorter of the remaining contractual term of the indemnification agreements or the remaining life of the covered assets. Prior to January 1, 2013, the Company considered such increases in expected cash flows of purchased loans and decreases in expected cash flows of the FDIC indemnification assets together and recognized them over the remaining life of the loans.

**Commitments to Extend Credit** Unfunded commitments for residential mortgage loans intended to be held for sale are considered derivatives and recorded on the balance sheet at fair value with changes in fair value recorded in income. All other unfunded loan commitments are not considered derivatives and are not reported on the balance sheet. For loans purchased after January 1, 2009, the fair value of the unfunded credit commitments is generally considered in the determination of the fair value of the loans recorded at the date of acquisition. Reserves for credit exposure on all other unfunded credit commitments are recorded in other liabilities.

**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 15-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, less selling costs, for collateral-dependent loans, rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, portfolio growth and historical losses, adjusted for current trends. The Company also considers the impacts of any loan modifications made to commercial lending segment loans and any subsequent payment defaults to its expectations of cash flows, principal balance, and current expectations about the borrower’s ability to pay in determining the allowance for credit losses.

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

The allowance for the covered loan segment is evaluated each quarter in a manner similar to that described for non-covered loans and 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 each loan segment 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.

**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 a loan's carrying amount while a loan is on nonaccrual and are recognized as interest income upon payoff of the loan. However, 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, and those loans are classified as nonaccrual loans with interest income not recognized until the timing and amount of the future cash flows can be reasonably estimated.

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.

**Troubled Debt Restructurings** In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due when a borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term. Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in payments to be received. The Company recognizes interest on TDRs if the borrower complies with the revised terms and conditions as agreed upon with the Company and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles, which is generally six months or greater. To the extent a previous restructuring was insignificant, the Company considers the cumulative effect of past restructurings related to the receivable when determining whether a current restructuring is a TDR. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

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

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

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



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

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

**Impaired Loans** 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.

**Leases** The Company's lease portfolio includes both direct financing and leveraged leases. The net investment in direct

financing leases is the sum of all minimum lease payments and estimated residual values, less unearned income. Unearned income is recorded in interest income over the terms of the leases to produce a level yield.

The investment in leveraged leases is the sum of all lease payments, less nonrecourse debt payments, plus estimated residual values, less unearned income. Income from leveraged leases is recognized over the term of the leases based on the unrecovered equity investment.

Residual values on leased assets are reviewed regularly for other-than-temporary impairment. Residual valuations for retail automobile leases are based on independent assessments of expected used car sale prices at the end-of-term. Impairment tests are conducted based on these valuations considering the probability of the lessee returning the asset to the Company, re-marketing efforts, insurance coverage and ancillary fees and costs. Valuations for commercial leases are based upon external or internal management appraisals. When there is impairment of the Company's interest in the residual value of a leased asset, the carrying value is reduced to the estimated fair value with the writedown recognized in the current period.

**Other Real Estate** OREO is included in other assets, and is property acquired through foreclosure or other proceedings on defaulted loans. OREO is initially recorded at fair value, less estimated selling costs. The fair value of OREO is evaluated regularly and any decreases in value along with holding costs, such as taxes and insurance, are reported in noninterest expense.

#### **LOANS HELD FOR SALE**

Loans held for sale ("LHFS") represent mortgage loans intended to be sold in the secondary market and other loans that management has an active plan to sell. LHFS are carried at the lower-of-cost-or-fair value as determined on an aggregate basis by type of loan with the exception of loans for which the Company has elected fair value accounting, which are carried at fair value. The credit component of any writedowns upon the transfer of loans to LHFS is reflected in loan charge-offs.

Where an election is made to carry the LHFS at fair value, any change in fair value is recognized in noninterest income. Where an election is made to carry LHFS at lower-of-cost-or-fair value, any further decreases are recognized in noninterest income and increases in fair value above the loan cost basis are not recognized until the loans are sold. Fair value elections are made at the time of origination or purchase based on the Company's fair value election policy. The Company has elected fair value accounting for substantially all its mortgage loans held for sale ("MLHFS").

## DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company enters into derivative transactions to manage various risks and to accommodate the business requirements of its customers. Derivative instruments are reported in other assets or other liabilities at fair value. Changes in a derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

All derivative instruments that qualify and are designated for hedge accounting are recorded at fair value and classified as either a hedge of the fair value of a recognized asset or liability ("fair value hedge"); a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"); or a hedge of the volatility of an investment in foreign operations driven by changes in foreign currency exchange rates ("net investment hedge"). Changes in the fair value of a derivative that is highly effective and designated as a fair value hedge, and the offsetting changes in the fair value of the hedged item, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and designated as a cash flow hedge are recorded in other comprehensive income (loss) until cash flows of the hedged item are realized. Any change in fair value resulting from hedge ineffectiveness is immediately recorded in noninterest income. Changes in the fair value of net investment hedges that are highly effective are recorded in other comprehensive income (loss). The Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s).

If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within other comprehensive income (loss).

## REVENUE RECOGNITION

The Company recognizes revenue as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. In certain circumstances, noninterest income is reported net of associated expenses that are directly related to variable volume-based sales or revenue sharing arrangements or

when the Company acts on an agency basis for others. Certain specific policies include the following:

**Credit and Debit Card Revenue** Credit and debit card revenue includes interchange from consumer credit and debit cards processed through card association networks, annual fees, and other transaction and account management fees. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. The Company records interchange as transactions occur. Transaction and account management fees are recognized as transactions occur or services are provided, except for annual fees which are recognized over the applicable period. Volume-related payments to partners and credit card associations and costs for rewards programs are also recorded within credit and debit card revenue when earned by the partner or customer.

**Corporate Payment Products Revenue** Corporate payment products revenue primarily includes interchange from corporate and purchasing cards processed through card association networks and revenue from proprietary network transactions. The Company records corporate payment products revenue as transactions occur. Volume-related payments to customers and credit card associations are also recorded within corporate payment products revenue when earned by the customer or card association.

**Merchant Processing Services** Merchant processing services revenue consists principally of merchant discount and other transaction and account management fees charged to merchants for the electronic processing of card association network transactions, net of interchange paid to the card-issuing bank, card association assessments, and revenue sharing amounts. All of these are recognized at the time the merchant's transactions are processed or other services are performed. The Company may enter into revenue sharing agreements with referral partners or in connection with purchases of merchant contracts from sellers. The revenue sharing amounts are determined primarily on sales volume processed or revenue generated for a particular group of merchants. Merchant processing revenue also includes revenues related to point-of-sale equipment recorded as sales when the equipment is shipped or as earned for equipment rentals.

**Trust and Investment Management Fees** Trust and investment management fees are recognized over the period in which services are performed and are based on a percentage of the fair value of the assets under management or administration, fixed based on account type, or transaction-based fees.

**Deposit Service Charges** Service charges on deposit accounts are primarily monthly fees based on minimum balances or transaction-based fees. These fees are recognized as earned or as transactions occur and services are provided.

**Commercial Products Revenue** Commercial products revenue primarily includes revenue related to ancillary services provided to Wholesale Banking and Commercial Real Estate customers including standby letter of credit fees, non-yield related loan fees, capital markets related revenue and non-yield related leasing revenue. These fees are recognized as earned or as transactions occur and services are provided.

**Mortgage Banking Revenue** Mortgage banking revenue includes revenue derived from mortgages originated and subsequently sold, generally with servicing retained. The primary components include: gains and losses on mortgage sales; servicing revenue; changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under the fair value option; changes in fair value for derivative commitments to purchase and originate mortgage loans; changes in the fair value of mortgage servicing rights (“MSRs”); and the impact of risk management activities associated with the mortgage origination pipeline, funded loans and MSRs. Net interest income from mortgage loans is recorded in interest income. Refer to Other Significant Policies in Note 1, as well as Note 10 and Note 22 for a further discussion of MSRs.

## **OTHER SIGNIFICANT POLICIES**

**Goodwill and Other Intangible Assets** Goodwill is recorded on acquired businesses if the purchase price exceeds the fair value of the net assets acquired. Other intangible assets are recorded at their fair value upon completion of a business acquisition or certain other transactions, and generally represent the value of customer contracts or relationships. Goodwill is not amortized but is subject, at a minimum, to annual tests for impairment at a reporting unit level. In certain situations, an interim impairment test may be required if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Other intangible assets are amortized over their estimated useful lives, using straight-line and accelerated methods and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. Determining the amount of goodwill impairment, if any, includes assessing the current implied fair value of the reporting unit as if it were being acquired in a business combination and comparing it to the carrying amount of the reporting unit’s goodwill. Determining the amount of other intangible asset impairment, if any, includes assessing the present value of the estimated

future cash flows associated with the intangible asset and comparing it to the carrying amount of the asset.

**Income Taxes** Deferred taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting carrying amounts. The Company uses the deferral method of accounting on investments that generate investment tax credits. Under this method, the investment tax credits are recognized as a reduction to the related asset. Beginning January 1, 2014, the Company presents the expense on certain qualified affordable housing investments in tax expense rather than noninterest expense.

**Mortgage Servicing Rights** MSRs are capitalized as separate assets when loans are sold and servicing is retained or if they are purchased from others. MSRs are recorded at fair value. The Company determines the fair value by estimating the present value of the asset’s future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys and independent third party valuations. Changes in the fair value of MSRs are recorded in earnings as mortgage banking revenue during the period in which they occur.

**Pensions** For purposes of its pension plans, the Company utilizes its fiscal year-end as the measurement date. At the measurement date, plan assets are determined based on fair value, generally representing observable market prices or the net asset value provided by the plans’ administrator. The actuarial cost method used to compute the pension liabilities and related expense is the projected unit credit method. The projected benefit obligation is principally determined based on the present value of projected benefit distributions at an assumed discount rate. The discount rate utilized is based on the investment yield of high quality corporate bonds available in the marketplace with maturities equal to projected cash flows of future benefit payments as of the measurement date. Periodic pension expense (or income) includes service costs, interest costs based on the assumed discount rate, the expected return on plan assets based on an actuarially derived market-related value and amortization of actuarial gains and losses. Pension accounting reflects the long-term nature of benefit obligations and the investment horizon of plan assets, and can have the effect of reducing earnings volatility related to short-term changes in interest rates and market valuations. Actuarial gains and losses include the impact of plan amendments and various unrecognized gains and losses which are deferred and amortized over the future service periods of active employees. The market-related value utilized to determine the expected return on plan assets is based on fair value adjusted for the difference between

expected returns and actual performance of plan assets. The unrealized difference between actual experience and expected returns is included in expense over a period of approximately twelve years. The overfunded or underfunded status of the plans is recorded as an asset or liability on the Consolidated Balance Sheet, with changes in that status recognized through other comprehensive income (loss).

**Premises and Equipment** Premises and equipment are stated at cost less accumulated depreciation and depreciated primarily on a straight-line basis over the estimated life of the assets. Estimated useful lives range up to 40 years for newly constructed buildings and from 3 to 20 years for furniture and equipment.

Capitalized leases, less accumulated amortization, are included in premises and equipment. Capitalized lease obligations are included in long-term debt. Capitalized leases are amortized on a straight-line basis over the lease term and the amortization is included in depreciation expense.

**Stock-Based Compensation** The Company grants stock-based awards, including restricted stock, restricted stock units and options to purchase common stock of the Company. Stock option grants are for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. Restricted stock and restricted stock unit grants are awarded at no cost to the recipient. Stock-based compensation for awards is recognized in the Company's results of operations on a straight-line basis over the vesting period. The Company immediately recognizes compensation cost of awards to employees that meet retirement status, despite their continued active employment. The amortization of stock-based compensation reflects estimated forfeitures adjusted for actual forfeiture experience. As compensation expense is recognized, a deferred tax asset is recorded that represents an estimate of the future tax deduction from exercise or release of restrictions. At the time stock-based awards are exercised, cancelled, expire, or restrictions are released, the Company may be required to recognize an adjustment to tax expense, depending on the market price of the Company's common stock at that time.

**Per Share Calculations** Earnings per common share is calculated by dividing net income applicable to U.S. Bancorp common shareholders by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated by adjusting income and outstanding shares, assuming conversion of all potentially dilutive securities.

## **NOTE 2 ACCOUNTING CHANGES**

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

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

**Consolidation** In February 2015, the FASB issued accounting guidance, effective for the Company on January 1, 2016, related to the analysis required by organizations to evaluate whether they should consolidate certain legal entities. The Company expects the adoption of this guidance 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.

## **NOTE 4 RESTRICTIONS ON CASH AND DUE FROM BANKS**

Banking regulators require bank subsidiaries to maintain minimum average reserve balances, either in the form of cash or reserve balances held with central banks or other financial institutions. The amount of required reserve balances were approximately \$2.2 billion and \$2.0 billion at December 31, 2015 and 2014, respectively, and primarily represent those required to be held at the Federal Reserve Bank. At December 31, 2015 and 2014, the Company held \$3.3 billion and \$4.4 billion, respectively, of balances at the Federal Reserve Bank and other financial institutions to meet these requirements. These balances are included in cash and due from banks on the Consolidated Balance Sheet.



## NOTE 5 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 at December 31 were as follows:

(Dollars in Millions)	2015					2014				
	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
			Other-than-Temporary <sup>(e)</sup>	Other <sup>(f)</sup>				Other-than-Temporary <sup>(e)</sup>	Other <sup>(f)</sup>	
<b>Held-to-maturity<sup>(a)</sup></b>										
U.S. Treasury and agencies	\$ 2,925	\$ 14	\$ –	\$ (20)	\$ 2,919	\$ 2,717	\$ 15	\$ –	\$ (18)	\$ 2,714
Mortgage-backed securities										
Residential										
Agency	40,619	175	–	(273)	40,521	42,204	335	–	(176)	42,363
Non-agency non-prime <sup>(d)</sup>	1	–	–	–	1	1	–	–	–	1
Asset-backed securities										
Collateralized debt obligations/										
Collateralized loan obligations	–	6	–	–	6	–	7	–	–	7
Other	10	3	–	–	13	13	4	–	–	17
Obligations of state and political subdivisions	8	1	–	(1)	8	9	1	–	(1)	9
Obligations of foreign governments	9	–	–	–	9	9	–	–	–	9
Other debt securities	18	–	–	(2)	16	21	–	–	(1)	20
Total held-to-maturity	\$43,590	\$199	\$ –	\$ (296)	\$43,493	\$44,974	\$362	\$ –	\$ (196)	\$45,140
<b>Available-for-sale<sup>(b)</sup></b>										
U.S. Treasury and agencies	\$ 4,611	\$ 12	\$ –	\$ (27)	\$ 4,596	\$ 2,622	\$ 14	\$ –	\$ (4)	\$ 2,632
Mortgage-backed securities										
Residential										
Agency	50,056	384	–	(364)	50,076	44,668	593	–	(244)	45,017
Non-agency										
Prime <sup>(c)</sup>	316	6	(3)	(1)	318	399	9	(2)	(1)	405
Non-prime <sup>(d)</sup>	221	20	(1)	–	240	261	20	(1)	–	280
Commercial agency	52	–	–	–	52	112	3	–	–	115
Asset-backed securities										
Collateralized debt obligations/										
Collateralized loan obligations	16	3	–	–	19	18	4	–	–	22
Other	532	9	–	–	541	607	13	–	(1)	619
Obligations of state and political subdivisions	5,149	169	–	(2)	5,316	5,604	265	–	(1)	5,868
Obligations of foreign governments	–	–	–	–	–	6	–	–	–	6
Corporate debt securities	677	3	–	(70)	610	690	3	–	(79)	614
Perpetual preferred securities	153	20	–	(12)	161	200	27	–	(10)	217
Other investments	34	34	–	–	68	245	29	–	–	274
Total available-for-sale	\$61,817	\$660	\$ (4)	\$ (476)	\$61,997	\$55,432	\$980	\$ (3)	\$ (340)	\$56,069

(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 4.7 years at December 31, 2015, compared with 4.3 years at December 31, 2014. The corresponding weighted-average yields were 2.21 percent and 2.32 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 4.2

years at December 31, 2015, and 4.0 years at December 31, 2014. The corresponding weighted-average yields were both 1.92 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale investment securities outstanding at December 31, 2015, refer to Table 13 included

in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

Investment securities with a fair value of \$13.1 billion at December 31, 2015, and \$12.6 billion at December 31, 2014, 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 securing these types of arrangements had a fair value of \$1.0 billion at December 31, 2015, and \$856 million at December 31, 2014.

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

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Taxable	\$1,778	\$1,634	\$1,375
Non-taxable	223	232	256
<b>Total interest income from investment securities</b>	<b>\$2,001</b>	<b>\$1,866</b>	<b>\$1,631</b>

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

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Realized gains	\$ 7	\$11	\$23
Realized losses	(6)	—	—
<b>Net realized gains (losses)</b>	<b>\$ 1</b>	<b>\$11</b>	<b>\$23</b>
Income tax (benefit) on net realized gains (losses)	\$ —	\$ 4	\$ 9

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 Company determines 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) is measured as the difference between that discounted amount and the fair value of each investment security. The total amount of other-than-temporary impairment recorded was immaterial for the years ended December 31, 2015, 2014 and 2013.

Changes in the credit losses on debt securities are summarized as follows:

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Balance at beginning of period	\$101	\$116	\$134
<b>Additions to Credit Losses Due to Other-than-temporary Impairments</b>			
Decreases in expected cash flows on securities for which other-than-temporary impairment was previously recognized	1	3	14
<b>Total other-than-temporary impairment on debt securities</b>	<b>1</b>	<b>3</b>	<b>14</b>
<b>Other Changes in Credit Losses</b>			
Increases in expected cash flows	(3)	(5)	(2)
Realized losses <sup>(a)</sup>	(15)	(13)	(23)
Credit losses on security sales and securities expected to be sold	—	—	(7)
<b>Balance at end of period</b>	<b>\$ 84</b>	<b>\$101</b>	<b>\$116</b>

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

At December 31, 2015, 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 December 31, 2015:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Held-to-maturity</b>						
U.S. Treasury and agencies . . . . .	\$ 1,306	\$ (19)	\$ 60	\$ (1)	\$ 1,366	\$ (20)
Residential agency mortgage-backed securities . . . . .	17,819	(150)	4,156	(123)	21,975	(273)
Other asset-backed securities . . . . .	—	—	6	—	6	—
Obligations of state and political subdivisions . . . . .	—	—	2	(1)	2	(1)
Other debt securities . . . . .	—	—	17	(2)	17	(2)
Total held-to-maturity . . . . .	\$19,125	\$(169)	\$4,241	\$(127)	\$23,366	\$(296)
<b>Available-for-sale</b>						
U.S. Treasury and agencies . . . . .	\$ 2,919	\$ (27)	\$ 8	\$ —	\$ 2,927	\$ (27)
Residential mortgage-backed securities						
Agency . . . . .	18,603	(171)	6,267	(193)	24,870	(364)
Non-agency <sup>(a)</sup>						
Prime <sup>(b)</sup> . . . . .	59	(1)	107	(3)	166	(4)
Non-prime <sup>(c)</sup> . . . . .	—	—	17	(1)	17	(1)
Other asset-backed securities . . . . .	—	—	2	—	2	—
Obligations of state and political subdivisions . . . . .	35	—	62	(2)	97	(2)
Corporate debt securities . . . . .	—	—	425	(70)	425	(70)
Perpetual preferred securities . . . . .	—	—	73	(12)	73	(12)
Other investments . . . . .	1	—	—	—	1	—
Total available-for-sale . . . . .	\$21,617	\$(199)	\$6,961	\$(281)	\$28,578	\$(480)

(a) The Company had \$5 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 December 31, 2015, the Company had no plans to sell investment securities with unrealized losses, and believes it is more likely than not it would not be required to sell such investment securities before recovery of their amortized cost.

**NOTE 6 LOANS AND ALLOWANCE FOR CREDIT LOSSES**

The composition of the loan portfolio at December 31, disaggregated by class and underlying specific portfolio type, was as follows:

(Dollars in Millions)	2015	2014
<b>Commercial</b>		
Commercial	\$ 83,116	\$ 74,996
Lease financing	5,286	5,381
Total commercial	88,402	80,377
<b>Commercial Real Estate</b>		
Commercial mortgages	31,773	33,360
Construction and development	10,364	9,435
Total commercial real estate	42,137	42,795
<b>Residential Mortgages</b>		
Residential mortgages	40,425	38,598
Home equity loans, first liens	13,071	13,021
Total residential mortgages	53,496	51,619
<b>Credit Card</b>	21,012	18,515
<b>Other Retail</b>		
Retail leasing	5,232	5,871
Home equity and second mortgages	16,384	15,916
Revolving credit	3,354	3,309
Installment	7,030	6,242
Automobile	16,587	14,822
Student	2,619	3,104
Total other retail	51,206	49,264
Total loans, excluding covered loans	256,253	242,570
<b>Covered Loans</b>	4,596	5,281
Total loans	\$260,849	\$247,851

The Company had loans of \$78.1 billion at December 31, 2015, and \$79.8 billion at December 31, 2014, pledged at the Federal Home Loan Bank, and loans of \$63.4 billion at December 31, 2015, and \$61.8 billion at December 31, 2014, pledged at the Federal Reserve Bank.

The majority of the Company's loans are to borrowers in the states in which it has Consumer and Small Business Banking offices. Collateral for commercial loans may include marketable securities, accounts receivable, inventory and equipment. For details of the Company's commercial portfolio by industry group and geography as of December 31, 2015 and 2014, see Table 7 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

For detail of the Company's commercial real estate portfolio by property type and geography as of December 31, 2015 and 2014, see Table 8 included in Management's

Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements. Such loans are collateralized by the related property.

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 \$550 million at December 31, 2015, and \$574 million at December 31, 2014. All purchased loans and related indemnification assets are recorded at fair value at the date of purchase. The Company evaluates purchased loans for impairment at the date of purchase in accordance with applicable authoritative accounting guidance. Purchased loans with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are considered "purchased impaired loans." All other purchased loans are considered "purchased nonimpaired loans."



Changes in the accretable balance for purchased impaired loans for the years ended December 31, were as follows:

(Dollars in Millions)	2015	2014	2013
Balance at beginning of period	\$1,309	\$1,655	\$1,709
Accretion	(382)	(441)	(499)
Disposals	(132)	(131)	(172)
Reclassifications from nonaccretable difference <sup>(a)</sup>	163	229	258
Other <sup>(b)</sup>	(1)	(3)	359
Balance at end of period	\$ 957	\$1,309	\$1,655

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

(b) The amount for the year ended December 31, 2013, primarily represents the reclassification of unamortized decreases in the FDIC asset, 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 FDIC.

Activity in 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
<b>Balance at December 31, 2014</b>	\$1,146	\$ 726	\$787	\$880	\$ 771	\$4,310	\$ 65	\$4,375
Add								
Provision for credit losses	361	(30)	(47)	654	193	1,131	1	1,132
Deduct								
Loans charged off	314	22	135	726	319	1,516	–	1,516
Less recoveries of loans charged off	(95)	(50)	(26)	(75)	(98)	(344)	–	(344)
Net loans charged off	219	(28)	109	651	221	1,172	–	1,172
Other changes <sup>(a)</sup>	(1)	–	–	–	–	(1)	(28)	(29)
<b>Balance at December 31, 2015</b>	\$1,287	\$ 724	\$631	\$883	\$ 743	\$4,268	\$ 38	\$4,306
<b>Balance at December 31, 2013</b>	\$1,075	\$ 776	\$875	\$884	\$ 781	\$4,391	\$146	\$4,537
Add								
Provision for credit losses	266	(63)	107	657	278	1,245	(16)	1,229
Deduct								
Loans charged off	305	36	216	725	384	1,666	13	1,679
Less recoveries of loans charged off	(110)	(49)	(21)	(67)	(96)	(343)	(2)	(345)
Net loans charged off	195	(13)	195	658	288	1,323	11	1,334
Other changes <sup>(a)</sup>	–	–	–	(3)	–	(3)	(54)	(57)
<b>Balance at December 31, 2014</b>	\$1,146	\$ 726	\$787	\$880	\$ 771	\$4,310	\$ 65	\$4,375
<b>Balance at December 31, 2012</b>	\$1,051	\$ 857	\$935	\$863	\$ 848	\$4,554	\$179	\$4,733
Add								
Provision for credit losses	144	(114)	212	677	351	1,270	70	1,340
Deduct								
Loans charged off	246	92	297	739	523	1,897	37	1,934
Less recoveries of loans charged off	(126)	(125)	(25)	(83)	(105)	(464)	(5)	(469)
Net loans charged off	120	(33)	272	656	418	1,433	32	1,465
Other changes <sup>(a)</sup>	–	–	–	–	–	–	(71)	(71)
<b>Balance at December 31, 2013</b>	\$1,075	\$ 776	\$875	\$884	\$ 781	\$4,391	\$146	\$4,537

(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
<b>Allowance Balance at December 31, 2015</b>								
<b>Related to</b>								
Loans individually evaluated for impairment <sup>(a)</sup>	\$ 11	\$ 2	\$ -	\$ -	\$ -	\$ 13	\$ -	\$ 13
TDRs collectively evaluated for impairment	10	7	236	57	33	343	2	345
Other loans collectively evaluated for impairment	1,266	703	395	826	710	3,900	-	3,900
Loans acquired with deteriorated credit quality	-	12	-	-	-	12	36	48
Total allowance for credit losses	<u>\$1,287</u>	<u>\$724</u>	<u>\$631</u>	<u>\$883</u>	<u>\$743</u>	<u>\$4,268</u>	<u>\$38</u>	<u>\$4,306</u>
<b>Allowance Balance at December 31, 2014</b>								
<b>Related to</b>								
Loans individually evaluated for impairment <sup>(a)</sup>	\$ 5	\$ 4	\$ -	\$ -	\$ -	\$ 9	\$ -	\$ 9
TDRs collectively evaluated for impairment	12	12	319	61	41	445	4	449
Other loans collectively evaluated for impairment	1,129	678	468	819	730	3,824	1	3,825
Loans acquired with deteriorated credit quality	-	32	-	-	-	32	60	92
Total allowance for credit losses	<u>\$1,146</u>	<u>\$726</u>	<u>\$787</u>	<u>\$880</u>	<u>\$771</u>	<u>\$4,310</u>	<u>\$65</u>	<u>\$4,375</u>

(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 <sup>(b)</sup>	Total Loans
<b>December 31, 2015</b>								
Loans individually evaluated for impairment <sup>(a)</sup>	\$ 336	\$ 41	\$ 13	\$ -	\$ -	\$ 390	\$ -	\$ 390
TDRs collectively evaluated for impairment	138	235	4,241	210	211	5,035	35	5,070
Other loans collectively evaluated for impairment	87,927	41,566	49,241	20,802	50,995	250,531	2,059	252,590
Loans acquired with deteriorated credit quality	1	295	1	-	-	297	2,502	2,799
Total loans	<u>\$88,402</u>	<u>\$42,137</u>	<u>\$53,496</u>	<u>\$21,012</u>	<u>\$51,206</u>	<u>\$256,253</u>	<u>\$4,596</u>	<u>\$260,849</u>
<b>December 31, 2014</b>								
Loans individually evaluated for impairment <sup>(a)</sup>	\$ 159	\$ 128	\$ 12	\$ -	\$ -	\$ 299	\$ -	\$ 299
TDRs collectively evaluated for impairment	124	393	4,653	240	237	5,647	34	5,681
Other loans collectively evaluated for impairment	80,093	41,744	46,953	18,275	49,027	236,092	2,463	238,555
Loans acquired with deteriorated credit quality	1	530	1	-	-	532	2,784	3,316
Total loans	<u>\$80,377</u>	<u>\$42,795</u>	<u>\$51,619</u>	<u>\$18,515</u>	<u>\$49,264</u>	<u>\$242,570</u>	<u>\$5,281</u>	<u>\$247,851</u>

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

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

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

ratings are an important part of the Company's overall credit risk management and evaluation of its allowance for credit losses.

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)	Accruing			Nonperforming	Total
	Current	30-89 Days Past Due	90 Days or More Past Due		
<b>December 31, 2015</b>					
Commercial	\$ 87,863	\$ 317	\$ 48	\$ 174	\$ 88,402
Commercial real estate	41,907	89	14	127	42,137
Residential mortgages <sup>(a)</sup>	52,438	170	176	712	53,496
Credit card	20,532	243	228	9	21,012
Other retail	50,745	224	75	162	51,206
Total loans, excluding covered loans	253,485	1,043	541	1,184	256,253
Covered loans	4,236	62	290	8	4,596
Total loans	<u>\$257,721</u>	<u>\$1,105</u>	<u>\$831</u>	<u>\$1,192</u>	<u>\$260,849</u>
<b>December 31, 2014</b>					
Commercial	\$ 79,977	\$ 247	\$ 41	\$ 112	\$ 80,377
Commercial real estate	42,406	110	20	259	42,795
Residential mortgages <sup>(a)</sup>	50,330	221	204	864	51,619
Credit card	18,046	229	210	30	18,515
Other retail	48,764	238	75	187	49,264
Total loans, excluding covered loans	239,523	1,045	550	1,452	242,570
Covered loans	4,804	68	395	14	5,281
Total loans	<u>\$244,327</u>	<u>\$1,113</u>	<u>\$945</u>	<u>\$1,466</u>	<u>\$247,851</u>

(a) At December 31, 2015, \$320 million of loans 30–89 days past due and \$2.9 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 \$431 million and \$3.1 billion at December 31, 2014, respectively.

Total nonperforming assets include nonaccrual loans, restructured loans not performing in accordance with modified terms, other real estate and other nonperforming assets owned by the Company. For details of the Company’s nonperforming assets as of December 31, 2015 and 2014, see Table 16 included in Management’s Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

At December 31, 2015, the amount of foreclosed residential real estate held by the Company, and included in OREO, was \$282 million (\$250 million excluding covered assets), compared with \$270 million (\$233 million excluding covered assets) at December 31, 2014. This excludes \$535

million and \$641 million at December 31, 2015 and 2014, respectively, 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 December 31, 2015 and 2014, was \$2.6 billion and \$2.9 billion, respectively, of which \$1.9 billion and \$2.1 billion, respectively, 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 following table provides a summary of loans by portfolio class and the Company's internal credit quality rating:

(Dollars in Millions)	Pass	Criticized			Total
		Special Mention	Classified <sup>(a)</sup>	Total Criticized	
<b>December 31, 2015</b>					
Commercial <sup>(b)</sup>	\$ 85,206	\$1,629	\$1,567	\$3,196	\$ 88,402
Commercial real estate	41,079	365	693	1,058	42,137
Residential mortgages <sup>(c)</sup>	52,548	2	946	948	53,496
Credit card	20,775	–	237	237	21,012
Other retail	50,899	6	301	307	51,206
Total loans, excluding covered loans	250,507	2,002	3,744	5,746	256,253
Covered loans	4,507	–	89	89	4,596
Total loans	\$255,014	\$2,002	\$3,833	\$5,835	\$260,849
Total outstanding commitments	\$539,614	\$3,945	\$4,845	\$8,790	\$548,404
<b>December 31, 2014</b>					
Commercial <sup>(b)</sup>	\$ 78,409	\$1,204	\$ 764	\$1,968	\$ 80,377
Commercial real estate	41,322	451	1,022	1,473	42,795
Residential mortgages <sup>(c)</sup>	50,479	5	1,135	1,140	51,619
Credit card	18,275	–	240	240	18,515
Other retail	48,932	20	312	332	49,264
Total loans, excluding covered loans	237,417	1,680	3,473	5,153	242,570
Covered loans	5,164	–	117	117	5,281
Total loans	\$242,581	\$1,680	\$3,590	\$5,270	\$247,851
Total outstanding commitments	\$501,535	\$2,964	\$4,179	\$7,143	\$508,678

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

(b) At December 31, 2015, \$1.1 billion of loans to customers in energy-related businesses had a special mention or classified rating, compared with \$122 million at December 31, 2014.

(c) At December 31, 2015, \$2.9 billion of GNMA loans 90 days or more past due and \$1.9 billion of restructured GNMA loans whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs were classified with a pass rating, compared with \$3.1 billion and \$2.2 billion at December 31, 2014, 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. A summary of impaired loans, which include all nonaccrual and TDR loans, by portfolio class was as follows:

(Dollars in Millions)	Period-end Recorded Investment <sup>(a)</sup>	Unpaid Principal Balance	Valuation Allowance	Commitments to Lend Additional Funds
<b>December 31, 2015</b>				
Commercial	\$ 520	\$1,110	\$ 25	\$154
Commercial real estate	336	847	11	1
Residential mortgages	2,575	3,248	199	–
Credit card	210	210	57	–
Other retail	309	503	35	4
Total loans, excluding GNMA and covered loans	3,950	5,918	327	159
Loans purchased from GNMA mortgage pools	1,913	1,913	40	–
Covered loans	39	48	2	1
Total	\$5,902	\$7,879	\$369	\$160
<b>December 31, 2014</b>				
Commercial	\$ 329	\$ 769	\$ 21	\$ 51
Commercial real estate	624	1,250	23	18
Residential mortgages	2,730	3,495	273	–
Credit card	240	240	61	–
Other retail	361	570	44	4
Total loans, excluding GNMA and covered loans	4,284	6,324	422	73
Loans purchased from GNMA mortgage pools	2,244	2,244	50	–
Covered loans	43	55	4	1
Total	\$6,571	\$8,623	\$476	\$ 74

(a) Substantially all loans classified as impaired at December 31, 2015 and 2014, had an associated allowance for credit losses. The total amount of interest income recognized during 2015 on loans classified as impaired at December 31, 2015, excluding those acquired with deteriorated credit quality, was \$274 million, compared to what would have been recognized at the original contractual terms of the loans of \$370 million.

Additional information on impaired loans for the years ended December 31 follows:

(Dollars in Millions)	Average Recorded Investment	Interest Income Recognized
<b>2015</b>		
Commercial .....	\$ 383	\$ 13
Commercial real estate .....	433	16
Residential mortgages .....	2,666	131
Credit card .....	221	4
Other retail .....	336	14
Total loans, excluding GNMA and covered loans .....	4,039	178
Loans purchased from GNMA mortgage pools .....	2,079	95
Covered loans .....	42	1
Total .....	<u>\$6,160</u>	<u>\$274</u>
<b>2014</b>		
Commercial .....	\$ 414	\$ 9
Commercial real estate .....	592	26
Residential mortgages .....	2,742	140
Credit card .....	273	9
Other retail .....	377	17
Total loans, excluding GNMA and covered loans .....	4,398	201
Loans purchased from GNMA mortgage pools .....	2,609	124
Covered loans .....	334	15
Total .....	<u>\$7,341</u>	<u>\$340</u>
<b>2013</b>		
Commercial .....	\$ 382	\$ 29
Commercial real estate .....	889	39
Residential mortgages .....	2,749	134
Credit card .....	366	16
Other retail .....	424	24
Total loans, excluding GNMA and covered loans .....	4,810	242
Loans purchased from GNMA mortgage pools .....	1,967	100
Covered loans .....	561	27
Total .....	<u>\$7,338</u>	<u>\$369</u>



**Troubled Debt Restructurings** In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due when a borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term. The following table provides a summary of loans modified as TDRs for the years ended December 31, by portfolio class:

(Dollars in Millions)	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance
<b>2015</b>			
Commercial	1,607	\$ 385	\$ 396
Commercial real estate	108	78	76
Residential mortgages	2,080	260	258
Credit card	26,772	133	134
Other retail	2,530	54	54
Total loans, excluding GNMA and covered loans	33,097	910	918
Loans purchased from GNMA mortgage pools	8,199	864	862
Covered loans	16	5	5
Total loans	<u>41,312</u>	<u>\$1,779</u>	<u>\$1,785</u>
<b>2014</b>			
Commercial	2,027	\$ 238	\$ 203
Commercial real estate	78	80	71
Residential mortgages	2,089	271	274
Credit card	26,511	144	145
Other retail	2,833	61	61
Total loans, excluding GNMA and covered loans	33,538	794	754
Loans purchased from GNMA mortgage pools	8,961	1,000	1,013
Covered loans	43	15	14
Total loans	<u>42,542</u>	<u>\$1,809</u>	<u>\$1,781</u>
<b>2013</b>			
Commercial	2,429	\$ 166	\$ 155
Commercial real estate	165	205	198
Residential mortgages	2,179	309	304
Credit card	26,669	160	161
Other retail	4,290	103	102
Total loans, excluding GNMA and covered loans	35,732	943	920
Loans purchased from GNMA mortgage pools	8,878	1,121	1,066
Covered loans	123	94	72
Total loans	<u>44,733</u>	<u>\$2,158</u>	<u>\$2,058</u>

Residential mortgages, home equity and second mortgages, and loans purchased from GNMA mortgage pools in the table above include trial period arrangements offered to customers during the periods presented. The post-modification balances for these loans reflect the current outstanding balance until a permanent modification is made. In addition, the post-modification balances typically include capitalization of unpaid accrued interest and/or fees under the various modification programs. For those loans modified as

TDRs during the fourth quarter of 2015, at December 31, 2015, 151 residential mortgages, 66 home equity and second mortgage loans and 1,954 loans purchased from GNMA mortgage pools with outstanding balances of \$18 million, \$5 million and \$257 million, respectively, were in a trial period and have estimated post-modification balances of \$24 million, \$5 million and \$259 million, respectively, assuming permanent modification occurs at the end of the trial period.

The following table provides a summary of TDR loans that defaulted (fully or partially charged-off or became 90 days or more past due) for the years ended December 31, that were modified as TDRs within 12 months previous to default:

(Dollars in Millions)	Number of Loans	Amount Defaulted
<b>2015</b>		
Commercial .....	494	\$ 21
Commercial real estate .....	18	8
Residential mortgages .....	273	36
Credit card .....	6,286	29
Other retail .....	636	12
Total loans, excluding GNMA and covered loans .....	7,707	106
Loans purchased from GNMA mortgage pools .....	598	75
Covered loans .....	5	1
Total loans .....	<u>8,310</u>	<u>\$ 182</u>
<b>2014</b>		
Commercial .....	629	\$ 44
Commercial real estate .....	22	12
Residential mortgages .....	611	86
Credit card .....	6,335	33
Other retail .....	845	24
Total loans, excluding GNMA and covered loans .....	8,442	199
Loans purchased from GNMA mortgage pools .....	876	102
Covered loans .....	14	5
Total loans .....	<u>9,332</u>	<u>\$ 306</u>
<b>2013</b>		
Commercial .....	642	\$ 46
Commercial real estate .....	87	102
Residential mortgages .....	1,099	163
Credit card .....	6,640	37
Other retail .....	1,841	80
Total loans, excluding GNMA and covered loans .....	10,309	428
Loans purchased from GNMA mortgage pools .....	4,972	640
Covered loans .....	63	49
Total loans .....	<u>15,344</u>	<u>\$ 1,117</u>

In addition to the defaults in the table above, for the year ended December 31, 2015, the Company had a total of 1,885 residential mortgage loans, home equity and second mortgage loans and loans purchased from GNMA mortgage pools with aggregate outstanding balances of \$252 million

where borrowers did not successfully complete the trial period arrangement and therefore are no longer eligible for a permanent modification under the applicable modification program.

**Covered Assets** Covered assets represent loans and other assets acquired from the FDIC, subject to loss sharing agreements, and include expected reimbursements from the FDIC. The carrying amount of the covered assets at December 31, consisted of purchased impaired loans, purchased nonimpaired loans and other assets as shown in the following table:

(Dollars in Millions)	2015				2014			
	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other	Total	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other	Total
Residential mortgage loans .....	\$2,502	\$ 615	\$ -	\$3,117	\$2,784	\$ 738	\$ -	\$3,522
Other retail loans .....	-	447	-	447	-	584	-	584
Losses reimbursable by the FDIC <sup>(a)</sup> .....	-	-	517	517	-	-	717	717
Unamortized changes in FDIC asset <sup>(b)</sup> .....	-	-	515	515	-	-	458	458
Covered loans .....	2,502	1,062	1,032	4,596	2,784	1,322	1,175	5,281
Foreclosed real estate .....	-	-	32	32	-	-	37	37
Total covered assets .....	<u>\$2,502</u>	<u>\$1,062</u>	<u>\$1,064</u>	<u>\$4,628</u>	<u>\$2,784</u>	<u>\$1,322</u>	<u>\$1,212</u>	<u>\$5,318</u>

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

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

Interest income is recognized on purchased impaired loans through accretion of the difference between the carrying amount of those loans and their expected cash flows. The initial determination of the fair value of the purchased loans includes

the impact of expected credit losses and, therefore, no allowance for credit losses is recorded at the purchase date. To the extent credit deterioration occurs after the date of acquisition, the Company records an allowance for credit losses.

## NOTE 7 LEASES

The components of the net investment in sales-type and direct financing leases at December 31 were as follows:

(Dollars in Millions)	2015	2014
Aggregate future minimum lease payments to be received	\$10,257	\$11,173
Unguaranteed residual values accruing to the lessor's benefit	766	695
Unearned income	(887)	(1,004)
Initial direct costs	204	202
<b>Total net investment in sales-type and direct financing leases<sup>(a)</sup></b>	<b>\$10,340</b>	<b>\$11,066</b>

(a) The accumulated allowance for uncollectible minimum lease payments was \$66 million and \$65 million at December 31, 2015 and 2014, respectively.

The minimum future lease payments to be received from sales-type and direct financing leases were as follows at December 31, 2015:

(Dollars in Millions)	
2016	\$3,772
2017	3,207
2018	1,880
2019	756
2020	307
Thereafter	335

## NOTE 8 ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES

The Company transfers financial assets in the normal course of business. The majority of the Company's financial asset transfers are residential mortgage loan sales primarily to government-sponsored enterprises ("GSEs"), transfers of tax-advantaged investments, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. Guarantees provided to certain third parties in connection with the transfer of assets are further discussed in Note 23.

For loans sold under participation agreements, the Company also considers whether the terms of the loan participation agreement meet the accounting definition of a participating interest. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. Any gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by the Company are initially recognized at fair value. For further information on MSR's, refer to Note 10. On a limited basis, the Company may acquire and package high-grade corporate bonds for select corporate

customers, in which the Company generally has no continuing involvement with these transactions. Additionally, the Company is an authorized GNMA issuer and issues GNMA securities on a regular basis. The Company has no other asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

The Company is involved in various entities that are considered to be VIEs. The Company's investments in VIEs are primarily related to investments promoting affordable housing, community development and renewable energy sources. Some of these tax-advantaged investments support the Company's regulatory compliance with the Community Reinvestment Act. The Company's investments in these entities generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. These tax credits are recognized as a reduction of tax expense or, for investments qualifying as investment tax credits, as a reduction to the related investment asset. The Company recognized federal and state income tax credits related to its affordable housing and other tax-advantaged investments in tax expense of \$733 million, \$773 million and \$758 million for the years ended December 31, 2015, 2014 and 2013, respectively. The Company also recognized \$1.2 billion, \$937 million and \$780 million of investment tax credits for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company recognized \$698 million, \$771 million and \$934 million of expenses related to all of these investments for the years ended December 31, 2015, 2014 and 2013, respectively, of which \$261 million, \$258 million and \$297 million, respectively, was included in tax expense and the remainder was included in noninterest expense.

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs.

The Company's investments in these unconsolidated VIEs are carried in other assets on the Consolidated Balance Sheet. The Company's unfunded capital and other commitments related to these unconsolidated VIEs are generally carried in other liabilities on the Consolidated Balance Sheet. The Company's maximum exposure to loss from these unconsolidated VIEs include the investment recorded on the Company's Consolidated Balance Sheet, net of unfunded capital commitments, and previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. While the Company believes potential losses from these investments are remote, the maximum exposure was determined by assuming a scenario where the community-based business and housing projects completely fail and do not meet certain government compliance requirements resulting in recapture of the related tax credits.

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

At December 31 (Dollars in Millions)	2015	2014
Investment carrying amount . . . . .	\$5,257	\$4,259
Unfunded capital and other commitments . . .	2,499	1,743
Maximum exposure to loss . . . . .	9,436	8,393

The Company also has noncontrolling financial investments in private investment funds and partnerships considered to be VIEs, which are not consolidated. The Company's recorded investment in these entities, carried in other assets on the Consolidated Balance Sheet, was approximately \$32 million at December 31, 2015, compared with \$94 million at December 31, 2014. The maximum exposure to loss related to these VIEs was \$47 million at December 31, 2015 and \$105 million at December 31, 2014,

representing the Company's investment balance and its unfunded commitments to invest additional amounts.

The Company's individual net investments in unconsolidated VIEs, which exclude any unfunded capital commitments, ranged from less than \$1 million to \$46 million at December 31, 2015, compared with less than \$1 million to \$53 million at December 31, 2014.

The Company is required to consolidate VIEs in which it has concluded it has a controlling financial interest. The Company sponsors entities to which it transfers its interests in tax-advantaged investments to third parties. At December 31, 2015, approximately \$3.0 billion of the Company's assets and \$2.2 billion of its liabilities included on the Consolidated Balance Sheet were related to community development and tax-advantaged investment VIEs which the Company has consolidated, primarily related to these transfers. These amounts compared to \$2.7 billion and \$2.0 billion, respectively, at December 31, 2014. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt and other liabilities. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIEs is generally limited to the carrying value of its variable interests plus any related tax credits previously recognized or transferred to others with a guarantee.

The Company also sponsors a conduit to which it previously transferred high-grade investment securities. The Company consolidates the conduit because of its ability to manage the activities of the conduit. At December 31, 2015, \$28 million of the held- to-maturity investment securities on the Company's Consolidated Balance Sheet were related to the conduit, compared with \$35 million at December 31, 2014.

In addition, the Company sponsors a municipal bond securities tender option bond program. The Company controls the activities of the program's entities, is entitled to the residual returns and provides credit, liquidity and remarketing arrangements to the program. As a result, the Company has consolidated the program's entities. At December 31, 2015, \$2.3 billion of available-for-sale investment securities and \$2.2 billion of short-term borrowings on the Consolidated Balance Sheet were related to the tender option bond program, compared with \$2.9 billion of available-for-sale investment securities and \$2.7 billion of short-term borrowings at December 31, 2014.

## NOTE 9 PREMISES AND EQUIPMENT

Premises and equipment at December 31 consisted of the following:

(Dollars in Millions)	2015	2014
Land	\$ 522	\$ 534
Buildings and improvements	3,348	3,323
Furniture, fixtures and equipment	2,721	2,719
Capitalized building and equipment leases	113	126
Construction in progress	19	26
	6,723	6,728
Less accumulated depreciation and amortization	(4,210)	(4,110)
Total	\$ 2,513	\$ 2,618

## NOTE 10 MORTGAGE SERVICING RIGHTS

The Company serviced \$231.8 billion of residential mortgage loans for others at December 31, 2015, and \$225.0 billion at December 31, 2014, which include subserviced mortgages with no corresponding MSR asset. The net impact included in mortgage banking revenue of fair value changes of MSRs due to changes in valuation assumptions and derivatives used to economically hedge MSRs were net gains of \$23 million,

\$241 million (of which \$44 million related to excess servicing rights sold during 2014) and \$192 million for the years ended December 31, 2015, 2014 and 2013, respectively. Loan servicing fees, not including valuation changes, included in mortgage banking revenue, were \$728 million, \$732 million and \$754 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Changes in fair value of capitalized MSRs for the years ended December 31, are summarized as follows:

(Dollars in Millions)	2015	2014	2013
Balance at beginning of period	\$2,338	\$2,680	\$1,700
Rights purchased	29	5	8
Rights capitalized	632	382	769
Rights sold	—	(141)	—
Changes in fair value of MSRs			
Due to fluctuations in market interest rates <sup>(a)</sup>	(58)	(276)	617
Due to revised assumptions or models <sup>(b)</sup>	10	86	33
Other changes in fair value <sup>(c)</sup>	(439)	(398)	(447)
Balance at end of period	\$2,512	\$2,338	\$2,680

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

(b) Includes changes in MSR value not caused by changes in market interest rates, such as changes in cost to service, ancillary income, and discount rate, as well as the impact of any model changes. 2014 includes a \$44 million revaluation gain related to excess servicing rights sold.

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

The estimated sensitivity to changes in interest rates of the fair value of the MSRs portfolio and the related derivative instruments as of December 31 follows:

(Dollars in Millions)	2015						2014					
	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps
MSR portfolio	\$(598)	\$(250)	\$(114)	\$ 96	\$ 176	\$ 344	\$(540)	\$(242)	\$(114)	\$ 100	\$ 185	\$ 346
Derivative instrument hedges	475	226	107	(98)	(192)	(377)	441	223	109	(102)	(197)	(375)
Net sensitivity	\$(123)	\$ (24)	\$ (7)	\$ (2)	\$ (16)	\$ (33)	\$ (99)	\$ (19)	\$ (5)	\$ (2)	\$ (12)	\$ (29)

The fair value of MSRs and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of government-insured mortgages, conventional mortgages and Housing Finance Agency ("HFA") mortgages. The servicing portfolios are predominantly comprised of fixed-

rate agency loans with limited adjustable-rate or jumbo mortgage loans. The HFA division specializes in servicing loans made under state and local housing authority programs. These programs provide mortgages to low-income and moderate-income borrowers and are generally government-insured programs with a favorable rate subsidy, down payment and/or closing cost assistance.



A summary of the Company's MSR's and related characteristics by portfolio as of December 31 follows:

(Dollars in Millions)	2015				2014			
	HFA	Government	Conventional <sup>(c)</sup>	Total	HFA	Government	Conventional <sup>(c)</sup>	Total
Servicing portfolio <sup>(a)</sup>	\$26,492	\$40,350	\$162,533	\$229,375	\$19,706	\$40,471	\$162,620	\$222,797
Fair value	\$ 297	\$ 443	\$ 1,772	\$ 2,512	\$ 213	\$ 426	\$ 1,699	\$ 2,338
Value (bps) <sup>(b)</sup>	112	110	109	110	108	105	104	105
Weighted-average servicing fees (bps)	36	34	27	29	37	33	27	29
Multiple (value/servicing fees)	3.11	3.24	4.04	3.79	2.92	3.18	3.85	3.62
Weighted-average note rate	4.46%	4.08%	4.09%	4.13%	4.58%	4.18%	4.14%	4.19%
Weighted-average age (in years)	3.1	3.6	3.4	3.4	3.6	3.2	3.1	3.2
Weighted-average expected prepayment (constant prepayment rate)	12.8%	13.9%	10.4%	11.3%	12.8%	14.8%	11.4%	12.1%
Weighted-average expected life (in years)	6.1	5.7	6.6	6.4	6.2	5.5	6.5	6.3
Weighted-average discount rate	11.8%	11.2%	9.4%	10.0%	11.9%	11.2%	9.6%	10.1%

(a) Represents principal balance of mortgages having corresponding MSR asset.

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

(c) Represents loans sold primarily to GSEs.

## NOTE 11 INTANGIBLE ASSETS

Intangible assets consisted of the following:

At December 31 (Dollars in Millions)	Estimated Life <sup>(a)</sup>	Amortization Method <sup>(b)</sup>	Balance	
			2015	2014
Goodwill		(c)	\$ 9,361	\$ 9,389
Merchant processing contracts	8 years/8 years	SL/AC	135	174
Core deposit benefits	22 years/5 years	SL/AC	194	234
Mortgage servicing rights		(c)	2,512	2,338
Trust relationships	10 years/6 years	SL/AC	75	97
Other identified intangibles	8 years/4 years	SL/AC	434	319
<b>Total</b>			<b>\$12,711</b>	<b>\$12,551</b>

(a) Estimated life represents the amortization period for assets subject to the straight line method and the weighted average or life of the underlying cash flows amortization period for intangibles subject to accelerated methods. If more than one amortization method is used for a category, the estimated life for each method is calculated and reported separately.

(b) Amortization methods: SL = straight line method

AC = accelerated methods generally based on cash flows

(c) Goodwill is evaluated for impairment, but not amortized. Mortgage servicing rights are recorded at fair value, and are not amortized.

Aggregate amortization expense consisted of the following:

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Merchant processing contracts	\$ 35	\$ 50	\$ 64
Core deposit benefits	40	38	41
Trust relationships	21	27	34
Other identified intangibles	78	84	84
<b>Total</b>	<b>\$174</b>	<b>\$199</b>	<b>\$223</b>

The estimated amortization expense for the next five years is as follows:

(Dollars in Millions)	
2016	\$173
2017	162
2018	130
2019	101
2020	78

The following table reflects the changes in the carrying value of goodwill for the years ended December 31, 2015, 2014 and 2013:

(Dollars in Millions)	Wholesale Banking and Commercial Real Estate	Consumer and Small Business Banking	Wealth Management and Securities Services	Payment Services	Treasury and Corporate Support	Consolidated Company
<b>Balance at December 31, 2012</b> . . . .	\$1,605	\$3,514	\$1,528	\$2,496	\$-	\$9,143
Goodwill acquired . . . . .	-	-	37	20	-	57
Other <sup>(a)</sup> . . . . .	-	-	-	5	-	5
<b>Balance at December 31, 2013</b> . . . .	\$1,605	\$3,514	\$1,565	\$2,521	\$-	\$9,205
Goodwill acquired . . . . .	43	166	8	-	-	217
Other <sup>(a)</sup> . . . . .	-	-	(3)	(30)	-	(33)
<b>Balance at December 31, 2014</b> . . . .	\$1,648	\$3,680	\$1,570	\$2,491	\$-	\$9,389
Other <sup>(a)</sup> . . . . .	(1)	1	(3)	(25)	-	(28)
<b>Balance at December 31, 2015</b> . . . .	\$1,647	\$3,681	\$1,567	\$2,466	\$-	\$9,361

(a) Other changes in goodwill include the effect of foreign exchange translation.

## NOTE 12 SHORT-TERM BORROWINGS<sup>(a)</sup>

The following table is a summary of short-term borrowings for the last three years:

(Dollars in Millions)	2015		2014		2013	
	Amount	Rate	Amount	Rate	Amount	Rate
<b>At year-end</b>						
Federal funds purchased . . . . .	\$ 647	.23%	\$ 886	.12%	\$ 594	.11%
Securities sold under agreements to repurchase . . . . .	1,092	.02	948	.05	2,057	5.34
Commercial paper . . . . .	22,022	.21	22,197	.12	19,400	.11
Other short-term borrowings . . . . .	4,116	.69	5,862	.51	5,557	.19
Total . . . . .	\$27,877	.27%	\$29,893	.19%	\$27,608	.52%
<b>Average for the year</b>						
Federal funds purchased <sup>(b)</sup> . . . . .	\$ 1,169	15.05%	\$ 2,366	7.94%	\$ 1,879	9.72%
Securities sold under agreements to repurchase . . . . .	973	.10	798	1.07	2,403	4.65
Commercial paper . . . . .	21,892	.12	21,227	.12	17,467	.12
Other short-term borrowings . . . . .	3,926	1.13	5,861	.78	5,934	.72
Total <sup>(b)</sup> . . . . .	\$27,960	.89%	\$30,252	.88%	\$27,683	1.29%
<b>Maximum month-end balance</b>						
Federal funds purchased . . . . .	\$ 1,868		\$ 3,258		\$ 3,569	
Securities sold under agreements to repurchase . . . . .	1,124		948		3,121	
Commercial paper . . . . .	23,101		22,322		19,400	
Other short-term borrowings . . . . .	7,656		7,417		6,301	

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

(b) Average federal funds purchased and total short-term borrowings rates include amounts paid by the Company to certain corporate card customers for paying outstanding noninterest-bearing corporate card balances within certain timeframes per specific agreements. These activities reduce the Company's short-term funding needs, and if they did not occur, the Company would use other funding alternatives, including the use of federal funds purchased. The amount of this compensation expense paid by the Company and included in federal funds purchased and total short-term borrowings rates for 2015, 2014 and 2013 was \$175 million, \$186 million and \$181 million, respectively.

## NOTE 13 LONG-TERM DEBT

Long-term debt (debt with original maturities of more than one year) at December 31 consisted of the following:

(Dollars in Millions)	Rate Type	Rate <sup>(a)</sup>	Maturity Date	2015	2014
<b>U.S. Bancorp (Parent Company)</b>					
Subordinated notes	Fixed	2.950%	2022	\$ 1,300	\$ 1,300
	Fixed	3.600%	2024	1,000	1,000
	Fixed	7.500%	2026	199	199
Medium-term notes	Fixed	1.650% - 4.125%	2016 - 2024	7,500	9,250
	Floating	.720% - .852%	2018 - 2019	750	750
Junior subordinated debentures	Fixed	3.442%	2016	500	500
Capitalized lease obligations, mortgage indebtedness and other <sup>(b)</sup>				204	190
Subtotal				11,453	13,189
<b>Subsidiaries</b>					
Subordinated notes	Fixed	4.800%	2015	–	500
	Fixed	3.778%	2020	–	500
Federal Home Loan Bank advances	Fixed	1.250% - 8.250%	2017 - 2026	11	11
	Floating	.335% - .847%	2016 - 2025	9,081	7,334
Bank notes	Fixed	1.100% - 2.800%	2017 - 2025	5,850	4,050
	Floating	.016% - .803%	2016 - 2055	4,928	6,069
Capitalized lease obligations, mortgage indebtedness and other <sup>(b)</sup>				755	607
Subtotal				20,625	19,071
Total				\$32,078	\$32,260

(a) Weighted-average interest rates of medium-term notes, Federal Home Loan Bank advances and bank notes were 2.43 percent, .57 percent and 1.20 percent, respectively.

(b) Other includes consolidated community development and tax-advantaged investment VIEs, debt issuance fees, and unrealized gains and losses and deferred amounts relating to derivative instruments.

The Company has arrangements with the Federal Home Loan Bank and Federal Reserve Bank whereby the Company could have borrowed an additional \$74.9 billion and \$76.0 billion at December 31, 2015 and 2014, respectively, based on collateral available.

Maturities of long-term debt outstanding at December 31, 2015, were:

(Dollars in Millions)	Parent Company	Consolidated
2016	\$ 1,926	\$ 6,359
2017	1,249	7,144
2018	1,498	5,786
2019	1,511	3,505
2020	–	47
Thereafter	5,269	9,237
Total	\$11,453	\$32,078

## NOTE 14 JUNIOR SUBORDINATED DEBENTURES

As of December 31, 2015, the Company sponsored, and wholly owned 100 percent of the common equity of, USB Capital IX, a wholly-owned unconsolidated trust, formed for the purpose of issuing redeemable Income Trust Securities (“ITS”) to third party investors, originally investing the proceeds

in junior subordinated debt securities (“Debentures”) issued by the Company and entering into stock purchase contracts to purchase preferred stock in the future. During 2010, the Company exchanged depositary shares representing an ownership interest in its Series A Non-Cumulative Perpetual Preferred Stock (“Series A Preferred Stock”) to acquire a portion of the ITS issued by USB Capital IX and retire a portion of the Debentures and cancel a pro-rata portion of stock purchase contracts. During 2011, USB Capital IX sold the remaining Debentures, originally issued by the Company to the trust, to investors to generate cash proceeds to purchase the Company’s Series A Preferred Stock pursuant to the stock purchase contracts. As part of this sale, a consolidated subsidiary of the Company purchased \$176 million of the Debentures, which effectively retired the debt. The Company classifies the remaining \$500 million of Debentures at December 31, 2015 and 2014, as long-term debt. As of December 31, 2015 and 2014, \$676 million of the Company’s Series A Preferred Stock was the sole asset of USB Capital IX. The Company’s obligations under the transaction documents, taken together, have the effect of providing a full and unconditional guarantee by the Company, on a junior subordinated basis, of the payment obligations of the trust.

## NOTE 15 SHAREHOLDERS' EQUITY

At December 31, 2015 and 2014, the Company had authority to issue 4 billion shares of common stock and 50 million shares of preferred stock. The Company had 1.7 billion and 1.8 billion shares of common stock outstanding at

December 31, 2015 and 2014, respectively. The Company had 80 million shares reserved for future issuances, primarily under its stock incentive plans at December 31, 2015.

The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock was as follows:

At December 31, (Dollars in Millions)	2015				2014			
	Shares Issued and Outstanding	Liquidation Preference	Discount	Carrying Amount	Shares Issued and Outstanding	Liquidation Preference	Discount	Carrying Amount
Series A	12,510	\$1,251	\$145	\$1,106	12,510	\$1,251	\$145	\$1,106
Series B	40,000	1,000	–	1,000	40,000	1,000	–	1,000
Series F	44,000	1,100	12	1,088	44,000	1,100	12	1,088
Series G	43,400	1,085	10	1,075	43,400	1,085	10	1,075
Series H	20,000	500	13	487	20,000	500	13	487
Series I	30,000	750	5	745	–	–	–	–
Total preferred stock <sup>(a)</sup>	189,910	\$5,686	\$185	\$5,501	159,910	\$4,936	\$180	\$4,756

(a) The par value of all shares issued and outstanding at December 31, 2015 and 2014, was \$1.00 per share.

During 2015, the Company issued depositary shares representing an ownership interest in 30,000 shares of Series I Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the "Series I Preferred Stock"). The Series I Preferred Stock has no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable semiannually, in arrears, at a rate per annum equal to 5.125 percent from the date of issuance to, but excluding, January 15, 2021, and thereafter will accrue and be payable quarterly at a floating rate per annum equal to three-month LIBOR plus 3.486 percent. The Series I Preferred Stock is redeemable at the Company's option, in whole or in part, on or after January 15, 2021. The Series I Preferred stock is redeemable at the Company's option, in whole, but not in part, prior to January 15, 2021 within 90 days following an official administrative or judicial decision, amendment to, or change in the laws or regulations that would not allow the Company to treat the full liquidation value of the Series I Preferred Stock as Tier 1 capital for purposes of the capital adequacy guidelines of the Federal Reserve.

During 2013, the Company issued depositary shares representing an ownership interest in 20,000 shares of Series H Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the "Series H Preferred Stock"). The Series H Preferred Stock has no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to 5.15 percent. The Series H Preferred Stock is redeemable at the Company's option, in whole or in part, on

or after July 15, 2018. The Series H Preferred stock is redeemable at the Company's option, in whole, but not in part, prior to July 15, 2018 within 90 days following an official administrative or judicial decision, amendment to, or change in the laws or regulations that would not allow the Company to treat the full liquidation value of the Series H Preferred Stock as Tier 1 capital for purposes of the capital adequacy guidelines of the Federal Reserve.

During 2012, the Company issued depositary shares representing an ownership interest in 44,000 shares of Series F Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the "Series F Preferred Stock"), and depositary shares representing an ownership interest in 43,400 shares of Series G Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the "Series G Preferred Stock"). The Series F Preferred Stock and Series G Preferred Stock have no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to 6.50 percent from the date of issuance to, but excluding, January 15, 2022, and thereafter at a floating rate per annum equal to three-month LIBOR plus 4.468 percent for the Series F Preferred Stock, and 6.00 percent from the date of issuance to, but excluding, April 15, 2017, and thereafter at a floating rate per annum equal to three-month LIBOR plus 4.86125 percent for the Series G Preferred Stock. Both series are redeemable at the Company's option, in whole or in part, on or after January 15, 2022, for the Series F Preferred Stock and April 15, 2017, for the Series G Preferred Stock. Both series are redeemable at

the Company's option, in whole, but not in part, prior to January 15, 2022, for the Series F Preferred Stock and prior to April 15, 2017, for the Series G Preferred Stock, within 90 days following an official administrative or judicial decision, amendment to, or change in the laws or regulations that would not allow the Company to treat the full liquidation value of the Series F Preferred Stock or Series G Preferred Stock, respectively, as Tier 1 capital for purposes of the capital adequacy guidelines of the Federal Reserve Board.

During 2010, the Company issued depositary shares representing an ownership interest in 5,746 shares of Series A Preferred Stock to investors, in exchange for their portion of USB Capital IX Income Trust Securities. During 2011, the Company issued depositary shares representing an ownership interest in 6,764 shares of Series A Preferred Stock to USB Capital IX, thereby settling the stock purchase contract established between the Company and USB Capital IX as part of the 2006 issuance of USB Capital IX Income Trust Securities. The preferred shares were issued to USB Capital IX for the purchase price specified in the stock forward purchase contract. The Series A Preferred Stock has a liquidation preference of \$100,000 per share, no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to the greater of three-month LIBOR plus 1.02 percent or 3.50 percent. The Series A Preferred Stock is redeemable at the Company's option, subject to prior approval by the Federal Reserve Board.

During 2006, the Company issued depositary shares representing an ownership interest in 40,000 shares of Series B Non-Cumulative Perpetual Preferred Stock with a liquidation preference of \$25,000 per share (the "Series B Preferred Stock"). The Series B Preferred Stock has no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to the greater of three-month LIBOR plus .60 percent, or 3.50 percent. The Series B Preferred Stock is redeemable at the Company's option, subject to the prior approval of the Federal Reserve Board.

During 2015, 2014 and 2013, the Company repurchased shares of its common stock under various authorizations approved by its Board of Directors. As of December 31, 2015, the approximate dollar value of shares that may yet be purchased by the Company under the current Board of Directors approved authorization was \$1.3 billion.

The following table summarizes the Company's common stock repurchased in each of the last three years:

(Dollars and Shares in Millions)	Shares	Value
2015 .....	52	\$2,246
2014 .....	54	2,262
2013 .....	65	2,336



Shareholders' equity is affected by transactions and valuations of asset and liability positions that require adjustments to accumulated other comprehensive income (loss). The reconciliation of the transactions affecting accumulated other comprehensive income (loss) included in shareholders' equity for the years ended December 31, is as follows:

(Dollars in Millions)	Unrealized Gains (Losses) on Securities Available-For- Sale	Unrealized Gains (Losses) on Securities Transferred From Available-For-Sale to Held-To-Maturity	Unrealized Gains (Losses) on Derivative Hedges	Unrealized Gains (Losses) on Retirement Plans	Foreign Currency Translation	Total
<b>2015</b>						
Balance at beginning of period	\$ 392	\$ 52	\$(172)	\$(1,106)	\$(62)	\$ (896)
Changes in unrealized gains and losses	(457)	-	(25)	(142)	-	(624)
Foreign currency translation adjustment <sup>(a)</sup>	-	-	-	-	20	20
Reclassification to earnings of realized gains and losses	-	(25)	195	223	-	393
Applicable income taxes	176	9	(65)	(31)	(1)	88
Balance at end of period	<u>\$ 111</u>	<u>\$ 36</u>	<u>\$ (67)</u>	<u>\$(1,056)</u>	<u>\$(43)</u>	<u>\$(1,019)</u>
<b>2014</b>						
Balance at beginning of period	\$ (77)	\$ 70	\$(261)	\$ (743)	\$(60)	\$(1,071)
Changes in unrealized gains and losses	764	-	(41)	(733)	-	(10)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	1	-	-	-	-	1
Foreign currency translation adjustment <sup>(a)</sup>	-	-	-	-	(4)	(4)
Reclassification to earnings of realized gains and losses	(3)	(30)	186	144	-	297
Applicable income taxes	(293)	12	(56)	226	2	(109)
Balance at end of period	<u>\$ 392</u>	<u>\$ 52</u>	<u>\$(172)</u>	<u>\$(1,106)</u>	<u>\$(62)</u>	<u>\$(896)</u>
<b>2013</b>						
Balance at beginning of period	\$ 679	\$107	\$(404)	\$(1,265)	\$(40)	\$ (923)
Changes in unrealized gains and losses	(1,223)	-	37	590	-	(596)
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	8	-	-	-	-	8
Foreign currency translation adjustment <sup>(a)</sup>	-	-	-	-	(34)	(34)
Reclassification to earnings of realized gains and losses	(9)	(59)	192	249	-	373
Applicable income taxes	468	22	(86)	(317)	14	101
Balance at end of period	<u>\$ (77)</u>	<u>\$ 70</u>	<u>\$(261)</u>	<u>\$(743)</u>	<u>\$(60)</u>	<u>\$(1,071)</u>

(a) Represents the impact of changes in foreign currency exchange rates on the Company's investment in foreign operations and related hedges.

Additional detail about the impact to net income for items reclassified out of accumulated other comprehensive income (loss) and into earnings for the years ended December 31, is as follows:

(Dollars in Millions)	Impact to Net Income			Affected Line Item in the Consolidated Statement of Income
	2015	2014	2013	
Unrealized gains (losses) on securities available-for-sale				
Realized gains (losses) on sale of securities . . . . .	\$ 1	\$ 11	\$ 23	Total securities gains (losses), net
Other-than-temporary impairment recognized in earnings . . . . .	(1)	(8)	(14)	
	–	3	9	Total before tax
	–	(1)	(4)	Applicable income taxes
	–	2	5	Net-of-tax
Unrealized gains (losses) on securities transferred from available-for-sale to held-to-maturity				
Amortization of unrealized gains . . . . .	25	30	59	Interest income
	(9)	(12)	(22)	Applicable income taxes
	16	18	37	Net-of-tax
Unrealized gains (losses) on derivative hedges				
Realized gains (losses) on derivative hedges . . . . .	(195)	(186)	(192)	Net interest income
	75	71	74	Applicable income taxes
	(120)	(115)	(118)	Net-of-tax
Unrealized gains (losses) on retirement plans				
Actuarial gains (losses), prior service cost (credit) and transition obligation (asset) amortization . . . . .	(223)	(144)	(249)	Employee benefits expense
	85	56	96	Applicable income taxes
	(138)	(88)	(153)	Net-of-tax
<b>Total impact to net income . . . . .</b>	<b>\$(242)</b>	<b>\$(183)</b>	<b>\$(229)</b>	

**Regulatory Capital** The Company uses certain measures defined by bank regulatory agencies to access its capital. Beginning January 1, 2014, the regulatory capital requirements effective for the Company follow Basel III, subject to certain transition provisions from Basel I over the following four years to full implementation by January 1, 2018. Basel III includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches, with the Company's capital adequacy being evaluated against the methodology that is most restrictive.

Tier 1 capital is considered core capital and includes common shareholders' equity adjusted for the aggregate impact of certain items included in other comprehensive income (loss) ("common equity tier 1 capital"), plus qualifying preferred stock, trust preferred securities and noncontrolling interests in consolidated subsidiaries subject to certain limitations. Total risk-based capital includes Tier 1 capital and

other items such as subordinated debt and the allowance for credit losses. Capital measures are stated as a percentage of risk-adjusted assets, which are measured based on their perceived credit risk and include certain off-balance sheet exposures, such as unfunded loan commitments, letters of credit, and derivative contracts. Under the standardized approach, the Company is also subject to a leverage ratio requirement, a non risk-based asset ratio, which is defined as Tier 1 capital as a percentage of average assets adjusted for goodwill and other non-qualifying intangibles and other assets.

For a summary of the regulatory capital requirements and the actual ratios as of December 31, 2015 and 2014, for the Company and its bank subsidiary, see Table 23 included in Management's Discussion and Analysis, which is incorporated by reference into these Notes to Consolidated Financial Statements.

The following table provides the components of the Company's regulatory capital at December 31:

(Dollars in Millions)	2015	2014
<b>Basel III transitional standardized approach:</b>		
Common shareholders' equity	\$ 40,630	\$ 38,723
Less intangible assets		
Goodwill (net of deferred tax liability)	(8,295)	(8,403)
Other disallowed intangible assets	(335)	(165)
Other <sup>(a)</sup>	612	701
Total common equity tier 1 capital	32,612	30,856
Qualifying preferred stock	5,501	4,756
Noncontrolling interests eligible for tier 1 capital	318	408
Total tier 1 capital	38,431	36,020
Eligible portion of allowance for credit losses	4,255	3,957
Subordinated debt and noncontrolling interests eligible for tier 2 capital	2,616	3,215
Other	11	16
Total tier 2 capital	6,882	7,188
Total risk-based capital	\$ 45,313	\$ 43,208
Risk-weighted assets	\$341,360	\$317,398
<b>Basel III transitional advanced approaches:</b>		
Common shareholders' equity	\$ 40,630	\$ 38,723
Less intangible assets		
Goodwill (net of deferred tax liability)	(8,295)	(8,403)
Other disallowed intangible assets	(335)	(165)
Other <sup>(a)</sup>	612	701
Total common equity tier 1 capital	32,612	30,856
Qualifying preferred stock	5,501	4,756
Noncontrolling interests eligible for tier 1 capital	318	408
Total tier 1 capital	38,431	36,020
Eligible portion of allowance for credit losses	1,204	1,224
Subordinated debt and noncontrolling interests eligible for tier 2 capital	2,616	3,215
Other	11	16
Total tier 2 capital	3,831	4,455
Total risk-based capital	\$ 42,262	\$ 40,475
Risk-weighted assets	\$261,668	\$248,596

(a) Includes the impact of items included in other comprehensive income (loss), such as unrealized gains (losses) on available-for-sale securities, accumulated net gains on cash flow hedges, pension liability adjustments, etc.

Noncontrolling interests principally represent third party investors' interests in consolidated entities, including preferred stock of consolidated subsidiaries. During 2006, the Company's banking subsidiary formed USB Realty Corp., a real estate investment trust, for the purpose of issuing 5,000 shares of Fixed-to-Floating Rate Exchangeable Non-cumulative Perpetual Series A Preferred Stock with a liquidation preference of \$100,000 per share ("Series A Preferred Securities") to third party investors. Dividends on the Series A Preferred Securities, if declared, will accrue and be payable quarterly, in arrears, at a rate per annum equal to three-month LIBOR plus 1.147 percent. If USB Realty Corp.

has not declared a dividend on the Series A Preferred Securities before the dividend payment date for any dividend period, such dividend shall not be cumulative and shall cease to accrue and be payable, and USB Realty Corp. will have no obligation to pay dividends accrued for such dividend period, whether or not dividends on the Series A Preferred Securities are declared for any future dividend period.

The Series A Preferred Securities will be redeemable, in whole or in part, at the option of USB Realty Corp. on each fifth anniversary after the dividend payment date occurring in January 2012. Any redemption will be subject to the approval of the Office of the Comptroller of the Currency.

**NOTE 16 EARNINGS PER SHARE**

The components of earnings per share were:

Year Ended December 31 (Dollars and Shares in Millions, Except Per Share Data)	2015	2014	2013
Net income attributable to U.S. Bancorp	\$5,879	\$5,851	\$5,836
Preferred dividends	(247)	(243)	(250)
Impact of preferred stock redemption <sup>(a)</sup>	—	—	(8)
Earnings allocated to participating stock awards	(24)	(25)	(26)
Net income applicable to U.S. Bancorp common shareholders	<u>\$5,608</u>	<u>\$5,583</u>	<u>\$5,552</u>
Average common shares outstanding	1,764	1,803	1,839
Net effect of the exercise and assumed purchase of stock awards	8	10	10
Average diluted common shares outstanding	<u>1,772</u>	<u>1,813</u>	<u>1,849</u>
Earnings per common share	\$ 3.18	\$ 3.10	\$ 3.02
Diluted earnings per common share	<u>\$ 3.16</u>	<u>\$ 3.08</u>	<u>\$ 3.00</u>

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

Options outstanding at December 31, 2015 and 2013 to purchase 1 million and 5 million common shares, respectively, were not included in the computation of diluted earnings per

share for the years ended December 31, 2015 and 2013, respectively, because they were antidilutive.

**NOTE 17 EMPLOYEE BENEFITS**

**Employee Retirement Savings Plan** The Company has a defined contribution retirement savings plan that covers substantially all its employees. Qualified employees are allowed to contribute up to 75 percent of their annual compensation, subject to Internal Revenue Service limits, through salary deductions under Section 401(k) of the Internal Revenue Code. Employee contributions are invested at their direction among a variety of investment alternatives. Employee contributions are 100 percent matched by the Company, up to four percent of each employee's eligible annual compensation. The Company's matching contribution vests immediately and is invested in the same manner as each employee's future contribution elections. Total expense for the Company's matching contributions was \$131 million, \$122 million and \$118 million in 2015, 2014 and 2013, respectively.

**Pension Plans** The Company has a tax qualified noncontributory defined benefit pension plan that provides benefits to substantially all its employees. Participants receive annual cash balance pay credits based on eligible pay multiplied by a percentage determined by their age and years of service. Participants also receive an annual interest credit. Employees become vested upon completing three years of vesting service. For participants in the plan before 2010 that elected to stay under their existing formula, pension benefits are provided to eligible employees based on years of service, multiplied by a percentage of their final average pay. Additionally, as a result of plan mergers, a portion of pension benefits may also be provided using a cash balance benefit formula where only interest credits continue to be credited to participants' accounts.

In general, the Company's qualified pension plan's funding objectives include maintaining a funded status sufficient to meet participant benefit obligations over time while reducing long-term funding requirements and pension costs. The Company has an established process for evaluating the plan, its performance and significant plan assumptions, including the assumed discount rate and the long-term rate of return ("LTROR"). Annually, the Company's Compensation and Human Resources Committee (the "Committee"), assisted by outside consultants, evaluates plan objectives, funding policies and plan investment policies considering its long-term investment time horizon and asset allocation strategies. The process also evaluates significant plan assumptions. Although plan assumptions are established annually, the Company may update its analysis on an interim basis in order to be responsive to significant events that occur during the year, such as plan mergers and amendments.

The Company's funding policy is to contribute amounts to its plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act, plus such additional amounts as the Company determines to be appropriate. The Company made contributions of \$414 million and \$475 million to its pension plan in 2015 and 2014, respectively, and expects to contribute \$348 million to its pension plan in 2016. Any contributions made to the qualified plan are invested in accordance with established investment policies and asset allocation strategies.

In addition to the funded qualified pension plan, the Company maintains a non-qualified plan that is unfunded and provides benefits to certain employees. The assumptions used in computing the accumulated benefit obligation, the projected benefit obligation and net pension expense are substantially consistent with those assumptions used for the funded qualified plan. In 2016, the Company expects to contribute \$22 million to its non-qualified pension plan which equals the 2016 expected benefit payments.

**Postretirement Welfare Plan** In addition to providing pension benefits, the Company provides health care and death benefits to certain former employees who retired prior to January 1, 2014. Employees retiring after December 31, 2013, are not eligible for retiree health care benefits. The Company expects to contribute \$7 million to its postretirement welfare plan in 2016.

The following table summarizes the changes in benefit obligations and plan assets for the years ended December 31, and the funded status and amounts recognized in the Consolidated Balance Sheet at December 31 for the retirement plans:

(Dollars in Millions)	Pension Plan		Postretirement Welfare Plan	
	2015	2014	2015	2014
<b>Change In Projected Benefit Obligation</b>				
Benefit obligation at beginning of measurement period	\$ 4,612	\$ 3,895	\$104	\$100
Service cost	188	152	–	–
Interest cost	195	197	3	3
Participants' contributions	–	–	10	11
Actuarial loss (gain)	(176)	781	(5)	13
Lump sum settlements <sup>(a)</sup>	(37)	(286)	–	–
Benefit payments	(132)	(127)	(21)	(25)
Federal subsidy on benefits paid	–	–	2	2
Benefit obligation at end of measurement period <sup>(b)</sup>	<u>\$ 4,650</u>	<u>\$ 4,612</u>	<u>\$ 93</u>	<u>\$104</u>
<b>Change In Fair Value Of Plan Assets</b>				
Fair value at beginning of measurement period	\$ 3,187	\$ 2,831	\$ 85	\$ 92
Actual return on plan assets	(99)	269	–	–
Employer contributions	436	500	8	7
Participants' contributions	–	–	10	11
Lump sum settlements <sup>(a)</sup>	(37)	(286)	–	–
Benefit payments	(132)	(127)	(21)	(25)
Fair value at end of measurement period	<u>\$ 3,355</u>	<u>\$ 3,187</u>	<u>\$ 82</u>	<u>\$ 85</u>
<b>Funded (Unfunded) Status</b>	<u>\$(1,295)</u>	<u>\$(1,425)</u>	<u>\$ (11)</u>	<u>\$ (19)</u>
<b>Components Of The Consolidated Balance Sheet</b>				
Current benefit liability	\$ (21)	\$ (21)	\$ –	\$ –
Noncurrent benefit liability	(1,274)	(1,404)	(11)	(19)
Recognized amount	<u>\$(1,295)</u>	<u>\$(1,425)</u>	<u>\$ (11)</u>	<u>\$ (19)</u>
<b>Accumulated Other Comprehensive Income (Loss), Pretax</b>				
Net actuarial gain (loss)	\$(1,806)	\$(1,894)	\$ 55	\$ 55
Net prior service credit (cost)	7	11	28	31
Recognized amount	<u>\$(1,799)</u>	<u>\$(1,883)</u>	<u>\$ 83</u>	<u>\$ 86</u>

(a) 2014 includes \$242 million of payments as a result of a bulk lump sum offering to certain deferred vested participants.

(b) At December 31, 2015 and 2014, the accumulated benefit obligation for all pension plans was \$4.3 billion.

The following table provides information for pension plans with benefit obligations in excess of plan assets at December 31:

(Dollars in Millions)	2015	2014
<b>Pension Plans with Projected Benefit Obligations in Excess of Plan Assets</b>		
Projected benefit obligation	\$4,650	\$4,612
Fair value of plan assets	3,355	3,187
<b>Pension Plans with Accumulated Benefit Obligations in Excess of Plan Assets</b>		
Projected benefit obligation	\$4,650	\$4,612
Accumulated benefit obligation	4,310	4,250
Fair value of plan assets	3,355	3,187



The following table sets forth the components of net periodic benefit cost and other amounts recognized in accumulated other comprehensive income (loss) for the years ended December 31 for the retirement plans:

(Dollars in Millions)	Pension Plans			Postretirement Welfare Plan		
	2015	2014	2013	2015	2014	2013
<b>Components Of Net Periodic Benefit Cost</b>						
Service cost	\$ 188	\$ 152	\$ 168	\$ –	\$ –	\$ 3
Interest cost	195	197	170	3	3	4
Expected return on plan assets	(223)	(208)	(176)	(1)	(1)	(2)
Prior service cost (credit) and transition obligation (asset) amortization	(4)	(5)	(5)	(3)	(3)	(1)
Actuarial loss (gain) amortization	234	158	264	(4)	(6)	(9)
Net periodic benefit cost	\$ 390	\$ 294	\$ 421	\$ (5)	\$ (7)	\$ (5)
<b>Other Changes In Plan Assets And Benefit Obligations Recognized In Other Comprehensive Income (Loss)</b>						
Net actuarial gain (loss) arising during the year	\$(146)	\$(719)	\$ 555	\$ 4	\$(14)	\$ –
Net actuarial loss (gain) amortized during the year	234	158	264	(4)	(6)	(9)
Net prior service credit (cost) arising during the year	–	–	–	–	–	35
Net prior service cost (credit) and transition obligation (asset) amortized during the year	(4)	(5)	(5)	(3)	(3)	(1)
Total recognized in other comprehensive income (loss)	\$ 84	\$(566)	\$ 814	\$(3)	\$(23)	\$25
Total recognized in net periodic benefit cost and other comprehensive income (loss) <sup>(a)(b)</sup>	\$(306)	\$(860)	\$ 393	\$ 2	\$(16)	\$30

(a) The pretax estimated actuarial loss (gain) and prior service cost (credit) for the pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2016 are \$175 million and \$(5) million, respectively.

(b) The pretax estimated actuarial loss (gain) and prior service cost (credit) for the postretirement welfare plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2016 are \$(4) million and \$(3) million, respectively.

The following table sets forth weighted average assumptions used to determine the projected benefit obligations at December 31:

(Dollars in Millions)	Pension Plans		Postretirement Welfare Plan	
	2015	2014	2015	2014
Discount rate <sup>(a)</sup>	4.45%	4.13%	3.59%	3.46%
Rate of compensation increase <sup>(b)</sup>	4.06	4.07	*	*
Health care cost trend rate for the next year <sup>(c)</sup>			6.50%	7.00%
Effect on accumulated postretirement benefit obligation				
One percent increase			\$ 5	\$ 6
One percent decrease			(5)	(5)

(a) The discount rates were developed using a cash flow matching bond model with a modified duration for the qualified pension plan, non-qualified pension plan and postretirement welfare plan of 15.0, 11.9, and 6.3 years, respectively, for 2015, and 15.9, 12.4 and 6.8 years, respectively, for 2014.

(b) Determined on an active liability-weighted basis.

(c) The rate is assumed to decrease gradually to 5.00 percent by 2019 and remain at this level thereafter.

\* Not applicable

The following table sets forth weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

(Dollars in Millions)	Pension Plans			Postretirement Welfare Plan		
	2015	2014	2013	2015	2014	2013
Discount rate <sup>(a)</sup>	4.13%	4.97%	4.07%	3.46%	3.93%	3.10%
Expected return on plan assets <sup>(b)</sup>	7.50	7.50	7.50	1.50	1.50	1.50
Rate of compensation increase <sup>(c)</sup>	4.07	4.02	4.08	*	*	*
Health care cost trend rate <sup>(d)</sup>						
Prior to age 65				7.00%	7.50%	8.00%
After age 65				7.00	7.50	8.00
Effect on total of service cost and interest cost						
One percent increase				\$ -	\$ -	\$ -
One percent decrease				-	-	-

(a) The discount rates were developed using a cash flow matching bond model with a modified duration for the qualified pension plan, non-qualified pension plan and postretirement welfare plan of 15.9, 12.4 and 6.8 years, respectively, for 2015, and 14.6, 11.5 and 6.4 years, respectively, for 2014.

(b) With the help of an independent pension consultant, the Company considers several sources when developing its expected long-term rates of return on plan assets assumptions, including, but not limited to, past returns and estimates of future returns given the plans' asset allocation, economic conditions, and peer group LTROR information. The Company determines its expected long-term rates of return reflecting current economic conditions and plan assets.

(c) Determined on an active liability weighted basis.

(d) The pre-65 and post-65 rates are both assumed to decrease gradually to 5.00 percent by 2019 and remain at that level thereafter.

\* Not applicable

**Investment Policies and Asset Allocation** In establishing its investment policies and asset allocation strategies, the Company considers expected returns and the volatility associated with different strategies. An independent consultant performs modeling that projects numerous outcomes using a broad range of possible scenarios, including a mix of possible rates of inflation and economic growth. Starting with current economic information, the model bases its projections on past relationships between inflation, fixed income rates and equity returns when these types of economic conditions have existed over the previous 30 years, both in the U.S. and in foreign countries. Estimated future returns and other actuarially determined adjustments are also considered in calculating the estimated return on assets.

Generally, based on historical performance of the various investment asset classes, investments in equities have outperformed other investment classes but are subject to higher volatility. In an effort to minimize volatility, while recognizing the long-term up-side potential of investing in equities, the Committee has determined that a target asset allocation of 43 percent global equities, 30 percent debt securities, 7 percent domestic mid-small cap equities, 5 percent emerging markets equities, 5 percent real estate equities, 5 percent hedge funds and 5 percent private equity funds is appropriate.

At December 31, 2015 and 2014, plan assets of the qualified pension plan included asset management arrangements with related parties totaling \$63 million and \$70 million, respectively.

In accordance with authoritative accounting guidance, the Company groups plan assets into a three-level hierarchy for valuation techniques used to measure their fair value based on whether the valuation inputs are observable or unobservable. Refer to Note 22 for further discussion on these levels.

The assets of the qualified pension plan include investments in equity and U.S. Treasury securities whose fair values are determined based on quoted prices in active markets and are classified within Level 1 of the fair value hierarchy. The qualified pension plan also invests in U.S. agency, corporate and municipal debt securities, which are all valued based on observable market prices or data by third-party pricing services, and mutual funds which are valued based on quoted net asset values provided by the trustee of the fund; these assets are classified as Level 2. Additionally, the qualified pension plan invests in certain assets that are valued based on net asset values as a practical expedient, including investments in collective investment funds, hedge funds, and private equity funds; the net asset values are provided by the fund trustee or administrator and are not classified in the fair value hierarchy based on new accounting guidance issued by the FASB during 2015.

The following table summarizes the plan investment assets measured at fair value at December 31:

(Dollars in Millions)	Pension Plans								Postretirement Welfare Plan	
	2015				2014				2015	2014
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 1
Cash and cash equivalents	\$ 64	\$ –	\$–	\$ 64	\$ 78	\$ –	\$–	\$ 78	\$82	\$85
Debt securities	361	465	–	826	347	496	–	843	–	–
Corporate stock										
Domestic equity securities	178	–	–	178	196	–	–	196	–	–
Mid-small cap equity securities <sup>(a)</sup>	146	–	–	146	146	–	–	146	–	–
International equity securities	123	–	–	123	197	–	–	197	–	–
Real estate equity securities <sup>(b)</sup>	163	–	–	163	163	–	–	163	–	–
Mutual funds										
Debt securities	–	197	–	197	–	219	–	219	–	–
Emerging markets equity securities	–	81	–	81	–	81	–	81	–	–
Other	–	–	1	1	–	–	2	2	–	–
	\$1,035	\$743	\$1	1,779	\$1,127	\$796	\$2	1,925	82	85
Plan investment assets not classified in fair value hierarchy <sup>(e)</sup> :										
Collective investment funds										
Domestic equity securities				679				539		
Mid-small cap equity securities <sup>(c)</sup>				68				54		
Emerging markets equity securities				75				75		
International equity securities				533				421		
Hedge funds <sup>(d)</sup>				171				148		
Private equity funds				50				25		
Total plan investment assets at fair value				\$3,355				\$3,187	\$82	\$85

(a) At December 31, 2015 and 2014, securities included \$139 million and \$141 million in domestic equities, respectively, and \$7 million and \$5 million in international equities, respectively.

(b) At December 31, 2015 and 2014, securities included \$90 million and \$89 million in domestic equities, respectively, and \$73 million and \$74 million in international equities, respectively.

(c) At December 31, 2015 and 2014, securities included \$30 million and \$25 million in domestic equities, respectively, \$20 million and \$27 million in international equities, respectively, and \$18 million and \$2 million in cash and cash equivalents, respectively.

(d) This category consists of several investment strategies diversified across several hedge fund managers.

(e) These investments are valued based on net asset value per share as a practical expedient; fair values are provided to reconcile to total investment assets of the plans at fair value.

The following table summarizes the changes in fair value for all plan investment assets measured at fair value using significant unobservable inputs (Level 3) for the years ended December 31:

(Dollars in Millions)	2015	2014	2013	
	Other	Other	Debt Securities	Other
Balance at beginning of period	\$ 2	\$ 4	\$ 7	\$3
Unrealized gains (losses) relating to assets still held at end of year	(1)	(2)	–	–
Purchases, sales, and settlements, net	–	–	(7)	1
Balance at end of period	\$ 1	\$ 2	\$ –	\$4

The following benefit payments are expected to be paid from the retirement plans for the years ended December 31:

(Dollars in Millions)	Pension Plans	Postretirement Welfare Plan <sup>(a)</sup>	Medicare Part D Subsidy Receipts
2016	\$ 198	\$13	\$2
2017	209	12	2
2018	218	12	2
2019	229	11	2
2020	234	10	2
2021 – 2025	1,368	41	7

(a) Net of expected retiree contributions and before Medicare Part D subsidy.

## NOTE 18 STOCK-BASED COMPENSATION

As part of its employee and director compensation programs, the Company currently may grant certain stock awards under the provisions of its stock incentive plan. The plan provides for grants of options to purchase shares of common stock at a fixed price equal to the fair value of the underlying stock at the date of grant. Option grants are generally exercisable up to ten years from the date of grant. In addition, the plan provides for grants of shares of common stock or stock units that are subject to restriction on transfer prior to vesting. Most stock and unit awards vest over

three to five years and are subject to forfeiture if certain vesting requirements are not met. Stock incentive plans of acquired companies are generally terminated at the merger closing dates. Participants under such plans receive the Company's common stock, or options to buy the Company's common stock, based on the conversion terms of the various merger agreements. At December 31, 2015, there were 47 million shares (subject to adjustment for forfeitures) available for grant under various plans.

### STOCK OPTION AWARDS

The following is a summary of stock options outstanding and exercised under prior and existing stock incentive plans of the Company:

Year Ended December 31	Stock Options/Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
<b>2015</b>				
Number outstanding at beginning of period	33,649,198	\$29.31		
Granted	1,122,697	44.28		
Exercised	(8,721,834)	29.59		
Cancelled <sup>(a)</sup>	(324,353)	32.93		
Number outstanding at end of period <sup>(b)</sup>	25,725,708	\$29.82	3.6	\$331
Exercisable at end of period	22,446,095	\$28.68	3.0	\$314
<b>2014</b>				
Number outstanding at beginning of period	46,724,765	\$29.12		
Granted	1,246,451	40.32		
Exercised	(13,851,590)	29.59		
Cancelled <sup>(a)</sup>	(470,428)	31.12		
Number outstanding at end of period <sup>(b)</sup>	33,649,198	\$29.31	4.0	\$526
Exercisable at end of period	28,923,260	\$28.79	3.4	\$467
<b>2013</b>				
Number outstanding at beginning of period	63,171,918	\$28.83		
Granted	1,168,011	33.99		
Exercised	(17,260,740)	28.41		
Cancelled <sup>(a)</sup>	(354,424)	29.22		
Number outstanding at end of period <sup>(b)</sup>	46,724,765	\$29.12	4.4	\$527
Exercisable at end of period	39,556,000	\$29.19	3.8	\$444

(a) Options cancelled include both non-vested (i.e., forfeitures) and vested options.

(b) Outstanding options include stock-based awards that may be forfeited in future periods. The impact of the estimated forfeitures is reflected in compensation expense.

Stock-based compensation expense is based on the estimated fair value of the award at the date of grant or modification. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model, requiring the use of subjective assumptions. Because employee stock options have characteristics that differ from those of traded options, including vesting provisions and

trading limitations that impact their liquidity, the determined value used to measure compensation expense may vary from the actual fair value of the employee stock options. The following table includes the weighted average estimated fair value of stock options granted and the assumptions utilized by the Company for newly issued grants:

Year Ended December 31	2015	2014	2013
Estimated fair value	\$12.23	\$11.38	\$12.13
Risk-free interest rates	1.7%	1.7%	1.0%
Dividend yield	2.6%	2.6%	2.6%
Stock volatility factor	.37	.38	.49
Expected life of options (in years)	5.5	5.5	5.5

Expected stock volatility is based on several factors including the historical volatility of the Company's common stock, implied volatility determined from traded options and other factors. The Company uses historical data to estimate option exercises and employee terminations to estimate the

expected life of options. The risk-free interest rate for the expected life of the options is based on the U.S. Treasury yield curve in effect on the date of grant. The expected dividend yield is based on the Company's expected dividend yield over the life of the options.

The following summarizes certain stock option activity of the Company:

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Fair value of options vested	\$ 25	\$ 33	\$ 41
Intrinsic value of options exercised	130	171	144
Cash received from options exercised	257	408	489
Tax benefit realized from options exercised	50	66	56

To satisfy option exercises, the Company predominantly uses treasury stock.

Additional information regarding stock options outstanding as of December 31, 2015, is as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$11.02 – \$15.00	2,664,092	3.1	\$11.20	2,664,092	\$11.20
\$15.01 – \$20.00	161,218	2.0	19.58	161,218	19.58
\$20.01 – \$25.00	2,051,039	4.2	23.85	2,051,039	23.85
\$25.01 – \$30.00	5,911,183	5.0	28.49	5,051,861	28.47
\$30.01 – \$35.00	9,215,909	2.6	32.21	8,719,854	32.11
\$35.01 – \$40.00	3,523,469	1.1	36.04	3,523,469	36.04
\$40.01 – \$44.32	2,198,798	8.6	42.32	274,562	40.32
Total	25,725,708	3.6	\$29.82	22,446,095	\$28.68

## RESTRICTED STOCK AND UNIT AWARDS

A summary of the status of the Company's restricted shares of stock and unit awards is presented below:

Year Ended December 31	2015		2014		2013	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	7,921,571	\$34.09	8,653,859	\$29.96	8,935,743	\$25.04
Granted	2,897,396	44.24	3,133,168	40.37	3,717,635	33.88
Vested	(3,428,736)	33.27	(3,409,650)	29.38	(3,744,411)	22.17
Cancelled	(495,400)	38.66	(455,806)	34.05	(255,108)	29.18
Outstanding at end of period	6,894,831	\$38.44	7,921,571	\$34.09	8,653,859	\$29.96

The total fair value of shares vested was \$152 million, \$139 million and \$127 million for the years ended December 31, 2015, 2014 and 2013, respectively. Stock-based compensation expense was \$125 million, \$125 million and \$129 million for the years ended December 31, 2015, 2014 and 2013, respectively. On an after-tax basis, stock-based compensation was \$78 million, \$78 million and \$80

million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, there was \$158 million of total unrecognized compensation cost related to nonvested share-based arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.5 years as compensation expense.



## NOTE 19 INCOME TAXES

The components of income tax expense were:

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
<b>Federal</b>			
Current	\$1,956	\$1,888	\$1,885
Deferred	(223)	(126)	(83)
Federal income tax	1,733	1,762	1,802
<b>State</b>			
Current	346	331	216
Deferred	18	(6)	14
State income tax	364	325	230
Total income tax provision	\$2,097	\$2,087	\$2,032

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

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Tax at statutory rate	\$2,810	\$2,798	\$2,717
State income tax, at statutory rates, net of federal tax benefit	237	211	150
Tax effect of			
Tax credits and benefits, net of related expenses	(700)	(701)	(648)
Tax-exempt income	(201)	(205)	(212)
Noncontrolling interests	(19)	(20)	37
Other items	(30) <sup>(a)</sup>	4	(12)
Applicable income taxes	\$2,097	\$2,087	\$2,032

(a) Includes the resolution of certain tax matters with taxing authorities.

The tax effects of fair value adjustments on securities available-for-sale, derivative instruments in cash flow hedges, foreign currency translation adjustments, pension and post-retirement plans and certain tax benefits related to stock options are recorded directly to shareholders' equity as part of other comprehensive income (loss).

In preparing its tax returns, the Company is required to interpret complex tax laws and regulations and utilize income and cost allocation methods to determine its taxable income. On an ongoing basis, the Company is subject to examinations by federal, state, local and foreign taxing authorities that may

give rise to differing interpretations of these complex laws, regulations and methods. Due to the nature of the examination process, it generally takes years before these examinations are completed and matters are resolved. Federal tax examinations for all years ending through December 31, 2010, are completed and resolved. The Company's tax returns for the years ended December 31, 2011, 2012, 2013 and 2014 are under examination by the Internal Revenue Service. The years open to examination by state and local government authorities vary by jurisdiction.

A reconciliation of the changes in the federal, state and foreign unrecognized tax position balances are summarized as follows:

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
Balance at beginning of period	\$267	\$264	\$302
Additions (reductions) for tax positions taken in prior years	(17)	31	44
Additions for tax positions taken in the current year	13	4	—
Exam resolutions	(17)	(22)	(56)
Statute expirations	(3)	(10)	(26)
Balance at end of period	\$243	\$267	\$264

The total amount of unrecognized tax positions that, if recognized, would impact the effective income tax rate as of December 31, 2015, 2014 and 2013, were \$165 million, \$192 million and \$181 million, respectively. The Company classifies interest and penalties related to unrecognized tax positions as a component of income tax expense. At December 31, 2015, the Company's unrecognized tax position balance included \$30 million in accrued interest.

During the years ended December 31, 2015, 2014 and 2013 the Company recorded approximately \$(1) million, \$4 million and \$(12) million, respectively, in interest on unrecognized tax positions.

While certain examinations may be concluded, statutes may lapse or other developments may occur, the Company does not believe there will be a significant increase or decrease in uncertain tax positions over the next twelve months.

Deferred income tax assets and liabilities reflect the tax effect of estimated temporary differences between the carrying amounts of assets and liabilities for financial reporting

purposes and the amounts used for the same items for income tax reporting purposes.

The significant components of the Company's net deferred tax asset (liability) follows:

At December 31 (Dollars in Millions)	2015	2014
<b>Deferred Tax Assets</b>		
Allowance for credit losses	\$ 1,615	\$ 1,652
Accrued expenses	764	630
Federal, state and foreign net operating loss carryforwards	464	212
Partnerships and other investment assets	380	403
Pension and postretirement benefits	247	437
Stock compensation	131	143
Other deferred tax assets, net	219	208
Gross deferred tax assets	3,820	3,685
<b>Deferred Tax Liabilities</b>		
Leasing activities	(3,026)	(3,042)
Mortgage servicing rights	(859)	(871)
Goodwill and other intangible assets	(859)	(772)
Loans	(204)	(212)
Fixed assets	(111)	(90)
Securities available-for-sale and financial instruments	(47)	(165)
Other deferred tax liabilities, net	(55)	(159)
Gross deferred tax liabilities	(5,161)	(5,311)
Valuation allowance	(137)	(101)
<b>Net Deferred Tax Asset (Liability)</b>	<b>\$(1,478)</b>	<b>\$(1,727)</b>

The Company has approximately \$1.1 billion of federal, state and foreign net operating loss carryforwards which expire at various times through 2035. A substantial portion of these carryforwards relate to state-only net operating losses. These carryforwards are subject to a full valuation allowance. Management has determined it is more likely than not the other net deferred tax assets could be realized through carry back to taxable income in prior years, future reversals of existing taxable temporary differences and future taxable income.

At December 31, 2015, retained earnings included approximately \$102 million of base year reserves of acquired thrift institutions, for which no deferred federal income tax liability has been recognized. These base year reserves would be recaptured if the Company's banking subsidiaries cease to qualify as a bank for federal income tax purposes. The base year reserves also remain subject to income tax penalty provisions that, in general, require recapture upon certain stock redemptions of, and excess distributions to, stockholders.

## NOTE 20 DERIVATIVE INSTRUMENTS

In the ordinary course of business, the Company enters into derivative transactions to manage various risks and to accommodate the business requirements of its customers. The Company recognizes all derivatives on the Consolidated Balance Sheet at fair value in other assets or in other liabilities. On the date the Company enters into a derivative contract, the derivative is designated as either a fair value hedge, cash flow hedge, net investment hedge, or a designation is not made as it is a customer-related transaction, an economic hedge for asset/liability risk management purposes or another stand-alone derivative created through the Company's operations ("free-standing derivative"). When a derivative is designated as a fair value, cash flow or net investment hedge, the Company performs an assessment, at inception and, at a

minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s).

**Fair Value Hedges** These derivatives are interest rate swaps the Company uses to hedge the change in fair value related to interest rate changes of its underlying fixed-rate debt. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. All fair value hedges were highly effective for the year ended December 31, 2015, and the change in fair value attributed to hedge ineffectiveness was not material.

**Cash Flow Hedges** These derivatives are interest rate swaps the Company uses to hedge the forecasted cash flows from its underlying variable-rate loans and debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until the cash flows of the hedged items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within other comprehensive income (loss). At December 31, 2015, the Company had \$67 million (net-of-tax) of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with \$172 million (net-of-tax) of realized and unrealized losses at December 31, 2014. The estimated amount to be reclassified from other comprehensive income (loss) into earnings during the next 12 months is a loss of \$68 million (net-of-tax). This amount includes gains and losses related to hedges that were terminated early for which the forecasted transactions are still probable. All cash flow hedges were highly effective for the year ended December 31, 2015, and the change in fair value attributed to hedge ineffectiveness was not material.

**Net Investment Hedges** The Company uses forward commitments to sell specified amounts of certain foreign currencies, and occasionally non-derivative debt instruments, to hedge the volatility of its investment in foreign businesses driven by fluctuations in foreign currency exchange rates. The ineffectiveness on all net investment hedges was not material for the year ended December 31, 2015. There were no non-derivative debt instruments designated as net investment hedges at December 31, 2015 or 2014.

**Other Derivative Positions** The Company enters into free-standing derivatives to mitigate interest rate risk and for other risk management purposes. These derivatives include forward commitments to sell to-be-announced securities (“TBAs”) and other commitments to sell residential mortgage loans, which are used to economically hedge the interest rate risk related to residential MLHFS and unfunded mortgage loan commitments. The Company also enters into interest rate swaps, forward commitments to buy TBAs, U.S. Treasury and Eurodollar futures and options on U.S. Treasury futures to economically hedge the change in the fair value of the Company’s MSRs. The Company also enters into foreign currency forwards to economically hedge remeasurement gains and losses the Company recognizes on foreign currency denominated assets and liabilities. In addition, the Company acts as a seller and buyer of interest rate derivatives and foreign exchange contracts for its customers. The Company mitigates the market and liquidity risk associated with these customer derivatives by entering into similar offsetting positions with broker-dealers, or on a portfolio basis by entering into other derivative or non-derivative financial instruments that partially or fully offset the exposure from these customer-related positions. The Company’s customer derivatives and related hedges are monitored and reviewed by the Company’s Market Risk Committee, which establishes policies for market risk management, including exposure limits for each portfolio. The Company also has derivative contracts that are created through its operations, including commitments to originate MLHFS and swap agreements related to the sale of a portion of its Class B common shares of Visa Inc. Refer to Note 22 for further information on these swap agreements.

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

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

(Dollars in Millions)	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
<b>December 31, 2015</b>						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 3,050	\$ 73	4.43	\$ -	\$ -	-
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	1,772	7	9.22	5,009	146	1.13
Net investment hedges						
Foreign exchange forward contracts	1,140	4	.04	-	-	-
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	3,812	17	.07	452	1	.06
Sell	3,201	12	.09	2,559	7	.12
Options						
Purchased	2,935	-	.06	-	-	-
Written	3,199	29	.10	5	1	.08
Receive fixed/pay floating swaps	3,733	42	9.98	4,748	18	10.18
Pay fixed/receive floating swaps	287	2	9.82	4,158	35	9.97
Foreign exchange forward contracts	3,023	13	.01	2,380	10	.03
Equity contracts	62	-	.47	24	1	.82
Credit contracts	1,192	2	2.58	2,821	3	2.99
Other <sup>(a)</sup>	36	-	.04	662	64	2.60
Total	<u>\$27,442</u>	<u>\$201</u>		<u>\$22,818</u>	<u>\$286</u>	
<b>December 31, 2014</b>						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 2,750	\$ 65	5.69	\$ -	\$ -	-
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	272	6	7.76	5,748	315	1.94
Receive fixed/pay floating swaps	250	-	.16	-	-	-
Net investment hedges						
Foreign exchange forward contracts	1,047	31	.04	-	-	-
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	4,839	45	.07	60	-	.08
Sell	448	10	.13	6,713	62	.09
Options						
Purchased	2,500	-	.06	-	-	-
Written	2,643	31	.08	4	-	.11
Receive fixed/pay floating swaps	3,552	14	10.22	250	1	10.22
Pay fixed/receive floating swaps	15	-	10.22	-	-	-
Foreign exchange forward contracts	510	3	.03	6,176	41	.02
Equity contracts	86	3	.60	-	-	-
Credit contracts	1,247	3	3.29	2,282	5	2.85
Other <sup>(a)</sup>	58	4	.03	390	48	3.20
Total	<u>\$20,217</u>	<u>\$215</u>		<u>\$21,623</u>	<u>\$472</u>	

(a) Includes short-term underwriting purchase and sale commitments with total asset and liability notional values of \$36 million and \$58 million at December 31, 2015 and 2014, respectively, and derivative liability swap agreements related to the sale of a portion of the Company's Class B common shares of Visa Inc. The Visa swap agreements had a total notional value, fair value and weighted average remaining maturity of \$626 million, \$64 million and 2.75 years at December 31, 2015, respectively, compared to \$332 million, \$44 million and 3.75 years at December 31, 2014, respectively.

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

(Dollars in Millions)	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
<b>December 31, 2015</b>						
Interest rate contracts						
Receive fixed/pay floating swaps .....	\$32,647	\$1,097	5.69	\$14,068	\$ 54	4.71
Pay fixed/receive floating swaps .....	10,685	43	4.55	35,045	1,160	5.74
Options						
Purchased .....	8,705	10	2.61	146	1	2.23
Written .....	146	2	2.23	8,482	9	2.57
Futures						
Buy .....	–	–	–	2,859	2	.84
Sell .....	45	–	.97	–	–	–
Foreign exchange rate contracts						
Forwards, spots and swaps .....	18,399	851	.59	17,959	830	.58
Options						
Purchased .....	1,485	43	1.19	–	–	–
Written .....	–	–	–	1,485	43	1.19
Total .....	<u>\$72,112</u>	<u>\$2,046</u>		<u>\$80,044</u>	<u>\$2,099</u>	
<b>December 31, 2014</b>						
Interest rate contracts						
Receive fixed/pay floating swaps .....	\$21,724	\$ 888	6.09	\$ 5,880	\$ 24	3.79
Pay fixed/receive floating swaps .....	4,622	26	3.27	21,821	892	6.08
Options						
Purchased .....	4,409	10	3.79	24	–	2.42
Written .....	24	–	2.42	4,375	10	3.79
Futures						
Buy .....	1,811	–	.22	226	–	.45
Sell .....	152	–	1.08	46	–	1.73
Foreign exchange rate contracts						
Forwards, spots and swaps .....	17,062	890	.52	14,645	752	.59
Options						
Purchased .....	976	39	.44	–	–	–
Written .....	–	–	–	976	39	.44
Total .....	<u>\$50,780</u>	<u>\$1,853</u>		<u>\$47,993</u>	<u>\$1,717</u>	



The table below shows the effective portion of the gains (losses) recognized in other comprehensive income (loss) and the gains (losses) reclassified from other comprehensive income (loss) into earnings (net-of-tax) for the years ended December 31:

(Dollars in Millions)	Gains (Losses) Recognized in Other Comprehensive Income (Loss)			Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings		
	2015	2014	2013	2015	2014	2013
<b>Asset and Liability Management Positions</b>						
Cash flow hedges						
Interest rate contracts <sup>(a)</sup> .....	\$ (15)	\$ (26)	\$ 25	\$(120)	\$(115)	\$(118)
Net investment hedges						
Foreign exchange forward contracts .....	101	130	(45)	–	–	–

Note: Ineffectiveness on cash flow and net investment hedges was not material for the years ended December 31, 2015, 2014 and 2013.

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

The table below shows the gains (losses) recognized in earnings for fair value hedges, other economic hedges and the customer-related positions for the years ended December 31:

(Dollars in Millions)	Location of Gains (Losses) Recognized in Earnings	2015	2014	2013
<b>Asset and Liability Management Positions</b>				
Fair value hedges <sup>(a)</sup>				
Interest rate contracts .....	Other noninterest income	\$ 7	\$ 29	\$ (9)
Other economic hedges				
Interest rate contracts				
Futures and forwards .....	Mortgage banking revenue	186	(122)	615
Purchased and written options .....	Mortgage banking revenue	191	287	243
Receive fixed/pay floating swaps .....	Mortgage banking revenue	139	384	(322)
Pay fixed/receive floating swaps .....	Mortgage banking revenue	(33)	–	–
Foreign exchange forward contracts .....	Commercial products revenue	108	(29)	49
Equity contracts .....	Compensation expense	(1)	2	2
Credit contracts .....	Other noninterest income	2	–	6
Other .....	Other noninterest income	–	(43)	–
<b>Customer-Related Positions</b>				
Interest rate contracts				
Receive fixed/pay floating swaps .....	Other noninterest income	360	686	(361)
Pay fixed/receive floating swaps .....	Other noninterest income	(320)	(652)	378
Purchased and written options .....	Other noninterest income	3	–	–
Futures .....	Other noninterest income	1	–	–
Foreign exchange rate contracts				
Forwards, spots and swaps .....	Commercial products revenue	74	66	51
Purchased and written options .....	Commercial products revenue	2	1	–

(a) Gains (Losses) on items hedged by interest rate contracts included in noninterest income (expense), were \$(7) million, \$(27) million and \$8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The ineffective portion was immaterial for the years ended December 31, 2015, 2014 and 2013.

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

## **NOTE 21 NETTING ARRANGEMENTS FOR CERTAIN FINANCIAL INSTRUMENTS AND SECURITIES FINANCING ACTIVITIES**

The majority of the Company's derivative portfolio consists of bilateral over-the-counter trades. However, current regulations require that certain interest rate swaps and forwards and credit contracts need to be centrally cleared through clearinghouses. In addition, a portion of the Company's derivative positions are exchange-traded. These are predominately U.S. Treasury futures or options on U.S. Treasury futures. Of the Company's \$202.4 billion total notional amount of derivative positions at December 31, 2015, \$69.8 billion related to those centrally cleared through clearinghouses and \$8.3 billion related to those that were exchange-traded. Irrespective of how derivatives are traded, the Company's derivative contracts include offsetting rights (referred to as netting arrangements), and depending on expected volume, credit risk, and counterparty preference, collateral maintenance may be required. For all derivatives under collateral support arrangements, fair value is determined daily and, depending on the collateral maintenance requirements, the Company and a counterparty may receive or deliver collateral, based upon the net fair value of all derivative positions between the Company and the counterparty. Collateral is typically cash, but securities may be allowed under collateral arrangements with certain counterparties. Receivables and payables related to cash collateral are included in other assets and other liabilities on the Consolidated Balance Sheet, along with the related derivative asset and liability fair values. Any securities pledged to counterparties as collateral remain on the Consolidated Balance Sheet. Securities received from counterparties as collateral are not recognized on the Consolidated Balance Sheet, unless the counterparty defaults. In general, securities

The Company's collateral arrangements are predominately bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral arrangements, the counterparties to the derivatives could request immediate additional collateral coverage up to and including full collateral coverage for derivatives in a net liability position. The aggregate fair value of all derivatives under collateral arrangements that were in a net liability position at December 31, 2015, was \$956 million. At December 31, 2015, the Company had \$823 million of cash posted as collateral against this net liability position.

used as collateral can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Refer to Note 20 for further discussion of the Company's derivatives, including collateral arrangements.

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

Securities transferred to counterparties under repurchase agreements and securities loaned transactions continue to be recognized on the Consolidated Balance Sheet, are measured at fair value, and are included in investment securities or other assets. Securities received from counterparties under reverse repurchase agreements and securities borrowed transactions are not recognized on the Consolidated Balance Sheet unless the counterparty defaults. The securities transferred under repurchase and reverse repurchase transactions typically are U.S. Treasury and

agency securities or residential agency mortgage-backed securities. The securities loaned or borrowed typically are corporate debt securities traded by the Company's broker-dealer. In general, the securities transferred can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Repurchase/reverse repurchase and securities loaned/borrowed transactions expose the Company to counterparty risk. The Company manages this risk by performing

assessments, independent of business line managers, and establishing concentration limits on each counterparty. Additionally, these transactions include collateral arrangements that require the fair values of the underlying securities to be determined daily, resulting in cash being obtained or refunded to counterparties to maintain specified collateral levels. At December 31, 2015, the Company had no outstanding securities loaned transactions.

The following table summarizes the maturities by category of collateral pledged for repurchase agreements at December 31, 2015:

(Dollars in Millions)	Overnight and Continuous	Less Than 30 Days	Total
U.S. Treasury and agencies . . . . .	\$122	\$ -	\$ 122
Residential agency mortgage-backed securities . . . . .	802	168	970
<b>Gross amount of recognized liabilities . . . . .</b>	<b>\$924</b>	<b>\$168</b>	<b>\$1,092</b>

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

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

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

(Dollars in Millions)	Gross Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet <sup>(a)</sup>	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments <sup>(b)</sup>	Collateral Received <sup>(c)</sup>	
<b>December 31, 2015</b>						
Derivative assets <sup>(d)</sup> . . . . .	\$1,879	\$(807)	\$1,072	\$ (82)	\$ -	\$ 990
Reverse repurchase agreements . . . . .	106	-	106	(102)	(4)	-
Securities borrowed . . . . .	772	-	772	-	(753)	19
<b>Total . . . . .</b>	<b>\$2,757</b>	<b>\$(807)</b>	<b>\$1,950</b>	<b>\$(184)</b>	<b>\$(757)</b>	<b>\$1,009</b>
<b>December 31, 2014</b>						
Derivative assets <sup>(d)</sup> . . . . .	\$1,847	\$(870)	\$ 977	\$ (58)	\$ -	\$ 919
Reverse repurchase agreements . . . . .	40	-	40	(40)	-	-
Securities borrowed . . . . .	638	-	638	-	(620)	18
<b>Total . . . . .</b>	<b>\$2,525</b>	<b>\$(870)</b>	<b>\$1,655</b>	<b>\$(98)</b>	<b>\$(620)</b>	<b>\$ 937</b>

(a) Includes \$165 million and \$258 million of cash collateral related payables that were netted against derivative assets at December 31, 2015 and 2014, respectively.  
(b) For derivative assets this includes any derivative liability fair values that could be offset in the event of counterparty default; for reverse repurchase agreements this includes any repurchase agreement payables that could be offset in the event of counterparty default; for securities borrowed this includes any securities loaned payables that could be offset in the event of counterparty default.  
(c) Includes the fair value of securities received by the Company from the counterparty. These securities are not included on the Consolidated Balance Sheet unless the counterparty defaults.  
(d) Excludes \$368 million and \$221 million of derivative assets centrally cleared or otherwise not subject to netting arrangements at December 31, 2015 and 2014, respectively.

(Dollars in Millions)	Gross Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet <sup>(a)</sup>	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments <sup>(b)</sup>	Collateral Pledged <sup>(c)</sup>	
<b>December 31, 2015</b>						
Derivative liabilities <sup>(d)</sup>	\$1,809	\$(1,283)	\$ 526	\$ (82)	\$ –	\$444
Repurchase agreements	1,092	–	1,092	(102)	(990)	–
Total	\$2,901	\$(1,283)	\$1,618	\$(184)	\$(990)	\$444
<b>December 31, 2014</b>						
Derivative liabilities <sup>(d)</sup>	\$1,847	\$(1,317)	\$ 530	\$ (58)	\$ –	\$472
Repurchase agreements	948	–	948	(40)	(908)	–
Securities loaned	47	–	47	–	(46)	1
Total	\$2,842	\$(1,317)	\$1,525	\$ (98)	\$(954)	\$473

(a) Includes \$641 million and \$705 million of cash collateral related receivables that were netted against derivative liabilities at December 31, 2015 and 2014, respectively.

(b) For derivative liabilities this includes any derivative asset fair values that could be offset in the event of counterparty default; for repurchase agreements this includes any reverse repurchase agreement receivables that could be offset in the event of counterparty default; for securities loaned this includes any securities borrowed receivables that could be offset in the event of counterparty default.

(c) Includes the fair value of securities pledged by the Company to the counterparty. These securities are included on the Consolidated Balance Sheet unless the Company defaults.

(d) Excludes \$576 million and \$342 million of derivative liabilities centrally cleared or otherwise not subject to netting arrangements at December 31, 2015 and 2014, respectively.

## NOTE 22 FAIR VALUES OF ASSETS AND LIABILITIES

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

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

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities. Level 1 includes U.S. Treasury securities, as well as exchange-traded instruments, including certain perpetual preferred and corporate debt securities.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted

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

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

When the Company changes its valuation inputs for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period in which the transfers occur. During the years ended December 31, 2015, 2014 and 2013, there were no transfers of financial assets or financial liabilities between the hierarchy levels.

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

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities at fair value and for estimating fair value for financial instruments not recorded at fair value as required under disclosure guidance related to the fair value of financial instruments. In addition, the following section includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified. Where appropriate, the description includes information about the valuation models and key inputs to those models. During the years ended December 31, 2015, 2014 and 2013, there were no significant changes to the valuation techniques used by the Company to measure fair value.

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

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

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

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

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

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



compared to fair values provided by third party pricing services and broker provided quotes, where available. Securities classified within Level 3 include non-agency mortgage-backed securities, non-agency commercial mortgage-backed securities, certain asset-backed securities, certain collateralized debt obligations and collateralized loan obligations and certain corporate debt securities.

**Mortgage Loans Held For Sale** MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. MLHFS are classified within Level 2. Included in mortgage banking revenue was a \$27 million net gain, a \$185 million net gain and a \$335 million net loss for the years ended December 31, 2015, 2014 and 2013, respectively, from the changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. Interest income for MLHFS is measured based on contractual interest rates and reported as interest income on the Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

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

**Mortgage Servicing Rights** MSR are valued using a discounted cash flow methodology, and are classified within Level 3. The Company determines fair value by estimating the present value of the asset's future cash flows using prepayment rates, discount rates, and other assumptions. The MSR valuations, as well as the assumptions used, are developed by the mortgage banking division and are subject to review by senior management in corporate functions, who are independent from the modeling. The MSR valuations and assumptions are validated through comparison to trade information when available, publicly available data and industry surveys and are also compared to independent third

party valuations each quarter. Risks inherent in MSR valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. There is minimal observable market activity for MSRs on comparable portfolios, and, therefore the determination of fair value requires significant management judgment. Refer to Note 10 for further information on MSR valuation assumptions.

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

The Company also has other derivative contracts that are created through its operations, including commitments to purchase and originate mortgage loans and swap agreements executed in conjunction with the sale of a portion of its Class B common shares of Visa Inc. ("the Visa swaps"). The mortgage loan commitments are valued by pricing models that include market observable and unobservable inputs, which result in the commitments being classified within Level 3 of the fair value hierarchy. The unobservable inputs include assumptions about the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value, both of which are developed by the Company's mortgage banking division. The closed loan percentages for the mortgage loan commitments are monitored on an on-going basis, as these percentages are also used for the Company's economic hedging activities.

The inherent MSR value for the commitments are generated by the same models used for the Company's MSRs and thus are subject to the same processes and controls as described for the MSRs above. The Visa swaps require payments by either the Company or the purchaser of the Visa Inc. Class B common shares when there are changes in the conversion rate of the Visa Inc. Class B common shares to Visa Inc. Class A common shares, as well as quarterly payments to the purchaser based on specified terms of the agreements. Management reviews and updates the Visa swaps fair value in conjunction with its review of Visa related litigation contingencies, and the associated escrow funding. The fair value of the Visa swaps are calculated by the Company's corporate development department using a discounted cash flow methodology which includes unobservable inputs about the timing and settlement amounts related to the resolution of certain Visa related litigation. The expected litigation resolution impacts the Visa Inc. Class B common share to Visa Inc. Class A common share conversion rate, as well as the ultimate termination date for the Visa swaps. Accordingly, the Visa swaps are classified within Level 3. Refer to Note 23 for further information on the Visa restructuring and related card association litigation.

**Other Financial Instruments** Other financial instruments include cost method equity investments and certain community development and tax-advantaged related assets and liabilities. The majority of the Company's cost method equity investments are in Federal Home Loan Bank and Federal Reserve Bank stock, for which the carrying amounts approximate fair value and are classified within Level 2. Investments in other equity and limited partnership funds are estimated using fund provided net asset values. These equity investments are classified within Level 3. The community development and tax-advantaged related asset balances primarily represent the underlying assets of consolidated community development and tax-advantaged entities. The community development and tax-advantaged related liabilities represent the underlying liabilities of the consolidated entities (included in long-term debt) and liabilities related to other third party interests (included in other liabilities). The carrying value of the community development and tax-advantaged related asset and other liability balances are a reasonable estimate of fair value and are classified within Level 3. Refer to Note 8 for further information on community development and tax-advantaged related assets and liabilities. Fair value is provided for disclosure purposes only.

**Deposit Liabilities** The fair value of demand deposits, savings accounts and certain money market deposits is equal to the amount payable on demand. The fair value of fixed-rate

certificates of deposit was estimated by discounting the contractual cash flow using current market rates. Deposit liabilities are classified within Level 2. Fair value is provided for disclosure purposes only.

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

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

#### **Loan Commitments, Letters of Credit and Guarantees**

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

### **SIGNIFICANT UNOBSERVABLE INPUTS OF LEVEL 3 ASSETS AND LIABILITIES**

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

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

Higher discount margin will result in lower fair values, as it reduces the present value of the expected cash flows.

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

The following table shows the significant valuation assumption ranges for Level 3 available-for-sale investment securities at December 31, 2015:

	Minimum	Maximum	Average
<b>Residential Prime Non-Agency Mortgage-Backed Securities<sup>(a)</sup></b>			
Estimated lifetime prepayment rates	5%	20%	14%
Lifetime probability of default rates	–	7	4
Lifetime loss severity rates	15	60	33
Discount margin	2	5	3
<b>Residential Non-Prime Non-Agency Mortgage-Backed Securities<sup>(b)</sup></b>			
Estimated lifetime prepayment rates	3%	13%	8%
Lifetime probability of default rates	4	12	7
Lifetime loss severity rates	20	70	52
Discount margin	1	6	3
<b>Other Asset-Backed Securities</b>			
Estimated lifetime prepayment rates	6%	6%	6%
Lifetime probability of default rates	5	5	5
Lifetime loss severity rates	40	40	40
Discount margin	6	6	6

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

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

**Mortgage Servicing Rights** The significant unobservable inputs used in the fair value measurement of the Company's MSR are expected prepayments and the discount rate used to calculate the present value of the projected cash flows. Significant increases in either of these inputs in isolation would result in a significantly lower fair value measurement.

Significant decreases in either of these inputs in isolation would result in a significantly higher fair value measurement. There is no direct interrelationship between prepayments and discount rate. Prepayment rates generally move in the opposite direction of market interest rates. Discount rates are generally impacted by changes in market return requirements.

The following table shows the significant valuation assumption ranges for MSRs at December 31, 2015:

	Minimum	Maximum	Average
Expected prepayment	10%	19%	11%
Discount rate	9	13	10

**Derivatives** The Company has two distinct Level 3 derivative portfolios: (i) the Company's commitments to purchase and originate mortgage loans that meet the requirements of a derivative and (ii) the Company's asset/liability and customer-

related derivatives that are Level 3 due to unobservable inputs related to measurement of risk of nonperformance by the counterparty. In addition, the Company's Visa swaps are classified within Level 3.

The significant unobservable inputs used in the fair value measurement of the Company's derivative commitments to purchase and originate mortgage loans are the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value. A significant increase in the rate of loans that close would result

in a larger derivative asset or liability. A significant increase in the inherent MSR value would result in an increase in the derivative asset or a reduction in the derivative liability. Expected loan close rates and the inherent MSR values are directly impacted by changes in market rates and will generally move in the same direction as interest rates.

The following table shows the significant valuation assumption ranges for the Company's derivative commitments to purchase and originate mortgage loans at December 31, 2015:

	Minimum	Maximum	Average
Expected loan close rate . . . . .	9%	100%	79%
Inherent MSR value (basis points per loan) . . . . .	30	196	120

The significant unobservable input used in the fair value measurement of certain of the Company's asset/liability and customer-related derivatives is the credit valuation adjustment related to the risk of counterparty nonperformance. A significant increase in the credit valuation adjustment would result in a lower fair value measurement. A significant decrease in the credit valuation adjustment would result in a higher fair value measurement. The credit valuation adjustment is impacted by changes in the Company's assessment of the counterparty's credit position. At December 31, 2015, the minimum, maximum and average credit valuation adjustment as a percentage of the derivative

contract fair value prior to adjustment was 0 percent, 98 percent and 5 percent, respectively.

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

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

(Dollars in Millions)	Level 1	Level 2	Level 3	Netting	Total
<b>December 31, 2015</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$3,708	\$ 888	\$ -	\$ -	\$ 4,596
Mortgage-backed securities					
Residential					
Agency	-	50,076	-	-	50,076
Non-agency					
Prime <sup>(a)</sup>	-	-	318	-	318
Non-prime <sup>(b)</sup>	-	-	240	-	240
Commercial					
Agency	-	52	-	-	52
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations	-	19	-	-	19
Other	-	539	2	-	541
Obligations of state and political subdivisions	-	5,316	-	-	5,316
Corporate debt securities	102	499	9	-	610
Perpetual preferred securities	48	113	-	-	161
Other investments	40	28	-	-	68
Total available-for-sale	3,898	57,530	569	-	61,997
Mortgage loans held for sale	-	3,110	-	-	3,110
Mortgage servicing rights	-	-	2,512	-	2,512
Derivative assets	-	1,632	615	(807)	1,440
Other assets	202	589	-	-	791
Total	\$4,100	\$62,861	\$3,696	\$ (807)	\$69,850
Derivative liabilities	\$ 2	\$ 2,266	\$ 117	\$(1,283)	\$ 1,102
Short-term borrowings <sup>(c)</sup>	122	645	-	-	767
Total	\$ 124	\$ 2,911	\$ 117	\$(1,283)	\$ 1,869
<b>December 31, 2014</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$1,351	\$ 1,281	\$ -	\$ -	\$ 2,632
Mortgage-backed securities					
Residential					
Agency	-	45,017	-	-	45,017
Non-agency					
Prime <sup>(a)</sup>	-	-	405	-	405
Non-prime <sup>(b)</sup>	-	-	280	-	280
Commercial					
Agency	-	115	-	-	115
Asset-backed securities					
Collateralized debt obligations/Collateralized loan obligations	-	22	-	-	22
Other	-	557	62	-	619
Obligations of state and political subdivisions	-	5,868	-	-	5,868
Obligations of foreign governments	-	6	-	-	6
Corporate debt securities	101	504	9	-	614
Perpetual preferred securities	55	162	-	-	217
Other investments	251	23	-	-	274
Total available-for-sale	1,758	53,555	756	-	56,069
Mortgage loans held for sale	-	4,774	-	-	4,774
Mortgage servicing rights	-	-	2,338	-	2,338
Derivative assets	-	1,408	660	(870)	1,198
Other assets	231	641	-	-	872
Total	\$1,989	\$60,378	\$3,754	\$ (870)	\$65,251
Derivative liabilities	\$ -	\$ 2,103	\$ 86	\$(1,317)	\$ 872
Short-term borrowings <sup>(c)</sup>	101	608	-	-	709
Total	\$ 101	\$ 2,711	\$ 86	\$(1,317)	\$ 1,581

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

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

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



The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

(Dollars in Millions)	Beginning of Period Balance	Net Gains (Losses) Included in Net Income	Net Gains (Losses) Included in Other Comprehensive Income (Loss)	Purchases	Sales	Principal Payments	Issuances	Settlements	End of Period Balance	Net Change in Unrealized Gains (Losses) Relating to Assets and Liabilities Still Held at End of Period
<b>2015</b>										
Available-for-sale securities										
Mortgage-backed securities										
Residential non-agency										
Prime <sup>(a)</sup>	\$ 405	\$ –	\$ (4)	\$ –	\$ –	\$ (83)	\$ –	\$ –	\$ 318	\$ (4)
Non-prime <sup>(b)</sup>	280	(1)	(1)	–	–	(38)	–	–	240	(1)
Asset-backed securities										
Other	62	4	(2)	–	(51)	(11)	–	–	2	–
Corporate debt securities	9	–	–	–	–	–	–	–	9	–
Total available-for-sale	756	3 <sup>(c)</sup>	(7) <sup>(f)</sup>	–	(51)	(132)	–	–	569	(5)
Mortgage servicing rights	2,338	(487) <sup>(d)</sup>	–	29	–	–	632 <sup>(g)</sup>	–	2,512	(487) <sup>(d)</sup>
Net derivative assets and liabilities	574	707 <sup>(e)</sup>	–	1	(13)	–	–	(771)	498	135 <sup>(h)</sup>
<b>2014</b>										
Available-for-sale securities										
Mortgage-backed securities										
Residential non-agency										
Prime <sup>(a)</sup>	\$ 478	\$ –	\$ 15	\$ –	\$ –	\$ (88)	\$ –	\$ –	\$ 405	\$ 14
Non-prime <sup>(b)</sup>	297	(6)	19	–	–	(30)	–	–	280	19
Asset-backed securities										
Other	63	4	–	5	–	(10)	–	–	62	–
Corporate debt securities	9	–	–	–	–	–	–	–	9	–
Total available-for-sale	847	(2) <sup>(f)</sup>	34 <sup>(f)</sup>	5	–	(128)	–	–	756	33
Mortgage servicing rights	2,680	(588) <sup>(d)</sup>	–	5	(141)	–	382 <sup>(g)</sup>	–	2,338	(588) <sup>(d)</sup>
Net derivative assets and liabilities	445	904 <sup>(e)</sup>	–	1	(4)	–	–	(772)	574	188 <sup>(k)</sup>
<b>2013</b>										
Available-for-sale securities										
Mortgage-backed securities										
Residential non-agency										
Prime <sup>(a)</sup>	\$ 624	\$ (6)	\$ 8	\$ –	\$ –	\$ (148)	\$ –	\$ –	\$ 478	\$ 9
Non-prime <sup>(b)</sup>	355	(13)	17	–	(20)	(42)	–	–	297	17
Asset-backed securities										
Other	15	3	1	51	–	(7)	–	–	63	–
Corporate debt securities	9	–	–	–	–	–	–	–	9	–
Total available-for-sale	1,003	(16) <sup>(f)</sup>	26 <sup>(f)</sup>	51	(20)	(197)	–	–	847	26
Mortgage servicing rights	1,700	203 <sup>(d)</sup>	–	8	–	–	769 <sup>(g)</sup>	–	2,680	203 <sup>(d)</sup>
Net derivative assets and liabilities	1,179	(18) <sup>(m)</sup>	–	1	(5)	–	–	(712)	445	(321) <sup>(n)</sup>

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

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

(c) Included in interest income.

(d) Included in mortgage banking revenue.

(e) Approximately \$289 million included in other noninterest income and \$418 million included in mortgage banking revenue.

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

(g) Represents MSR's capitalized during the period.

(h) Approximately \$92 million included in other noninterest income and \$43 million included in mortgage banking revenue.

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

(j) Approximately \$404 million included in other noninterest income and \$500 million included in mortgage banking revenue.

(k) Approximately \$128 million included in other noninterest income and \$60 million included in mortgage banking revenue.

(l) Approximately \$(14) million included in securities gains (losses) and \$(2) million included in interest income.

(m) Approximately \$(149) million included in other noninterest income and \$131 million included in mortgage banking revenue.

(n) Approximately \$(340) million included in other noninterest income and \$19 million included in mortgage banking revenue.

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

The following table summarizes the balances as of the measurement date of assets measured at fair value on a nonrecurring basis, and still held as of the reporting date as of December 31:

(Dollars in Millions)	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans <sup>(a)</sup>	\$-	\$-	\$87	\$87	\$-	\$-	\$77	\$77
Other assets <sup>(b)</sup>	-	-	66	66	-	-	90	90

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

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

The following table summarizes losses recognized related to nonrecurring fair value measurements of individual assets or portfolios for the years ended December 31:

(Dollars in Millions)	2015	2014	2013
Loans <sup>(a)</sup>	\$175	\$108	\$83
Other assets <sup>(b)</sup>	42	70	96

(a) Represents write-downs of student loans held for sale based on non-binding quoted prices received for the portfolio, that were subsequently transferred to loans, and write-downs of loans which were based on the fair value of the collateral, excluding loans fully charged-off.

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

## FAIR VALUE OPTION

The following table summarizes the differences between the aggregate fair value carrying amount of MLHFS for which the fair value option has been elected and the aggregate unpaid principal amount that the Company is contractually obligated to receive at maturity as of December 31:

(Dollars in Millions)	2015			2014		
	Fair Value Carrying Amount	Aggregate Unpaid Principal	Carrying Amount Over (Under) Unpaid Principal	Fair Value Carrying Amount	Aggregate Unpaid Principal	Carrying Amount Over (Under) Unpaid Principal
Total loans	\$3,110	\$3,032	\$78	\$4,774	\$4,582	\$192
Nonaccrual loans	5	7	(2)	6	9	(3)
Loans 90 days or more past due	-	-	-	1	1	-

## DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the estimated fair value for financial instruments as of December 31, 2015 and 2014, and includes financial instruments that are not accounted for at fair value. In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include

assets and liabilities that are not financial instruments, such as the value of goodwill, long-term relationships with deposit, credit card, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other liabilities. Additionally, in accordance with the disclosure guidance, insurance contracts and investments accounted for under the equity method are excluded.

The estimated fair values of the Company's financial instruments as of December 31, are shown in the table below:

(Dollars in Millions)	2015					2014				
	Carrying Amount	Fair Value			Total	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>Financial Assets</b>										
Cash and due from banks . . .	\$ 11,147	\$11,147	\$ -	\$ -	\$ 11,147	\$ 10,654	\$10,654	\$ -	\$ -	\$ 10,654
Federal funds sold and securities purchased under resale agreements . . . . .	169	-	169	-	169	118	-	118	-	118
Investment securities held-to-maturity . . . . .	43,590	2,275	41,138	80	43,493	44,974	1,928	43,124	88	45,140
Loans held for sale <sup>(a)</sup> . . . . .	74	-	-	74	74	18	-	-	18	18
Loans <sup>(b)</sup> . . . . .	256,899	-	-	259,736	259,736	243,735	-	-	245,424	245,424
Other financial instruments . . .	2,311	-	921	1,398	2,319	2,187	-	924	1,269	2,193
<b>Financial Liabilities</b>										
Deposits . . . . .	300,400	-	300,225	-	300,225	282,733	-	282,708	-	282,708
Short-term borrowings <sup>(c)</sup> . . . . .	27,110	-	26,782	-	26,782	29,184	-	28,973	-	28,973
Long-term debt . . . . .	32,078	-	32,412	-	32,412	32,260	-	32,659	-	32,659
Other liabilities . . . . .	1,353	-	-	1,353	1,353	1,231	-	-	1,231	1,231

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

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

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

The fair value of unfunded commitments, deferred non-yield related loan fees, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments, deferred non-yield related loan fees

and standby letters of credit was \$515 million and \$413 million at December 31, 2015 and 2014, respectively. The carrying value of other guarantees was \$184 million and \$211 million at December 31, 2015 and 2014, respectively.

## NOTE 23 GUARANTEES AND CONTINGENT LIABILITIES

**Visa Restructuring and Card Association Litigation** The Company's payment services business issues and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively "Visa"). In 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of its initial public offering ("IPO") completed in the first quarter of 2008 (the "Visa Reorganization"). As a part of the Visa Reorganization, the Company received its proportionate number of shares of Visa Inc. common stock, which were subsequently converted to Class B shares of Visa Inc. ("Class B shares"). Visa U.S.A. Inc. ("Visa U.S.A.") and MasterCard International (collectively, the "Card Associations") are defendants in antitrust lawsuits challenging the practices of the Card Associations (the "Visa Litigation"). Visa U.S.A. member banks have a contingent obligation to indemnify Visa Inc. under the Visa U.S.A. bylaws (which were modified at the time of the restructuring in October 2007) for potential losses arising from the Visa Litigation. The indemnification by the Visa U.S.A. member banks has no specific maximum amount.

Using proceeds from its IPO and through reductions to the conversion ratio applicable to the Class B shares held by Visa U.S.A. member banks, Visa Inc. has funded an escrow account for the benefit of member financial institutions to fund

their indemnification obligations associated with the Visa Litigation. The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation contingent liability. On October 19, 2012, Visa signed a settlement agreement to resolve class action claims associated with the multi-district interchange litigation, the largest of the remaining Visa Litigation matters. The settlement has been approved by the court, but has been challenged by some class members and is being appealed. In addition, a number of class members opted out of the settlement and have filed actions against the Card Associations. At December 31, 2015, the carrying amount of the Company's liability related to the Visa Litigation matters, net of its share of the escrow fundings, was \$19 million. During 2015, the Company sold 2.5 million of its Class B shares. These sales, and any previous sales of its Class B shares, do not impact the Company's liability for the Visa Litigation matters or the receivable related to the escrow account. The remaining 6.4 million Class B shares held by the Company will be eligible for conversion to Class A shares of Visa Inc., and thereby become marketable, upon final settlement of the Visa Litigation. These shares are excluded from the Company's financial instruments disclosures included in Note 22.

**Commitments to Extend Credit** Commitments to extend credit are legally binding and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Company's exposure to credit loss, in the event of default by the borrower. The Company manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment and real estate. Since the Company expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Company's future liquidity requirements. In addition, the commitments include consumer credit lines that are cancelable upon notification to the consumer.

The contract or notional amounts of unfunded commitments to extend credit at December 31, 2015, excluding those commitments considered derivatives, were as follows:

(Dollars in Millions)	Term		Total
	Less Than One Year	Greater Than One Year	
Commercial and commercial real estate loans . . . . .	\$25,917	\$93,924	\$119,841
Corporate and purchasing card loans <sup>(a)</sup> . . . . .	23,608	—	23,608
Residential mortgages . . . . .	315	13	328
Retail credit card loans <sup>(a)</sup> . . . . .	95,832	—	95,832
Other retail loans . . . . .	12,951	21,141	34,092
Covered loans . . . . .	—	568	568
Other . . . . .	5,203	94	5,297

(a) Primarily cancelable at the Company's discretion.

**Lease Commitments** Rental expense for operating leases totaled \$328 million in 2015, \$326 million in 2014 and \$311 million in 2013. Future minimum payments, net of sublease rentals, under capitalized leases and noncancelable operating leases with initial or remaining terms of one year or more, consisted of the following at December 31, 2015:

(Dollars in Millions)	Capitalized Leases	Operating Leases
2016 . . . . .	\$ 14	\$ 265
2017 . . . . .	13	242
2018 . . . . .	13	203
2019 . . . . .	11	166
2020 . . . . .	10	126
Thereafter . . . . .	42	471
Total minimum lease payments . . . . .	103	\$1,473
Less amount representing interest . . . . .	35	
Present value of net minimum lease payments . . . . .	\$ 68	

## OTHER GUARANTEES AND CONTINGENT LIABILITIES

The following table is a summary of other guarantees and contingent liabilities of the Company at December 31, 2015:

(Dollars in Millions)	Collateral Held	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit . . . . .	\$ —	\$ 57	\$13,020
Third party borrowing arrangements . . . . .	—	—	8
Securities lending indemnifications . . . . .	4,387	—	4,246
Asset sales . . . . .	—	119	5,089
Merchant processing . . . . .	409	61	94,995
Contingent consideration arrangements . . . . .	—	2	2
Tender option bond program guarantee . . . . .	2,254	—	2,183
Minimum revenue guarantees . . . . .	—	2	12
Other . . . . .	—	—	792

**Letters of Credit** Standby letters of credit are commitments the Company issues to guarantee the performance of a customer to a third party. The guarantees frequently support public and private borrowing arrangements, including commercial paper issuances, bond financings and other similar transactions. The Company also issues and confirms commercial letters of credit on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's or counterparty's nonperformance, the Company's credit loss exposure is similar to that in any extension of credit, up to the letter's contractual amount. Management assesses the borrower's credit to determine the necessary collateral, which may include marketable securities, receivables, inventory, equipment and real estate. Since the conditions requiring the Company to fund letters of credit may not occur, the Company expects its liquidity requirements to be less than the total outstanding commitments. The maximum potential future payments guaranteed by the Company under standby letter of credit arrangements at December 31, 2015, were approximately \$13.0 billion with a weighted-average term of approximately 21 months. The estimated fair value of standby letters of credit was approximately \$57 million at December 31, 2015.

The contract or notional amount of letters of credit at December 31, 2015, were as follows:

(Dollars in Millions)	Term		Total
	Less Than One Year	Greater Than One Year	
Standby . . . . .	\$5,701	\$7,319	\$13,020
Commercial . . . . .	218	48	266

**Guarantees** Guarantees are contingent commitments issued by the Company to customers or other third parties. The Company's guarantees primarily include parent guarantees related to subsidiaries' third party borrowing arrangements; third party performance guarantees inherent in the Company's business operations, such as indemnified securities lending programs and merchant charge-back guarantees; indemnification or buy-back provisions related to certain asset sales; and contingent consideration arrangements related to acquisitions. For certain guarantees, the Company has recorded a liability related to the potential obligation, or has access to collateral to support the guarantee or through the exercise of other recourse provisions can offset some or all of the maximum potential future payments made under these guarantees.

**Third Party Borrowing Arrangements** The Company provides guarantees to third parties as a part of certain subsidiaries' borrowing arrangements. The maximum potential future payments guaranteed by the Company under these arrangements were approximately \$8 million at December 31, 2015.

**Commitments from Securities Lending** The Company participates in securities lending activities by acting as the customer's agent involving the loan of securities. The Company indemnifies customers for the difference between the fair value of the securities lent and the fair value of the collateral received. Cash collateralizes these transactions. The maximum potential future payments guaranteed by the Company under these arrangements were approximately \$4.2 billion at December 31, 2015, and represent the fair value of the securities lent to third parties. At December 31, 2015, the Company held \$4.4 billion of cash as collateral for these arrangements.

**Asset Sales** The Company has provided guarantees to certain third parties in connection with the sale or syndication of certain assets, primarily loan portfolios and tax-advantaged investments. These guarantees are generally in the form of asset buy-back or make-whole provisions that are triggered upon a credit event or a change in the tax-qualifying status of the related projects, as applicable, and remain in effect until the loans are collected or final tax credits are realized, respectively. The maximum potential future payments guaranteed by the Company under these arrangements were approximately \$5.1 billion at December 31, 2015, and represented the proceeds received from the buyer or the guaranteed portion in these transactions where the buy-back or make-whole provisions have not yet expired. At December 31, 2015, the Company had reserved \$89 million for potential losses related to the sale or syndication of tax-advantaged investments.

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

The Company regularly sells loans to GSEs as part of its mortgage banking activities. The Company provides customary representations and warranties to the GSEs in conjunction with these sales. These representations and warranties generally require the Company to repurchase assets if it is subsequently determined that a loan did not meet specified criteria, such as a documentation deficiency or rescission of mortgage insurance. If the Company is unable to cure or refute a repurchase request, the Company is generally obligated to repurchase the loan or otherwise reimburse the counterparty for losses. At December 31, 2015, the Company had reserved \$30 million for potential losses from representation and warranty obligations, compared with \$46 million at December 31, 2014. The Company's reserve reflects management's best estimate of losses for representation and warranty obligations. The Company's repurchase reserve is modeled at the loan level, taking into consideration the individual credit quality and borrower activity that has transpired since origination. The model applies credit quality and economic risk factors to derive a probability of default and potential repurchase that are based on the Company's historical loss experience, and estimates loss severity based on expected collateral value. The Company also considers qualitative factors that may result in anticipated losses differing from historical loss trends.

As of December 31, 2015 and 2014, the Company had \$12 million and \$19 million, respectively, of unresolved representation and warranty claims from the GSEs. The Company does not have a significant amount of unresolved claims from investors other than the GSEs.

**Merchant Processing** The Company, through its subsidiaries, provides merchant processing services. Under the rules of credit card associations, a merchant processor retains a contingent liability for credit card transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In this situation,



the transaction is “charged-back” to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant, it bears the loss for the amount of the refund paid to the cardholder.

A cardholder, through its issuing bank, generally has until the later of up to four months after the date the transaction is processed or the receipt of the product or service to present a charge-back to the Company as the merchant processor. The absolute maximum potential liability is estimated to be the total volume of credit card transactions that meet the associations’ requirements to be valid charge-back transactions at any given time. Management estimates that the maximum potential exposure for charge-backs would approximate the total amount of merchant transactions processed through the credit card associations for the last four months. For the last four months this amount totaled approximately \$95.0 billion. In most cases, this contingent liability is unlikely to arise, as most products and services are delivered when purchased and amounts are refunded when items are returned to merchants. However, where the product or service has been purchased but is not provided until a future date (“future delivery”), the potential for this contingent liability increases. To mitigate this risk, the Company may require the merchant to make an escrow deposit, place maximum volume limitations on future delivery transactions processed by the merchant at any point in time, or require various credit enhancements (including letters of credit and bank guarantees). Also, merchant processing contracts may include event triggers to provide the Company more financial and operational control in the event of financial deterioration of the merchant.

The Company currently processes card transactions in the United States, Canada, Europe, Mexico and Brazil through wholly-owned subsidiaries and joint ventures with other financial institutions. In the event a merchant was unable to fulfill product or services subject to future delivery, such as airline tickets, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At December 31, 2015, the value of airline tickets purchased to be delivered at a future date was \$6.7 billion. The Company held collateral of \$307 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets. With respect to future delivery risk for other merchants, the Company held \$26 million of merchant escrow deposits as collateral. In addition to specific collateral or other credit

enhancements, the Company maintains a liability for its implied guarantees associated with future delivery. At December 31, 2015, the liability was \$49 million primarily related to these airline processing arrangements.

In the normal course of business, the Company has unresolved charge-backs. The Company assesses the likelihood of its potential liability based on the extent and nature of unresolved charge-backs and its historical loss experience. At December 31, 2015, the Company held \$76 million of merchant escrow deposits as collateral and had a recorded liability for potential losses of \$12 million.

**Contingent Consideration Arrangements** The Company has contingent payment obligations related to certain business combination transactions. Payments are guaranteed as long as certain post-acquisition performance-based criteria are met or customer relationships are maintained. At December 31, 2015, the maximum potential future payments required to be made by the Company under these arrangements was approximately \$2 million. If required, the majority of these contingent payments are payable within the next 12 months.

**Tender Option Bond Program Guarantee** As discussed in Note 8, the Company sponsors a municipal bond securities tender option bond program and consolidates the program’s entities on its Consolidated Balance Sheet. The Company provides financial performance guarantees related to the program’s entities. At December 31, 2015, the Company guaranteed \$2.2 billion of borrowings of the program’s entities, included on the Consolidated Balance Sheet in short-term borrowings. The Company also included on its Consolidated Balance Sheet the related \$2.3 billion of available-for-sale investment securities serving as collateral for this arrangement.

**Minimum Revenue Guarantees** In the normal course of business, the Company may enter into revenue share agreements with third party business partners who generate customer referrals or provide marketing or other services related to the generation of revenue. In certain of these agreements, the Company may guarantee that a minimum amount of revenue share payments will be made to the third party over a specified period of time. At December 31, 2015, the maximum potential future payments required to be made by the Company under these agreements were \$12 million.

**Other Guarantees and Commitments** The Company has also made other financial performance guarantees and commitments primarily related to the operations of its subsidiaries. At December 31, 2015, the maximum potential future payments guaranteed or committed by the Company under these arrangements were approximately \$792 million.

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

**Litigation Matters** In the last several years, the Company and other large financial institutions have been sued in their capacity as trustee for residential mortgage-backed securities trusts. Among these lawsuits are actions originally brought in June 2014 by a group of institutional investors, including BlackRock and PIMCO funds, against six bank trustees, including the Company. These actions are in early stages and currently are pending in the Supreme Court of the State of New York, New York County, and in the United States District Court for the Southern District of New York. In these lawsuits, the investors allege that U.S. Bank National Association as trustee caused them to incur substantial losses by failing to enforce loan repurchase obligations and failing to abide by appropriate standards of care after events of default allegedly occurred. The plaintiffs seek monetary damages in an unspecified amount and also seek equitable relief.

**Regulatory Matters** The Company is currently subject to examinations, inquiries and investigations by government agencies and bank regulators concerning mortgage-related practices, including those related to compliance with selling guidelines relating to residential home loans sold to GSEs, foreclosure-related expenses submitted to the Federal Housing Administration or GSEs for reimbursement, lender-placed insurance, and notices and filings in bankruptcy cases. The Company is also subject to ongoing examinations, inquiries and investigations by government agencies, bank regulators and law enforcement with respect to Bank Secrecy Act/anti-money laundering compliance program adequacy and effectiveness and sanctions compliance requirements as administered by the Office of Foreign Assets Control. In October 2015, the Company entered into a Consent Order with the Office of the Comptroller of the Currency (the "OCC") concerning deficiencies in its Bank Secrecy Act/anti-money laundering compliance program, and requiring an ongoing review of that program. If the Company does not satisfactorily correct the identified deficiencies, it could be required to enter into further orders, pay fines or penalties or further modify its business practices. Some of the compliance program

enhancements and other actions required by the Consent Order have already been, or are currently in the process of being, implemented, and are not expected to be material to the Company.

The Company is also continually subject to examinations, inquiries and investigations in areas of increasing regulatory scrutiny, such as compliance, risk management, third party risk management and consumer protection.

The Company is cooperating fully with all pending examinations, inquiries and investigations, any of which could lead to administrative or legal proceedings or settlements. Remedies in these proceedings or settlements may include fines, penalties, restitution or alterations in the Company's business practices (which may increase the Company's operating expenses and decrease its revenue).

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

In April 2011, the Company and certain other large financial institutions entered into Consent Orders with the OCC and the Board of Governors of the Federal Reserve System relating to residential mortgage servicing and foreclosure practices. In June 2015, the Company entered into an agreement to amend the 2011 Consent Order it had with the OCC. The OCC terminated the amended Consent Order in February 2016. Depending on the Company's progress toward addressing the requirements of the 2011 Consent Order it has with the Board of Governors of the Federal Reserve System, the Company may be required to enter into further orders and settlements, pay additional fines or penalties, make restitution or further modify the Company's business practices (which may increase the Company's operating expenses and decrease its revenue).

**Outlook** Due to their complex nature, it can be years before litigation and regulatory matters are resolved. The Company may be unable to develop an estimate or range of loss where matters are in early stages, there are significant factual or legal issues to be resolved, damages are unspecified or uncertain, or there is uncertainty as to a litigation class being certified or the outcome of pending motions, appeals or proceedings. For those litigation and regulatory matters where

the Company has information to develop an estimate or range of loss, the Company believes the upper end of reasonably possible losses in aggregate, in excess of any reserves established for matters where a loss is considered probable, will not be material to its financial condition, results of

operations or cash flows. The Company's estimates are subject to significant judgment and uncertainties, and the matters underlying the estimates will change from time to time. Actual results may vary significantly from the current estimates.

## NOTE 24 U.S. BANCORP (PARENT COMPANY)

### CONDENSED BALANCE SHEET

At December 31 (Dollars in Millions)	2015	2014
<b>Assets</b>		
Due from banks, principally interest-bearing	\$ 9,426	\$10,775
Available-for-sale securities	352	464
Investments in bank subsidiaries	41,708	39,599
Investments in nonbank subsidiaries	2,060	1,906
Advances to bank subsidiaries	3,150	2,650
Advances to nonbank subsidiaries	823	550
Other assets	983	1,762
Total assets	<u>\$58,502</u>	<u>\$57,706</u>
<b>Liabilities and Shareholders' Equity</b>		
Short-term funds borrowed	\$ 25	\$ 177
Long-term debt	11,453	13,189
Other liabilities	893	861
Shareholders' equity	46,131	43,479
Total liabilities and shareholders' equity	<u>\$58,502</u>	<u>\$57,706</u>

### CONDENSED STATEMENT OF INCOME

Year Ended December 31 (Dollars in Millions)	2015	2014	2013
<b>Income</b>			
Dividends from bank subsidiaries	\$3,900	\$3,850	\$6,100
Dividends from nonbank subsidiaries	3	38	9
Interest from subsidiaries	120	123	118
Other income	55	64	66
Total income	<u>4,078</u>	<u>4,075</u>	<u>6,293</u>
<b>Expense</b>			
Interest expense	292	335	325
Other expense	105	90	81
Total expense	<u>397</u>	<u>425</u>	<u>406</u>
Income before income taxes and equity in undistributed income of subsidiaries	3,681	3,650	5,887
Applicable income taxes	(207)	(94)	(88)
Income of parent company	3,888	3,744	5,975
Equity in undistributed income (losses) of subsidiaries	1,991	2,107	(139)
Net income attributable to U.S. Bancorp	<u>\$5,879</u>	<u>\$5,851</u>	<u>\$5,836</u>

## CONDENSED STATEMENT OF CASH FLOWS

Year Ended December 31 (Dollars in Millions)

	2015	2014	2013
<b>Operating Activities</b>			
Net income attributable to U.S. Bancorp	\$ 5,879	\$ 5,851	\$ 5,836
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed (income) losses of subsidiaries	(1,991)	(2,107)	139
Other, net	507	48	(40)
Net cash provided by operating activities	4,395	3,792	5,935
<b>Investing Activities</b>			
Proceeds from sales and maturities of investment securities	153	46	75
Purchases of investment securities	(47)	(39)	(118)
Net (increase) decrease in short-term advances to subsidiaries	(273)	984	4,543
Long-term advances to subsidiaries	(500)	(1,800)	(750)
Principal collected on long-term advances to subsidiaries	-	1,400	-
Other, net	(6)	(52)	3
Net cash (used in) provided by investing activities	(673)	539	3,753
<b>Financing Activities</b>			
Net (decrease) increase in short-term borrowings	(152)	39	4
Proceeds from issuance of long-term debt	-	3,250	1,500
Principal payments or redemption of long-term debt	(1,750)	(1,500)	(2,850)
Proceeds from issuance of preferred stock	745	-	487
Proceeds from issuance of common stock	295	453	524
Redemption of preferred stock	-	-	(500)
Repurchase of common stock	(2,190)	(2,200)	(2,282)
Cash dividends paid on preferred stock	(242)	(243)	(254)
Cash dividends paid on common stock	(1,777)	(1,726)	(1,576)
Net cash used in financing activities	(5,071)	(1,927)	(4,947)
Change in cash and due from banks	(1,349)	2,404	4,741
Cash and due from banks at beginning of year	10,775	8,371	3,630
Cash and due from banks at end of year	\$ 9,426	\$10,775	\$ 8,371

Transfer of funds (dividends, loans or advances) from bank subsidiaries to the Company is restricted. Federal law requires loans to the Company or its affiliates to be secured and generally limits loans to the Company or an individual affiliate to 10 percent of each bank's unimpaired capital and surplus. In the aggregate, loans to the Company and all affiliates cannot exceed 20 percent of each bank's unimpaired capital and surplus.

Dividend payments to the Company by its subsidiary bank are subject to regulatory review and statutory limitations and, in some instances, regulatory approval. In general, dividends by the Company's bank subsidiary to the parent company are limited by rules which compare dividends to net income for regulatorily-defined periods. Furthermore, dividends are restricted by minimum capital constraints for all national banks.

### NOTE 25 SUBSEQUENT EVENTS

The Company has evaluated the impact of events that have occurred subsequent to December 31, 2015 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based

on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.

# U.S. Bancorp

## Consolidated Balance Sheet — Five Year Summary (Unaudited)

At December 31 (Dollars in Millions)	2015	2014	2013	2012	2011	% Change 2015 v 2014
<b>Assets</b>						
Cash and due from banks	\$ 11,147	\$ 10,654	\$ 8,477	\$ 8,252	\$ 13,962	4.6%
Held-to-maturity securities	43,590	44,974	38,920	34,389	18,877	(3.1)
Available-for-sale securities	61,997	56,069	40,935	40,139	51,937	10.6
Loans held for sale	3,184	4,792	3,268	7,976	7,156	(33.6)
Loans	260,849	247,851	235,235	223,329	209,835	5.2
Less allowance for loan losses	(3,863)	(4,039)	(4,250)	(4,424)	(4,753)	4.4
Net loans	256,986	243,812	230,985	218,905	205,082	5.4
Other assets	44,949	42,228	41,436	44,194	43,108	6.4
Total assets	<u>\$421,853</u>	<u>\$402,529</u>	<u>\$364,021</u>	<u>\$353,855</u>	<u>\$340,122</u>	4.8
<b>Liabilities and Shareholders' Equity</b>						
Deposits						
Noninterest-bearing	\$ 83,766	\$ 77,323	\$ 76,941	\$ 74,172	\$ 68,579	8.3%
Interest-bearing	216,634	205,410	185,182	175,011	162,306	5.5
Total deposits	300,400	282,733	262,123	249,183	230,885	6.2
Short-term borrowings	27,877	29,893	27,608	26,302	30,468	(6.7)
Long-term debt	32,078	32,260	20,049	25,516	31,953	(.6)
Other liabilities	14,681	13,475	12,434	12,587	11,845	8.9
Total liabilities	375,036	358,361	322,214	313,588	305,151	4.7
Total U.S. Bancorp shareholders' equity	46,131	43,479	41,113	38,998	33,978	6.1
Noncontrolling interests	686	689	694	1,269	993	(.4)
Total equity	46,817	44,168	41,807	40,267	34,971	6.0
Total liabilities and equity	<u>\$421,853</u>	<u>\$402,529</u>	<u>\$364,021</u>	<u>\$353,855</u>	<u>\$340,122</u>	4.8



# U.S. Bancorp

## Consolidated Statement of Income — Five-Year Summary (Unaudited)

Year Ended December 31 (Dollars in Millions)	2015	2014	2013	2012	2011	% Change 2015 v 2014
<b>Interest Income</b>						
Loans	\$10,059	\$10,113	\$10,277	\$10,558	\$10,370	(.5)%
Loans held for sale	206	128	203	282	200	60.9
Investment securities	2,001	1,866	1,631	1,792	1,820	7.2
Other interest income	136	121	174	251	249	12.4
Total interest income	12,402	12,228	12,285	12,883	12,639	1.4
<b>Interest Expense</b>						
Deposits	457	465	561	691	840	(1.7)
Short-term borrowings	245	263	353	442	531	(6.8)
Long-term debt	699	725	767	1,005	1,145	(3.6)
Total interest expense	1,401	1,453	1,681	2,138	2,516	(3.6)
Net interest income	11,001	10,775	10,604	10,745	10,123	2.1
Provision for credit losses	1,132	1,229	1,340	1,882	2,343	(7.9)
Net interest income after provision for credit losses	9,869	9,546	9,264	8,863	7,780	3.4
<b>Noninterest Income</b>						
Credit and debit card revenue	1,070	1,021	965	892	1,073	4.8
Corporate payment products revenue	708	724	706	744	734	(2.2)
Merchant processing services	1,547	1,511	1,458	1,395	1,355	2.4
ATM processing services	318	321	327	346	452	(.9)
Trust and investment management fees	1,321	1,252	1,139	1,055	1,000	5.5
Deposit service charges	702	693	670	653	659	1.3
Treasury management fees	561	545	538	541	551	2.9
Commercial products revenue	867	854	859	878	841	1.5
Mortgage banking revenue	906	1,009	1,356	1,937	986	(10.2)
Investment products fees	185	191	178	150	129	(3.1)
Securities gains (losses), net	—	3	9	(15)	(31)	*
Other	907	1,040	569	743	1,011	(12.8)
Total noninterest income	9,092	9,164	8,774	9,319	8,760	(.8)
<b>Noninterest Expense</b>						
Compensation	4,812	4,523	4,371	4,320	4,041	6.4
Employee benefits	1,167	1,041	1,140	945	845	12.1
Net occupancy and equipment	991	987	949	917	999	.4
Professional services	423	414	381	530	383	2.2
Marketing and business development	361	382	357	388	369	(5.5)
Technology and communications	887	863	848	821	758	2.8
Postage, printing and supplies	297	328	310	304	303	(9.5)
Other intangibles	174	199	223	274	299	(12.6)
Other	1,819	1,978	1,695	1,957	1,914	(8.0)
Total noninterest expense	10,931	10,715	10,274	10,456	9,911	2.0
Income before income taxes	8,030	7,995	7,764	7,726	6,629	.4
Applicable income taxes	2,097	2,087	2,032	2,236	1,841	.5
Net income	5,933	5,908	5,732	5,490	4,788	.4
Net (income) loss attributable to noncontrolling interests	(54)	(57)	104	157	84	5.3
Net income attributable to U.S. Bancorp	\$ 5,879	\$ 5,851	\$ 5,836	\$ 5,647	\$ 4,872	.5
Net income applicable to U.S. Bancorp common shareholders	\$ 5,608	\$ 5,583	\$ 5,552	\$ 5,383	\$ 4,721	.4

\* Not meaningful

# U.S. Bancorp

## Quarterly Consolidated Financial Data (Unaudited)

(Dollars in Millions, Except Per Share Data)	2015				2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Interest Income</b>								
Loans	\$2,493	\$2,463	\$2,520	\$2,583	\$2,522	\$2,532	\$2,518	\$2,541
Loans held for sale	41	65	60	40	27	24	36	41
Investment securities	495	505	502	499	441	461	476	488
Other interest income	32	35	35	34	32	30	27	32
Total interest income	3,061	3,068	3,117	3,156	3,022	3,047	3,057	3,102
<b>Interest Expense</b>								
Deposits	118	113	113	113	119	114	115	117
Short-term borrowings	61	62	66	56	69	63	72	59
Long-term debt	184	177	170	168	184	181	178	182
Total interest expense	363	352	349	337	372	358	365	358
Net interest income	2,698	2,716	2,768	2,819	2,650	2,689	2,692	2,744
Provision for credit losses	264	281	282	305	306	324	311	288
Net interest income after provision for credit losses	2,434	2,435	2,486	2,514	2,344	2,365	2,381	2,456
<b>Noninterest Income</b>								
Credit and debit card revenue	241	266	269	294	239	259	251	272
Corporate payment products revenue	170	178	190	170	173	182	195	174
Merchant processing services	359	395	400	393	356	384	387	384
ATM processing services	78	80	81	79	78	82	81	80
Trust and investment management fees	322	334	329	336	304	311	315	322
Deposit service charges	161	174	185	182	157	171	185	180
Treasury management fees	137	142	143	139	133	140	136	136
Commercial products revenue	200	214	231	222	205	221	209	219
Mortgage banking revenue	240	231	224	211	236	278	260	235
Investment products fees	47	48	46	44	46	47	49	49
Securities gains (losses), net	—	—	(1)	1	5	—	(3)	1
Other	199	210	229	269	176	369	177	318
Total noninterest income	2,154	2,272	2,326	2,340	2,108	2,444	2,242	2,370
<b>Noninterest Expense</b>								
Compensation	1,179	1,196	1,225	1,212	1,115	1,125	1,132	1,151
Employee benefits	317	293	285	272	289	257	250	245
Net occupancy and equipment	247	247	251	246	249	241	249	248
Professional services	77	106	115	125	83	97	102	132
Marketing and business development	70	96	99	96	79	96	78	129
Technology and communications	214	221	222	230	211	214	219	219
Postage, printing and supplies	82	64	77	74	81	80	81	86
Other intangibles	43	43	42	46	49	48	51	51
Other	436	416	459	508	388	595	452	543
Total noninterest expense	2,665	2,682	2,775	2,809	2,544	2,753	2,614	2,804
Income before income taxes	1,923	2,025	2,037	2,045	1,908	2,056	2,009	2,022
Applicable income taxes	479	528	534	556	496	547	523	521
Net income	1,444	1,497	1,503	1,489	1,412	1,509	1,486	1,501
Net (income) loss attributable to noncontrolling interests	(13)	(14)	(14)	(13)	(15)	(14)	(15)	(13)
Net income attributable to U.S. Bancorp	\$1,431	\$1,483	\$1,489	\$1,476	\$1,397	\$1,495	\$1,471	\$1,488
Net income applicable to U.S. Bancorp common shareholders	\$1,365	\$1,417	\$1,422	\$1,404	\$1,331	\$1,427	\$1,405	\$1,420
Earnings per common share	\$ .77	\$ .80	\$ .81	\$ .80	\$ .73	\$ .79	\$ .78	\$ .79
Diluted earnings per common share	\$ .76	\$ .80	\$ .81	\$ .80	\$ .73	\$ .78	\$ .78	\$ .79

# U.S. Bancorp

## Supplemental Financial Data (Unaudited)

Earnings Per Common Share Summary	2015	2014	2013	2012	2011
Earnings per common share	\$ 3.18	\$ 3.10	\$ 3.02	\$ 2.85	\$ 2.47
Diluted earnings per common share	3.16	3.08	3.00	2.84	2.46
Dividends declared per common share	1.010	.965	.885	.780	.500
<b>Ratios</b>					
Return on average assets	1.44%	1.54%	1.65%	1.65%	1.53%
Return on average common equity	14.0	14.7	15.8	16.2	15.8
Average total U.S. Bancorp shareholders' equity to average assets	11.0	11.3	11.3	11.0	10.1
Dividends per common share to net income per common share	31.8	31.1	29.3	27.4	20.2
<b>Other Statistics (Dollars and Shares in Millions)</b>					
Common shares outstanding <sup>(a)</sup>	1,745	1,786	1,825	1,869	1,910
Average common shares outstanding and common stock equivalents					
Earnings per common share	1,764	1,803	1,839	1,887	1,914
Diluted earnings per common share	1,772	1,813	1,849	1,896	1,923
Number of shareholders <sup>(b)</sup>	40,666	44,114	46,632	49,430	52,677
Common dividends declared	\$ 1,785	\$ 1,745	\$ 1,631	\$ 1,474	\$ 961

(a) Defined as total common shares less common stock held in treasury at December 31.

(b) Based on number of common stock shareholders of record at December 31.

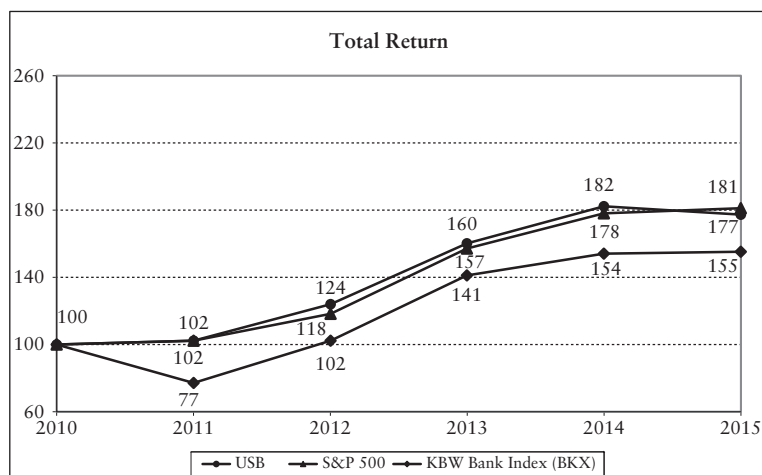
### STOCK PRICE RANGE AND DIVIDENDS

	2015				2014			
	Sales Price			Dividends Declared	Sales Price			Dividends Declared
	High	Low	Closing Price		High	Low	Closing Price	
First quarter	\$45.49	\$40.70	\$43.67	\$.245	\$43.66	\$38.72	\$42.86	\$.230
Second quarter	45.29	42.12	43.40	.255	43.92	39.86	43.32	.245
Third quarter	46.26	38.81	41.01	.255	43.75	40.58	41.83	.245
Fourth quarter	44.58	39.28	42.67	.255	46.10	38.10	44.95	.245

The common stock of U.S. Bancorp is traded on the New York Stock Exchange, under the ticker symbol "USB." At January 31, 2016, there were 40,607 holders of record of the Company's common stock.

### STOCK PERFORMANCE CHART

The following chart compares the cumulative total shareholder return on the Company's common stock during the five years ended December 31, 2015, with the cumulative total return on the Standard & Poor's 500 Index and the KBW Bank Index. The comparison assumes \$100 was invested on December 31, 2010, in the Company's common stock and in each of the foregoing indices and assumes the reinvestment of all dividends. The comparisons in the graph are based upon historical data and are not indicative of, nor intended to forecast, future performance of the Company's common stock.



# U.S. Bancorp

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

Year Ended December 31 (Dollars in Millions)	2015			2014		
	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates
<b>Assets</b>						
Investment securities	\$103,161	\$ 2,120	2.05%	\$ 90,327	\$ 1,991	2.20%
Loans held for sale	5,784	206	3.56	3,148	128	4.08
Loans <sup>(b)</sup>						
Commercial	84,083	2,281	2.71	75,734	2,228	2.94
Commercial real estate	42,415	1,650	3.89	40,592	1,575	3.88
Residential mortgages	51,840	1,966	3.79	51,818	2,001	3.86
Credit card	18,057	1,969	10.90	17,635	1,817	10.30
Other retail	49,079	2,020	4.12	48,353	2,141	4.43
Total loans, excluding covered loans	245,474	9,886	4.03	234,132	9,762	4.17
Covered loans	4,985	271	5.42	7,560	452	5.97
Total loans	250,459	10,157	4.06	241,692	10,214	4.23
Other earning assets	8,041	136	1.69	5,827	121	2.08
Total earning assets	367,445	12,619	3.43	340,994	12,454	3.65
Allowance for loan losses	(4,035)			(4,187)		
Unrealized gain (loss) on investment securities	710			466		
Other assets	44,745			42,731		
Total assets	<u>\$408,865</u>			<u>\$380,004</u>		
<b>Liabilities and Shareholders' Equity</b>						
Noninterest-bearing deposits	\$ 79,203			\$ 73,455		
Interest-bearing deposits						
Interest checking	55,974	30	.05	53,248	35	.07
Money market savings	79,266	192	.24	63,977	117	.18
Savings accounts	37,150	40	.11	34,196	46	.14
Time deposits	35,558	195	.55	41,764	267	.64
Total interest-bearing deposits	207,948	457	.22	193,185	465	.24
Short-term borrowings	27,960	249	.89	30,252	267	.88
Long-term debt	33,566	699	2.08	26,535	725	2.73
Total interest-bearing liabilities	269,474	1,405	.52	249,972	1,457	.58
Other liabilities	14,686			13,053		
Shareholders' equity						
Preferred equity	4,836			4,756		
Common equity	39,977			38,081		
Total U.S. Bancorp shareholders' equity	44,813			42,837		
Noncontrolling interests	689			687		
Total equity	45,502			43,524		
Total liabilities and equity	<u>\$408,865</u>			<u>\$380,004</u>		
Net interest income		<u>\$11,214</u>			<u>\$10,997</u>	
Gross interest margin			<u>2.91%</u>			<u>3.07%</u>
Gross interest margin without taxable-equivalent increments			<u>2.85%</u>			<u>3.00%</u>
<b>Percent of Earning Assets</b>						
Interest income			3.43%			3.65%
Interest expense			.38			.42
Net interest margin			<u>3.05%</u>			<u>3.23%</u>
Net interest margin without taxable-equivalent increments			<u>2.99%</u>			<u>3.16%</u>

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

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

2013			2012			2011			2015 v 2014
Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
\$ 75,046	\$ 1,767	2.35%	\$ 72,501	\$ 1,939	2.67%	\$ 63,645	\$ 1,980	3.11%	14.2%
5,723	203	3.56	7,847	282	3.60	4,873	200	4.10	83.7
67,274	2,168	3.22	60,830	2,168	3.56	51,616	2,071	4.01	11.0
38,237	1,589	4.16	36,505	1,638	4.49	35,514	1,622	4.57	4.5
47,982	1,959	4.08	40,290	1,827	4.53	33,711	1,632	4.84	-
16,813	1,691	10.06	16,653	1,693	10.16	16,084	1,538	9.56	2.4
47,125	2,318	4.92	47,938	2,488	5.19	48,199	2,649	5.50	1.5
217,431	9,725	4.47	202,216	9,814	4.85	185,124	9,512	5.14	4.8
10,043	643	6.41	13,158	826	6.28	16,303	928	5.69	(34.1)
227,474	10,368	4.56	215,374	10,640	4.94	201,427	10,440	5.18	3.6
6,896	175	2.53	10,548	251	2.38	13,345	250	1.87	38.0
315,139	12,513	3.97	306,270	13,112	4.28	283,290	12,870	4.54	7.8
(4,373)			(4,642)			(5,192)			3.6
633			1,077			227			52.4
41,281			40,144			39,939			4.7
<u>\$352,680</u>			<u>\$342,849</u>			<u>\$318,264</u>			7.6
\$ 69,020			\$ 67,241			\$ 53,856			7.8%
48,792	36	.07	45,433	46	.10	42,827	65	.15	5.1
55,512	76	.14	46,874	62	.13	45,119	76	.17	23.9
31,916	49	.15	29,596	66	.22	26,654	112	.42	8.6
45,217	400	.88	46,566	517	1.11	44,703	587	1.31	(14.9)
181,437	561	.31	168,469	691	.41	159,303	840	.53	7.6
27,683	357	1.29	28,549	447	1.57	30,703	537	1.75	(7.6)
21,280	767	3.60	28,448	1,005	3.53	31,684	1,145	3.61	26.5
230,400	1,685	.73	225,466	2,143	.95	221,690	2,522	1.14	7.8
11,973			11,406			9,602			12.5
4,804			4,381			2,414			1.7
35,113			33,230			29,786			5.0
39,917			37,611			32,200			4.6
1,370			1,125			916			.3
41,287			38,736			33,116			4.5
<u>\$352,680</u>			<u>\$342,849</u>			<u>\$318,264</u>			7.6
	<u>\$10,828</u>			<u>\$10,969</u>			<u>\$10,348</u>		
		3.24%			3.33%			3.40%	
		3.17%			3.26%			3.32%	
		3.97%			4.28%			4.54%	
		.53			.70			.89	
		3.44%			3.58%			3.65%	
		3.37%			3.51%			3.57%	



## Company Information

**General Business Description** U.S. Bancorp is a multi-state financial services holding company headquartered in Minneapolis, Minnesota. U.S. Bancorp was incorporated in Delaware in 1929 and operates as a financial holding company and a bank holding company under the Bank Holding Company Act of 1956. The Company provides a full range of financial services, including lending and depository services, cash management, capital markets, and trust and investment management services. It also engages in credit card services, merchant and ATM processing, mortgage banking, insurance, brokerage and leasing.

U.S. Bancorp's banking subsidiary is engaged in the general banking business, principally in domestic markets. The subsidiary, with \$310 billion in deposits at December 31, 2015, provides a wide range of products and services to individuals, businesses, institutional organizations, governmental entities and other financial institutions. Commercial and consumer lending services are principally offered to customers within the Company's domestic markets, to domestic customers with foreign operations and to large national customers operating in specific industries targeted by the Company. Lending services include traditional credit products as well as credit card services, lease financing and import/export trade, asset-backed lending, agricultural finance and other products. Depository services include checking accounts, savings accounts and time certificate contracts. Ancillary services such as capital markets, treasury management and receivable lock-box collection are provided to corporate customers. U.S. Bancorp's bank and trust subsidiaries provide a full range of asset management and fiduciary services for individuals, estates, foundations, business corporations and charitable organizations.

Other U.S. Bancorp non-banking subsidiaries offer investment and insurance products to the Company's customers principally within its markets, and fund administration services to a broad range of mutual and other funds.

Banking and investment services are provided through a network of 3,133 banking offices principally operating in the Midwest and West regions of the United States, through on-line services and over mobile devices. The Company operates a network of 4,936 ATMs and provides 24-hour, seven day a week telephone customer service. Mortgage banking services are provided through banking offices and loan production offices throughout the Company's markets. Lending products may be originated through banking offices, indirect correspondents, brokers or other lending sources. The Company is also one of the largest providers of corporate and purchasing card services and corporate trust services in the

United States. A wholly-owned subsidiary, Elavon, Inc. ("Elavon"), provides merchant processing services directly to merchants and through a network of banking affiliations. Wholly-owned subsidiaries, and affiliates of Elavon, provide similar merchant services in Canada, Mexico, Brazil and segments of Europe directly or through joint ventures with other financial institutions. The Company also provides corporate trust and fund administration services in Europe. These foreign operations are not significant to the Company.

On a full-time equivalent basis, as of December 31, 2015, U.S. Bancorp employed 65,433 people.

**Risk Factors** An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. Below are risk factors that could adversely affect the Company's financial results and condition and the value of, and return on, an investment in the Company.

### REGULATORY AND LEGAL RISK

**The Company is subject to extensive and expanding government regulation and supervision, which can lead to costly enforcement actions while increasing the cost of doing business and limiting the Company's ability to generate revenue** Federal and state regulation and supervision has increased in recent years due to the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and other financial reform initiatives. The Company will continue to face such increased regulation into 2016 and in future years, as a result of current and future initiatives intended to provide economic stimulus, financial market stability, and enhancement of the liquidity and solvency of financial institutions. Banking regulations are primarily intended to protect depositors' funds, the federal Deposit Insurance Fund, and the banking system as a whole, and not the Company's debt holders or shareholders. These regulations, and the Company's inability to act in certain instances without receiving prior regulatory approval, affect the Company's lending practices, capital structure, investment practices, dividend policy, ability to repurchase common stock, and ability to pursue strategic acquisitions, among other things.

Changes to statutes, regulations or regulatory policies, or their interpretation or implementation, and/or the continued heightening of regulatory practices, requirements or expectations, could affect the Company in substantial and unpredictable ways. For example, the Office of the Comptroller of the Currency's (the "OCC's") Guidelines for

Heightened Standards and the Federal Reserve's Enhanced Prudential Supervision Rules have required and will continue to require significant Board of Directors oversight and management focus on governance and risk-management activities. The OCC has also recently proposed guidelines that, if implemented, will require banks to develop and maintain a recovery plan subject to regulatory review, which could present new challenges and demands on resources. In addition, many parts of the Dodd-Frank Act are still in the implementation stage, which leaves some uncertainty as to its fully implemented aggregate impact upon the Company.

The financial services industry is facing more intense scrutiny from bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with Bank Secrecy Act/anti-money laundering requirements and sanctions compliance requirements as administered by the Office of Foreign Assets Control. In accordance with this trend, the Company entered into a Consent Order with the OCC in October 2015 that concerns deficiencies in its Bank Secrecy Act/anti-money laundering compliance program, and requires an ongoing review of that program. Federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess significant civil or criminal monetary penalties, fines, or restitution; to issue cease and desist or removal orders; and to initiate injunctive actions against banking organizations and institution-affiliated parties. These enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. If the Company does not make satisfactory progress toward addressing the requirements of the October 2015 Consent Order, for example, it may be required to enter into further orders and settlements, pay fines or other penalties or further modify its business practices (which may increase the Company's operating expenses and decrease its revenue). Foreign supervisors also have increased regulatory scrutiny and enforcement in areas related to consumer compliance, money laundering, and information technology systems and controls, among others. Any future enforcement action could have a material adverse impact on the Company.

In general, the amounts paid by financial institutions in settlement of proceedings or investigations and the severity of other terms of regulatory settlements have been increasing dramatically and are likely to continue to increase. In some cases, governmental authorities have required criminal pleas or other extraordinary terms as part of such settlements, which could have significant consequences for a financial institution, including loss of customers, restrictions on the

ability to access the capital markets, and the inability to operate certain businesses or offer certain products for a period of time. Violations of laws and regulations or deemed deficiencies in risk management practices also may be incorporated into the Company's bank supervisory ratings. A downgrade in these ratings, or other regulatory actions and settlements, such as the October 2015 Consent Order, can limit the Company's ability to pursue acquisitions or conduct other expansionary activities for a period of time and require new or additional regulatory approvals before engaging in certain other business activities.

Compliance with new regulations and supervisory initiatives may continue to increase the Company's costs. In addition, regulatory changes may reduce the Company's revenues, limit the types of financial services and products it may offer, alter the investments it makes, affect the manner in which it operates its businesses, increase its litigation and regulatory costs should it fail to appropriately comply with new laws and regulatory requirements, and increase the ability of non-banks to offer competing financial services and products. See "Supervision and Regulation" in the Company's Annual Report on Form 10-K for additional information regarding the extensive regulatory framework applicable to the Company.

**More stringent requirements related to capital and liquidity have been adopted by U.S. banking regulators that may limit the Company's ability to return earnings to shareholders or operate or invest in its business** U.S.

banking regulators have adopted more stringent capital- and liquidity-related standards applicable to larger banking organizations, including the Company. The rules require banks to hold more and higher quality capital as well as sufficient unencumbered liquid assets to meet certain stress scenarios defined by regulation. The implementation of these rules including the common equity tier 1 capital conservation buffer, or additional capital- and liquidity-related rules could require the Company to take further steps to increase its capital, increase its investment security holdings, divest assets or operations or otherwise change aspects of its capital and/or liquidity measures, including in ways that may be dilutive to shareholders or could limit the Company's ability to pay common stock dividends, repurchase its common stock, invest in its businesses or provide loans to its customers. See "Supervision and Regulation" in the Company's Annual Report on Form 10-K for additional information regarding the capital and liquidity requirements under the Dodd-Frank Act and Basel III.

Additional requirements are expected in the future. The Board of Governors of the Federal Reserve System has recently proposed a policy statement that details the

framework it would follow in setting the countercyclical capital buffer, a macroprudential tool that would raise capital requirements when there is an elevated risk of above normal losses in the U.S. financial system. Furthermore, the Basel Committee on Banking Supervision (the “Basel Committee”) has published several consultative papers regarding (i) the standardized approach to credit risk, (ii) a fundamental review of the trading book, (iii) interest rate risk in the banking book, and (iv) operational risk. Finally, the Basel Committee has published its final net stable funding ratio framework. The U.S. banking regulators are expected to incorporate all of these measures into domestic regulation. The ultimate impact on the Company’s capital and liquidity will depend on the final U.S. rulemakings and implementation process thereafter.

**The Company is subject to significant financial and reputational risks from potential legal liability and governmental actions**

The Company faces significant legal risks in its business, and the volume of claims and amount of damages and penalties claimed in litigation and governmental proceedings against it and other financial institutions are increasing. Customers, clients and other counterparties have grown more litigious and are making claims for substantial or indeterminate amounts of damages, while banking regulators and certain other governmental authorities, such as the U.S. Department of Justice, have demonstrated an increasing focus on enforcement, including in connection with alleged violations of law and customer harm. In addition, governmental authorities have begun to seek criminal penalties against companies in the financial services sector for regulatory violations and have begun to require an admission of wrongdoing from financial institutions in connection with settling such matters. Criminal convictions or admissions of wrongdoing in a settlement with the government can lead to greater exposure in civil litigation and reputational harm.

As an example of increased risks arising from litigation, the Company and other large financial institutions have been sued over the past several years in their capacity as trustee for residential mortgage-backed securities (“RMBS”) trusts. The plaintiffs in these actions allege that the significant losses they incurred as investors in the RMBS trusts were caused by the trustees’ failure to enforce loan repurchase obligations and to abide by appropriate standards of care after events of default allegedly occurred, while also arguing to broaden the trustees’ duties. Although the Company has denied liability and believes it has meritorious defenses in these cases, any finding of liability or new or enhanced duties in one or more of these cases against the Company, or another financial institution, could result in a significant financial loss or require a modification to the Company’s business practices, which could negatively impact the Company’s financial results.

Increased litigation costs, substantial legal liability or significant governmental action against the Company could

materially impact its financial condition and results of operations or cause significant reputational harm to the Company, which in turn could adversely impact its business prospects.

**The Company faces increased regulatory and legal risk arising out of its mortgage lending and servicing businesses**

The Company is subject to investigations, examinations and inquiries by government agencies and bank regulators concerning mortgage-related practices, including those related to compliance with selling guidelines relating to residential home loans sold to GSEs, foreclosure-related expenses submitted to the Federal Housing Administration or GSEs for reimbursement, lender-placed insurance, and notices and filings in bankruptcy cases. The Company is cooperating fully with these investigations, examinations and inquiries, any of which could lead to administrative or legal proceedings or settlements. Remedies in such proceedings or settlements may include fines, penalties, restitution or alterations to the Company’s business practices, which could increase the Company’s operating expenses and decrease its revenue. Additionally, reputational damage arising from these or other inquiries and industry-wide publicity could also have an adverse effect upon the Company’s existing mortgage business and could reduce future business opportunities.

In addition to governmental or regulatory investigations, the Company, like other companies with residential mortgage origination and servicing operations, faces the risk of class actions and other litigation arising out of these operations.

**The Company may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches in contractual representations and warranties**

When the Company sells mortgage loans that it has originated to various parties, including GSEs, it is required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. The Company may be required to repurchase mortgage loans or be subject to indemnification claims in the event of a breach of contractual representations or warranties that is not remedied within a certain period. Contracts for residential mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. If economic conditions and the housing market deteriorate or the GSEs increase their claims of breached representations and warranties, the Company could have increased repurchase obligations and increased loss severity on repurchases, requiring material increases to its repurchase reserve.

**The Company is exposed to risk of environmental liability when it takes title to properties**

In the course of the Company’s business, the Company may foreclose on and

take title to real estate. As a result, the Company could be subject to environmental liabilities with respect to these properties. The Company may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if the Company is the owner or former owner of a contaminated site, it may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If the Company becomes subject to significant environmental liabilities, its financial condition and results of operations could be adversely affected.

### **ECONOMIC AND MARKET CONDITIONS RISK**

#### **Deterioration in business and economic conditions could adversely affect the financial services industry, and a reversal or slowing of the current economic recovery could adversely affect the Company's lending business and the value of loans and debt securities it holds**

The Company's business activities and earnings are affected by general business conditions in the United States and abroad, including factors such as the level and volatility of short-term and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of capital and credit, investor sentiment and confidence in the financial markets, and the strength of the domestic and global economies in which the Company operates. The deterioration of any of these conditions can adversely affect the Company's consumer and commercial businesses and securities portfolios, its level of charge-offs and provision for credit losses, its capital levels and liquidity, and its results of operations.

Given the high percentage of the Company's assets represented directly or indirectly by loans, and the importance of lending to its overall business, weak economic conditions are likely to have a negative impact on the Company's business and results of operations. A reversal or slowing of the current economic recovery or another severe contraction could adversely impact loan utilization rates as well as delinquencies, defaults and customer ability to meet obligations under the loans. The value to the Company of other assets such as investment securities, most of which are debt securities or other financial instruments supported by loans, similarly would be negatively impacted by widespread decreases in credit quality resulting from a weakening of the

economy. Downward valuation of debt securities could also negatively impact the Company's capital position.

Stress in the commercial real estate markets, or a downturn in the residential real estate markets, could cause credit losses and deterioration in asset values for the Company and other financial institutions. A downturn in used auto prices from its current levels could result in increased credit losses and impairment of residual lease values for the Company. Additionally, the current environment of heightened scrutiny of financial institutions, as well as a continued focus on the pace and sustainability of the economic recovery, has resulted in increased public awareness of and sensitivity to banking fees and practices.

Any further deterioration in global economic conditions, including those related to recent disruptions in Europe and China, could slow the recovery of the domestic economy or negatively impact the Company's borrowers or other counterparties that have direct or indirect exposure to these regions. Such global disruptions can undermine investor confidence, cause a contraction of available credit, or create market volatility, any of which could have significant adverse effects on the Company's businesses, results of operations, financial condition and liquidity, even if the Company's direct exposure to the affected region is limited. The continued depression of commodity prices, inclusive of energy prices, for an extended period of time, as well as other negative domestic market developments, may erode consumer confidence levels and cause adverse changes in payment patterns, leading to increases in delinquencies and default rates in certain industries, or regions. Such developments could increase the Company's loan charge-offs and provision for credit losses. Any future economic deterioration that affects household or corporate incomes and the continuing concern regarding the possibility of a return to recessionary conditions could also result in reduced demand for credit or fee-based products and services.

#### **Improvements in economic indicators disproportionately affecting the financial services industry may lag improvements in the general economy**

Should the moderate recovery of the United States economy continue, the improvement of certain economic indicators, such as real estate asset values, may nevertheless continue to lag behind the overall economy, which can affect certain industries, such as real estate and financial services, more significantly. Should real estate asset values fail to recover for an extended period of time, the Company could be adversely affected.

#### **Changes in interest rates could reduce the Company's net interest income**

The Company's earnings are dependent to a large degree on net interest income, which is



the difference between interest income from loans and investments and interest expense on deposits and borrowings. Net interest income is significantly affected by market rates of interest, which in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. Like all financial institutions, the Company's financial position is affected by fluctuations in interest rates. Volatility in interest rates can also result in the flow of funds away from financial institutions into direct investments. Direct investments, such as United States government and corporate securities and other investment vehicles (including mutual funds) generally pay higher rates of return than financial institutions, because of the absence of federal insurance premiums and reserve requirements.

**Further downgrades in the U.S. government's sovereign credit rating could result in risks to the Company and general economic conditions that the Company is not able to predict**

In the past, certain ratings agencies downgraded their sovereign credit rating, or negatively revised their outlook, of the U.S. government, and have indicated that they will continue to assess fiscal projections, as well as the medium-term economic outlook for the United States. As a result, there continues to be the perceived risk of a sovereign credit ratings downgrade of the U.S. government, including the ratings of U.S. Treasury securities. If such a downgrade were to occur, the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected. A downgrade might adversely affect the market value of such instruments. Instruments of this nature are often held by financial institutions, including the Company, for investment, liquidity planning and collateral purposes. A downgrade of the sovereign credit ratings of the U.S. government and perceived creditworthiness of U.S. government-related obligations could create uncertainty in the U.S. and global financial markets and negatively impact the Company's liquidity.

**CREDIT AND MORTGAGE BUSINESS RISK**

**Heightened credit risk could require the Company to increase its provision for loan losses, which could have a material adverse effect on the Company's results of operations and financial condition**

When the Company lends money, or commits to lend money, it incurs credit risk, or the risk of losses if its borrowers do not repay their loans. As one of the largest lenders in the United States, the credit performance of the Company's loan portfolios significantly affects its financial results and condition. The Company incurred high levels of losses on loans during the most recent financial

crisis and recovery period, and if the current economic environment were to deteriorate, more of its customers may have difficulty in repaying their loans or other obligations, which could result in a higher level of credit losses and higher provisions for credit losses. The Company reserves for credit losses by establishing an allowance through a charge to earnings to provide for loan defaults and nonperformance. The amount of the Company's allowance for loan losses is based on its historical loss experience as well as an evaluation of the risks associated with its loan portfolio, including the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio. The stress on the United States economy and the local economies in which the Company does business may be greater or last longer than expected, resulting in, among other things, greater than expected deterioration in credit quality of the loan portfolio, or in the value of collateral securing those loans.

In addition, the process the Company uses to estimate losses inherent in its credit exposure requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of its borrowers to repay their loans. These economic predictions and their impact may no longer be capable of accurate estimation, which may, in turn, impact the reliability of the process. As with any such assessments, the Company may fail to identify the proper factors or to accurately estimate the impacts of the factors that the Company does identify. The Company also makes loans to borrowers where it does not have or service the loan with the first lien on the property securing its loan. For loans in a junior lien position, the Company may not have access to information on the position or performance of the first lien when it is held and serviced by a third party and this may adversely affect the accuracy of the loss estimates for loans of these types. Increases in the Company's allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect its financial results. In addition, the Company's ability to assess the creditworthiness of its customers may be impaired if the models and approaches it uses to select, manage, and underwrite its customers become less predictive of future behaviors.

**A concentration of credit and market risk in the Company's loan portfolio could increase the potential for significant losses**

The Company may have higher credit risk, or experience higher credit losses, to the extent its loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. For example, the Company's credit risk and credit losses can increase if borrowers who engage in similar activities are uniquely or disproportionately affected by economic or market conditions, or by regulation, such as regulation related to climate change. Deterioration in economic conditions or real estate values in



states or regions where the Company has relatively larger concentrations of residential or commercial real estate could result in higher credit costs. In particular, deterioration in real estate values and underlying economic conditions in California could result in significantly higher credit losses to the Company.

**Changes in interest rates can impact the value of the Company's mortgage servicing rights and mortgages held for sale, and can make its mortgage banking revenue volatile from quarter to quarter, which can reduce its earnings** The Company has a portfolio of MSR's, which is the right to service a mortgage loan—collect principal, interest and escrow amounts—for a fee. The Company initially carries its MSR's using a fair value measurement of the present value of the estimated future net servicing income, which includes assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect prepayment assumptions and thus fair value. As interest rates fall, prepayments tend to increase as borrowers refinance, and the fair value of MSR's can decrease, which in turn reduces the Company's earnings. Further, it is possible that, because of economic conditions and/or a weak or deteriorating housing market, even if interest rates were to fall or remain low, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSR's' value caused by the lower rates.

**A decline in the soundness of other financial institutions could adversely affect the Company's results of operations** The Company's ability to engage in routine funding or settlement transactions could be adversely affected by the actions and commercial soundness of other domestic or foreign financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different counterparties, and the Company routinely executes and settles transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, the soundness of one or more financial services institutions, or the financial services industry generally, could lead to losses or defaults by the Company or by other institutions and impact the Company's predominately United States-based businesses or the less significant merchant processing, corporate trust and fund administration services businesses it operates in foreign countries. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be further increased when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover

the full amount of the financial instrument exposure due the Company. There is no assurance that any such losses would not adversely affect the Company's results of operations.

**Change in residual value of leased assets may have an adverse impact on the Company's financial results** The Company engages in leasing activities and is subject to the risk that the residual value of the property under lease will be less than the Company's recorded asset value. Adverse changes in the residual value of leased assets can have a negative impact on the Company's financial results. The risk of changes in the realized value of the leased assets compared to recorded residual values depends on many factors outside of the Company's control, including supply and demand for the assets, condition of the assets at the end of the lease term, and other economic factors.

## OPERATIONS AND BUSINESS RISK

**A breach in the security of the Company's systems could disrupt its businesses, result in the disclosure of confidential information, damage its reputation and create significant financial and legal exposure** Although the Company devotes significant resources to maintain and regularly upgrade its systems and processes that are designed to protect the security of the Company's computer systems, software, networks and other technology assets, as well as its intellectual property, and the confidentiality, integrity and availability of information belonging to the Company and its customers, the Company's security measures do not provide absolute security. Many financial services institutions, retailers and other companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber attacks and other means. The Company and certain other large financial institutions in the United States have experienced several well-publicized series of apparently related attacks from technically sophisticated and well resourced third parties that were intended to disrupt normal business activities by making internet banking systems inaccessible to customers for extended periods. These "denial-of-service" attacks have not breached the Company's data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior. Furthermore, even if not directed at the Company, attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of the Company's businesses.

Third parties with which the Company does business or that facilitate its business activities, including exchanges, clearinghouses, payment and ATM networks, financial

intermediaries or vendors that provide services or technology solutions for the Company's operations, could also be sources of operational and security risks to the Company, including with respect to breakdowns or failures of their systems, misconduct by their employees or cyber attacks that could affect their ability to deliver a product or service to the Company or result in lost or compromised information of the Company or its customers. In addition, several large and small retailers and hospitality companies have recently disclosed substantial cyber security breaches affecting debit and credit card accounts of their customers, some of whom were the Company's cardholders. Although these incidents have not yet had a material impact on the Company, these attacks involving Company cards are likely to continue and could, individually or in the aggregate, have a material adverse effect on the Company's financial condition or results of operations.

It is possible that the Company may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently, generally increase in sophistication, often are not recognized until launched, and because security attacks can originate from a wide variety of sources, including organized crime, hackers, terrorists, activists, and other external parties, including parties sponsored by hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers or other users of the Company's systems to disclose sensitive information in order to gain access to the Company's data or that of its customers or clients, such as through "phishing" schemes. These risks may increase in the future as the Company continues to increase its mobile payments and other internet-based product offerings and expands its internal usage of web-based products and applications. In addition, the Company's customers often use their own devices, such as computers, smart phones and tablets, to make payments and manage their accounts. The Company has limited ability to assure the safety and security of its customers' transactions with the Company to the extent they are using their own devices, which could be subject to similar threats.

If the Company's security systems were penetrated or circumvented, or if an authorized user intentionally or unintentionally removed, lost or destroyed operations data, it could cause serious negative consequences for the Company, including significant disruption of the Company's operations, misappropriation of confidential information of the Company or that of its customers, or damage to computers or systems of the Company or those of its customers and counterparties. These consequences could result in violations of applicable privacy and other laws; financial loss to the Company or to its customers; loss of confidence in the Company's security measures; customer dissatisfaction; significant litigation exposure; regulatory fines, penalties or

intervention; reimbursement or other compensatory costs; additional compliance costs; and harm to the Company's reputation, all of which could adversely affect the Company.

**The Company relies on its employees, systems and third parties to conduct its business, and certain failures could adversely affect its operations**

The Company operates in many different businesses in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. The Company incurs risks for potential losses resulting from its operations, including, but not limited to, the risk of fraud by employees or persons outside of the Company, unauthorized access to its computer systems, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions, fines or civil money penalties that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity.

Third parties provide key components of the Company's business infrastructure, such as internet connections, network access and mutual fund distribution. While the Company has selected these third parties carefully, it does not control their actions. Any problems caused by third party service providers, including as a result of their not providing the Company their services for any reason or their performing their services poorly, could adversely affect the Company's ability to deliver products and services to the Company's customers and otherwise to conduct its business. Replacing third party service providers could also entail significant delay and expense. In addition, failure of third party service providers to handle current or higher volumes of use could adversely affect the Company's ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect the Company's businesses to the extent those difficulties result in the interruption or discontinuation of services provided by that party.

Operational risks for large institutions such as the Company have generally increased in recent years, in part because of the proliferation of new technologies, the use of internet services and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. If personal, confidential or proprietary information of customers or clients in the Company's possession were to be mishandled or misused, the Company could suffer significant regulatory consequences, reputational

damage and financial loss. This mishandling or misuse could include, for example, situations in which the information is erroneously provided to parties who are not permitted to have the information, either by fault of the Company's systems, employees, or third party service providers, or where the information is intercepted or otherwise inappropriately taken by third parties. In the event of a breakdown in the internal control system, improper operation of systems or improper employee or third party actions, the Company could suffer financial loss, face legal or regulatory action and suffer damage to its reputation.

**The Company could lose market share and experience increased costs if it does not effectively develop and implement new technology**

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services, including innovative ways that customers can make payments or manage their accounts, such as through the use of digital wallets or digital currencies. The Company's continued success depends, in part, upon its ability to address customer needs by using technology to provide products and services that customers want to adopt, and create additional efficiencies in the Company's operations. Developing and deploying new technology-driven products and services can also involve costs that the Company may not recover and divert resources away from other product development efforts. The Company may not be able to effectively develop and implement profitable new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could harm the Company's competitive position and negatively affect its revenue and profit.

**Negative publicity could damage the Company's reputation and adversely impact its business and financial results**

Reputational risk, or the risk to the Company's business, earnings and capital from negative public opinion, is inherent in the Company's business and increased substantially because of the financial crisis beginning in 2008. The reputation of the financial services industry in general has been damaged as a result of the financial crisis and other matters affecting the financial services industry, including mortgage foreclosure issues. Negative public opinion about the financial services industry generally or the Company specifically could adversely affect the Company's ability to keep and attract customers, and expose the Company to litigation and regulatory action. Negative public opinion can result from the Company's actual or alleged conduct in any number of activities, including lending practices, mortgage servicing and foreclosure practices, corporate governance, executive compensation, regulatory compliance, mergers and acquisitions, and related

disclosure, sharing or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct. Because most of the Company's businesses operate under the "U.S. Bank" brand, actual or alleged conduct by one business can result in negative public opinion about other businesses the Company operates. Although the Company takes steps to minimize reputation risk in dealing with customers and other constituencies, the Company, as a large diversified financial services company with a high industry profile, is inherently exposed to this risk.

**The Company's business and financial performance could be adversely affected, directly or indirectly, by disasters, by terrorist activities or by international hostilities**

Neither the occurrence nor the potential impact of disasters, terrorist activities or international hostilities can be predicted. However, these occurrences could impact the Company directly (for example, by interrupting the Company's systems, which could prevent the Company from obtaining deposits, originating loans and processing and controlling its flow of business; causing significant damage to the Company's facilities; or otherwise preventing the Company from conducting business in the ordinary course), or indirectly as a result of their impact on the Company's borrowers, depositors, other customers, suppliers or other counterparties (for example, by damaging properties pledged as collateral for the Company's loans or impairing the ability of certain borrowers to repay their loans). The Company could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in the Company experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

The Company's ability to mitigate the adverse consequences of these occurrences is in part dependent on the quality of the Company's resiliency planning, and the Company's ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters, terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that the Company transacts with, particularly those that it depends upon, but has no control over. Additionally, the nature and level of natural disasters may be exacerbated by global climate change.

## **LIQUIDITY RISK**

### **If the Company does not effectively manage its liquidity, its business could suffer**

The Company's liquidity is essential for the operation of its business. Market conditions, unforeseen outflows of funds or other events could negatively affect the Company's level or cost of funding, affecting its ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost and in a timely manner. If the Company's access to stable and low-cost sources of funding, such as customer deposits, are reduced, the Company might need to use alternative funding, which could be more expensive or of limited availability. Any substantial, unexpected or prolonged changes in the level or cost of liquidity could adversely affect the Company's business.

### **Loss of customer deposits could increase the**

**Company's funding costs** The Company relies on bank deposits to be a low-cost and stable source of funding. The Company competes with banks and other financial services companies for deposits. If the Company's competitors raise the rates they pay on deposits, the Company's funding costs may increase, either because the Company raises its rates to avoid losing deposits or because the Company loses deposits and must rely on more expensive sources of funding. Higher funding costs reduce the Company's net interest margin and net interest income. Checking and savings account balances and other forms of customer deposits may decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. When customers move money out of bank deposits and into other investments, the Company may lose a relatively low-cost source of funds, increasing the Company's funding costs and reducing the Company's net interest income.

### **A downgrade in the Company's credit ratings could have a material adverse effect on its liquidity, funding costs and access to capital markets**

The Company's credit ratings are important to its liquidity. A reduction in one or more of the Company's credit ratings could adversely affect its liquidity, increase its funding costs or limit its access to the capital markets. Further, a downgrade could decrease the number of investors and counterparties willing or able, contractually or otherwise, to do business or lend to the Company, thereby adversely affecting the Company's competitive position. The Company's credit ratings and credit rating agencies' outlooks are subject to ongoing review by the rating agencies, which consider a number of factors, including the Company's own financial strength, performance,

prospects and operations, as well as factors not within the control of the Company, including conditions affecting the financial services industry generally. There can be no assurance that the Company will maintain its current ratings and outlooks.

### **The Company relies on dividends from its subsidiaries for its liquidity needs and the payment of those**

**dividends could be limited by laws and regulations** The Company is a separate and distinct legal entity from its bank and non-bank subsidiaries. The Company receives a significant portion of its cash from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's stock and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that its bank and certain of its non-bank subsidiaries may pay to the Company without regulatory approval. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to prior claims of the subsidiary's creditors, except to the extent that any of the Company's claims as a creditor of that subsidiary may be recognized.

## **COMPETITIVE AND STRATEGIC RISK**

### **The financial services industry is highly competitive, and competitive pressures could intensify and**

**adversely affect the Company's financial results** The Company operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes, as well as continued industry consolidation, which may increase in connection with current economic and market conditions. This consolidation may produce larger, better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices. The Company competes with other commercial banks, savings and loan associations, mutual savings banks, finance companies, mortgage banking companies, credit unions, investment companies, credit card companies, and a variety of other financial services and advisory companies. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services that traditionally were banking products, and for financial institutions to compete with technology companies in providing electronic and internet-based financial solutions. Many of the Company's competitors have fewer regulatory constraints, and some have lower cost structures. Also, the potential need to adapt to industry changes in information technology systems, on



which the Company and financial services industry are highly dependent, could present operational issues and require capital spending. The Company's ability to compete successfully depends on a number of factors, including, among others, its ability to develop and execute strategic plans and initiatives; developing, maintaining and building long-term customer relationships based on quality service, competitive prices, high ethical standards and safe, sound assets; and industry and general economic trends. A failure to compete effectively could contribute to downward price pressure on the Company's products or services or a loss of market share.

**The Company may need to lower prices on existing products and services and develop and introduce new products and services to maintain market share**

The Company's success depends, in part, on its ability to adapt its products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. Lower prices can reduce the Company's net interest margin and revenues from its fee-based products and services. In addition, the widespread adoption of new technologies, including internet services and mobile devices, such as mobile phones and tablet computers, could require the Company to make substantial expenditures to modify or adapt its existing products and services. Also, these and other capital investments in the Company's businesses may not produce expected growth in earnings anticipated at the time of the expenditure. The Company might not be successful in developing or introducing new products and services, adapting to changing customer preferences and spending and saving habits, achieving market acceptance of its products and services, or sufficiently developing and maintaining loyal customer relationships.

**The Company's business could suffer if it fails to attract and retain skilled employees**

The Company's success depends, in large part, on its ability to attract and retain key employees. Competition for the best people in most activities the Company engages in can be intense. The Company may not be able to hire the best people or to keep them. Recent strong scrutiny of compensation practices has resulted in, and may continue to result in, additional regulation and legislation in this area, as well as additional legislative and regulatory initiatives. There is no assurance that this will not cause increased turnover or impede the Company's ability to retain and attract the highest caliber employees.

**The Company may not be able to complete future acquisitions, and completed acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated, may**

**result in unforeseen integration difficulties, and may dilute existing shareholders' interests** The Company regularly explores opportunities to acquire financial services businesses or assets and may also consider opportunities to acquire other banks or financial institutions. The Company cannot predict the number, size or timing of acquisitions it might pursue.

The Company must generally receive federal regulatory approval before it can acquire a bank or bank holding company. The Company's ability to pursue or complete an attractive acquisition could be negatively impacted by regulatory delay or other regulatory issues. The Company cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. For example, the Company may be required to sell branches as a condition to receiving regulatory approval. If the Company commits certain regulatory violations, including those that result in a downgrade in certain of the Company's bank regulatory ratings, governmental authorities could, as a consequence, preclude it from pursuing future acquisitions for a period of time.

There can be no assurance that acquisitions the Company completes will have the anticipated positive results, including results related to expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits. Integration efforts could divert management's attention and resources, which could adversely affect the Company's operations or results. The integration could result in higher than expected customer loss, deposit attrition, loss of key employees, disruption of the Company's businesses or the businesses of the acquired company, or otherwise adversely affect the Company's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected. In addition, future acquisitions may also expose the Company to increased legal or regulatory risks. Finally, future acquisitions could be material to the Company, and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholders' ownership interests.

**ACCOUNTING AND TAX RISK**

**The Company's reported financial results depend on management's selection of accounting methods and certain assumptions and estimates, which, if incorrect, could cause unexpected losses in the future** The Company's accounting policies and methods are fundamental to how the Company records and reports its financial



condition and results of operations. The Company's management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment regarding the most appropriate manner to report the Company's financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in the Company's reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting the Company's financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the allowance for credit losses, estimations of fair value, the valuation of purchased loans and related indemnification assets, the valuation of MSRs, the valuation of goodwill and other intangible assets, and income taxes. Because of the uncertainty of estimates involved in these matters, the Company may be required to do one or more of the following: significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided, recognize significant impairment on its goodwill and other intangible asset balances, or significantly increase its accrued taxes liability. For more information, refer to "Critical Accounting Policies" in this Annual Report.

**Changes in accounting standards could materially impact the Company's financial statements** From time to time, the Financial Accounting Standards Board and the United States Securities and Exchange Commission change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. The Company could be required to apply a new or revised standard retroactively or apply an existing standard differently, also retroactively, in each case potentially resulting in the Company restating prior period financial statements. As an example, the Financial Accounting Standards Board has issued proposed guidance related to a change in the accounting for credit losses on financial instruments. This proposed guidance represents a significant departure from current accounting guidance and requires earlier recognition of credit losses in a company's financial statements as it utilizes an expected credit loss concept

rather than the incurred loss concept. This new guidance is expected to be adopted by way of a cumulative effect adjustment recorded to beginning retained earnings upon the effective date.

**The Company's investments in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on the Company's financial results**

The Company invests in certain tax-advantaged projects promoting affordable housing, community development and renewable energy resources. The Company's investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. The Company is subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be realized. The possible inability to realize these tax credit and other tax benefits can have a negative impact on the Company's financial results. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of the Company's control, including changes in the applicable tax code and the ability of the projects to be completed.

**RISK MANAGEMENT**

**The Company's framework for managing risks may not be effective in mitigating risk and loss to the Company**

The Company's risk management framework seeks to mitigate risk and loss. The Company has established processes and procedures intended to identify, measure, monitor, report, and analyze the types of risk to which it is subject, including liquidity risk, credit risk, market risk, interest rate risk, compliance risk, strategic risk, reputational risk, and operational risk related to its employees, systems and vendors, among others. However, as with any risk management framework, there are inherent limitations to the Company's risk management strategies as there may exist, or develop in the future, risks that it has not appropriately anticipated or identified. The recent financial and credit crises and resulting regulatory reform highlighted both the importance and some of the limitations of managing unanticipated risks, and the Company's regulators remain focused on ensuring that financial institutions build and maintain robust risk management policies. If the Company's risk management framework proves ineffective, the Company could incur litigation and negative regulatory consequences, and suffer unexpected losses that could affect its financial condition or results of operations.

## Executive Officers

### **RICHARD K. DAVIS**

Mr. Davis is Chairman and Chief Executive Officer of U.S. Bancorp. Mr. Davis, 58, has served as Chairman of U.S. Bancorp since December 2007 and as Chief Executive Officer since December 2006. He also served as President from October 2004 until January 2016, and as Chief Operating Officer from October 2004 until December 2006. Mr. Davis has held management positions with the Company since joining Star Banc Corporation, one of its predecessors, as Executive Vice President in 1993.

### **JENNIE P. CARLSON**

Ms. Carlson is Executive Vice President, Human Resources, of U.S. Bancorp. Ms. Carlson, 55, has served in this position since January 2002. Until that time, she served as Executive Vice President, Deputy General Counsel and Corporate Secretary of U.S. Bancorp since the merger of Firststar Corporation and U.S. Bancorp in February 2001. From 1995 until the merger, she was General Counsel and Secretary of Firststar Corporation and Star Banc Corporation.

### **ANDREW CECERE**

Mr. Cecere is President and Chief Operating Officer of U.S. Bancorp. Mr. Cecere, 55, has served in this position since January 2016. From January 2015 to January 2016, he served as U.S. Bancorp's Vice Chairman and Chief Operating Officer, and from February 2007 to January 2015, he served as U.S. Bancorp's Vice Chairman and Chief Financial Officer. Until that time, he served as Vice Chairman, Wealth Management and Securities Services, of U.S. Bancorp since the merger of Firststar Corporation and U.S. Bancorp in February 2001. Previously, he had served as an executive officer of the former U.S. Bancorp, including as Chief Financial Officer from May 2000 through February 2001.

### **JAMES L. CHOSY**

Mr. Chosy is Executive Vice President, General Counsel and Corporate Secretary of U.S. Bancorp. Mr. Chosy, 52, has served in this position since March 2013. From 2001 to 2013, he served as the General Counsel and Secretary of Piper Jaffray Companies. From 1995 to 2001, Mr. Chosy was Vice President and Associate General Counsel of U.S. Bancorp, having also served as Assistant Secretary of U.S. Bancorp from 1995 through 2000 and as Secretary from 2000 until 2001.

### **TERRANCE R. DOLAN**

Mr. Dolan is Vice Chairman, Wealth Management and Securities Services, of U.S. Bancorp. Mr. Dolan, 54, has served in this position since July 2010. From September 1998 to July 2010, Mr. Dolan served as U.S. Bancorp's Controller. He additionally held the title of Executive Vice President from January 2002 until June 2010 and Senior Vice President from September 1998 until January 2002.

### **JOHN R. ELMORE**

Mr. Elmore is Vice Chairman, Community Banking and Branch Delivery, of U.S. Bancorp. Mr. Elmore, 59, has served in this position since March 2013. From 1999 to 2013, he served as Executive Vice President, Community Banking, of U.S. Bancorp and its predecessor company, Firststar Corporation.

### **LESLIE V. GODRIDGE**

Ms. Godridge is Vice Chairman, Wholesale Banking, of U.S. Bancorp. Ms. Godridge, 60, has served in this position since January 2016. From February 2013 until December 2015, she served as Executive Vice President, National Corporate Specialized Industries and Global Treasury Management, of U.S. Bancorp. From February 2007, when she joined U.S. Bancorp, until January 2013, Ms. Godridge served as Executive Vice President, National Corporate and Institutional Banking, of U.S. Bancorp. Prior to that time, she served as Senior Executive Vice President and a member of the Executive Committee at The Bank of New York, where she was head of BNY Asset Management, Private Banking, Consumer Banking and Regional Commercial Banking from 2004 to 2006.

### **JAMES B. KELLIGREW**

Mr. Kelligrew is Vice Chairman, Wholesale Banking, of U.S. Bancorp. Mr. Kelligrew, 50, has served in this position since January 2016. From March 2014 until December 2015, he served as Executive Vice President, Fixed Income and Capital Markets, of U.S. Bancorp, having served as Executive Vice President, Credit Fixed Income, of U.S. Bancorp from May 2009 to March 2014. Prior to that time, he held various leadership positions with Wells Fargo Securities from 2003 to 2009, and with Bank of America Securities from 1993 to 2003.

**SHAILESH M. KOTWAL**

Mr. Kotwal is Vice Chairman, Payment Services, of U.S. Bancorp. Mr. Kotwal, 51, has served in this position since joining U.S. Bancorp in March 2015. From July 2008 until May 2014, he served as Executive Vice President of TD Bank Group with responsibility for retail banking products and services and as Chair of its enterprise payments council. From 2006 until 2008, he served as President, International, of eFunds Corporation. Previously, Mr. Kotwal served in various leadership roles at American Express Company from 1989 until 2006, including responsibility for operations in North and South America, Europe and the Asia-Pacific regions.

**P.W. PARKER**

Mr. Parker is Vice Chairman and Chief Risk Officer of U.S. Bancorp. Mr. Parker, 59, has served in this position since December 2013. From October 2007 until December 2013 he served as Executive Vice President and Chief Credit Officer of U.S. Bancorp. From March 2005 until October 2007, he served as Executive Vice President of Credit Portfolio Management of U.S. Bancorp, having served as Senior Vice President of Credit Portfolio Management of U.S. Bancorp since January 2002.

**RICHARD B. PAYNE, JR.**

Mr. Payne is Vice Chairman, Wholesale Banking, of U.S. Bancorp. Mr. Payne, 68, has served in this position since November 2010, when he assumed the additional responsibility for Commercial Banking at U.S. Bancorp. From July 2006, when he joined U.S. Bancorp, until November 2010, Mr. Payne served as Vice Chairman, Corporate Banking at U.S. Bancorp. Prior to joining U.S. Bancorp, he served as Executive Vice President for National City Corporation in Cleveland, with responsibility for Capital Markets, from 2001 to 2006.

**KATHERINE B. QUINN**

Ms. Quinn is Executive Vice President and Chief Strategy and Reputation Officer of U.S. Bancorp. Ms. Quinn, 51, has served in this position since joining U.S. Bancorp in September 2013 and has served on U.S. Bancorp's Managing Committee since January 2015. From September 2010 until January 2013, she served as Chief Marketing

Officer of WellPoint, Inc. (now known as Anthem, Inc.), having served as Head of Corporate Marketing of WellPoint from July 2005 until September 2010. Prior to that time, she served as Chief Marketing and Strategy Officer at The Hartford from 2003 until 2005.

**KATHLEEN A. ROGERS**

Ms. Rogers is Vice Chairman and Chief Financial Officer of U.S. Bancorp. Ms. Rogers, 50, has served in this position since January 2015. From June 2005 until January 2015, she served as U.S. Bancorp's Executive Vice President, Business Line Reporting and Planning, having served in various financial roles at U.S. Bancorp since joining the Company in 1987.

**MARK G. RUNKEL**

Mr. Runkel is Executive Vice President and Chief Credit Officer of U.S. Bancorp. Mr. Runkel, 39, has served in this position since December 2013. From February 2011 until December 2013, he served as Senior Vice President and Credit Risk Group Manager of U.S. Bancorp Retail and Payment Services Credit Risk Management, having served as Senior Vice President and Risk Manager of U.S. Bancorp Retail and Small Business Credit Risk Management from June 2009 until February 2011. From March 2005 until May 2009, he served as Vice President and Risk Manager of U.S. Bancorp.

**KENT V. STONE**

Mr. Stone is Vice Chairman, Consumer Banking Sales and Support, of U.S. Bancorp. Mr. Stone, 58, has served in this position since March 2013. He served as an Executive Vice President of U.S. Bancorp from 2000 to 2013, most recently with responsibility for Consumer Banking Support Services since 2006, and held other senior leadership positions with U.S. Bancorp since 1991.

**JEFFRY H. VON GILLERN**

Mr. von Gillern is Vice Chairman, Technology and Operations Services, of U.S. Bancorp. Mr. von Gillern, 50, has served in this position since July 2010. From April 2001, when he joined U.S. Bancorp, until July 2010, Mr. von Gillern served as Executive Vice President of U.S. Bancorp, additionally serving as Chief Information Officer from July 2007 until July 2010.

# Directors

**RICHARD K. DAVIS<sup>1,6</sup>**

*Chairman and Chief Executive Officer*  
U.S. Bancorp

**DOUGLAS M. BAKER, JR.<sup>1,5,6</sup>**

*Chairman and Chief Executive Officer*  
Ecolab Inc.  
(Cleaning and sanitizing products)

**WARNER L. BAXTER<sup>3,4</sup>**

*Chairman, President and Chief Executive Officer*  
Ameren Corporation  
(Energy)

**ARTHUR D. COLLINS, JR.<sup>1,2,5</sup>**

*Retired Chairman and Chief Executive Officer*  
Medtronic, Inc.  
(Medical device and technology)

**KIMBERLY J. HARRIS<sup>1,4,5</sup>**

*President and Chief Executive Officer*  
Puget Energy, Inc. and Puget Sound Energy, Inc.  
(Energy)

**ROLAND A. HERNANDEZ<sup>1,3,4</sup>**

*Founding Principal and Chief Executive Officer*  
Hernandez Media Ventures  
(Media)

**DOREEN WOO HO<sup>3,6</sup>**

*Commissioner*  
San Francisco Port Commission  
(Government)

**JOEL W. JOHNSON<sup>3,6</sup>**

*Retired Chairman and Chief Executive Officer*  
Hormel Foods Corporation  
(Consumer food products)

**OLIVIA F. KIRTLEY<sup>2,6</sup>**

*Business Consultant*  
(Consulting)

**KAREN S. LYNCH<sup>4,6</sup>**

*President*  
Aetna Inc.  
(Healthcare benefits)

**DAVID B. O'MALEY<sup>1,2,5</sup>**

*Retired Chairman, President and Chief Executive Officer*  
Ohio National Financial Services, Inc.  
(Insurance)

**O'DELL M. OWENS, M.D., M.P.H.<sup>2,4</sup>**

*Medical Director*  
Cincinnati Health Department  
(Government)

**CRAIG D. SCHNUCK<sup>5,6</sup>**

*Former Chairman and Chief Executive Officer*  
Schnuck Markets, Inc.  
(Food retail)

**PATRICK T. STOKES<sup>1,5,6</sup>**

*Former Chairman and Former Chief Executive Officer*  
Anheuser-Busch Companies, Inc.  
(Consumer products)

**SCOTT W. WINE<sup>2,3,4</sup>**

*Chairman and Chief Executive Officer*  
Polaris Industries, Inc.  
(Motorized products)

1. Executive Committee

2. Compensation and Human Resources Committee

3. Audit Committee

4. Community Reinvestment and Public Policy Committee

5. Governance Committee

6. Risk Management Committee

## CORPORATE INFORMATION

### Executive Offices

**U.S. Bancorp**  
800 Nicollet Mall  
Minneapolis, MN 55402

### Common Stock Transfer Agent and Registrar

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

#### Computershare

P.O. Box 30170  
College Station, TX 77842-3170  
Phone: 888-778-1311 or  
201-680-6578 (international calls)  
[www.computershare.com/investor](http://www.computershare.com/investor)

Registered or Certified Mail:  
Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845

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

### Independent Auditor

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

### Common Stock Listing and Trading

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

### Dividends and Reinvestment Plan

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

### Financial Information

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

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

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

#### U.S. Bancorp Investor Relations

800 Nicollet Mall  
Minneapolis, MN 55402  
[investorrelations@usbank.com](mailto:investorrelations@usbank.com)  
Phone: 866-775-9668

### Media Requests

Dana E. Ripley  
Senior Vice President  
Corporate Communications  
[dana.ripley@usbank.com](mailto:dana.ripley@usbank.com)  
Phone: 612-303-3167

### Privacy

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

### Code of Ethics

At U.S. Bancorp, our commitment to high ethical standards guides everything we do. Demonstrating this commitment through our words and actions is how each of us does the right thing every day for our customers, shareholders, communities and each other. Our style of ethical leadership is why we were named a World's Most Ethical Company in 2015 by the Ethisphere Institute.

Each year, every employee certifies compliance with the letter and spirit of our Code of Ethics and Business Conduct.

For details about our Code of Ethics and Business Conduct, visit [usbank.com](http://usbank.com) and click on About U.S. Bank and then Investor Relations.

### Diversity and Inclusion

At U.S. Bancorp, embracing diversity and fostering inclusion are business imperatives. We view everything we do through a diversity and inclusion lens to deepen our relationships with our stakeholders: our employees, customers, shareholders and communities.

Our 67,000 employees bring their whole selves to work. We respect and value each other's differences, strengths and perspectives, and we strive to reflect the communities we serve. This makes us stronger, more innovative and more responsive to our diverse customers' needs.

### Equal Opportunity and Affirmative Action

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

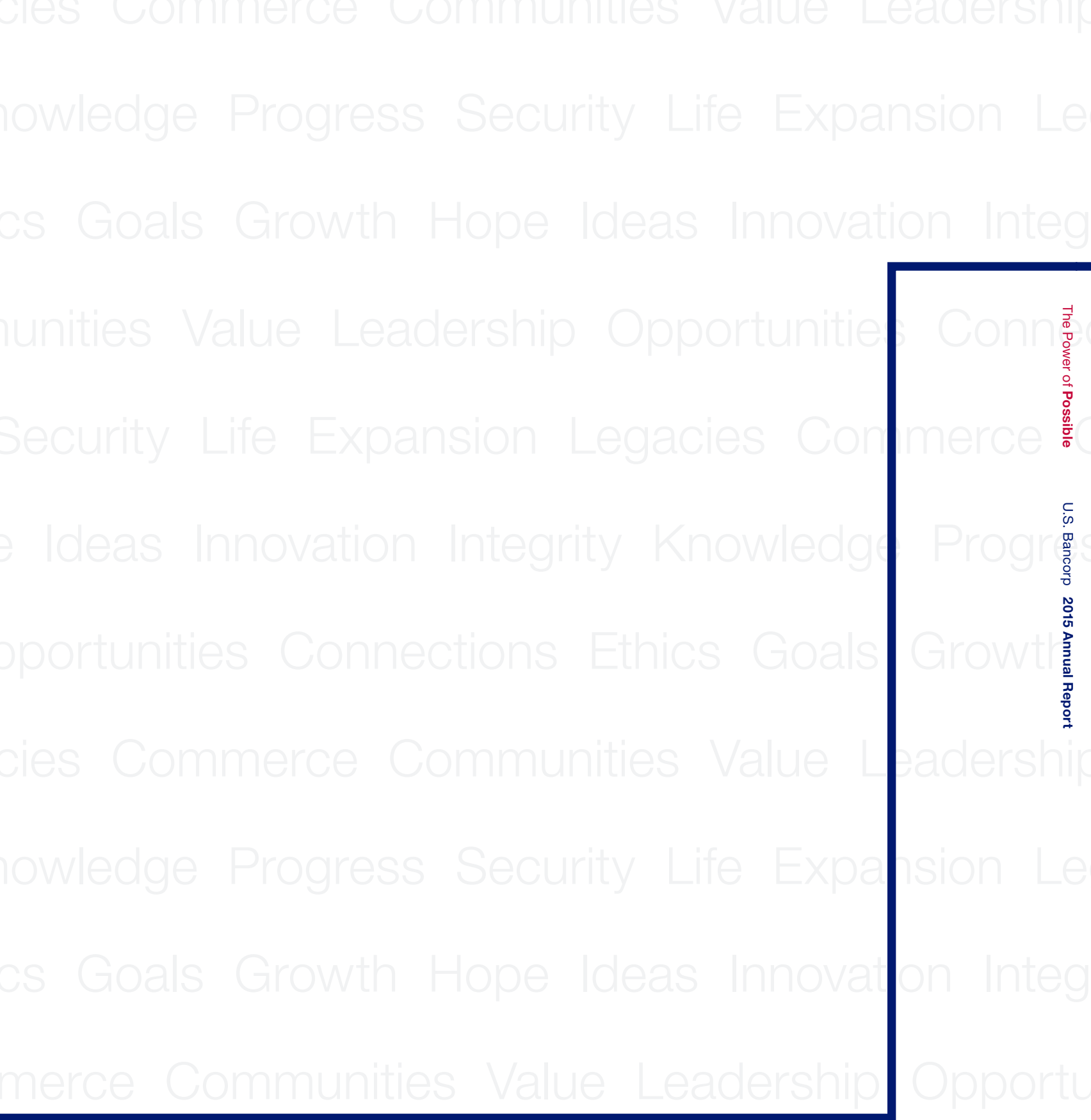
U.S. Bancorp, including each of our subsidiaries, is an equal opportunity employer committed to creating a diverse workforce.

### Accessibility

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







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[USBANK.COM](http://USBANK.COM)

Expansion

Connections Ethics Goals Growth Hope Ideas Inn