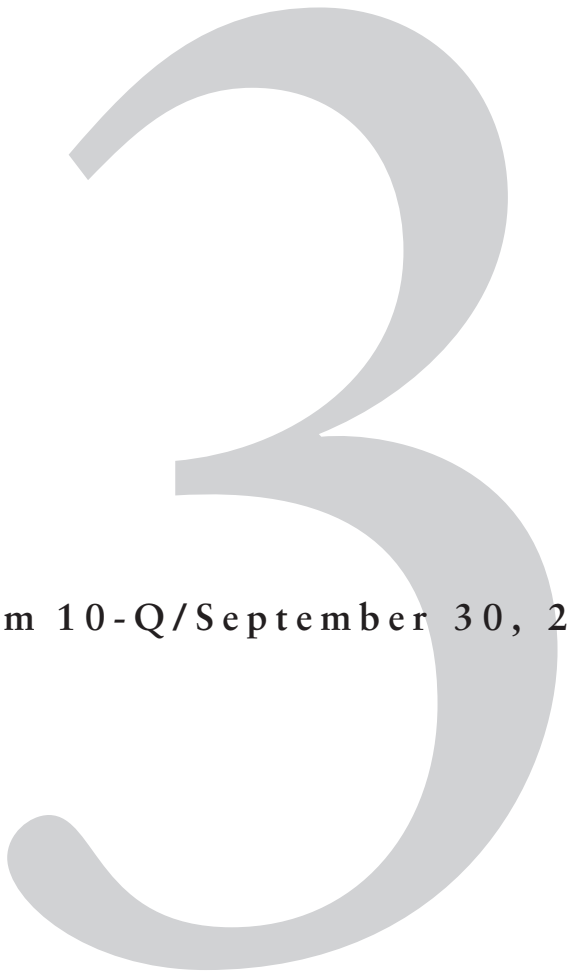


Form 10-Q/September 30, 2021

usbancorp

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall
Minneapolis, Minnesota 55402
(Address of principal executive offices, including zip code)

651-466-3000
(Registrant's telephone number, including area code)

(not applicable)
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbols	Name of each exchange on which registered
Common Stock, $.01 par value per share	USB	New York Stock Exchange
Depositary Shares (each representing 1/100th interest in a share of Series A Non-Cumulative Perpetual Preferred Stock, par value $1.00)	USB PrA	New York Stock Exchange
Depositary Shares (each representing 1/1,000th interest in a share of Series B Non-Cumulative Perpetual Preferred Stock, par value $1.00)	USB PrH	New York Stock Exchange
Depositary Shares (each representing 1/1,000th interest in a share of Series F Non-Cumulative Perpetual Preferred Stock, par value $1.00)	USB PrM	New York Stock Exchange
Depositary Shares (each representing 1/1,000th interest in a share of Series K Non-Cumulative Perpetual Preferred Stock, par value $1.00)	USB PrP	New York Stock Exchange
Depositary Shares (each representing 1/1,000th interest in a share of Series L Non-Cumulative Perpetual Preferred Stock, par value $1.00)	USB PrQ	New York Stock Exchange
Depositary Shares (each representing 1/1,000th interest in a share of Series M Non-Cumulative Perpetual Preferred Stock, par value $1.00)	USB PrR	New York Stock Exchange
0.850% Medium-Term Notes, Series X (Senior), due June 7, 2024	USB/24B	New York Stock Exchange

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

YES ☑ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES ☑ NO ☐

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

Large accelerated filer ☑
Accelerated filer ☐
Non-accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

YES ☐ NO ☑

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

Class	Outstanding as of October 31, 2021
Common Stock, $0.01 Par Value	1,482,797,679 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. The COVID-19 pandemic is adversely affecting U.S. Bancorp, its customers, counterparties, employees, and third-party service providers, and the ultimate extent of the impacts on its business, financial position, results of operations, liquidity, and prospects is uncertain. Continued deterioration in general business and economic conditions or turbulence in domestic or global financial markets could adversely affect U.S. Bancorp's revenues and the values of its assets and liabilities, reduce the availability of funding to certain financial institutions, lead to a tightening of credit, and increase stock price volatility. In addition, changes to statutes, regulations, or regulatory policies or practices could affect U.S. Bancorp in substantial and unpredictable ways. U.S. Bancorp's results could also be adversely affected by changes in interest rates; further increases in unemployment 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 its investment securities; legal and regulatory developments; litigation; increased competition from both banks and non-banks; civil unrest; changes in customer behavior and preferences; breaches in data security, including as a result of work-from-home arrangements; failures to safeguard personal information; 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 reputation risk. In addition, U.S. Bancorp's proposed acquisition of MUFG Union Bank presents risks and uncertainties, including, among others: the risk that the cost savings, any revenue synergies and other anticipated benefits of the proposed acquisition may not be realized or may take longer than anticipated to be realized; the risk that U.S. Bancorp's business could be disrupted as a result of the announcement and pendency of the proposed acquisition and diversion of management's attention from ongoing business operations and opportunities; the possibility that the proposed acquisition, including the integration of MUFG Union Bank, may be more costly or difficult to complete than anticipated; delays in closing the proposed acquisition; and the failure of required governmental approvals to be obtained or any other closing conditions in the definitive purchase agreement to be satisfied.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2020, on file with the Securities and Exchange Commission, including the sections entitled "Corporate Risk Profile" and "Risk Factors" contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. In addition, factors other than these risks also could adversely affect U.S. Bancorp's results, and the reader should not consider these risks to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30 2021	2020	Percent Change	Nine Months Ended September 30 2021	2020	Percent Change
Condensed Income Statement						
Net interest income	$ 3,171	$ 3,227	(1.7)%	$ 9,371	$ 9,650	(2.9)%
Taxable-equivalent adjustment (a)	26	25	4.0	79	73	8.2
Net interest income (taxable-equivalent basis) (b)	3,197	3,252	(1.7)	9,450	9,723	(2.8)
Noninterest income	2,693	2,712	(.7)	7,693	7,851	(2.0)
Total net revenue	5,890	5,964	(1.2)	17,143	17,574	(2.5)
Noninterest expense	3,429	3,371	1.7	10,195	10,005	1.9
Provision for credit losses	(163)	635	*	(1,160)	3,365	*
Income before taxes	2,624	1,958	34.0	8,108	4,204	92.9
Income taxes and taxable-equivalent adjustment	590	372	58.6	1,801	744	*
Net income	2,034	1,586	28.2	6,307	3,460	82.3
Net (income) loss attributable to noncontrolling interests	(6)	(6)	—	(17)	(20)	15.0
Net income attributable to U.S. Bancorp	$ 2,028	$ 1,580	28.4	$ 6,290	$ 3,440	82.8
Net income applicable to U.S. Bancorp common shareholders	$ 1,934	$ 1,494	29.5	$ 6,023	$ 3,196	88.5
Per Common Share						
Earnings per share	$ 1.30	$ .99	31.3%	$ 4.04	$ 2.12	90.6%
Diluted earnings per share	1.30	.99	31.3	4.04	2.11	91.5
Dividends declared per share	.46	.42	9.5	1.30	1.26	3.2
Book value per share (c)	32.22	30.93	4.2			
Market value per share	59.44	35.85	65.8			
Average common shares outstanding	1,483	1,506	(1.5)	1,491	1,510	(1.3)
Average diluted common shares outstanding	1,484	1,507	(1.5)	1,492	1,511	(1.3)
Financial Ratios						
Return on average assets	1.45%	1.17%		1.53%	.87%	
Return on average common equity	15.9	12.8		17.0	9.3	
Net interest margin (taxable-equivalent basis) (a)	2.53	2.67		2.52	2.73	
Efficiency ratio (b)	58.4	56.6		59.8	57.4	
Net charge-offs as a percent of average loans outstanding	.20	.66		.25	.58	
Average Balances						
Loans	$296,739	$311,018	(4.6)%	$295,014	$308,935	(4.5)%
Loans held for sale	7,438	7,983	(6.8)	8,422	6,352	32.6
Investment securities (d)	151,755	128,565	18.0	152,653	123,444	23.7
Earning assets	503,325	486,104	3.5	500,616	476,018	5.2
Assets	553,446	536,902	3.1	551,199	525,380	4.9
Noninterest-bearing deposits	129,018	109,375	18.0	124,262	92,935	33.7
Deposits	431,487	405,523	6.4	429,039	390,598	9.8
Short-term borrowings	14,688	18,049	(18.6)	14,758	21,335	(30.8)
Long-term debt	35,972	43,542	(17.4)	37,196	44,587	(16.6)
Total U.S. Bancorp shareholders' equity	54,273	52,416	3.5	53,327	51,936	2.7

	September 30, 2021	December 31, 2020	
Period End Balances			
Loans	$297,608	$297,707	—%
Investment securities	149,376	136,840	9.2
Assets	567,495	553,905	2.5
Deposits	442,902	429,770	3.1
Long-term debt	35,671	41,297	(13.6)
Total U.S. Bancorp shareholders' equity	53,743	53,095	1.2
Asset Quality			
Nonperforming assets	$ 944	$ 1,298	(27.3)%
Allowance for credit losses	6,300	8,010	(21.3)
Allowance for credit losses as a percentage of period-end loans	2.12%	2.69%	
Capital Ratios			
Common equity tier 1 capital	10.2%	9.7%	
Tier 1 capital	11.7	11.3	
Total risk-based capital	13.4	13.4	
Leverage	8.7	8.3	
Total leverage exposure	7.0	7.3	
Tangible common equity to tangible assets (b)	6.8	6.9	
Tangible common equity to risk-weighted assets (b)	9.4	9.5	
Common equity tier 1 capital to risk-weighted assets, reflecting the full implementation of the current expected credit losses methodology (b)	9.7	9.3	

* *Not meaningful*

(a) Based on a federal income tax rate of 21 percent for those assets and liabilities whose income or expense is not included for federal income tax purposes.

(b) See Non-GAAP Financial Measures beginning on page 35.

(c) Calculated as U.S. Bancorp common shareholders' equity divided by common shares outstanding at end of the period.

(d) 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.

Management's Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the "Company") reported net income attributable to U.S. Bancorp of $2.0 billion for the third quarter of 2021, or $1.30 per diluted common share, compared with $1.6 billion, or $0.99 per diluted common share, for the third quarter of 2020. Return on average assets and return on average common equity were 1.45 percent and 15.9 percent, respectively, for the third quarter of 2021, compared with 1.17 percent and 12.8 percent, respectively, for the third quarter of 2020.

Total net revenue for the third quarter of 2021 was $74 million (1.2 percent) lower than the third quarter of 2020, reflecting a 1.7 percent decrease in net interest income and a 0.7 percent decrease in noninterest income. The decrease in net interest income from the third quarter of 2020 was due to changes in loan portfolio composition and lower average loan balances primarily driven by commercial loan paydowns by corporate customers accessing the capital markets and the Small Business Administration ("SBA") Paycheck Protection Program, partially offset by changes in deposit and funding mix as well as higher loan fees related to the SBA Paycheck Protection Program. The noninterest income decrease was driven by lower mortgage banking revenue, commercial products revenue and other noninterest income, mostly offset by improvements in payment services revenue, trust and investment management fees, deposit service charges, treasury management fees and investment products fees.

Noninterest expense in the third quarter of 2021 was $58 million (1.7 percent) higher than the third quarter of 2020, reflecting increases in compensation expense, primarily related to performance-based incentive compensation, as well as higher professional services expense, marketing and business development expense, and technology and communications expense, partially offset by lower net occupancy and equipment expense and other noninterest expense.

The provision for credit losses for the third quarter of 2021 was a benefit of $163 million, which was $798 million favorable from the third quarter of 2020, driven by a decrease in the allowance for credit losses during the third quarter of 2021 as a result of continued improvement in the global economy, as well as strong credit and collateral performance, compared with an increase in the allowance for credit losses during the third quarter of 2020. Net charge-offs in the third quarter of 2021 were $147 million, compared with $515 million in the third quarter of 2020. Refer to "Corporate Risk Profile" for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first nine months of 2021 was $6.3 billion, or $4.04 per diluted common share, compared with $3.4 billion, or $2.11 per diluted common share, for the first nine months of 2020. Return on average assets and return on average common equity were 1.53 percent and 17.0 percent, respectively, for the first nine months of 2021, compared with 0.87 percent and 9.3 percent, respectively, for the first nine months of 2020.

Total net revenue for the first nine months of 2021 was $431 million (2.5 percent) lower than the first nine months of 2020, reflecting a 2.9 percent decrease in net interest income (2.8 percent on a taxable-equivalent basis) and a 2.0 percent decrease in noninterest income. The decrease in net interest income from the first nine months of 2020 was due to changes in loan portfolio composition, lower average loan balances, the impact of lower interest rates compared with the prior year and higher premium amortization in the investment portfolio related to mortgage refinance activities, partially offset by changes in deposit and funding mix as well as higher loan fees related to the SBA Paycheck Protection Program. The noninterest income decrease was driven by lower mortgage banking revenue, commercial products revenue and securities gains, partially offset by improvements in payment services revenue, trust and investment management fees, treasury management fees, investment products fees, deposit service charges and other noninterest income.

Noninterest expense in the first nine months of 2021 was $190 million (1.9 percent) higher than the first nine months of 2020, reflecting increases in compensation expense, technology and communications expense, professional services expense, and marketing and business development expense, partially offset by lower net occupancy and equipment expense and other noninterest expense.

The provision for credit losses for the first nine months of 2021 was a benefit of $1.2 billion, which was $4.5 billion favorable compared to the first nine months of 2020, driven by a decrease in the allowance for credit losses during the first nine months of 2021 as a result of improvement in the global economy and strong credit and collateral performance, compared with an increase in the allowance for credit losses during the first nine months of 2020. Net charge-offs in the first nine months of 2021 were $550 million, compared with $1.3 billion in the first nine months of 2020. 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.

Pending Acquisition In September 2021, the Company announced that it has entered into a definitive agreement to acquire MUFG Union Bank's core regional banking franchise from Mitsubishi UFJ Financial Group ("MUFG"), for a purchase price of approximately $8.0 billion, including $5.5 billion in cash and approximately 44 million shares of U.S. Bancorp common stock. Upon close of the transaction, MUFG will hold approximately 2.9 percent of the Company's common stock. The transaction excludes the purchase of MUFG Union Bank's Global Corporate & Investment Bank, certain middle and back office functions, and other assets. MUFG Union Bank currently has approximately 300 branches in California, Washington and Oregon and is expected to add, based on MUFG Union Bank's June 30, 2021 balance sheet, approximately $105 billion in total assets, $58 billion of loans and $90 billion of deposits to the Company's consolidated balance sheet. The transaction is expected to close in the first half of 2022, subject to customary closing conditions, including regulatory approvals.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $3.2 billion in the third quarter and $9.5 billion in the first nine months of 2021, representing decreases of $55 million (1.7 percent) and $273 million (2.8 percent), respectively, compared with the same periods of 2020. The decreases were primarily due to changes in loan mix and lower average loan balances driven by commercial loan paydowns by corporate customers accessing the capital markets and the SBA Paycheck Protection Program, partially offset by changes in deposit and funding mix as well as higher loan fees related to the SBA Paycheck Protection Program. Net interest income further decreased in the first nine months of 2021, compared with the first nine months of 2020, due to higher premium amortization related to securities prepayments and the impact of lower interest rates compared with the prior year. Average earning assets were $17.2 billion (3.5 percent) higher in the third quarter and $24.6 billion (5.2 percent) higher in the first nine months of 2021, compared with the same periods of 2020, reflecting increases in investment securities and other earning assets, primarily driven by higher cash balances, while average loans decreased due to continued paydowns by corporate customers. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2021 was 2.53 percent and 2.52 percent, respectively, compared with 2.67 percent and 2.73 percent in the third quarter and first nine months of 2020, respectively. The decrease in net interest margin from the prior year was primarily due to the impact of declining interest rates on loan yields, the mix of earning assets and lower reinvestment yields in the investment portfolio, partially offset by the net benefit of funding composition and higher loan fees. The decrease in net interest margin in the first nine months of 2021, compared with the first nine months of 2020, was further due to higher premium amortization within the investment portfolio. Refer to the "Consolidated Daily Average Balance Sheet and Related Yields and Rates" tables for further information on net interest income.

Average total loans in the third quarter and first nine months of 2021 were $14.3 billion (4.6 percent) and $13.9 billion (4.5 percent) lower, respectively, than the same periods of 2020. The decreases were primarily due to lower commercial loans driven by continued paydowns by corporate customers that accessed the capital markets and the SBA Paycheck Protection Program, lower commercial real estate loans as a result of customer paydowns, and lower credit card loans driven by higher customer payment rates. Average total loans further decreased in the third quarter of 2021, compared with the third quarter of 2020, due to lower residential mortgages driven by paydowns. These decreases were partially offset by higher other retail loans, driven by growth in installment loans due to strong auto and recreational vehicle lending, partially offset by lower home equity and second mortgages as more customers chose to refinance their existing first lien residential mortgage balances during the prior year due to the low interest rate environment.

Average investment securities in the third quarter and first nine months of 2021 were $23.2 billion (18.0 percent) and $29.2 billion (23.7 percent) higher, respectively, than the same periods of 2020, primarily due to purchases of mortgage-backed, U.S. Treasury and state and political securities, net of prepayments and maturities.

Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended September 30 2021	2020	Percent Change	Nine Months Ended September 30 2021	2020	Percent Change
Credit and debit card revenue	$ 393	$ 388	1.3%	$1,125	$ 976	15.3%
Corporate payment products revenue	156	125	24.8	420	371	13.2
Merchant processing services	392	347	13.0	1,084	950	14.1
Trust and investment management fees	459	434	5.8	1,349	1,295	4.2
Deposit service charges	194	170	14.1	531	512	3.7
Treasury management fees	155	145	6.9	462	425	8.7
Commercial products revenue	277	303	(8.6)	837	904	(7.4)
Mortgage banking revenue	418	553	(24.4)	1,063	1,596	(33.4)
Investment products fees	62	48	29.2	177	142	24.6
Securities gains (losses), net	20	12	66.7	88	143	(38.5)
Other	167	187	(10.7)	557	537	3.7
Total noninterest income	$2,693	$2,712	(.7)%	$7,693	$7,851	(2.0)%

Average total deposits for the third quarter and first nine months of 2021 were $26.0 billion (6.4 percent) and $38.4 billion (9.8 percent) higher, respectively, than the same periods of 2020, including the acquisition of deposit balances from State Farm Bank in the fourth quarter of 2020. Average noninterest-bearing deposits for the third quarter and first nine months of 2021 were $19.6 billion (18.0 percent) and $31.3 billion (33.7 percent) higher, respectively, than the same periods of 2020, primarily due to higher Corporate and Commercial Banking, and Wealth Management and Investment Services balances. The increase in noninterest-bearing deposits in the third quarter of 2021, compared with the third quarter of 2020, was partially offset by a decrease in Payment Services balances. Average total savings deposits for the third quarter and first nine months of 2021 were $16.9 billion (6.4 percent) and $21.6 billion (8.4 percent) higher, respectively, than the same periods of the prior year, driven by increases in Consumer and Business Banking balances, partially offset by decreases in Corporate and Commercial Banking balances. The growth in average noninterest-bearing and total savings deposits was primarily a result of the actions by the federal government to increase liquidity in the financial system and government stimulus programs. Average time deposits for the third quarter and first nine months of 2021 were $10.5 billion (31.0 percent) and $14.5 billion (36.7 percent) lower, respectively, than the same periods of 2020, primarily driven by decreases in those deposits managed as an alternative to other funding sources, based largely on relative pricing and liquidity characteristics.

Provision for Credit Losses The provision for credit losses was a benefit of $163 million for the third quarter and $1.2 billion for the first nine months of 2021, representing decreases of $798 million and $4.5 billion, respectively, from the same periods of 2020. The decreases were driven by the Company decreasing the allowance for credit losses in 2021 as a result of improvement in the global economy, as well as strong credit and collateral performance, compared with the Company increasing the allowance for credit losses in 2020 due to deteriorating economic conditions related to COVID-19. Net charge-offs decreased $368 million (71.5 percent) and $795 million (59.1 percent) in the third quarter and first nine months of 2021, respectively, compared with the same periods of the prior year, reflecting improvement across all loan categories. Refer to "Corporate Risk Profile" for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was $2.7 billion in the third quarter and $7.7 billion in the first nine months of 2021, representing decreases of $19 million (0.7 percent) and $158 million (2.0 percent), respectively, compared with the same periods of 2020. The decreases from a year ago reflected lower mortgage banking revenue and commercial products revenue, partially offset by higher payment services revenue, trust and investment management fees, deposit service charges, treasury management fees and investment products fees. The decrease in noninterest income in the first nine months of 2021, compared with the first nine months of 2020, was also due to lower securities gains. Mortgage banking revenue decreased in the third quarter of 2021, compared with the third quarter of 2020, driven by lower production volume and related gain on sale margins, partially offset by increases in mortgage servicing rights ("MSRs") valuations, net of hedging activities, as well as gains on higher Government National Mortgage Association ("GNMA") loan sales. The decrease in mortgage banking revenue in the first nine months of 2021, compared with the first nine months of 2020, was due to lower production volume and related gain on sale margins, along with declines in MSR valuations, net of hedging activities. Commercial

Table 3 Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30 2021	2020	Percent Change	Nine Months Ended September 30 2021	2020	Percent Change
Compensation	$1,847	$1,687	9.5%	$ 5,448	$ 4,992	9.1%
Employee benefits	336	335	.3	1,057	1,001	5.6
Net occupancy and equipment	259	276	(6.2)	780	823	(5.2)
Professional services	126	102	23.5	332	307	8.1
Marketing and business development	99	72	37.5	237	213	11.3
Technology and communications	361	334	8.1	1,082	932	16.1
Postage, printing and supplies	69	70	(1.4)	203	214	(5.1)
Other intangibles	41	44	(6.8)	119	129	(7.8)
Other	291	451	(35.5)	937	1,394	(32.8)
Total noninterest expense	$3,429	$3,371	1.7%	$10,195	$10,005	1.9%
Efficiency ratio (a)	58.4%	56.6%		59.8%	57.4%	

a) See Non-GAAP Financial Measures beginning on page 35.

products revenue decreased in the third quarter and first nine months of 2021, compared with the same periods of the prior year, primarily due to lower capital markets activity and trading revenue, partially offset by higher syndication revenue and fees. The decrease in commercial products revenue in the first nine months of 2021, compared with the first nine months of 2020, was further offset by higher non-yield loan fees as a result of higher unused commitments. Other noninterest income decreased in the third quarter of 2021, compared with the third quarter of 2020, primarily due to the third quarter of 2020 impact of higher equity investment income and transition services agreement revenue associated with the sale of the Company's ATM third-party servicing business, partially offset by certain asset impairments as a result of branch optimization, and higher retail leasing end of term residual gains in the third quarter of 2021. During 2020, payment services revenue had been adversely affected by the impact of the COVID-19 pandemic on consumer and business spending, particularly related to travel and entertainment activities. However, spending has continued to strengthen across most sectors driven by government stimulus, local jurisdictions reducing restrictions and consumer behaviors normalizing. As a result, payment services revenue increased in the third quarter and first nine months of 2021, compared with the same periods of 2020. The components of payment services revenue included higher credit and debit card revenue driven by higher net interchange revenue related to sales volume as well as stronger transaction and cash advance fees, partially offset by lower prepaid card processing activities as government stimulus programs dissipated, as well as higher investment in customer acquisition. Corporate payment products revenue increased primarily due to improving business spending, while merchant processing services revenue increased driven by higher sales volume as well as higher merchant and equipment fees. Trust and investment management fees increased primarily due to business growth and favorable market conditions, while deposit service charges increased primarily due to higher customer activity and ATM processing revenue. Treasury management fees increased due to core growth driven by the COVID-19 economic recovery, while investment products fees increased primarily driven by favorable market conditions and core growth.

Noninterest Expense Noninterest expense was $3.4 billion in the third quarter and $10.2 billion in the first nine months of 2021, representing increases of $58 million (1.7 percent) and $190 million (1.9 percent), respectively, over the same periods of 2020. The increases from the prior year reflected higher compensation expense, professional services expense, marketing and business development expense, and technology and communications expense, partially offset by lower net occupancy and equipment expense, and other noninterest expense. Compensation expense increased due to higher performance-based incentives, merit increases and revenue-related compensation driven by business production. Professional services expense increased primarily due to an increase in business investment and related initiatives in the third quarter of 2021. Marketing and business development expense increased due to the timing of marketing campaigns supporting business development and lower marketing activities in 2020 during the pandemic. Technology and communications expense increased primarily due to higher expenditures supporting business technology investments. Employee benefits expense increased in the first nine months of 2021, compared with the first nine months of 2020, primarily due to higher payroll taxes and related benefits, and higher pension expense. Net occupancy and equipment expense decreased in the third quarter and first nine months of 2021, compared with the same periods of the prior year, primarily due to

branch closures. Other noninterest expense decreased primarily due to higher COVID-19 related expenses in 2020 including recognizing liabilities related to future delivery exposures for merchant and airline processing, as well as lower costs related to tax-advantaged projects which were scaled back in 2020 during the pandemic.

Income Tax Expense The provision for income taxes was $564 million (an effective rate of 21.7 percent) for the third quarter and $1.7 billion (an effective rate of 21.4 percent) for the first nine months of 2021, compared with $347 million (an effective rate of 18.0 percent) and $671 million (an effective rate of 16.2 percent) for the same periods of 2020, respectively. The increases in the tax rates were due to the marginal impact of providing taxes on higher pretax earnings in 2021. For further information on income taxes, refer to Note 12 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company's loan portfolio was $297.6 billion at September 30, 2021, compared with $297.7 billion at December 31, 2020, a decrease of $99 million. The decrease was driven by lower commercial loans, residential mortgages, commercial real estate loans and credit card loans, partially offset by higher other retail loans.

Commercial loans decreased $1.9 billion (1.8 percent) at September 30, 2021, compared with December 31, 2020, reflecting paydowns by corporate customers that accessed the capital markets and the SBA Paycheck Protection Program during the first nine months of 2021.

Residential mortgages held in the loan portfolio decreased $1.2 billion (1.6 percent) at September 30, 2021, compared with December 31, 2020, due to customers paying down balances in the first nine months of 2021. 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.

Commercial real estate loans decreased $503 million (1.3 percent) at September 30, 2021, compared with December 31, 2020, the result of customers paying down balances.

Credit card loans decreased $209 million (0.9 percent) at September 30, 2021, compared with December 31, 2020, reflecting higher customer payment rates.

Other retail loans increased $3.7 billion (6.4 percent) at September 30, 2021, compared with December 31, 2020, due to increases in auto loans and installment loans, partially offset by decreases in home equity loans and retail leasing balances.

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 $6.2 billion at September 30, 2021, compared with $8.8 billion at December 31, 2020. The decrease in loans held for sale was principally due to a lower level of mortgage loan closings in the third quarter of 2021, compared with the fourth quarter of 2020. Almost all of the residential mortgage loans the Company originates or purchases for sale follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises ("GSEs").

Investment Securities Available-for-sale investment securities totaled $149.4 billion at September 30, 2021, compared with $136.8 billion at December 31, 2020. The $12.5 billion (9.2 percent) increase was primarily due to $15.7 billion of net investment purchases, partially offset by a $3.1 billion unfavorable change in net unrealized gains (losses) on available-for-sale investment securities. The Company had no outstanding investment securities classified as held-to-maturity at September 30, 2021 and December 31, 2020.

The Company's available-for-sale investment securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a portion of a security's unrealized loss is related to credit and an allowance for credit losses is necessary. At September 30, 2021, the Company's net unrealized gains on available-for-sale investment securities were $138 million, compared with $3.2 billion at December 31, 2020. The unfavorable change in net unrealized gains (losses) was primarily due to decreases in the fair value of mortgage-backed and U.S. Treasury securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale investment securities totaled $1.7 billion at September 30, 2021, compared with $53 million at December 31, 2020. At September 30, 2021, 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.

Refer to Notes 4 and 15 in the Notes to Consolidated Financial Statements for further information on investment securities.

Table 4 Available-for-Sale Investment Securities

(Dollars in Millions)	September 30, 2021 Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)	December 31, 2020 Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)
U.S. Treasury and agencies	$ 18,460	$ 18,491	5.1	1.57%	$ 21,954	$ 22,391	3.8	1.37%
Mortgage-backed securities (a)	120,887	120,482	5.1	1.55	103,282	105,374	3.0	1.47
Asset-backed securities (a)	64	69	3.8	1.51	200	205	6.2	1.47
Obligations of state and political subdivisions (b) (c)	9,820	10,327	7.4	3.71	8,166	8,861	6.3	3.99
Other	7	7	3.7	2.07	9	9	.1	1.81
Total investment securities	$149,238	$149,376	5.3	1.69%	$133,611	$136,840	3.4	1.61%

(a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities that take into account anticipated 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, and yield to maturity if the security is 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 the contractual maturity date for securities with a fair value equal to or below par.

(d) Yields on investment securities are computed based on amortized cost balances. Weighted-average yields for obligations of state and political subdivisions are presented on a fully-taxable equivalent basis based on a federal income tax rate of 21 percent.

Deposits Total deposits were $442.9 billion at September 30, 2021, compared with $429.8 billion at December 31, 2020. The $13.1 billion (3.1 percent) increase in total deposits reflected increases in noninterest-bearing and total savings deposits, partially offset by a decrease in time deposits. Noninterest-bearing deposits increased $17.5 billion (14.8 percent) at September 30, 2021, compared with December 31, 2020, primarily due to higher Corporate and Commercial Banking, Wealth Management and Investment Services, and Consumer and Business Banking balances. Interest checking balances increased $7.8 billion (8.2 percent) while savings account balances increased $7.0 billion (12.4 percent), both driven by higher Consumer and Business Banking balances. Money market deposit balances decreased $11.4 billion (8.9 percent) at September 30, 2021, compared with December 31, 2020, primarily due to lower Wealth Management and Investment Services, and Corporate and Commercial Banking balances. Time deposits decreased $7.8 billion (25.5 percent) at September 30, 2021, compared with December 31, 2020, driven by a decrease in those deposits managed as an alternative to other funding sources, based largely on relative pricing and liquidity characteristics, along with a decrease in Consumer and Business Banking balances.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $16.1 billion at September 30, 2021, compared with $11.8 billion at December 31, 2020. The $4.3 billion (36.7 percent) increase in short-term borrowings was primarily due to higher commercial paper, repurchase agreement and federal funds purchased balances. Long-term debt was $35.7 billion at September 30, 2021, compared with $41.3 billion at December 31, 2020. The $5.6 billion (13.6 percent) decrease was primarily due to $3.7 billion of bank note repayments and maturities, $1.5 billion of medium-term note repayments and a $1.0 billion decrease in Federal Home Loan Bank ("FHLB") advances, partially offset by $1.0 billion of bank note issuances. Refer to the "Liquidity Risk Management" section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

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

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

The Company's most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance, strategic, and reputation. Leveraging the Company's risk management framework, the specific impacts of COVID-19 and related risks are identified for each of the most prominent exposures. With respect to direct impacts from COVID-19, oversight and governance is managed through a centralized command center with frequent reporting to the Managing Committee and ERC. The Board of Directors also oversees the Company's responsiveness to the COVID-19 pandemic. Credit risk is the risk of loss associated with a change in the credit profile or the failure of a borrower or counterparty to meet its contractual obligations. Interest rate risk is the current or prospective risk to earnings and capital, or market valuations, arising from the impact 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"), MSRs and derivatives that are accounted for on a fair value basis. Liquidity risk is the risk that financial condition or overall safety and soundness is adversely affected by the Company's inability, or perceived inability, to meet its cash flow obligations in a timely and complete manner in either normal or stressed conditions. Operational risk is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, people (including human errors or misconduct), or adverse external events, including the risk of loss resulting from breaches in data security. Operational risk can also include the risk of loss due to failures by third parties with which the Company does business. Compliance risk is the risk that the Company may suffer legal or regulatory sanctions, financial losses, and reputational damage if it fails to adhere to compliance requirements and the Company's compliance policies. Strategic risk is the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. Reputation 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" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, 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 line 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 regularly provides 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:

- Macroeconomic environment and other qualitative considerations, such as regulatory and compliance changes, litigation developments, and technology and cybersecurity;
- 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 ("VaR");
- 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;
- Capital ratios and projections, including regulatory measures and stressed scenarios; and

- Strategic and reputation risk considerations, impacts and responses.

Credit Risk Management The Company's strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), collateral values, trends in loan performance and macroeconomic factors, such as changes in unemployment rates, gross domestic product levels and consumer bankruptcy filings, as well as the potential impact on customers and the domestic economy resulting from the COVID-19 pandemic. 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 credit risk has been identified. Loans with a special mention or classified rating, including consumer lending and small business loans that are 90 days or more past due and still accruing, nonaccrual loans, those loans considered troubled debt restructurings ("TDRs"), and loans in a junior lien position that are current but are behind a first lien position on nonaccrual, 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. Refer to Note 5 in the Notes to Consolidated Financial Statements for further discussion of the Company's loan portfolios including internal credit quality ratings. In addition, refer to "Management's Discussion and Analysis — Credit Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio which is achieved through limit setting by product type criteria, such as industry, and identification of credit concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into two segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company's two loan portfolio segments are commercial lending and consumer lending.

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, as well as macroeconomic factors such as unemployment rates, gross domestic product levels, corporate bond spreads and long-term interest rates, all of which have been impacted by the COVID-19 pandemic. 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, home equity loans and lines, and student loans, a run-off portfolio. 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 September 30, 2021, substantially all of the Company's home equity lines were in the draw period. Approximately $1.2 billion, or 12 percent, of the outstanding home equity line balances at September 30, 2021, 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, consumer bankruptcy filings and other macroeconomic factors, customer payment history and credit scores, and in some cases, updated loan-to-value ("LTV") information reflecting current market conditions on real estate-based loans. These and other risk characteristics, including risk resulting from the COVID-19 pandemic, 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 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 Company's consumer lending segment utilizes several distinct business processes and channels to originate consumer credit, including traditional branch lending, mobile and on-line banking, indirect lending, alliance partnerships, 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 mortgage originations are generally limited to prime borrowers and are performed through the Company's branches, loan production offices, mobile and on-line services 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 an 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 of residential mortgages and home equity and second mortgages by LTV at September 30, 2021:

Residential Mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$3,243	$60,169	$63,412	84.6%
Over 80% through 90%	4	1,706	1,710	2.3
Over 90% through 100%	—	179	179	.2
Over 100%	—	79	79	.1
No LTV available	—	32	32	—
Loans purchased from GNMA mortgage pools (a)	—	9,542	9,542	12.8
Total (b)	$3,247	$71,707	$74,954	100.0%

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

(b) At September 30, 2021, approximately $443 million of residential mortgage balances were considered sub-prime.

Home Equity and Second Mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$9,379	$636	$10,015	93.4%
Over 80% through 90%	266	244	510	4.8
Over 90% through 100%	48	26	74	.7
Over 100%	48	5	53	.5
No LTV/CLTV available	63	3	66	.6
Total (a)	$9,804	$914	$10,718	100.0%

(a) At September 30, 2021, approximately $37 million of home equity and second mortgage balances were considered sub-prime.

Home equity and second mortgages were $10.7 billion at September 30, 2021, compared with $12.5 billion at December 31, 2020, and included $3.1 billion of home equity lines in a first lien position and $7.6 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at September 30, 2021, included approximately $2.8 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $4.8 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company's junior lien positions at September 30, 2021:

	Junior Liens Behind		
(Dollars in Millions)	Company Owned or Serviced First Lien	Third Party First Lien	Total
Total	$2,750	$4,837	$7,587
Percent 30—89 days past due	.49%	.38%	.42%
Percent 90 days or more past due	.06%	.06%	.06%
Weighted-average CLTV	59%	56%	57%
Weighted-average credit score	782	781	781

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

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company's loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $385 million at September 30, 2021, compared with $477 million at December 31, 2020. These balances exclude loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 0.13 percent at September 30, 2021 compared with 0.16 percent at December 31, 2020.

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

90 days or more past due **excluding** nonperforming loans	September 30, 2021	December 31, 2020
Commercial		
Commercial	.04%	.06%
Lease financing	—	—
Total commercial	.04	.05
Commercial Real Estate		
Commercial mortgages	.01	—
Construction and development	.16	.02
Total commercial real estate	.05	.01
Residential Mortgages (a)	.15	.18
Credit Card	.66	.88
Other Retail		
Retail leasing	.03	.05
Home equity and second mortgages	.37	.36
Other	.05	.10
Total other retail	.11	.15
Total loans	.13%	.16%

90 days or more past due **including** nonperforming loans	September 30, 2021	December 31, 2020
Commercial	.25%	.42%
Commercial real estate	.82	1.15
Residential mortgages (a)	.47	.50
Credit card	.66	.88
Other retail	.36	.42
Total loans	.43%	.57%

(a) Delinquent loan ratios exclude $1.5 billion at September 30, 2021, and $1.8 billion at December 31, 2020, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 2.50 percent at September 30, 2021, and 2.87 percent at December 31, 2020.

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Residential Mortgages (a)				
30-89 days	$153	$244	.20%	.32%
90 days or more	114	137	.15	.18
Nonperforming	237	245	.32	.32
Total	$504	$626	.67%	.82%
Credit Card				
30-89 days	$183	$231	.83%	1.04%
90 days or more	147	197	.66	.88
Nonperforming	—	—	—	—
Total	$330	$428	1.49%	1.92%
Other Retail				
Retail Leasing				
30-89 days	$ 26	$ 35	.34%	.43%
90 days or more	2	4	.03	.05
Nonperforming	11	13	.15	.16
Total	$ 39	$ 52	.52%	.64%
Home Equity and Second Mortgages				
30-89 days	$ 46	$ 68	.43%	.54%
90 days or more	40	45	.37	.36
Nonperforming	120	107	1.12	.86
Total	$206	$220	1.92%	1.76%
Other (b)				
30-89 days	$179	$215	.42%	.60%
90 days or more	22	37	.05	.10
Nonperforming	26	34	.06	.09
Total	$227	$286	.53%	.79%

(a) Excludes $946 million of loans 30-89 days past due and $1.5 billion of loans 90 days or more past due at September 30, 2021, purchased from GNMA mortgage pools that continue to accrue interest, compared with $1.4 billion and $1.8 billion at December 31, 2020, respectively.

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

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 September 30, 2021, performing TDRs were $3.3 billion, compared with $3.6 billion at December 31, 2020.

The Company continues to work with customers to modify loans for borrowers who are experiencing financial difficulties. 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 modifies residential mortgage loans under Federal Housing Administration, United States Department of Veterans Affairs, and its own internal programs. Under these programs, the Company offers qualifying homeowners the opportunity to permanently modify their loan and achieve more affordable monthly payments by providing loan concessions. These 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.

Loan modifications or concessions granted to customers resulting directly from the effects of the COVID-19 pandemic, who were otherwise in current payment status, are not considered to be TDRs.

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

At September 30, 2021 (Dollars in Millions)	Performing TDRs	As a Percent of Performing TDRs: 30-89 Days Past Due	As a Percent of Performing TDRs: 90 Days or More Past Due	Nonperforming TDRs	Total TDRs
Commercial	$ 145	4.9%	2.6%	$112(a)	$ 257
Commercial real estate	122	1.0	—	163(b)	285
Residential mortgages	1,428	4.1	3.6	137	1,565(d)
Credit card	228	9.9	4.0	—	228
Other retail	175	13.3	6.0	42(c)	217(e)
TDRs, excluding loans purchased from GNMA mortgage pools	2,098	5.4	3.6	454	2,552
Loans purchased from GNMA mortgage pools (g)	1,208	—	—	—	1,208(f)
Total	$3,306	3.4%	2.3%	$454	$3,760

(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 $242 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $24 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(e) Includes $73 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $15 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(f) Includes $193 million of Federal Housing Administration and United States Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $152 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(g) Approximately 9.4 percent and 34.5 percent of the total TDR loans purchased from GNMA mortgage pools are 30-89 days past due and 90 days or more past due, respectively, but are not classified as delinquent as their repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

Short-term and Other Loan Modifications The Company makes short-term and other modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Short-term consumer lending modification 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.

COVID-19 Payment Relief The Company has offered payment relief, including forbearance, payment deferrals and other customer accommodations, to assist borrowers that have experienced financial hardship resulting from the effects of the COVID-19 pandemic. The majority of these borrowers were not delinquent on payments at the time they received the payment relief. From March 2020 through September 30, 2021, the Company had approved approximately 384,000 loan modifications for these borrowers, representing approximately $22.0 billion. The loans modified consisted primarily of payment forbearance or deferrals of 90 days or less. A portion of the borrowers who received account modifications are no longer participating in these payment relief programs, as the programs are generally short-term; and at September 30, 2021, approximately 19,000 accounts, representing approximately $3.0 billion, were currently in an active payment relief program. The recognition of delinquent or nonaccrual loans and loan net charge-offs may be delayed for those customers enrolled in these payment relief programs who would have otherwise moved into past due or nonaccrual status, as these customer accounts do not continue to age during the period the payment delay is provided.

The following table summarizes borrowers enrolled in payment relief programs as a result of the COVID-19 pandemic at September 30, 2021, as a percentage of the Company's loans and loan balances:

	Percentage of Loan Accounts in Payment Relief Programs	Percentage of Loan Balances in Payment Relief Programs	Program Details
Commercial	.01%	—%	Primarily 3 month payment deferral up to a maximum of 6 months; interest continues to accrue with various payment options
Commercial real estate	.08	.60	Primarily 3 month payment deferral up to a maximum of 6 months; interest continues to accrue with various payment options
Residential mortgages (a)	.97	.96	Primarily 6 month payment forbearance, which may be extended up to 18 months; interest continues to accrue; cumulative payments suspended during forbearance period are either paid-off immediately or under a short-term repayment plan, or addressed through a permanent loan modification that either requires repayment at maturity or through restructured payments over time
Credit cards	.02	.04	Primarily payment reduction up to 6 months; payment relief of up to 3 months; interest continues to accrue
Other retail	.07	.19	Home equity loan programs are similar to residential mortgage programs; programs for other loan portfolios are primarily 2 month payment deferral up to a maximum of 4 months; interest continues to accrue
Total loans (a)	.04%	.35%	

Note: Payment relief generally includes payment deferrals, forbearances, extensions and re-ages, and excludes loans made under the Small Business Administration's ("SBA") Paycheck Protection Program, as amounts due under that program are expected to be fully forgiven by the SBA.

(a) Excludes loans purchased from GNMA mortgage pools, whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. At September 30, 2021, 19.44 percent of the total number of accounts and 20.91 percent of the total loan balances of loans purchased from GNMA mortgage pools were to borrowers enrolled in payment relief programs as a result of the COVID-19 pandemic. Including these loans, 5.11 percent of the total number of accounts and 3.50 percent of the total balances of residential mortgages were to borrowers enrolled in payment relief programs as a result of the COVID-19 pandemic. Including these loans, .15 percent of the total number of accounts and 1.01 percent of the total balances of all loans were to borrowers enrolled in payment relief programs as a result of the COVID-19 pandemic.

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. Interest payments collected from assets on nonaccrual status are generally applied against the principal balance and not recorded as income. However, interest income may be recognized for interest payments if the remaining carrying amount of the loan is believed to be collectible.

At September 30, 2021, total nonperforming assets were $944 million, compared to $1.3 billion at December 31, 2020. The $354 million (27.3 percent) decrease in nonperforming assets was driven by decreases in nonperforming commercial and commercial real estate loans. The ratio of total nonperforming assets to total loans and other real estate was 0.32 percent at September 30, 2021, compared with 0.44 percent at December 31, 2020. Nonperforming assets are expected to continue to decline over the next several quarters. However, some manageable levels of elevated nonperforming assets in certain industries and loan categories impacted by the pandemic may experience longer recovery periods.

OREO was $17 million at September 30, 2021, compared with $24 million at December 31, 2020, 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 United States Department of Veterans Affairs.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Residential				
New York	$ 2	$ 2	.14%	.17%
California	2	2	.01	.01
Oregon	2	2	.07	.07
Illinois	1	2	.02	.04
Wisconsin	1	1	.06	.06
All other states	9	14	.02	.03
Total residential	17	23	.02	.03
Commercial				
Iowa	—	1	—	.04
All other states	—	—	—	—
Total commercial	—	1	—	—
Total	$17	$24	.01%	.01%

Table 6 Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2021	December 31, 2020
Commercial		
Commercial	$179	$ 321
Lease financing	37	54
Total commercial	216	375
Commercial Real Estate		
Commercial mortgages	215	411
Construction and development	81	39
Total commercial real estate	296	450
Residential Mortgages (b)	237	245
Credit Card	—	—
Other Retail		
Retail leasing	11	13
Home equity and second mortgages	120	107
Other	26	34
Total other retail	157	154
Total nonperforming loans	906	1,224
Other Real Estate (c)	17	24
Other Assets	21	50
Total nonperforming assets	$944	$1,298
Accruing loans 90 days or more past due (b)	$385	$ 477
Nonperforming loans to total loans	.30%	.41%
Nonperforming assets to total loans plus other real estate (c)	.32%	.44%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Total
Balance December 31, 2020	$ 854	$ 444	$1,298
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties	277	153	430
Advances on loans	8	1	9
Total additions	285	154	439
Reductions in nonperforming assets			
Paydowns, payoffs	(235)	(79)	(314)
Net sales	(173)	(13)	(186)
Return to performing status	(111)	(65)	(176)
Charge-offs (d)	(105)	(12)	(117)
Total reductions	(624)	(169)	(793)
Net additions to (reductions in) nonperforming assets	(339)	(15)	(354)
Balance September 30, 2021	$ 515	$ 429	$ 944

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

(b) Excludes $1.5 billion at September 30, 2021, and $1.8 billion at December 31, 2020, 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 United States Department of Veterans Affairs.

(c) Foreclosed GNMA loans of $19 million at September 30, 2021, and $33 million at December 31, 2020, 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 United States Department of Veterans Affairs.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Commercial				
Commercial	.05%	.60%	.13%	.41%
Lease financing	.08	.78	.15	.52
Total commercial	.05	.61	.13	.42
Commercial Real Estate				
Commercial mortgages	.01	1.13	(.05)	.46
Construction and development	.44	(.07)	.21	—
Total commercial real estate	.13	.81	.02	.34
Residential Mortgages	(.05)	(.02)	(.05)	(.01)
Credit Card	2.01	3.63	2.52	3.95
Other Retail				
Retail leasing	.05	.94	.02	1.14
Home equity and second mortgages	(.11)	(.06)	(.09)	(.01)
Other	.20	.43	.26	.59
Total other retail	.13	.39	.16	.52
Total loans	.20%	.66%	.25%	.58%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $147 million for the third quarter and $550 million for the first nine months of 2021, compared with $515 million and $1.3 billion, respectively, for the same periods of 2020. The year-over-year decreases in net charge-offs reflected improvement across most loan categories, associated with improving economic conditions, borrower liquidity and strong asset prices in the market that support repayment and recovery on problem loans. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the third quarter and first nine months of 2021 was 0.20 percent and 0.25 percent, respectively, compared with 0.66 percent and 0.58 percent, respectively, for the same periods of 2020. The Company expects net charge-offs to return to more normalized levels over time as the beneficial impact of government stimulus during the pandemic dissipates.

Analysis and Determination of the Allowance for Credit Losses The allowance for credit losses is established for current expected credit losses on the Company's loan and lease portfolio, including unfunded credit commitments. The allowance considers expected losses for the remaining lives of the applicable assets, inclusive of expected recoveries. The allowance for credit losses is increased through provisions charged to earnings and reduced by net charge-offs. Management evaluates the appropriateness of the allowance for credit losses on a quarterly basis. Multiple economic scenarios are considered over a three-year reasonable and supportable forecast period, which includes increasing consideration of historical loss experience over years two and three. These economic scenarios are constructed with interrelated projections of multiple economic variables, and loss estimates are produced that consider the historical correlation of those economic variables with credit losses. After the forecast period, the Company fully reverts to long-term historical loss experience, adjusted for prepayments and characteristics of the current loan and lease portfolio, to estimate losses over the remaining life of the portfolio. The economic scenarios are updated at least quarterly and are designed to provide a range of reasonable estimates from better to worse than current expectations. Scenarios are weighted based on the Company's expectation of economic conditions for the foreseeable future and reflect significant judgment and consideration of uncertainties that exist. Final loss estimates also consider factors affecting credit losses not reflected in the scenarios, due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to, loan servicing practices, regulatory guidance, and/or fiscal and monetary policy actions. 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.

The allowance recorded for credit losses utilizes forward-looking expected loss models to consider a variety of factors affecting lifetime credit losses. These factors include, but are not limited to, macroeconomic variables such as unemployment rates, real estate prices, gross domestic product levels and corporate bonds spreads, as well as loan and borrower characteristics, such as internal risk ratings on commercial loans and consumer credit scores, delinquency status, collateral

type and available valuation information, consideration of end-of-term losses on lease residuals, and the remaining term of the loan, adjusted for expected prepayments. For each loan portfolio, model estimates are adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices, economic conditions or other factors that may affect the accuracy of the model. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral-dependent loans where recovery is expected through sale of the collateral. Where loans do not exhibit similar risk characteristics, an individual analysis is performed to consider expected credit losses.

The allowance recorded for individually evaluated loans greater than $5 million in the commercial lending segment is based on an 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 as appropriate. 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. Commercial lending segment TDR loans may be collectively evaluated for impairment where observed performance history, including defaults, is a primary driver of the loss allocation.

The allowance recorded for TDR 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. The expected cash flows on TDR loans consider subsequent payment defaults since modification, the borrower's ability to pay under the restructured terms, and the timing and amount of payments. The allowance for collateral-dependent loans in the consumer lending segment is determined based on the current fair value of the collateral less costs to sell.

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At September 30, 2021, the Company serviced the first lien on 36 percent of the home equity loans and lines in a junior lien position. The Company also considers the status of first lien mortgage accounts reported on customer credit bureau files when the first lien is not serviced by the Company. Regardless of whether 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 $247 million or 2.3 percent of its total home equity portfolio at September 30, 2021, represented non-delinquent junior liens where the first lien was delinquent or modified, excluding loans in COVID-related forbearance programs.

The Company considers historical loss experience on the loans and lines in a junior lien position to establish loss estimates for junior lien loans and lines the Company services that are current, but the first lien is delinquent or modified. The historical long-term average loss experience related to junior liens has been relatively limited (less than 1 percent of the total portfolio annually), and estimates are adjusted to consider current collateral support and portfolio risk characteristics. These include updated credit scores and collateral estimates obtained on the Company's home equity portfolio each quarter. 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.

Beginning January 1, 2020, when a loan portfolio is purchased, the acquired loans are divided into those considered purchased with more than insignificant credit deterioration ("PCD") and those not considered purchased with more than insignificant credit deterioration. An allowance is established for each population and considers product mix, risk characteristics of the portfolio, bankruptcy experience, delinquency status and refreshed LTV ratios when possible. The allowance established for purchased loans not considered PCD is recognized through provision expense upon acquisition, whereas the allowance established for loans considered PCD at acquisition is offset by an increase in the basis of the acquired loans. Any subsequent increases and decreases in the allowance related to purchased loans, regardless of PCD status, are recognized through provision expense, with charge-offs charged to the allowance. The Company did not have a material amount of PCD loans included in its loan portfolio at September 30, 2021.

The Company's methodology for determining the appropriate allowance for credit losses also considers the imprecision inherent in the methodologies used and allocated to the various loan portfolios. As a result, amounts determined under the methodologies described above are adjusted by management to consider the potential impact of other qualitative factors not captured in quantitative model adjustments which include, but are not limited to, the following: model imprecision,

imprecision in economic scenario assumptions, and emerging risks related to either changes in the economic environment that are affecting specific portfolios, or changes in portfolio concentrations over time that may affect model performance. The consideration of these items results in adjustments to allowance amounts included in the Company's allowance for credit losses for each loan portfolio.

Although the Company determined 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 can vary significantly from the estimated amounts.

At September 30, 2021, the allowance for credit losses was $6.3 billion (2.12 percent of period-end loans), compared with an allowance of $8.0 billion (2.69 percent of period-end loans) at December 31, 2020. The ratio of the allowance for credit losses to nonperforming loans was 695 percent at September 30, 2021, compared with 654 percent at December 31, 2020. The ratio of the allowance for credit losses to annualized loan net charge-offs was 1,080 percent at September 30, 2021, compared with 448 percent of full year 2020 net charge-offs at December 31, 2020.

The decrease in the allowance for credit losses of $1.7 billion (21.3 percent) at September 30, 2021, compared with December 31, 2020, reflected factors affecting economic conditions during the first nine months of 2021, including the enactment of additional benefits from government stimulus programs and broad vaccine availability in the United States that has reduced the risks associated with COVID-19, contributing to an economic recovery. However, economic uncertainty remains associated with rising inflationary concerns, additional virus variants and lack of a clear path to government funding. In addition to these factors, expected loss estimates consider various factors including customer specific information impacting changes in risk ratings, projected delinquencies and potential effects of diminishing liquidity without support of mortgage forbearance and direct federal stimulus. Currently, consumer credit trends continue to perform better than expected, while select commercial portfolios most impacted by COVID-19 continue to be monitored for structural shifts associated with the pandemic.

Changes in economic conditions during the first nine months of 2021 included improvements in projected gross domestic product and unemployment levels for 2021, which reflected the additional government stimulus and availability of vaccines. These factors are evaluated through a combination of quantitative calculations using economic scenarios and qualitative assessments that consider the high degree of uncertainty related to the unprecedented levels of both economic stress and the stimulus response.

The following table summarizes the baseline forecast for key economic variables the Company used in its estimate of the allowance for credit losses at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
United States unemployment rate for the three months ending (a)		
September 30, 2021	5.2%	7.0%
December 31, 2021	4.5	6.8
United States real gross domestic product for the three months ending (b)		
September 30, 2021	1.8%	.1%
December 31, 2021	3.6	1.5

(a) Reflects quarterly average of forecasted reported United States unemployment rate.
(b) Reflects cumulative change from December 31, 2019.

Baseline economic forecasts are used in combination with alternative scenarios and historical loss experience as is considered reasonable and supportable to inform the Company's allowance for credit losses. Changes in the allowance for credit losses are based on a variety of factors, including loan balance changes, portfolio credit quality and mix changes, and changes in general economic conditions and expectations (including for unemployment and gross domestic product), among other factors. Based on economic conditions at September 30, 2021, it was difficult to estimate the length and severity of the longer term effects on certain industry sectors that may result from COVID-19 and the impact of other factors that may influence the level of eventual losses and corresponding requirements for the allowance for credit losses, including the impact of inflationary pressures on certain lending sectors and diminishing liquidity after economic stimulus programs and accommodations delaying mortgage and rent payments end. While reserves consider the uncertainty in these estimates, the unpredictability of the COVID-19 pandemic could result in the recognition of credit losses in the Company's loan portfolios and increases in the allowance for credit losses. Scenarios worse than the Company's expected outcome at September 30, 2021 include risks that government stimulus in response to the COVID-19 pandemic is less effective than expected, or that a longer or more severe health crisis prolongs the downturn in economic activity, potentially reducing the number of businesses that are ultimately able to resume operations after the crisis has passed. Other factors considered include concerns around inflationary pressures, new virus variants, sustainability of asset values and borrower liquidity, along with the lack of a clear path to government funding.

The allowance for credit losses related to commercial lending segment loans decreased $926 million during the first nine months of 2021, due to improvements in general economic conditions and portfolio credit quality that included some return of economic activity in certain industry sectors affected by COVID-19.

The following table summarizes the Company's commercial lending segment credit exposure to customers within the industry sectors most impacted by COVID-19, as a percentage of total loans and legal commitments outstanding at September 30, 2021:

	Loans	Outstanding Commitments
Retail	3.1%	4.7%
Energy (includes Oil and gas)	.7	2.1
Media and entertainment	1.6	2.1
Lodging	1.1	.8
Airline	.3	.5

The allowance for credit losses related to consumer lending segment loans decreased $784 million during the first nine months of 2021, due to improving economic risks, including those due to decreased unemployment, along with continued strong underlying credit quality that supports expectations of long-term repayment.

Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Balance at beginning of period	$6,610	$7,890	$ 8,010	$4,491
Change in accounting principle (a)	—	—	—	1,499
Charge-Offs				
Commercial				
Commercial	37	180	171	378
Lease financing	3	13	13	28
Total commercial	40	193	184	406
Commercial real estate				
Commercial mortgages	1	88	9	107
Construction and development	13	1	19	5
Total commercial real estate	14	89	28	112
Residential mortgages	3	4	13	15
Credit card	154	236	536	775
Other retail				
Retail leasing	5	25	20	86
Home equity and second mortgages	3	3	9	14
Other	47	61	164	216
Total other retail	55	89	193	316
Total charge-offs	266	611	954	1,624
Recoveries				
Commercial				
Commercial	24	13	80	37
Lease financing	2	2	7	6
Total commercial	26	15	87	43
Commercial real estate				
Commercial mortgages	—	3	20	4
Construction and development	1	3	2	5
Total commercial real estate	1	6	22	9
Residential mortgages	13	7	38	20
Credit card	43	35	133	111
Other retail				
Retail leasing	4	5	19	14
Home equity and second mortgages	6	5	17	15
Other	26	23	88	67
Total other retail	36	33	124	96
Total recoveries	119	96	404	279
Net Charge-Offs				
Commercial				
Commercial	13	167	91	341
Lease financing	1	11	6	22
Total commercial	14	178	97	363
Commercial real estate				
Commercial mortgages	1	85	(11)	103
Construction and development	12	(2)	17	—
Total commercial real estate	13	83	6	103
Residential mortgages	(10)	(3)	(25)	(5)
Credit card	111	201	403	664
Other retail				
Retail leasing	1	20	1	72
Home equity and second mortgages	(3)	(2)	(8)	(1)
Other	21	38	76	149
Total other retail	19	56	69	220
Total net charge-offs	147	515	550	1,345
Provision for credit losses	(163)	635	(1,160)	3,365
Balance at end of period	$6,300	$8,010	$ 6,300	$8,010
Components				
Allowance for loan losses	$5,792	$7,407		
Liability for unfunded credit commitments	508	603		
Total allowance for credit losses	$6,300	$8,010		
Allowance for Credit Losses as a Percentage of				
Period-end loans	2.12%	2.61%		
Nonperforming loans	695	678		
Nonperforming and accruing loans 90 days or more past due	488	488		
Nonperforming assets	667	631		
Annualized net charge-offs	1,080	391		

(a) Effective January 1, 2020, the Company adopted accounting guidance which changed impairment recognition of financial instruments to a model that is based on expected losses rather than incurred losses.

Residual Value Risk Management The Company manages its risk to changes in the residual value of leased vehicles, office and business equipment, and other assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2021, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2020. Refer to "Management's Discussion and Analysis — Residual Value Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for further discussion on residual value risk management.

Operational Risk Management 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, including those additional or increased risks created by the economic and financial disruptions, and the Company's alternative working arrangements resulting from the COVID-19 pandemic. 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. Refer to "Management's Discussion and Analysis — Operational Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for further discussion on operational risk management.

Compliance Risk Management The Company may suffer legal or regulatory sanctions, material financial loss, or damage to its 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, consumer protection and other requirements. The Company has controls and processes in place for the assessment, identification, monitoring, management and reporting of compliance risks and issues including those created or increased by the economic and financial disruptions caused by the COVID-19 pandemic. Refer to "Management's Discussion and Analysis — Compliance Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for further discussion on compliance risk management.

Interest Rate Risk Management In the banking industry, changes in interest rates are a significant risk that can impact earnings and the safety and soundness of an entity. The Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability Management 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. One way the Company measures and analyzes its interest rate risk is through net interest income simulation analysis.

Simulation 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 various interest rate changes that differ in the direction, amount and speed of change over time, as well as the shape 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 reviewed and validated on a periodic basis with sensitivity analysis being provided for key variables of the simulation. The results are reviewed monthly by the ALCO and are used to guide asset/liability management strategies.

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 selecting derivatives and various funding and investment portfolio strategies.

Table 9 summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The sensitivity of the projected impact to net interest income over the next 12 months is dependent on balance sheet growth, product mix, deposit behavior, pricing and funding decisions. While the Company utilizes models and assumptions based on historical information and expected behaviors, actual outcomes could vary significantly.

Table 9 Sensitivity of Net Interest Income

	September 30, 2021				December 31, 2020			
	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	(2.75)%	3.54%	*	5.84%	(4.48)%	4.58%	*	6.57%

* *Given the level of interest rates, downward rate scenario is not 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 and available-for-sale investment securities from fixed-rate payments to floating-rate payments;
- To convert floating-rate debt from floating-rate payments to fixed-rate payments;
- To mitigate changes in value of the Company's unfunded mortgage loan commitments, funded MLHFS and MSRs;
- To mitigate remeasurement volatility of foreign currency denominated balances; and
- To mitigate the volatility of the Company's net investment in foreign operations driven by fluctuations in foreign currency exchange rates.

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 may enter into derivative contracts that are either exchange-traded, centrally cleared through clearinghouses or over-the-counter. 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, swaptions, 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.

Additionally, the Company uses forward commitments to sell TBAs and other commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At September 30, 2021, the Company had $10.7 billion of forward commitments to sell, hedging $5.0 billion of MLHFS and $8.6 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, including consideration of the COVID-19 pandemic. 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, interest rate 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 13 and 14 in the Notes to Consolidated Financial Statements.

LIBOR Transition In July 2017, the United Kingdom's Financial Conduct Authority (the "FCA") announced that it would no longer require banks to submit rates for the London InterBank Offered Rate ("LIBOR") after 2021. In March 2021, the FCA and the administrator of LIBOR announced that LIBOR will no longer be published on a representative basis after December 31, 2021, except for the most commonly used tenors of United States Dollar LIBOR which will no longer be published on a representative basis after June 30, 2023. The Company holds financial instruments that will be impacted by the discontinuance of LIBOR, including

certain loans, investment securities, derivatives, borrowings and other financial instruments that use LIBOR as the benchmark rate. The Company also provides various services to customers in its capacities as trustee and servicer, which involve financial instruments that will be similarly impacted by the discontinuance of LIBOR. The Company anticipates these financial instruments will require transition to a new reference rate. This transition will occur over time as many of these arrangements do not have an alternative rate referenced in their contracts or a clear path for the parties to agree upon an alternative reference rate.

In order to facilitate the transition process, the Company has instituted a LIBOR Transition Office and commenced an enterprise-wide project to identify, assess, monitor and mitigate risks associated with the expected discontinuance or unavailability of LIBOR, actively engage with industry working groups and regulators, achieve operational readiness for the use of alternative reference rates and engage impacted customers to remediate and transition impacted instruments. The Company has invested in its systems, models, procedures and internal infrastructure to accept alternative reference rates to LIBOR and has begun offering these alternatives to clients. The Company also adopted industry best practice guidelines for fallback language for new transactions, converted its cleared interest rate swaps discounting to Secured Overnight Financing Rate discounting, and distributed communications related to the transition to certain impacted parties, both inside and outside the Company. Refer to "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for further discussion on potential risks that could adversely affect the Company's financial results as a result of the LIBOR transition.

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, as well as the remeasurement volatility of foreign currency denominated balances included on its Consolidated Balance Sheet (collectively, "Covered Positions"), 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 Covered Positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company uses a 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 Covered Positions 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 the Company's corporate bond trading business, foreign currency transaction business, client derivatives business, loan trading business and municipal securities business, as well as those inherent in the Company's foreign denominated balances and the derivatives used to mitigate the related measurement volatility. On average, the Company expects the one-day VaR to be exceeded by actual losses two to three times per year related to these positions. The Company monitors the accuracy of internal VaR models and modeling processes by back-testing model performance, regularly updating the historical data used by the VaR models and regular model validations 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. 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 one-day VaR amounts for the Company's Covered Positions were as follows:

Nine Months Ended September 30 (Dollars in Millions)	2021	2020
Average	$2	$2
High	4	3
Low	1	1
Period-end	2	2

The Company did not experience any actual losses for its combined Covered Positions that exceeded VaR during the nine months ended September 30, 2021. Given the market volatility in the first quarter of 2020 resulting from effects of the COVID-19 pandemic, the Company experienced actual losses for its combined Covered Positions that exceeded VaR five times during the nine months ended September 30, 2020. 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 Covered Positions. 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 one-day Stressed VaR amounts for the Company's Covered Positions were as follows:

Nine Months Ended September 30 (Dollars in Millions)	2021	2020
Average	$7	$6
High	9	8
Low	5	4
Period-end	7	7

Valuations of positions in client derivatives and foreign currency activities are based on discounted 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 senior management in the Company's corporate functions. 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 senior management in the Company's corporate functions.

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. A one-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:

Nine Months Ended September 30 (Dollars in Millions)	2021	2020
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$10	$ 8
High	19	22
Low	5	2
Mortgage Servicing Rights and Related Hedges		
Average	$ 4	$19
High	11	54
Low	1	6

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

The Company regularly projects its funding needs under various stress scenarios and maintains a contingency 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 liquidity sources include cash at the Federal Reserve Bank and certain European central banks, unencumbered liquid assets, and capacity to borrow from the FHLB and at Federal Reserve Bank's Discount Window. At September 30, 2021, the fair value of unencumbered investment securities totaled $117.6 billion, compared with $125.9 billion at December 31, 2020. Refer to Note 4 of the Notes to Consolidated Financial Statements and "Balance Sheet Analysis" for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company's practice of pledging loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At September 30, 2021, the Company could have borrowed a total of an additional $97.4 billion from the FHLB and Federal Reserve Bank based on collateral available for additional borrowings.

The Company's diversified deposit base provides a sizeable source of relatively stable and low-cost funding, while reducing the Company's reliance on the wholesale markets. Total deposits were $442.9 billion at September 30, 2021, compared with $429.8 billion at December 31, 2020. Refer to "Balance Sheet Analysis" for further information on the Company's deposits.

Additional funding is provided by long-term debt and short-term borrowings. Long-term debt was $35.7 billion at September 30, 2021, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $16.1 billion at

September 30, 2021, and supplement the Company's other funding sources. Refer to "Balance Sheet Analysis" for further information on the Company's long-term debt and short-term borrowings.

In addition to assessing liquidity risk on a consolidated basis, the Company monitors the parent company's liquidity. The Company establishes limits for the minimal number of months into the future where the parent company can meet existing and forecasted obligations with cash and securities held that can be readily monetized. The Company measures and manages this limit in both normal and adverse conditions. The Company maintains sufficient funding to meet expected capital and debt service obligations for 24 months without the support of dividends from subsidiaries and assuming access to the wholesale markets is maintained. The Company maintains sufficient liquidity to meet its capital and debt service obligations for 12 months under adverse conditions without the support of dividends from subsidiaries or access to the wholesale markets. The parent company is currently well in excess of required liquidity minimums.

At September 30, 2021, parent company long-term debt outstanding was $19.2 billion, compared with $20.9 billion at December 31, 2020. The decrease was primarily due to $1.5 billion of medium-term note repayments. As of September 30, 2021, there was no parent company debt scheduled to mature in the remainder of 2021.

The Company is subject to a regulatory Liquidity Coverage Ratio ("LCR") requirement which requires banks to maintain an adequate level of unencumbered high quality liquid assets to meet estimated liquidity needs over a 30-day stressed period. At September 30, 2021, the Company was compliant with this requirement.

Beginning July 1, 2021, the Company is also subject to a regulatory Net Stable Funding Ratio ("NSFR") requirement which requires banks to maintain a minimum level of stable funding based on the liquidity characteristics of their assets, commitments, and derivative exposures over a one-year time horizon. At September 30, 2021, the Company was compliant with this requirement.

Refer to "Management's Discussion and Analysis — Liquidity Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for further discussion on liquidity risk management.

European Exposures The Company provides merchant processing and corporate trust services in Europe either directly or through banking affiliations in Europe. Revenue generated from sources in Europe represented approximately 2 percent of the Company's total net revenue for both the three and nine months ended September 30, 2021. Operating cash for these businesses is deposited on a short-term basis typically with certain European central banks. For deposits placed at other European banks, exposure is mitigated by the Company placing deposits at multiple banks and managing the amounts on deposit at any bank based on institution-specific deposit limits. At September 30, 2021, the Company had an aggregate amount on deposit with European banks of approximately $10.1 billion, predominately with the Central Bank of Ireland and Bank of England.

In addition, the Company provides financing to domestic multinational corporations that generate revenue from customers in European countries, transacts with various European banks as counterparties to certain derivative-related activities, and through a subsidiary, manages money market funds that hold certain investments in European sovereign debt. Any further deterioration in economic conditions in Europe, including the potential negative impact of the United Kingdom's withdrawal from the European Union ("Brexit"), is not expected to have a significant effect on the Company related to these activities. The Company is focused on providing continuity of services, with minimal disruption resulting from Brexit, to customers with activities in European countries. The Company has made certain structural changes to its legal entities and operations in the United Kingdom and European Union, where needed, and migrated certain business activities to the appropriate jurisdictions to continue to provide such services and generate revenue.

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

Table 10 Regulatory Capital Ratios

(Dollars in Millions)	September 30, 2021	December 31, 2020
Basel III standardized approach:		
Common equity tier 1 capital	$ 41,014	$ 38,045
Tier 1 capital	47,426	44,474
Total risk-based capital	54,178	52,602
Risk-weighted assets	404,021	393,648
Common equity tier 1 capital as a percent of risk-weighted assets	10.2%	9.7%
Tier 1 capital as a percent of risk-weighted assets	11.7	11.3
Total risk-based capital as a percent of risk-weighted assets	13.4	13.4
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	8.7	8.3
Tier 1 capital as a percent of total on- and off-balance sheet leverage exposure (total leverage exposure ratio)	7.0	7.3

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for banking organizations. The regulatory capital requirements effective for the Company follow Basel III, with the Company being subject to calculating its capital adequacy as a percentage of risk-weighted assets under the standardized approach. Beginning in 2020, the Company elected to adopt a rule issued in 2020 by its regulators which permits banking organizations who adopt accounting guidance related to the impairment of financial instruments based on the current expected credit losses ("CECL") methodology during 2020, the option to defer the impact of the effect of that guidance at adoption plus 25 percent of its quarterly credit reserve increases over the next two years on its regulatory capital requirements, followed by a three-year transition period to phase in the cumulative deferred impact. Table 10 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2021 and December 31, 2020. All regulatory ratios exceeded regulatory "well-capitalized" requirements.

The Company believes certain other 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 determined in accordance with transitional regulatory capital requirements related to the CECL methodology under the standardized approach, was 6.8 percent and 9.4 percent, respectively, at September 30, 2021, compared with 6.9 percent and 9.5 percent, respectively, at December 31, 2020. In addition, the Company's common equity tier 1 capital to risk-weighted assets ratio, reflecting the full implementation of the CECL methodology was 9.7 percent at September 30, 2021, compared with 9.3 percent at December 31, 2020. Refer to "Non-GAAP Financial Measures" beginning on page 35 for further information on these other capital ratios.

Total U.S. Bancorp shareholders' equity was $53.7 billion at September 30, 2021, compared with $53.1 billion at December 31, 2020. The increase was primarily the result of corporate earnings, partially offset by changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income (loss), dividends and common share repurchases.

Beginning in March of 2020 and continuing through the remainder of 2020, the Company suspended all common stock repurchases except for those done exclusively in connection with its stock-based compensation programs. This action was initially taken to maintain strong capital levels given the impact and uncertainties of COVID-19 on the economy and global markets. Due to continued economic uncertainty, the Federal Reserve Board implemented measures beginning in the third quarter of 2020 and extending through the second quarter of 2021, restricting capital distributions of all large bank holding companies, including the Company. These restrictions limited the aggregate amount of common stock dividends and share repurchases to an amount that did not exceed the average net income of the four preceding calendar quarters. Based on the results of the December 2020 Federal Reserve Board Stress Test, the Company announced on December 22, 2020 that its Board of Directors had approved an authorization to repurchase up to $3.0 billion of its common stock beginning January 1, 2021, and repurchased $1.5 billion of its common stock during the first six months of 2021 under this program. The Company suspended all common stock repurchases at the beginning of the third quarter of 2021, except for those done exclusively in connection with its stock-based compensation programs, due to its recently announced acquisition of MUFG Union Bank's core regional banking franchise. The Company does not expect to commence repurchasing its common stock again until the second half of 2022, or after the acquisition closes in order to build capital prior to the acquisition.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the third quarter of 2021:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (In Millions)
July	80,295(b)	$58.05	5,295	$1,463
August	368	55.50	368	1,463
September	428	55.91	428	1,463
Total	81,091(b)	$58.03	6,091	$1,463

(a) All shares were purchased under the $3.0 billion common stock repurchase authorization program announced December 22, 2020.

(b) Includes 75,000 shares of common stock purchased, at an average price per share of $58.15, in open-market transactions by U.S. Bank National Association, the Company's banking subsidiary, in its capacity as trustee of the U.S. Bank 401(k) Savings Plan, which is the Company's employee retirement savings plan.

Based on the results of the 2021 Federal Reserve Board Annual Stress Test, the Company announced on September 14, 2021 that its Board of Directors had approved a regular quarterly dividend of $0.46 per common share, payable in October 2021. This represented a 9.5 percent increase over the previous dividend rate per common share of $0.42 per quarter.

The Company will continue to monitor its capital position and may adjust its capital distributions based on economic conditions and its financial performance. Capital distributions, including dividends and stock repurchases, are subject to the approval of the Company's Board of Directors and will align with regulatory requirements.

Refer to "Management's Discussion and Analysis — Capital Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for further discussion on capital management.

LINE OF BUSINESS FINANCIAL REVIEW

The Company's major lines of business are Corporate and Commercial Banking, Consumer and Business Banking, Wealth Management and Investment 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. Refer to Note 17 of the Notes to Consolidated Financial Statements for further information on the business lines' basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company's diverse customer base. During 2021, certain organization and methodology changes were made and, accordingly, 2020 results were restated and presented on a comparable basis.

Corporate and Commercial Banking Corporate and Commercial Banking offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets services, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution, non-profit and public sector clients. Corporate and Commercial Banking contributed $403 million of the Company's net income in the third quarter and $1.3 billion in the first nine months of 2021, or a decrease of $44 million (9.8 percent) and an increase of $61 million (5.0 percent), respectively, compared with the same periods of 2020.

Net revenue decreased $149 million (13.3 percent) in the third quarter and $564 million (16.0 percent) in the first nine months of 2021, compared with the same periods of 2020. Net interest income, on a taxable-equivalent basis, decreased $135 million (15.8 percent) in the third quarter and $451 million (17.2 percent) in the first nine months of 2021, compared with the same periods of 2020. The decreases were primarily due to lower average loan and deposit balances as well as the impact of declining interest rates on the margin benefit from deposits, partially offset by favorable deposit mix with higher noninterest-bearing deposit balances and slightly higher loan spreads. Average loan balances declined as significant liquidity draws during the early stages of the pandemic were paid down in the second half of 2020 and the first quarter of 2021. Noninterest income decreased $14 million (5.2 percent) in the third quarter and $113 million (12.6 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily driven by lower capital markets activities and trading revenue, partially offset by continued stronger treasury management fees due to core growth driven by the economic recovery.

Noninterest expense decreased $10 million (2.3 percent) in the third quarter and $53 million (4.0 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily due to lower FDIC insurance expense, lower production incentives, and higher capitalized loan costs, partially offset by an increase in net shared services expense driven by investment in infrastructure and technology development.

The provision for credit losses decreased $80 million (84.2 percent) in the third quarter and $592 million in the first nine months of 2021, compared with the same periods of 2020, primarily due to a decrease in the reserve allocation driven by improving portfolio credit quality in the current year, compared with deteriorating credit quality in the prior year.

Consumer and Business Banking Consumer and Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices. It encompasses community banking, metropolitan banking and indirect lending, as well as mortgage banking. Consumer and Business Banking contributed $628 million of the Company's net income in the third quarter and $1.8 billion in the first nine months of 2021, or a decrease of $21 million (3.2 percent) and an increase of $86 million (4.9 percent), respectively, compared with the same periods of 2020.

Net revenue decreased $56 million (2.4 percent) in the third quarter and $151 million (2.3 percent) in the first nine months of 2021, compared with the same periods of 2020. Net interest income, on a taxable-equivalent basis, increased $77 million (5.2 percent) in the third quarter and $364 million (8.6 percent) in the first nine months of 2021, compared with the same periods of 2020, reflecting continued strong growth in deposit balances as well as favorable deposit mix, favorable loan spreads driven by growth in installment loans, and higher loan fees driven by loan forgiveness related to the SBA's Paycheck Protection Program. These increases in net interest income were partially offset by lower deposit spreads. Noninterest income decreased $133 million (15.7 percent) in the third quarter of 2021, compared with the third quarter of 2020, primarily due to lower mortgage banking revenue reflecting lower production volume and related gain on sale margins as refinancing activities declined, partially offset by an increase in the fair value of MSRs, net of hedging activities, as well as higher gains on GNMA loan sales. Partially offsetting the decline in mortgage banking revenue, retail product fees were stronger driven by retail leasing end of term residual gains, and deposit service charges increased as a result of customer activity and higher ATM processing revenue. Noninterest income decreased $515 million (21.2 percent) in the first nine months of 2021, compared with the first nine months of 2020, primarily due to lower mortgage banking revenue reflecting lower production volume and related gain on sale margins, along with a reduction in the fair value of MSRs, net of hedging activities, partially offset by higher gains on GNMA loan sales and higher retail product fees.

Noninterest expense increased $66 million (4.8 percent) in the third quarter and $146 million (3.6 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily due to increases in net shared services expense due to investments in digital capabilities and higher compensation expense related to merit increases, business hiring related to mortgage forbearance loss mitigation and revenue-related compensation driven by business production. The provision for credit losses decreased $94 million in the third quarter and $412 million in the first nine months of 2021, compared with the same periods of 2020, due to a decrease in the reserve allocation primarily reflecting lower delinquency rates in consumer portfolios and a reduction in end of period outstanding loan balances in the first nine months of 2021, compared with loan growth in the first nine months of 2020.

Wealth Management and Investment Services Wealth Management and Investment Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through four businesses: Wealth Management, Global Corporate Trust & Custody, U.S. Bancorp Asset Management and Fund Services. Wealth Management and Investment Services contributed $196 million of the Company's net income in the third quarter and $618 million in the first nine months of 2021, or decreases of $31 million (13.7 percent) and $119 million (16.1 percent), respectively, compared with the same periods of 2020.

Net revenue decreased $23 million (2.9 percent) in the third quarter and $112 million (4.5 percent) in the first nine months of 2021, compared with the same periods of 2020. Net interest income, on a taxable-equivalent basis, decreased $76 million (25.2 percent) in the third quarter and $243 million (25.2 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily due to the declining margin benefit from deposits given lower interest rates, partially offset by higher noninterest-bearing deposit balances, favorable deposit mix and higher average loan balances. Noninterest income increased $53 million (10.5 percent) in the third quarter and $131 million (8.7 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily due to core business growth in trust and investment management fees and investment products fees, both driven by favorable market conditions, partially offset by higher fee waivers related to money market funds.

Table 11 Line of Business Financial Performance

Three Months Ended September 30 (Dollars in Millions)	Corporate and Commercial Banking 2021	Corporate and Commercial Banking 2020	Percent Change	Consumer and Business Banking 2021	Consumer and Business Banking 2020	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 717	$ 852	(15.8)%	$ 1,551	$ 1,474	5.2%
Noninterest income	253	267	(5.2)	715	848	(15.7)
Total net revenue	970	1,119	(13.3)	2,266	2,322	(2.4)
Noninterest expense	418	428	(2.3)	1,450	1,383	4.8
Other intangibles	—	—	—	3	4	(25.0)
Total noninterest expense	418	428	(2.3)	1,453	1,387	4.8
Income (loss) before provision and income taxes	552	691	(20.1)	813	935	(13.0)
Provision for credit losses	15	95	(84.2)	(25)	69	*
Income (loss) before income taxes	537	596	(9.9)	838	866	(3.2)
Income taxes and taxable-equivalent adjustment	134	149	(10.1)	210	217	(3.2)
Net income (loss)	403	447	(9.8)	628	649	(3.2)
Net (income) loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to U.S. Bancorp	$ 403	$ 447	(9.8)	$ 628	$ 649	(3.2)
Average Balance Sheet						
Commercial	$ 77,474	$ 89,435	(13.4)%	$ 8,158	$ 11,173	(27.0)%
Commercial real estate	24,916	26,083	(4.5)	10,975	11,916	(7.9)
Residential mortgages	29	19	52.6	66,787	69,945	(4.5)
Credit card	—	—	—	—	—	—
Other retail	12	10	20.0	54,913	52,195	5.2
Total loans	102,431	115,547	(11.4)	140,833	145,229	(3.0)
Goodwill	1,650	1,647	.2	3,506	3,475	.9
Other intangible assets	5	6	(16.7)	2,754	1,942	41.8
Assets	114,629	128,369	(10.7)	160,882	164,246	(2.0)
Noninterest-bearing deposits	62,642	48,058	30.3	34,416	34,288	.4
Interest checking	12,843	12,673	1.3	70,953	57,593	23.2
Savings products	47,073	56,945	(17.3)	76,367	63,577	20.1
Time deposits	9,001	17,940	(49.8)	12,951	11,925	8.6
Total deposits	131,559	135,616	(3.0)	194,687	167,383	16.3
Total U.S. Bancorp shareholders' equity	13,772	15,051	(8.5)	12,277	13,562	(9.5)

Nine Months Ended September 30 (Dollars in Millions)	Corporate and Commercial Banking 2021	Corporate and Commercial Banking 2020	Percent Change	Consumer and Business Banking 2021	Consumer and Business Banking 2020	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 2,172	$ 2,623	(17.2)%	$ 4,603	$ 4,239	8.6%
Noninterest income	786	899	(12.6)	1,918	2,433	(21.2)
Total net revenue	2,958	3,522	(16.0)	6,521	6,672	(2.3)
Noninterest expense	1,257	1,310	(4.0)	4,210	4,061	3.7
Other intangibles	—	—	—	9	12	(25.0)
Total noninterest expense	1,257	1,310	(4.0)	4,219	4,073	3.6
Income (loss) before provision and income taxes	1,701	2,212	(23.1)	2,302	2,599	(11.4)
Provision for credit losses	(20)	572	*	(143)	269	*
Income (loss) before income taxes	1,721	1,640	4.9	2,445	2,330	4.9
Income taxes and taxable-equivalent adjustment	430	410	4.9	612	583	5.0
Net income (loss)	1,291	1,230	5.0	1,833	1,747	4.9
Net (income) loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to U.S. Bancorp	$ 1,291	$ 1,230	5.0	$ 1,833	$ 1,747	4.9
Average Balance Sheet						
Commercial	$ 77,339	$ 92,959	(16.8)%	$ 9,447	$ 8,601	9.8%
Commercial real estate	24,744	25,696	(3.7)	11,009	12,166	(9.5)
Residential mortgages	23	20	15.0	67,301	67,093	.3
Credit card	—	—	—	—	—	—
Other retail	11	11	—	53,463	52,121	2.6
Total loans	102,117	118,686	(14.0)	141,220	139,981	.9
Goodwill	1,648	1,647	.1	3,485	3,508	(.7)
Other intangible assets	5	6	(16.7)	2,692	2,095	28.5
Assets	114,182	131,106	(12.9)	162,316	157,177	3.3
Noninterest-bearing deposits	59,841	41,091	45.6	33,734	29,397	14.8
Interest checking	13,246	14,266	(7.1)	68,596	53,815	27.5
Savings products	47,576	55,451	(14.2)	74,542	60,404	23.4
Time deposits	9,177	20,864	(56.0)	13,683	12,715	7.6
Total deposits	129,840	131,672	(1.4)	190,555	156,331	21.9
Total U.S. Bancorp shareholders' equity	13,995	15,201	(7.9)	12,378	12,797	(3.3)

* *Not meaningful*

Wealth Management and Investment Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2021	2020	Percent Change	2021	2020	Percent Change	2021	2020	Percent Change	2021	2020	Percent Change
$ 225	$ 301	(25.2)%	$ 616	$ 643	(4.2)%	$ 88	$ (18)	*%	$ 3,197	$ 3,252	(1.7)%
558	505	10.5	946	867	9.1	221	225	(1.8)	2,693	2,712	(.7)
783	806	(2.9)	1,562	1,510	3.4	309	207	49.3	5,890	5,964	(1.2)
507	489	3.7	817	797	2.5	196	230	(14.8)	3,388	3,327	1.8
4	3	33.3	34	37	(8.1)	—	—	—	41	44	(6.8)
511	492	3.9	851	834	2.0	196	230	(14.8)	3,429	3,371	1.7
272	314	(13.4)	711	676	5.2	113	(23)	*	2,461	2,593	(5.1)
11	11	—	166	246	(32.5)	(330)	214	*	(163)	635	*
261	303	(13.9)	545	430	26.7	443	(237)	*	2,624	1,958	34.0
65	76	(14.5)	136	108	25.9	45	(178)	*	590	372	58.6
196	227	(13.7)	409	322	27.0	398	(59)	*	2,034	1,586	28.2
—	—	—	—	—	—	(6)	(6)	—	(6)	(6)	—
$ 196	$ 227	(13.7)	$ 409	$ 322	27.0	$ 392	$ (65)	*	$ 2,028	$ 1,580	28.4
$ 5,551	$ 4,721	17.6%	$ 9,271	$ 8,859	4.7%	$ 1,378	$ 1,301	5.9%	$101,832	$115,489	(11.8)%
767	776	(1.2)	—	—	—	2,263	2,154	5.1	38,921	40,929	(4.9)
7,286	5,819	25.2	—	—	—	2	3	(33.3)	74,104	75,786	(2.2)
—	—	—	21,905	22,052	(.7)	—	—	—	21,905	22,052	(.7)
4,850	4,300	12.8	202	257	(21.4)	—	—	—	59,977	56,762	5.7
18,454	15,616	18.2	31,378	31,168	.7	3,643	3,458	5.3	296,739	311,018	(4.6)
1,618	1,618	—	3,168	3,123	1.4	—	—	—	9,942	9,863	.8
80	37	*	496	602	(17.6)	—	—	—	3,335	2,587	28.9
21,566	18,708	15.3	37,173	36,191	2.7	219,196	189,388	15.7	553,446	536,902	3.1
24,453	17,719	38.0	4,913	6,886	(28.7)	2,594	2,424	7.0	129,018	109,375	18.0
18,784	14,041	33.8	—	—	—	456	187	*	103,036	84,494	21.9
51,564	56,245	(8.3)	150	123	22.0	776	724	7.2	175,930	177,614	(.9)
1,493	3,571	(58.2)	—	1	*	58	603	(90.4)	23,503	34,040	(31.0)
96,294	91,576	5.2	5,063	7,010	(27.8)	3,884	3,938	(1.4)	431,487	405,523	6.4
3,172	2,968	6.9	7,561	7,716	(2.0)	17,491	13,119	33.3	54,273	52,416	3.5

Wealth Management and Investment Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2021	2020	Percent Change	2021	2020	Percent Change	2021	2020	Percent Change	2021	2020	Percent Change
$ 721	$ 964	(25.2)%	$ 1,841	$ 1,910	(3.6)%	$ 113	$ (13)	*%	$ 9,450	$ 9,723	(2.8)%
1,638	1,507	8.7	2,644	2,319	14.0	707	693	2.0	7,693	7,851	(2.0)
2,359	2,471	(4.5)	4,485	4,229	6.1	820	680	20.6	17,143	17,574	(2.5)
1,499	1,445	3.7	2,381	2,296	3.7	729	764	(4.6)	10,076	9,876	2.0
10	9	11.1	100	108	(7.4)	—	—	—	119	129	(7.8)
1,509	1,454	3.8	2,481	2,404	3.2	729	764	(4.6)	10,195	10,005	1.9
850	1,017	(16.4)	2,004	1,825	9.8	91	(84)	*	6,948	7,569	(8.2)
26	34	(23.5)	216	477	(54.7)	(1,239)	2,013	*	(1,160)	3,365	*
824	983	(16.2)	1,788	1,348	32.6	1,330	(2,097)	*	8,108	4,204	92.9
206	246	(16.3)	447	338	32.2	106	(833)	*	1,801	744	*
618	737	(16.1)	1,341	1,010	32.8	1,224	(1,264)	*	6,307	3,460	82.3
—	—	—	—	—	—	(17)	(20)	15.0	(17)	(20)	15.0
$ 618	$ 737	(16.1)	$ 1,341	$ 1,010	32.8	$ 1,207	$ (1,284)	*	$ 6,290	$ 3,440	82.8
$ 5,315	$ 4,676	13.7%	$ 8,752	$ 8,977	(2.5)%	$ 1,445	$ 1,288	12.2%	$102,298	$116,501	(12.2)%
711	736	(3.4)	—	—	—	2,293	2,101	9.1	38,757	40,699	(4.8)
6,889	5,496	25.3	—	—	—	2	3	(33.3)	74,215	72,612	2.2
—	—	—	21,391	22,465	(4.8)	—	—	—	21,391	22,465	(4.8)
4,669	4,243	10.0	210	283	(25.8)	—	—	—	58,353	56,658	3.0
17,584	15,151	16.1	30,353	31,725	(4.3)	3,740	3,392	10.3	295,014	308,935	(4.5)
1,618	1,617	.1	3,174	3,027	4.9	—	—	—	9,925	9,799	1.3
69	40	72.5	519	584	(11.1)	—	—	—	3,285	2,725	20.6
20,676	18,324	12.8	35,972	36,497	(1.4)	218,053	182,276	19.6	551,199	525,380	4.9
23,024	16,285	41.4	5,068	3,852	31.6	2,595	2,310	12.3	124,262	92,935	33.7
18,885	13,584	39.0	—	—	—	553	225	*	101,280	81,890	23.7
55,375	59,442	(6.8)	141	117	20.5	796	770	3.4	178,430	176,184	1.3
1,838	3,710	(50.5)	—	2	*	369	2,298	(83.9)	25,067	39,589	(36.7)
99,122	93,021	6.6	5,209	3,971	31.2	4,313	5,603	(23.0)	429,039	390,598	9.8
3,099	2,924	6.0	7,544	7,269	3.8	16,311	13,745	18.7	53,327	51,936	2.7

Noninterest expense increased $19 million (3.9 percent) in the third quarter and $55 million (3.8 percent) in the first nine months of 2021, compared with the same periods of 2020, reflecting higher compensation expense as a result of merit increases, higher performance-based incentives related to investment sales volumes and core business growth, and an increase in net shared services expense, partially offset by lower other noninterest expense due to the allocation to the business line of previously reserved legal matters in the third quarter of 2020. The provision for credit losses was flat in the third quarter of 2021, compared with the third quarter of 2020, reflecting stable credit quality in the current quarter, compared with credit quality deterioration in the third quarter of 2020, offset by stronger balance growth in the current period compared with the third quarter of 2021. The provision for credit losses decreased $8 million (23.5 percent) in the first nine months of 2021, compared with the first nine months of 2020, reflecting a decrease in the reserve allocation in the first quarter of 2021 driven by stable credit quality.

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 $409 million of the Company's net income in the third quarter and $1.3 billion in the first nine months of 2021, or increases of $87 million (27.0 percent) and $331 million (32.8 percent), respectively, compared with the same periods of 2020.

Net revenue increased $52 million (3.4 percent) in the third quarter and $256 million (6.1 percent) in the first nine months of 2021, compared with the same periods of 2020. Net interest income, on a taxable-equivalent basis, decreased $27 million (4.2 percent) in the third quarter and $69 million (3.6 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily due to loan mix and lower loan balances resulting from higher credit card payment rates by customers. Net interest income further decreased in the third quarter of 2021, compared with the third quarter of 2020, due to slightly lower loan yields and lower deposit balances driven by lower prepaid card processing activities as government stimulus dissipated. Noninterest income increased $79 million (9.1 percent) in the third quarter and $325 million (14.0 percent) in the first nine months of 2021, compared with the same periods of 2020, mainly due to continued strengthening of consumer and business spending across most sectors driven by government stimulus, local jurisdictions reducing restrictions and consumer behaviors normalizing. As a result, there was strong growth in merchant processing services revenue driven by increased sales volume and higher merchant fees and equipment income, partially offset by higher rebates. There was also solid growth in corporate payment products revenue driven by improving business spending across all product groups. Credit and debit card revenue increased, driven by higher net interchange revenue related to sales volume. The increase in credit and debit card revenue in the third quarter of 2021, compared with the third quarter of 2020, was mostly offset by lower prepaid card processing activities as government stimulus programs dissipated.

Noninterest expense increased $17 million (2.0 percent) in the third quarter of 2021, compared with the third quarter of 2020, reflecting the timing of marketing campaigns and higher net shared services expense, partially offset by higher incremental costs related to the prepaid card business in the third quarter of 2020. Noninterest expense increased $77 million (3.2 percent) in the first nine months of 2021, compared with the first nine months of 2020, due to incremental costs related to the prepaid card business in the first six months of 2021 and lower marketing costs during 2020. The provision for credit losses decreased $80 million (32.5 percent) in the third quarter and $261 million (54.7 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily driven by improved credit quality relative to the prior year.

Treasury and Corporate Support Treasury and Corporate Support includes the Company's investment portfolios, 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 $392 million in the third quarter and $1.2 billion in the first nine months of 2021, compared with net losses of $65 million and $1.3 billion in the same periods of 2020, respectively.

Net revenue increased $102 million (49.3 percent) in the third quarter and $140 million (20.6 percent) in the first nine months of 2021, compared with the same periods of 2020. Net interest income, on a taxable-equivalent basis, increased $106 million in the third quarter of 2021, compared with the third quarter of 2020, primarily due to favorable funding and deposit mix and lower premium amortization within the investment portfolio compared with the prior year. Net interest income, on a taxable-equivalent basis, increased $126 million in the first nine months of 2021, compared with the first nine months of 2020, due to favorable

funding and deposit mix, partially offset by higher premium amortization within the investment portfolio compared with the prior year. Noninterest income decreased $4 million (1.8 percent) in the third quarter and increased $14 million (2.0 percent) in the first nine months of 2021, compared with the same periods of 2020, reflecting changes in other noninterest income driven by lower equity investment income in 2021, offset by the impact of asset impairments in 2020 as a result of branch closures. The increase in noninterest income in the first nine months of 2021, compared with the first nine months of 2020, was further offset by lower gains on sales of businesses in 2021 and lower securities gains.

Noninterest expense decreased $34 million (14.8 percent) in the third quarter and $35 million (4.6 percent) in the first nine months of 2021, compared with the same periods of 2020, primarily due to lower COVID-19 related expenses compared with the prior year, including recognizing liabilities related to future delivery exposures for merchant and airline processing, lower net shared services expense and lower amortization related to tax-advantaged investments which were scaled back in 2020 during the pandemic. These decreases were partially offset by higher compensation expense as a result of merit increases and higher performance-based incentives. The provision for credit losses decreased $544 million in the third quarter and $3.3 billion in the first nine months of 2021, compared with the same periods of 2020, reflecting the residual impact of changes in the allowance for credit losses being impacted by improving economic conditions in the current year, compared to deteriorating conditions in the prior year.

Income taxes are assessed to each line of business at a managerial tax rate of 25.0 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, and
- Common equity tier 1 capital to risk-weighted assets, reflecting the full implementation of the CECL methodology.

These capital measures are viewed by management as useful additional methods of evaluating the Company's utilization of its capital held and the level of capital available to withstand unexpected negative 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 capital measures are not defined in generally accepted accounting principles ("GAAP"), or are not currently effective or defined in banking regulations. In addition, certain of these measures differ from currently effective capital ratios defined by banking regulations principally in that the currently effective ratios, which are subject to certain transitional provisions, temporarily exclude the impact of the 2020 adoption of accounting guidance related to impairment of financial instruments based on the CECL methodology. As a result, these capital measures disclosed by the Company may be considered non-GAAP financial measures. Management believes this information helps investors assess trends in the Company's capital adequacy.

The Company also discloses net interest income and related ratios and analysis on a taxable-equivalent basis, which may also be considered non-GAAP financial measures. The Company believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison of net interest income arising from taxable and tax-exempt sources. In addition, certain performance measures, including the efficiency ratio and net interest margin utilize net interest income on a taxable-equivalent basis.

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

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

(Dollars in Millions)	September 30, 2021	December 31, 2020
Total equity	$ 54,378	$ 53,725
Preferred stock	(5,968)	(5,983)
Noncontrolling interests	(635)	(630)
Goodwill (net of deferred tax liability) (1)	(9,063)	(9,014)
Intangible assets, other than mortgage servicing rights	(618)	(654)
Tangible common equity (a)	38,094	37,444
Common equity tier 1 capital, determined in accordance with transitional regulatory capital requirements related to the CECL methodology implementation	41,014	38,045
Adjustments (2)	(1,733)	(1,733)
Common equity tier 1 capital, reflecting the full implementation of the CECL methodology (b)	39,281	36,312
Total assets	567,495	553,905
Goodwill (net of deferred tax liability) (1)	(9,063)	(9,014)
Intangible assets, other than mortgage servicing rights	(618)	(654)
Tangible assets (c)	557,814	544,237
Risk-weighted assets, determined in accordance with prescribed regulatory capital requirements effective for the Company (d)	404,021	393,648
Adjustments (3)	(684)	(1,471)
Risk-weighted assets, reflecting the full implementation of the CECL methodology (e)	403,337	392,177
Ratios		
Tangible common equity to tangible assets (a)/(c)	6.8%	6.9%
Tangible common equity to risk-weighted assets (a)/(d)	9.4	9.5
Common equity tier 1 capital to risk-weighted assets, reflecting the full implementation of the CECL methodology (b)/(e)	9.7	9.3

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Net interest income	$3,171	$3,227	$ 9,371	$ 9,650
Taxable-equivalent adjustment (4)	26	25	79	73
Net interest income, on a taxable-equivalent basis	3,197	3,252	9,450	9,723
Net interest income, on a taxable-equivalent basis (as calculated above)	3,197	3,252	9,450	9,723
Noninterest income	2,693	2,712	7,693	7,851
Less: Securities gains (losses), net	20	12	88	143
Total net revenue, excluding net securities gains (losses) (f)	5,870	5,952	17,055	17,431
Noninterest expense (g)	3,429	3,371	10,195	10,005
Efficiency ratio (g)/(f)	58.4%	56.6%	59.8%	57.4%

(1) Includes goodwill related to certain investments in unconsolidated financial institutions per prescribed regulatory requirements.
(2) Includes the estimated increase in the allowance for credit losses related to the adoption of the CECL methodology net of deferred taxes.
(3) Includes the impact of the estimated increase in the allowance for credit losses related to the adoption of the CECL methodology.
(4) Based on a federal income tax rate of 21 percent for those assets and liabilities whose income or expense is not included for federal income tax purposes.

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. Management has discussed the development and the selection of critical accounting policies with the Company's Audit Committee. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, MSRs, and income taxes. These accounting policies are discussed in detail in "Management's Discussion and Analysis — Critical Accounting Policies" and the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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 control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

U.S. Bancorp

Consolidated Balance Sheet

(Dollars in Millions)	September 30, 2021	December 31, 2020
	(Unaudited)	
Assets		
Cash and due from banks	$ 63,904	$ 62,580
Available-for-sale investment securities ($850 and $402 pledged as collateral, respectively) (a)	149,376	136,840
Loans held for sale (including $6,176 and $8,524 of mortgage loans carried at fair value, respectively)	6,191	8,761
Loans		
Commercial	101,013	102,871
Commercial real estate	38,808	39,311
Residential mortgages	74,954	76,155
Credit card	22,137	22,346
Other retail	60,696	57,024
Total loans	297,608	297,707
Less allowance for loan losses	(5,792)	(7,314)
Net loans	291,816	290,393
Premises and equipment	3,262	3,468
Goodwill	9,996	9,918
Other intangible assets	3,528	2,864
Other assets (including $1,426 and $1,255 of trading securities at fair value pledged as collateral, respectively) (a)	39,422	39,081
Total assets	$567,495	$553,905
Liabilities and Shareholders' Equity		
Deposits		
Noninterest-bearing	$135,549	$118,089
Interest-bearing (b)	307,353	311,681
Total deposits	442,902	429,770
Short-term borrowings	16,088	11,766
Long-term debt	35,671	41,297
Other liabilities	18,456	17,347
Total liabilities	513,117	500,180
Shareholders' equity		
Preferred stock	5,968	5,983
Common stock, par value $0.01 a share—authorized: 4,000,000,000 shares; issued: 9/30/21 and 12/31/20—2,125,725,742 shares	21	21
Capital surplus	8,550	8,511
Retained earnings	68,297	64,188
Less cost of common stock in treasury: 9/30/21—643,035,053 shares; 12/31/20—618,618,084 shares	(27,301)	(25,930)
Accumulated other comprehensive income (loss)	(1,792)	322
Total U.S. Bancorp shareholders' equity	53,743	53,095
Noncontrolling interests	635	630
Total equity	54,378	53,725
Total liabilities and equity	$567,495	$553,905

(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 $2.4 billion and $4.4 billion at September 30, 2021 and December 31, 2020, respectively.

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Interest Income				
Loans	$2,711	$2,892	$ 8,112	$ 9,152
Loans held for sale	54	61	176	157
Investment securities	606	586	1,741	1,908
Other interest income	38	34	103	144
Total interest income	3,409	3,573	10,132	11,361
Interest Expense				
Deposits	78	130	245	849
Short-term borrowings	18	19	52	124
Long-term debt	142	197	464	738
Total interest expense	238	346	761	1,711
Net interest income	3,171	3,227	9,371	9,650
Provision for credit losses	(163)	635	(1,160)	3,365
Net interest income after provision for credit losses	3,334	2,592	10,531	6,285
Noninterest Income				
Credit and debit card revenue	393	388	1,125	976
Corporate payment products revenue	156	125	420	371
Merchant processing services	392	347	1,084	950
Trust and investment management fees	459	434	1,349	1,295
Deposit service charges	194	170	531	512
Treasury management fees	155	145	462	425
Commercial products revenue	277	303	837	904
Mortgage banking revenue	418	553	1,063	1,596
Investment products fees	62	48	177	142
Securities gains (losses), net	20	12	88	143
Other	167	187	557	537
Total noninterest income	2,693	2,712	7,693	7,851
Noninterest Expense				
Compensation	1,847	1,687	5,448	4,992
Employee benefits	336	335	1,057	1,001
Net occupancy and equipment	259	276	780	823
Professional services	126	102	332	307
Marketing and business development	99	72	237	213
Technology and communications	361	334	1,082	932
Postage, printing and supplies	69	70	203	214
Other intangibles	41	44	119	129
Other	291	451	937	1,394
Total noninterest expense	3,429	3,371	10,195	10,005
Income before income taxes	2,598	1,933	8,029	4,131
Applicable income taxes	564	347	1,722	671
Net income	2,034	1,586	6,307	3,460
Net (income) loss attributable to noncontrolling interests	(6)	(6)	(17)	(20)
Net income attributable to U.S. Bancorp	$2,028	$1,580	$ 6,290	$ 3,440
Net income applicable to U.S. Bancorp common shareholders	$1,934	$1,494	$ 6,023	$ 3,196
Earnings per common share	$ 1.30	$ .99	$ 4.04	$ 2.12
Diluted earnings per common share	$ 1.30	$ .99	$ 4.04	$ 2.11
Average common shares outstanding	1,483	1,506	1,491	1,510
Average diluted common shares outstanding	1,484	1,507	1,492	1,511

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Comprehensive Income

(Dollars in Millions) (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Net income	$2,034	$1,586	$ 6,307	$3,460
Other Comprehensive Income (Loss)				
Changes in unrealized gains and losses on investment securities available-for-sale	(825)	(305)	(3,008)	2,935
Changes in unrealized gains and losses on derivative hedges	8	27	121	(230)
Foreign currency translation	(1)	6	23	(6)
Reclassification to earnings of realized gains and losses	27	23	34	(42)
Income taxes related to other comprehensive income (loss)	201	63	716	(672)
Total other comprehensive income (loss)	(590)	(186)	(2,114)	1,985
Comprehensive income (loss)	1,444	1,400	4,193	5,445
Comprehensive (income) loss attributable to noncontrolling interests	(6)	(6)	(17)	(20)
Comprehensive income (loss) attributable to U.S. Bancorp	$1,438	$1,394	$ 4,176	$5,425

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Shareholders' Equity

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	U.S. Bancorp Shareholders									
	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance June 30, 2020	1,506	$5,984	$21	$8,483	$62,526	$(25,962)	$ 798	$51,850	$630	$52,480
Net income (loss)					1,580			1,580	6	1,586
Other comprehensive income (loss)							(186)	(186)		(186)
Preferred stock dividends (a)					(79)			(79)		(79)
Common stock dividends ($.42 per share)					(636)			(636)		(636)
Issuance of common and treasury stock				(1)		3		2		2
Distributions to noncontrolling interests								—	(5)	(5)
Net other changes in noncontrolling interests								—	(1)	(1)
Stock option and restricted stock grants				34				34		34
Balance September 30, 2020	1,506	$5,984	$21	$8,516	$63,391	$(25,959)	$ 612	$52,565	$630	$53,195
Balance June 30, 2021	1,483	$5,968	$21	$8,518	$67,039	$(27,305)	$ (1,202)	$53,039	$635	$53,674
Net income (loss)					2,028			2,028	6	2,034
Other comprehensive income (loss)							(590)	(590)		(590)
Preferred stock dividends (b)					(84)			(84)		(84)
Common stock dividends ($.46 per share)					(686)			(686)		(686)
Issuance of common and treasury stock				(1)		4		3		3
Distributions to noncontrolling interests								—	(5)	(5)
Net other changes in noncontrolling interests								—	(1)	(1)
Stock option and restricted stock grants				33				33		33
Balance September 30, 2021	1,483	$5,968	$21	$8,550	$68,297	$(27,301)	$ (1,792)	$53,743	$635	$54,378
Balance December 31, 2019	1,534	$5,984	$21	$8,475	$63,186	$(24,440)	$ (1,373)	$51,853	$630	$52,483
Change in accounting principle (c)					(1,099)			(1,099)		(1,099)
Net income (loss)					3,440			3,440	20	3,460
Other comprehensive income (loss)							1,985	1,985		1,985
Preferred stock dividends (d)					(229)			(229)		(229)
Common stock dividends ($1.26 per share)					(1,907)			(1,907)		(1,907)
Issuance of common and treasury stock	3			(118)		130		12		12
Purchase of treasury stock	(31)					(1,649)		(1,649)		(1,649)
Distributions to noncontrolling interests								—	(19)	(19)
Net other changes in noncontrolling interests								—	(1)	(1)
Stock option and restricted stock grants				159				159		159
Balance September 30, 2020	1,506	$5,984	$21	$8,516	$63,391	$(25,959)	$ 612	$52,565	$630	$53,195
Balance December 31, 2020	1,507	$5,983	$21	$8,511	$64,188	$(25,930)	$ 322	$53,095	$630	$53,725
Net income (loss)					6,290			6,290	17	6,307
Other comprehensive income (loss)							(2,114)	(2,114)		(2,114)
Preferred stock dividends (e)					(232)			(232)		(232)
Common stock dividends ($1.30 per share)					(1,944)			(1,944)		(1,944)
Issuance of preferred stock		730						730		730
Redemption of preferred stock		(745)			(5)			(750)		(750)
Issuance of common and treasury stock	4			(127)		166		39		39
Purchase of treasury stock	(28)					(1,537)		(1,537)		(1,537)
Distributions to noncontrolling interests								—	(16)	(16)
Net other changes in noncontrolling interests								—	4	4
Stock option and restricted stock grants				166				166		166
Balance September 30, 2021	1,483	$5,968	$21	$8,550	$68,297	$(27,301)	($ 1,792)	$53,743	$635	$54,378

(a) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series H, Series J and Series K Non-Cumulative Perpetual Preferred Stock of $894.444, $223.61, $406.25, $321.88, $662.50 and $343.75, respectively.

(b) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series J, Series K, Series L and Series M Non-Cumulative Perpetual Preferred Stock of $894.444, $223.611, $406.25, $662.50, $343.75, $234.375 and $250.00, respectively.

(c) Effective January 1, 2020, the Company adopted accounting guidance which changed impairment recognition of financial instruments to a model that is based on expected losses rather than incurred losses. Upon adoption, the Company increased its allowance for credit losses and reduced retained earnings net of deferred tax liabilities through a cumulative-effect adjustment.

(d) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series H, Series I, Series J and Series K Non-Cumulative Perpetual Preferred Stock of $2,663.888, $665.97, $1,218.75, $965.64, $640.625, $1,325.00 and $1,031.25, respectively.

(e) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series I, Series J, Series K, Series L and Series M Non-Cumulative Perpetual Preferred Stock of $2,654.166, $663.542, $1,218.75, $232.953, $1,325.00, $1,031.25, $703.125 and $702.778, respectively.

See Notes to Consolidated Financial Statements.

U.S. Bancorp

Consolidated Statement of Cash Flows

(Dollars in Millions) (Unaudited)	Nine Months Ended September 30 2021	 2020
Operating Activities		
Net income attributable to U.S. Bancorp	$ 6,290	$ 3,440
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	(1,160)	3,365
Depreciation and amortization of premises and equipment	253	264
Amortization of intangibles	119	129
(Gain) loss on sale of loans held for sale	(950)	(1,613)
(Gain) loss on sale of securities and other assets	(297)	(274)
Loans originated for sale, net of repayments	(56,256)	(46,456)
Proceeds from sales of loans held for sale	58,517	45,469
Other, net	2,651	461
Net cash provided by operating activities	9,167	4,785
Investing Activities		
Proceeds from sales of available-for-sale investment securities	13,383	13,920
Proceeds from maturities of available-for-sale investment securities	33,740	24,992
Purchases of available-for-sale investment securities	(62,764)	(48,481)
Net increase in loans outstanding	(1,157)	(3,915)
Proceeds from sales of loans	4,228	1,429
Purchases of loans	(3,278)	(9,561)
Net (increase) decrease in securities purchased under agreements to resell	(41)	732
Other, net	120	(966)
Net cash used in investing activities	(15,769)	(21,850)
Financing Activities		
Net increase in deposits	13,132	51,301
Net increase (decrease) in short-term borrowings	4,322	(10,000)
Proceeds from issuance of long-term debt	1,211	14,282
Principal payments or redemption of long-term debt	(6,603)	(13,088)
Proceeds from issuance of preferred stock	730	—
Proceeds from issuance of common stock	38	11
Repurchase of preferred stock	(1,250)	—
Repurchase of common stock	(1,537)	(1,660)
Cash dividends paid on preferred stock	(223)	(222)
Cash dividends paid on common stock	(1,894)	(1,917)
Net cash provided by financing activities	7,926	38,707
Change in cash and due from banks	1,324	21,642
Cash and due from banks at beginning of period	62,580	22,405
Cash and due from banks at end of period	$ 63,904	$ 44,047

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the "Company"), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Note 2 Accounting Changes

Reference Interest Rate Transition In March 2020, the FASB issued accounting guidance, providing temporary optional expedients and exceptions to the guidance in United States generally accepted accounting principles on contract modifications and hedge accounting, to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. Under the guidance, a company can elect not to apply certain modification accounting requirements to contracts affected by reference rate transition, if certain criteria are met. A company that makes this election would not be required to remeasure the contracts at the modification date or reassess a previous accounting determination. This guidance also permits a company to elect various optional expedients that would allow it to continue applying hedge accounting for hedging relationships affected by reference rate transition, if certain criteria are met. The guidance is effective upon issuance and generally can be applied through December 31, 2022. The Company is in the process of evaluating and applying, as applicable, the optional expedients and exceptions in accounting for eligible contract modifications, eligible existing hedging relationships and new hedging relationships available through December 31, 2022. The adoption of this guidance has not had, and is expected to continue to not have, a material impact on the Company's financial statements.

Note 3 Business Combinations

In September 2021, the Company announced that it has entered into a definitive agreement to acquire MUFG Union Bank's core regional banking franchise from Mitsubishi UFJ Financial Group ("MUFG"), for a purchase price of approximately $8.0 billion, including $5.5 billion in cash and approximately 44 million shares of the Company's common stock. Upon close of the transaction, MUFG will hold approximately 2.9 percent of the Company's common stock. The transaction excludes the purchase of MUFG Union Bank's Global Corporate & Investment Bank, certain middle and back office functions, and other assets. MUFG Union Bank currently has approximately 300 branches in California, Washington and Oregon and is expected to add, based on MUFG Union Bank's June 30, 2021 balance sheet, approximately $105 billion in total assets, $58 billion of loans and $90 billion of deposits to the Company's consolidated balance sheet. The transaction is expected to close in the first half of 2022, subject to customary closing conditions, including regulatory approvals.

Note 4 Investment Securities

The Company's 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. The Company had no outstanding investment securities classified as held-to-maturity at September 30, 2021 and December 31, 2020.

The amortized cost, gross unrealized holding gains and losses, and fair value of available-for-sale investment securities were as follows:

	September 30, 2021				December 31, 2020			
(Dollars in Millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and agencies	$ 18,460	$ 230	$ (199)	$ 18,491	$ 21,954	$ 462	$(25)	$ 22,391
Mortgage-backed securities								
Residential agency	113,137	996	(1,337)	112,796	98,031	1,950	(13)	99,968
Commercial agency	7,750	77	(141)	7,686	5,251	170	(15)	5,406
Asset-backed securities	64	5	–	69	200	5	–	205
Obligations of state and political subdivisions	9,820	560	(53)	10,327	8,166	695	–	8,861
Other	7	–	–	7	9	–	–	9
Total available-for-sale	$149,238	$1,868	$(1,730)	$149,376	$133,611	$3,282	$(53)	$136,840

Investment securities with a fair value of $31.7 billion at September 30, 2021, and $11.0 billion at December 31, 2020, 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 $850 million at September 30, 2021, and $402 million at December 31, 2020.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in Millions)	2021	2020	2021	2020
Taxable	$539	$528	$1,548	$1,741
Non-taxable	67	58	193	167
Total interest income from investment securities	$606	$586	$1,741	$1,908

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in Millions)	2021	2020	2021	2020
Realized gains	$39	$12	$107	$166
Realized losses	(19)	–	(19)	(23)
Net realized gains	$20	$12	$ 88	$143
Income tax on net realized gains	$ 5	$ 3	$ 22	$ 36

The Company conducts a regular assessment of its available-for-sale investment securities with unrealized losses to determine whether all or some portion of a security's unrealized loss is related to credit and an allowance for credit losses is necessary. If the Company intends to sell or it is more likely than not the Company will be required to sell an investment security, the amortized cost of the security is written down to fair value. When evaluating credit losses, the Company considers various factors such as the nature of the investment security, the credit ratings or financial condition of the issuer, the extent of the unrealized loss, expected cash flows of underlying collateral, the existence of any government or agency guarantees, and market conditions. The Company measures the allowance for credit losses using market information where available and discounting the cash flows at the original effective rate of the investment security. The allowance for credit losses is adjusted each period through earnings and can be subsequently recovered. The allowance for credit losses on the Company's available-for-sale investment securities was immaterial at September 30, 2021 and December 31, 2020.

At September 30, 2021, 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 available-for-sale investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2021:

	Less Than 12 Months		12 Months or Greater		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agencies	$ 6,023	$ (163)	$ 980	$(36)	$ 7,003	$ (199)
Residential agency mortgage-backed securities	66,781	(1,328)	375	(9)	67,156	(1,337)
Commercial agency mortgage-backed securities	3,947	(88)	1,122	(53)	5,069	(141)
Asset-backed securities	–	–	2	–	2	–
Obligations of state and political subdivisions	2,145	(53)	–	–	2,145	(53)
Other	4	–	–	–	4	–
Total investment securities	$78,900	$(1,632)	$2,479	$(98)	$81,379	$(1,730)

These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase of the investment securities. U.S. Treasury and agencies securities and agency mortgage-backed securities are issued, guaranteed or otherwise supported by the United States government. The Company's obligations of state and political subdivisions are generally high grade. Accordingly, the Company does not consider these unrealized losses to be credit-related and an allowance for credit losses is not necessary. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these investment securities. At September 30, 2021, 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.

During the nine months ended September 30, 2021 and 2020, the Company did not purchase any available-for-sale investment securities that had more-than-insignificant credit deterioration.

The following table provides information about the amortized cost, fair value and yield by maturity date of the available-for-sale investment securities outstanding at September 30, 2021:

(Dollars in Millions)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies				
Maturing in one year or less	$ 2,873	$ 2,894	.5	1.87%
Maturing after one year through five years	6,835	6,977	2.4	1.61
Maturing after five years through ten years	7,146	7,041	7.9	1.33
Maturing after ten years	1,606	1,579	12.6	1.91
Total	$ 18,460	$ 18,491	5.1	1.57%
Mortgage-Backed Securities (a)				
Maturing in one year or less	$ 140	$ 138	.5	1.70%
Maturing after one year through five years	54,361	55,259	3.4	1.57
Maturing after five years through ten years	66,370	65,068	6.5	1.53
Maturing after ten years	16	17	12.2	1.27
Total	$120,887	$120,482	5.1	1.55%
Asset-Backed Securities (a)				
Maturing in one year or less	$ –	$ –	.6	2.69%
Maturing after one year through five years	63	66	3.8	1.50
Maturing after five years through ten years	1	2	6.2	2.58
Maturing after ten years	–	1	12.9	2.41
Total	$ 64	$ 69	3.8	1.51%
Obligations of State and Political Subdivisions (b) (c)				
Maturing in one year or less	$ 349	$ 355	.6	4.28%
Maturing after one year through five years	2,492	2,663	4.1	4.24
Maturing after five years through ten years	5,595	5,964	6.9	3.73
Maturing after ten years	1,384	1,345	17.4	2.50
Total	$ 9,820	$ 10,327	7.4	3.71%
Other				
Maturing in one year or less	$ –	$ –	–	–%
Maturing after one year through five years	7	7	3.7	2.07
Maturing after five years through ten years	–	–	–	–
Maturing after ten years	–	–	–	–
Total	$ 7	$ 7	3.7	2.07%
Total investment securities (d)	$149,238	$149,376	5.3	1.69%

(a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities that take into account anticipated 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, and yield to maturity if the security is 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 the contractual maturity date for securities with a fair value equal to or below par.

(d) The weighted-average maturity of total available-for-sale investment securities was 3.4 years at December 31, 2020, with a corresponding weighted-average yield of 1.61 percent.

(e) Weighted-average yields for obligations of state and political subdivisions are presented on a fully-taxable equivalent basis based on a federal income tax rate of 21 percent. Yields on investment securities are computed based on amortized cost balances.

Note 5 Loans and Allowance for Credit Losses

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

(Dollars in Millions)	September 30, 2021 Amount	September 30, 2021 Percent of Total	December 31, 2020 Amount	December 31, 2020 Percent of Total
Commercial				
Commercial	$ 95,876	32.2%	$ 97,315	32.7%
Lease financing	5,137	1.8	5,556	1.9
Total commercial	101,013	34.0	102,871	34.6
Commercial Real Estate				
Commercial mortgages	28,029	9.4	28,472	9.6
Construction and development	10,779	3.6	10,839	3.6
Total commercial real estate	38,808	13.0	39,311	13.2
Residential Mortgages				
Residential mortgages	65,941	22.2	66,525	22.4
Home equity loans, first liens	9,013	3.0	9,630	3.2
Total residential mortgages	74,954	25.2	76,155	25.6
Credit Card	22,137	7.4	22,346	7.5
Other Retail				
Retail leasing	7,505	2.5	8,150	2.7
Home equity and second mortgages	10,718	3.6	12,472	4.2
Revolving credit	2,682	.9	2,688	.9
Installment	16,166	5.5	13,823	4.6
Automobile	23,488	7.9	19,722	6.6
Student	137	–	169	.1
Total other retail	60,696	20.4	57,024	19.1
Total loans	$297,608	100.0%	$297,707	100.0%

The Company had loans of $89.8 billion at September 30, 2021, and $96.1 billion at December 31, 2020, pledged at the Federal Home Loan Bank, and loans of $73.1 billion at September 30, 2021, and $67.8 billion at December 31, 2020, pledged at the Federal Reserve Bank.

Originated loans are reported at the principal amount outstanding, net of unearned interest and deferred fees and costs, and any partial charge-offs recorded. Net unearned interest and deferred fees and costs amounted to $567 million at September 30, 2021 and $763 million at December 31, 2020. All purchased loans are recorded at fair value at the date of purchase. Beginning January 1, 2020, the Company evaluates purchased loans for more-than-insignificant deterioration at the date of purchase in accordance with applicable authoritative accounting guidance. Purchased loans that have experienced more-than-insignificant deterioration from origination are considered purchased credit deteriorated loans. All other purchased loans are considered non-purchased credit deteriorated loans.

Allowance for Credit Losses Beginning January 1, 2020, the allowance for credit losses is established for current expected credit losses on the Company's loan and lease portfolio, including unfunded credit commitments. The allowance considers expected losses for the remaining lives of the applicable assets, inclusive of expected recoveries. The allowance for credit losses is increased through provisions charged to earnings and reduced by net charge-offs. Management evaluates the appropriateness of the allowance for credit losses on a quarterly basis. Multiple economic scenarios are considered over a three-year reasonable and supportable forecast period, which includes increasing consideration of historical loss experience over years two and three. These economic scenarios are constructed with interrelated projections of multiple economic variables, and loss estimates are produced that consider the historical correlation of those economic variables with credit losses. After the forecast period, the Company fully reverts to long-term historical loss experience, adjusted for prepayments and characteristics of the current loan and lease portfolio, to estimate losses over the remaining life of the portfolio. The economic scenarios are updated at least quarterly and are designed to provide a range of reasonable estimates, from better to worse than current expectations. Scenarios are weighted based on the Company's expectation of economic conditions for the foreseeable future and reflect significant judgment and consideration of uncertainties that exist. Final loss estimates also consider factors affecting credit losses not reflected in the scenarios, due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to, loan servicing practices, regulatory guidance, and/or fiscal and monetary policy actions.

The allowance recorded for credit losses utilizes forward-looking expected loss models to consider a variety of factors affecting lifetime credit losses. These factors include, but are not limited to, macroeconomic variables such as unemployment rate, real estate prices, gross domestic product levels and corporate bonds spreads, as well as loan and borrower characteristics, such as internal risk ratings on commercial loans and consumer credit scores, delinquency

status, collateral type and available valuation information, consideration of end-of-term losses on lease residuals, and the remaining term of the loan, adjusted for expected prepayments. For each loan portfolio, model estimates are adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices, economic conditions or other factors that would affect the accuracy of the model. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. Where loans do not exhibit similar risk characteristics, an individual analysis is performed to consider expected credit losses. The allowance recorded for individually evaluated loans greater than $5 million in the commercial lending segment is based on an 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 as appropriate.

The allowance recorded for Troubled Debt Restructuring ("TDR") 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. TDRs generally do not include loan modifications granted to customers resulting directly from the economic effects of the COVID-19 pandemic, who were otherwise in current payment status. The expected cash flows on TDR loans consider subsequent payment defaults since modification, the borrower's ability to pay under the restructured terms, and the timing and amount of payments. 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. 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.

Beginning January 1, 2020, when a loan portfolio is purchased, the acquired loans are divided into those considered purchased with more than insignificant credit deterioration ("PCD") and those not considered purchased with more than insignificant credit deterioration. An allowance is established for each population and considers product mix, risk characteristics of the portfolio, bankruptcy experience, delinquency status and refreshed LTV ratios when possible. The allowance established for purchased loans not considered PCD is recognized through provision expense upon acquisition, whereas the allowance established for loans considered PCD at acquisition is offset by an increase in the basis of the acquired loans. Any subsequent increases and decreases in the allowance related to purchased loans, regardless of PCD status, are recognized through provision expense, with charge-offs charged to the allowance. The Company did not have a material amount of PCD loans included in its loan portfolio at September 30, 2021.

The Company's methodology for determining the appropriate allowance for credit losses also considers the imprecision inherent in the methodologies used and allocated to the various loan portfolios. As a result, amounts determined under the methodologies described above, are adjusted by management to consider the potential impact of other qualitative factors not captured in the quantitative model adjustments which include, but are not limited to the following: model imprecision, imprecision in economic scenario assumptions, and emerging risks related to either changes in the environment that are affecting specific portfolios, or changes in portfolio concentrations over time that may affect model performance. The consideration of these items results in adjustments to allowance amounts included in the Company's allowance for credit losses for each loan portfolio.

The Company also assesses the credit risk associated with off-balance sheet loan commitments, letters of credit, investment securities 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.

Prior to January 1, 2020, the allowance for credit losses was established based on an incurred loss model. The allowance recorded for loans in the commercial lending segment was based on the migration analysis of commercial loans and actual loss experience. The allowance recorded for loans in the consumer lending segment was determined on a homogenous pool basis and primarily included consideration of delinquency status and historical losses. In addition to the amounts determined under the methodologies described above, management also considered the potential impact of qualitative factors.

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

Three Months Ended September 30 (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans
2021						
Balance at beginning of period	$1,838	$1,409	$478	$1,891	$ 994	$6,610
Add						
Provision for credit losses	(75)	(104)	3	(23)	36	(163)
Deduct						
Loans charged-off	40	14	3	154	55	266
Less recoveries of loans charged-off	(26)	(1)	(13)	(43)	(36)	(119)
Net loan charge-offs (recoveries)	14	13	(10)	111	19	147
Balance at end of period	$1,749	$1,292	$491	$1,757	$1,011	$6,300
2020						
Balance at beginning of period	$2,645	$1,269	$633	$2,156	$1,187	$7,890
Add						
Provision for credit losses	20	263	(49)	369	32	635
Deduct						
Loans charged-off	193	89	4	236	89	611
Less recoveries of loans charged-off	(15)	(6)	(7)	(35)	(33)	(96)
Net loan charge-offs (recoveries)	178	83	(3)	201	56	515
Balance at end of period	$2,487	$1,449	$587	$2,324	$1,163	$8,010

Nine Months Ended September 30 (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans
2021						
Balance at beginning of period	$2,423	$1,544	$573	$2,355	$1,115	$8,010
Add						
Provision for credit losses	(577)	(246)	(107)	(195)	(35)	(1,160)
Deduct						
Loans charged-off	184	28	13	536	193	954
Less recoveries of loans charged-off	(87)	(22)	(38)	(133)	(124)	(404)
Net loan charge-offs (recoveries)	97	6	(25)	403	69	550
Balance at end of period	$1,749	$1,292	$491	$1,757	$1,011	$6,300
2020						
Balance at beginning of period	$1,484	$ 799	$433	$1,128	$ 647	$4,491
Add						
Change in accounting principle (a)	378	(122)	(30)	872	401	1,499
Provision for credit losses	988	875	179	988	335	3,365
Deduct						
Loans charged-off	406	112	15	775	316	1,624
Less recoveries of loans charged-off	(43)	(9)	(20)	(111)	(96)	(279)
Net loan charge-offs (recoveries)	363	103	(5)	664	220	1,345
Balance at end of period	$2,487	$1,449	$587	$2,324	$1,163	$8,010

(a) Effective January 1, 2020, the Company adopted accounting guidance which changed impairment recognition of financial instruments to a model that is based on expected losses rather than incurred losses.

The decrease in the allowance for credit losses from December 31, 2020 to September 30, 2021 primarily reflected factors affecting economic conditions during the first nine months of 2021, including the enactment of additional benefits from government stimulus programs and broad vaccine availability in the United States that has reduced the risks associated with COVID-19, contributing to an economic recovery and strong portfolio credit performance. Other factors considered include concerns around inflationary pressures, new virus variants, sustainability of asset values and borrower liquidity, along with the lack of a clear path to government funding.

Credit Quality The credit 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 portfolio 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, reducing interest income in the current period.

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 placed on nonaccrual.

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. Residential mortgage loans and lines in a first lien position are placed on nonaccrual status in instances where a partial charge-off occurs unless the loan is well secured and in the process of collection. Residential mortgage 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 they are 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.

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:

		Accruing			
(Dollars in Millions)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonperforming (b)	Total
September 30, 2021					
Commercial	$100,595	$ 163	$ 39	$ 216	$101,013
Commercial real estate	38,459	32	21	296	38,808
Residential mortgages (a)	74,450	153	114	237	74,954
Credit card	21,807	183	147	–	22,137
Other retail	60,224	251	64	157	60,696
Total loans	$295,535	$ 782	$385	$ 906	$297,608
December 31, 2020					
Commercial	$102,127	$ 314	$ 55	$ 375	$102,871
Commercial real estate	38,676	183	2	450	39,311
Residential mortgages (a)	75,529	244	137	245	76,155
Credit card	21,918	231	197	–	22,346
Other retail	56,466	318	86	154	57,024
Total loans	$294,716	$1,290	$477	$1,224	$297,707

(a) At September 30, 2021, $946 million of loans 30–89 days past due and $1.5 billion of loans 90 days or more past due purchased from Government National Mortgage Association ("GNMA") mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs, were classified as current, compared with $1.4 billion and $1.8 billion at December 31, 2020, respectively.

(b) Substantially all nonperforming loans at September 30, 2021 and December 31, 2020, had an associated allowance for credit losses. The Company recognized interest income on nonperforming loans of $4 million and $9 million for the three months ended September 30, 2021 and 2020, respectively, and $11 million and $19 million for the nine months ended September 30, 2021 and 2020, respectively.

At September 30, 2021, the amount of foreclosed residential real estate held by the Company, and included in other real estate owned ("OREO"), was $17 million, compared with $23 million at December 31, 2020. These amounts excluded $19 million and $33 million at September 30, 2021 and December 31, 2020, respectively, of foreclosed residential real estate related to mortgage loans whose payments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. In addition, the amount of residential mortgage loans secured by residential real estate in the process of foreclosure at September 30, 2021 and December 31, 2020, was $778 million and $1.0 billion, respectively, of which $620 million and $812 million, 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 United States Department of Veterans Affairs.

The Company classifies its loan portfolio classes 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 loans not classified on the Company's rating scale for problem credits, as minimal credit risk has been identified. Special mention loans are those loans that have a potential weakness deserving management's close attention. Classified loans are those loans where a well-defined weakness has been identified that may put full collection of contractual cash flows at risk. It is possible that others, given the same information, may reach different reasonable conclusions regarding the credit quality rating classification of specific loans.

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

	September 30, 2021					December 31, 2020				
		Criticized					Criticized			
(Dollars in Millions)	Pass	Special Mention	Classified (a)	Total Criticized	Total	Pass	Special Mention	Classified (a)	Total Criticized	Total
Commercial										
Originated in 2021	$ 32,826	$ 346	$ 277	$ 623	$ 33,449	$ –	$ –	$ –	$ –	$ –
Originated in 2020	17,202	637	252	889	18,091	34,557	1,335	1,753	3,088	37,645
Originated in 2019	11,851	198	63	261	12,112	17,867	269	349	618	18,485
Originated in 2018	6,853	77	51	128	6,981	12,349	351	176	527	12,876
Originated in 2017	3,213	14	53	67	3,280	5,257	117	270	387	5,644
Originated prior to 2017	3,373	30	40	70	3,443	4,954	128	115	243	5,197
Revolving	23,204	353	100	453	23,657	22,445	299	280	579	23,024
Total commercial	98,522	1,655	836	2,491	101,013	97,429	2,499	2,943	5,442	102,871
Commercial real estate										
Originated in 2021	9,456	50	772	822	10,278	–	–	–	–	–
Originated in 2020	8,238	119	435	554	8,792	9,446	461	1,137	1,598	11,044
Originated in 2019	7,382	298	694	992	8,374	9,514	454	1,005	1,459	10,973
Originated in 2018	3,662	142	330	472	4,134	6,053	411	639	1,050	7,103
Originated in 2017	1,943	25	150	175	2,118	2,650	198	340	538	3,188
Originated prior to 2017	3,239	26	103	129	3,368	4,762	240	309	549	5,311
Revolving	1,556	1	187	188	1,744	1,445	9	238	247	1,692
Total commercial real estate	35,476	661	2,671	3,332	38,808	33,870	1,773	3,668	5,441	39,311
Residential mortgages (b)										
Originated in 2021	21,045	–	–	–	21,045	–	–	–	–	–
Originated in 2020	18,043	1	5	6	18,049	23,262	1	3	4	23,266
Originated in 2019	8,508	1	18	19	8,527	13,969	1	17	18	13,987
Originated in 2018	3,492	–	21	21	3,513	5,670	1	22	23	5,693
Originated in 2017	4,494	–	21	21	4,515	6,918	1	24	25	6,943
Originated prior to 2017	19,002	–	302	302	19,304	25,921	2	342	344	26,265
Revolving	1	–	–	–	1	1	–	–	–	1
Total residential mortgages	74,585	2	367	369	74,954	75,741	6	408	414	76,155
Credit card (c)	21,990	–	147	147	22,137	22,149	–	197	197	22,346
Other retail										
Originated in 2021	17,248	–	3	3	17,251	–	–	–	–	–
Originated in 2020	13,318	–	8	8	13,326	17,589	–	7	7	17,596
Originated in 2019	8,300	–	16	16	8,316	11,605	–	23	23	11,628
Originated in 2018	4,332	–	16	16	4,348	6,814	–	27	27	6,841
Originated in 2017	2,130	–	11	11	2,141	3,879	–	22	22	3,901
Originated prior to 2017	2,259	–	16	16	2,275	3,731	–	29	29	3,760
Revolving	12,400	–	123	123	12,523	12,647	–	110	110	12,757
Revolving converted to term	473	–	43	43	516	503	–	38	38	541
Total other retail	60,460	–	236	236	60,696	56,768	–	256	256	57,024
Total loans	$291,033	$2,318	$4,257	$ 6,575	$297,608	$285,957	$4,278	$7,472	$11,750	$297,707
Total outstanding commitments	$645,955	$4,606	$6,342	$10,948	$656,903	$627,606	$8,772	$9,374	$18,146	$645,752

Note: Year of origination is based on the origination date of a loan, or for existing loans the date when the maturity date, pricing or commitment amount is amended.

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

(b) At September 30, 2021, $1.5 billion of GNMA loans 90 days or more past due and $1.2 billion of restructured GNMA loans whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs were classified with a pass rating, compared with $1.8 billion and $1.4 billion at December 31, 2020, respectively.

(c) All credit card loans are considered revolving 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.

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

	2021			2020		
(Dollars in Millions)	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance
Three Months Ended September 30						
Commercial	506	$ 46	$ 47	699	$ 262	$ 159
Commercial real estate	14	12	13	51	105	81
Residential mortgages	171	54	54	374	108	108
Credit card	6,656	38	38	4,699	27	27
Other retail	382	9	9	508	26	26
Total loans, excluding loans purchased from GNMA mortgage pools	7,729	159	161	6,331	528	401
Loans purchased from GNMA mortgage pools	802	113	118	735	106	105
Total loans	8,531	$ 272	$279	7,066	$ 634	$ 506
Nine Months Ended September 30						
Commercial	1,736	$ 133	$120	2,837	$ 505	$ 375
Commercial real estate	100	136	125	116	165	141
Residential mortgages	867	299	298	585	142	142
Credit card	17,492	102	103	19,282	110	112
Other retail	2,175	64	58	1,537	50	48
Total loans, excluding loans purchased from GNMA mortgage pools	22,370	734	704	24,357	972	818
Loans purchased from GNMA mortgage pools	1,839	267	276	3,648	514	503
Total loans	24,209	$1,001	$980	28,005	$1,486	$1,321

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. At September 30, 2021, 5 residential mortgages, 2 home equity and second mortgage loans and 43 loans purchased from GNMA mortgage pools with outstanding balances of less than $1 million, less than $1 million and $5 million, respectively, were in a trial period and have estimated post-modification balances of less than $1 million, less than $1 million and $5 million, respectively, assuming permanent modification occurs at the end of the trial period.

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

For the commercial lending segment, modifications generally result in the Company working with borrowers on a case-by-case basis. Commercial and commercial real estate modifications generally include extensions of the maturity date and may be accompanied by an increase or decrease to the interest rate, which may not be deemed a market interest rate. 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 modifies residential mortgage loans under Federal Housing Administration, United States Department of Veterans Affairs, or its own internal programs. Under these programs, the Company offers qualifying homeowners the opportunity to permanently modify their loan and achieve more affordable monthly payments by providing loan concessions. These 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.

Loan modifications or concessions granted to borrowers resulting directly from the effects of the COVID-19 pandemic, who were otherwise in current payment status, are generally not considered to be TDRs. As of September 30, 2021 and December 31, 2020, approximately $3.0 billion and $10.1 billion, respectively, of loan modifications included on the Company's consolidated balance sheet related to borrowers impacted by the COVID-19 pandemic, consisting primarily of payment deferrals.

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 periods presented, that were modified as TDRs within 12 months previous to default:

	2021		2020	
(Dollars in Millions)	Number of Loans	Amount Defaulted	Number of Loans	Amount Defaulted
Three Months Ended September 30				
Commercial	244	$ 5	305	$ 21
Commercial real estate	4	1	5	8
Residential mortgages	20	2	5	2
Credit card	2,069	12	1,363	8
Other retail	124	2	55	1
Total loans, excluding loans purchased from GNMA mortgage pools	2,461	22	1,733	40
Loans purchased from GNMA mortgage pools	29	5	72	9
Total loans	2,490	$27	1,805	$ 49
Nine Months Ended September 30				
Commercial	856	$29	922	$ 49
Commercial real estate	16	7	33	24
Residential mortgages	47	5	23	4
Credit card	5,638	32	5,169	27
Other retail	595	10	245	3
Total loans, excluding loans purchased from GNMA mortgage pools	7,152	83	6,392	107
Loans purchased from GNMA mortgage pools	102	15	427	57
Total loans	7,254	$98	6,819	$164

In addition to the defaults in the table above, the Company had a total of 10 and 45 residential mortgage loans, home equity and second mortgage loans and loans purchased from GNMA mortgage pools for the three months and nine months ended September 30, 2021, respectively, where borrowers did not successfully complete the trial period arrangement and, therefore, are no longer eligible for a permanent modification under the applicable modification program. These loans had aggregate outstanding balances of $1 million and $7 million for the three months and nine months ended September 30, 2021, respectively.

As of September 30, 2021, the Company had $158 million of commitments to lend additional funds to borrowers whose terms of their outstanding owed balances have been modified in TDRs.

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

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

For loans sold under participation agreements, the Company also considers whether the terms of the loan participation agreement meet the accounting definition of a participating interest. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. Any gain or loss on sale depends on the

previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by the Company are initially recognized at fair value. For further information on mortgage servicing rights ("MSRs"), refer to Note 7. On a limited basis, the Company may acquire and package high-grade corporate bonds for select corporate customers, in which the Company generally has no continuing involvement with these transactions. Additionally, the Company is an authorized GNMA issuer and issues GNMA securities on a regular basis. The Company has no other asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

The Company also provides financial support primarily through the use of waivers of trust and investment management fees associated with various unconsolidated registered money market funds it manages. The Company provided $67 million and $28 million of support to the funds during the three months ended September 30, 2021 and 2020, respectively, and $184 million and $49 million during the nine months ended September 30, 2021 and 2020, respectively.

The Company is involved in various entities that are considered to be variable interest entities ("VIEs"). The Company's investments in VIEs are primarily related to investments promoting affordable housing, community development and renewable energy sources. Some of these tax-advantaged investments support the Company's regulatory compliance with the Community Reinvestment Act. The Company's investments in these entities generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. These tax credits are recognized as 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 $113 million and $142 million for the three months ended September 30, 2021 and 2020, respectively, and $356 million and $437 million for the nine months ended September 30, 2021 and 2020, respectively. The Company also recognized $75 million and $118 million of investment tax credits for the three months ended September 30, 2021 and 2020, respectively, and $235 million and $307 million for the nine months ended September 30, 2021 and 2020, respectively. The Company recognized $101 million and $142 million of expenses related to all of these investments for the three months ended September 30, 2021 and 2020, respectively, of which $83 million and $97 million, respectively, were included in tax expense and the remaining amounts were included in noninterest expense. The Company recognized $333 million and $429 million of expenses related to all of these investments for the nine months ended September 30, 2021 and 2020, respectively, of which $262 million and $297 million, respectively, were included in tax expense and the remaining amounts were 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:

(Dollars in Millions)	September 30, 2021	December 31, 2020
Investment carrying amount	$ 4,865	$ 5,378
Unfunded capital and other commitments	2,180	2,334
Maximum exposure to loss	10,368	11,219

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 $40 million at September 30, 2021 and $35 million at December 31, 2020. The maximum exposure to loss related to these VIEs was $81 million at September 30, 2021 and $57 million at December 31, 2020, 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 $71 million at September 30, 2021, compared with less than $1 million to $78 million at December 31, 2020.

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 September 30, 2021, approximately $5.1 billion of the Company's assets and $3.6 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 $4.9 billion and $3.7 billion, respectively, at December 31, 2020. 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.

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 liquidity and remarketing arrangements to the program. As a result, the Company has consolidated the program's entities. At September 30, 2021, $1.7 billion of available-for-sale investment securities and $1.2 billion of short-term borrowings on the Consolidated Balance Sheet were related to the tender option bond program, compared with $2.4 billion of available-for-sale investment securities and $1.5 billion of short-term borrowings at December 31, 2020.

Note 7 Mortgage Servicing Rights

The Company capitalizes MSRs as separate assets when loans are sold and servicing is retained. MSRs may also be purchased from others. The Company carries MSRs at fair value, with changes in the fair value recorded in earnings during the period in which they occur. The Company serviced $219.3 billion of residential mortgage loans for others at September 30, 2021, and $211.8 billion at December 31, 2020, including subserviced mortgages with no corresponding MSR asset. Included in mortgage banking revenue are the MSR fair value changes arising from market rate and model assumption changes, net of the value change in derivatives used to economically hedge MSRs. These changes resulted in a net loss of $21 million and a net gain of $9 million for the three months ended September 30, 2021 and 2020, respectively, and a net loss of $168 million and a net gain of $58 million for the nine months ended September 30, 2021 and 2020, respectively. Loan servicing and ancillary fees, not including valuation changes, included in mortgage banking revenue were $183 million and $177 million for the three months ended September 30, 2021 and 2020, respectively, and $536 million and $537 million for the nine months ended September 30, 2021 and 2020, respectively.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in Millions)	2021	2020	2021	2020
Balance at beginning of period	$2,713	$1,840	$2,210	$2,546
Rights purchased	9	8	36	16
Rights capitalized	284	321	896	712
Rights sold (a)	—	1	1	3
Changes in fair value of MSRs				
Due to fluctuations in market interest rates (b)	53	(8)	307	(815)
Due to revised assumptions or models (c)	(30)	(7)	(169)	37
Other changes in fair value (d)	(119)	(177)	(371)	(521)
Balance at end of period	$2,910	$1,978	$2,910	$1,978

(a) MSRs sold include those having a negative fair value, resulting from the loans being severely delinquent.

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

(c) Includes changes in MSR value not caused by changes in market interest rates, such as changes in assumed cost to service, ancillary income and option adjusted spread, as well as the impact of any model changes.

(d) Primarily the change in MSR value from passage of time and cash flows realized (decay), but also includes the impact of changes to expected cash flows not associated with changes in market interest rates, such as the impact of delinquencies.

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

	September 30, 2021						December 31, 2020					
(Dollars in Millions)	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	$(619)	$(320)	$(161)	$ 154	$ 294	$ 520	$(442)	$(271)	$(150)	$ 169	$ 343	$ 671
Derivative instrument hedges	574	290	144	(137)	(270)	(524)	523	281	145	(149)	(304)	(625)
Net sensitivity	$ (45)	$ (30)	$ (17)	$ 17	$ 24	$ (4)	$ 81	$ 10	$ (5)	$ 20	$ 39	$ 46

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 servicing portfolio is comprised of loans originated under state and local housing authority program guidelines which assist purchases by first-time or low- to moderate-income homebuyers through a favorable rate subsidy, down payment and/or closing cost assistance on government- and conventional-insured mortgages.

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

	September 30, 2021				December 31, 2020			
(Dollars in Millions)	HFA	Government	Conventional(d)	Total	HFA	Government	Conventional(d)	Total
Servicing portfolio (a)	$40,038	$22,392	$153,543	$215,973	$40,396	$25,474	$143,085	$208,955
Fair value	$ 508	$ 304	$ 2,098	$ 2,910	$ 406	$ 261	$ 1,543	$ 2,210
Value (bps) (b)	127	136	137	135	101	102	108	106
Weighted-average servicing fees (bps)	36	41	30	32	35	40	30	32
Multiple (value/servicing fees)	3.56	3.34	4.51	4.16	2.87	2.56	3.55	3.26
Weighted-average note rate	4.14%	3.75%	3.48%	3.63%	4.43%	3.91%	3.78%	3.92%
Weighted-average age (in years)	3.8	5.8	3.4	3.7	3.8	5.6	4.2	4.3
Weighted-average expected prepayment (constant prepayment rate)	11.3%	13.4%	9.4%	10.2%	14.1%	18.0%	13.8%	14.4%
Weighted-average expected life (in years)	6.6	5.5	7.0	6.8	5.6	4.3	5.5	5.4
Weighted-average option adjusted spread (c)	7.7%	7.3%	6.5%	6.8%	7.7%	7.3%	6.2%	6.6%

(a) Represents principal balance of mortgages having corresponding MSR asset.
(b) Calculated as fair value divided by the servicing portfolio.
(c) Option adjusted spread is the incremental spread added to the risk-free rate to reflect optionality and other risk inherent in the MSRs.
(d) Represents loans sold primarily to GSEs.

Note 8 Preferred Stock

At September 30, 2021 and December 31, 2020, the Company had authority to issue 50 million shares of preferred stock. The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock were as follows:

	September 30, 2021				December 31, 2020			
(Dollars in Millions)	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 I	—	—	—	—	30,000	750	5	745
Series J	40,000	1,000	7	993	40,000	1,000	7	993
Series K	23,000	575	10	565	23,000	575	10	565
Series L	20,000	500	14	486	20,000	500	14	486
Series M	30,000	750	20	730	—	—	—	—
Total preferred stock (a)	209,510	$6,176	$208	$5,968	209,510	$6,176	$193	$5,983

(a) The par value of all shares issued and outstanding at September 30, 2021 and December 31, 2020, was $1.00 per share.

During the first nine months of 2021, the Company issued depositary shares representing an ownership interest in 30,000 shares of Series M Non-Cumulative Perpetual Preferred Stock with a liquidation preference of $25,000 per share (the "Series M Preferred Stock"). The Series M 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 4.00 percent. The Series M Preferred Stock is redeemable at the Company's option, in whole or in part, on or after April 15, 2026. The Series M Preferred Stock is redeemable at the Company's option, in whole, but not in part, prior to April 15, 2026 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 M Preferred Stock as Tier 1 capital for purposes of the capital adequacy guidelines of the Federal Reserve Board.

During the first nine months of 2021, the Company redeemed all outstanding shares of the Series I Non-Cumulative Perpetual Preferred Stock (the "Series I Preferred Stock") at a redemption price equal to the liquidation preference amount. The Company included a $5 million loss in the computation of diluted earnings per common share for the first nine months of 2021, which represents the stock issuance costs recorded in preferred stock upon the issuance of the Series I Preferred Stock that were reclassified to retained earnings on the date the Company provided notice of its intent to redeem the outstanding shares.

Note 9 Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended September 30 (Dollars in Millions)	Unrealized Gains (Losses) on Investment Securities Available-For-Sale	Unrealized Gains (Losses) on Derivative Hedges	Unrealized Gains (Losses) on Retirement Plans	Foreign Currency Translation	Total
2021					
Balance at beginning of period	$ 735	$(107)	$(1,783)	$(47)	$(1,202)
Changes in unrealized gains and losses	(825)	8	—	—	(817)
Foreign currency translation adjustment (a)	—	—	—	(1)	(1)
Reclassification to earnings of realized gains and losses	(20)	8	39	—	27
Applicable income taxes	215	(4)	(10)	—	201
Balance at end of period	$ 105	$ (95)	$(1,754)	$(48)	$(1,792)
2020					
Balance at beginning of period	$2,701	$(240)	$(1,589)	$(74)	$ 798
Changes in unrealized gains and losses	(305)	27	—	—	(278)
Foreign currency translation adjustment (a)	—	—	—	6	6
Reclassification to earnings of realized gains and losses	(12)	3	32	—	23
Applicable income taxes	81	(7)	(9)	(2)	63
Balance at end of period	$2,465	$(217)	$(1,566)	$(70)	$ 612

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

Nine Months Ended September 30 (Dollars in Millions)	Unrealized Gains (Losses) on Investment Securities Available-For-Sale	Unrealized Gains (Losses) on Derivative Hedges	Unrealized Gains (Losses) on Retirement Plans	Foreign Currency Translation	Total
2021					
Balance at beginning of period	$ 2,417	$(189)	$(1,842)	$(64)	$ 322
Changes in unrealized gains and losses	(3,008)	121	—	—	(2,887)
Foreign currency translation adjustment (a)	—	—	—	23	23
Reclassification to earnings of realized gains and losses	(88)	4	118	—	34
Applicable income taxes	784	(31)	(30)	(7)	716
Balance at end of period	$ 105	$ (95)	$(1,754)	$(48)	$(1,792)
2020					
Balance at beginning of period	$ 379	$ (51)	$(1,636)	$(65)	$(1,373)
Changes in unrealized gains and losses	2,935	(230)	—	—	2,705
Foreign currency translation adjustment (a)	—	—	—	(6)	(6)
Reclassification to earnings of realized gains and losses	(143)	7	94	—	(42)
Applicable income taxes	(706)	57	(24)	1	(672)
Balance at end of period	$ 2,465	$(217)	$(1,566)	$(70)	$ 612

(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 is as follows:

	Impact to Net Income				
	Three Months Ended September 30		Nine Months Ended September 30		
(Dollars in Millions)	2021	2020	2021	2020	Affected Line Item in the Consolidated Statement of Income
Unrealized gains (losses) on investment securities available-for-sale					
Realized gains (losses) on sale of investment securities	$ 20	$ 12	$ 88	$143	Securities gains (losses), net
	(5)	(3)	(22)	(36)	Applicable income taxes
	15	9	66	107	Net-of-tax
Unrealized gains (losses) on derivative hedges					
Realized gains (losses) on derivative hedges	(8)	(3)	(4)	(7)	Interest expense
	2	1	1	2	Applicable income taxes
	(6)	(2)	(3)	(5)	Net-of-tax
Unrealized gains (losses) on retirement plans					
Actuarial gains (losses) and prior service cost (credit) amortization	(39)	(32)	(118)	(94)	Other noninterest expense
	10	9	30	24	Applicable income taxes
	(29)	(23)	(88)	(70)	Net-of-tax
Total impact to net income	$(20)	$(16)	$ (25)	$ 32	

Note 10 Earnings Per Share

The components of earnings per share were:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and Shares in Millions, Except Per Share Data)	2021	2020	2021	2020
Net income attributable to U.S. Bancorp	$2,028	$1,580	$6,290	$3,440
Preferred dividends	(84)	(79)	(232)	(229)
Impact of preferred stock redemption (a)	—	—	(5)	—
Earnings allocated to participating stock awards	(10)	(7)	(30)	(15)
Net income applicable to U.S. Bancorp common shareholders	$1,934	$1,494	$6,023	$3,196
Average common shares outstanding	1,483	1,506	1,491	1,510
Net effect of the exercise and assumed purchase of stock awards	1	1	1	1
Average diluted common shares outstanding	1,484	1,507	1,492	1,511
Earnings per common share	$ 1.30	$ .99	$ 4.04	$ 2.12
Diluted earnings per common share	$ 1.30	$ .99	$ 4.04	$ 2.11

(a) Represents stock issuance costs originally recorded in preferred stock upon the issuance of the Company's Series I Preferred Stock that were reclassified to retained earnings on the date the Company announced its intent to redeem the outstanding shares.

Options outstanding at September 30, 2020, to purchase 4 million and 2 million common shares for the three months and nine months ended September 30, 2020, respectively, were not included in the computation of diluted earnings per share because they were antidilutive.

Note 11 Employee Benefits

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

	Three Months Ended September 30				Nine Months Ended September 30			
	Pension Plans		Postretirement Welfare Plan		Pension Plans		Postretirement Welfare Plan	
(Dollars in Millions)	2021	2020	2021	2020	2021	2020	2021	2020
Service cost	$ 66	$ 58	$—	$—	$ 198	$ 176	$—	$—
Interest cost	54	59	1	—	164	176	1	1
Expected return on plan assets	(112)	(101)	—	—	(337)	(302)	—	(2)
Prior service cost (credit) amortization	—	—	(1)	—	(1)	—	(3)	(2)
Actuarial loss (gain) amortization	42	34	(2)	(2)	127	101	(5)	(5)
Net periodic benefit cost (a)	$ 50	$ 50	$ (2)	$ (2)	$ 151	$ 151	$ (7)	$ (8)

(a) Service cost is included in employee benefits expense on the Consolidated Statement of Income. All other components are included in other noninterest expense on the Consolidated Statement of Income.

Note 12 Income Taxes

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended September 30 2021	2020	Nine Months Ended September 30 2021	2020
Federal				
Current	$354	$ (53)	$1,057	$ 966
Deferred	99	306	305	(459)
Federal income tax	453	253	1,362	507
State				
Current	94	92	297	298
Deferred	17	2	63	(134)
State income tax	111	94	360	164
Total income tax provision	$564	$347	$1,722	$ 671

A reconciliation of expected income tax expense at the federal statutory rate of 21 percent to the Company's applicable income tax expense follows:

(Dollars in Millions)	Three Months Ended September 30 2021	2020	Nine Months Ended September 30 2021	2020
Tax at statutory rate	$546	$406	$1,686	$ 867
State income tax, at statutory rates, net of federal tax benefit	108	75	327	170
Tax effect of				
Tax credits and benefits, net of related expenses	(91)	(82)	(267)	(280)
Exam resolutions	—	(47)	—	(47)
Tax-exempt income	(28)	(29)	(85)	(87)
Other items	29	24	61	48
Applicable income taxes	$564	$347	$1,722	$ 671

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of September 30, 2021, federal tax examinations for all years ending through December 31, 2014 are completed and resolved. The Company's tax returns for the years ended December 31, 2015, 2016, 2017 and 2018 are under examination by the Internal Revenue Service. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax asset was $946 million at September 30, 2021 and $597 million at December 31, 2020.

Note 13 Derivative Instruments

In the ordinary course of business, the Company enters into derivative transactions to manage various risks and to accommodate the business requirements of its customers. The Company recognizes all derivatives on the Consolidated Balance Sheet at fair value in other assets or in other liabilities. On the date the Company enters into a derivative contract, the derivative is designated as either a 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 available-for-sale investment securities and 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.

Cash Flow Hedges These derivatives are interest rate swaps the Company uses to hedge the forecasted cash flows from its underlying variable-rate debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until the cash flows of the hedged items are realized. If a derivative designated as a

cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within other comprehensive income (loss). At September 30, 2021, the Company had $95 million (net-of-tax) of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with $189 million (net-of-tax) of realized and unrealized losses at December 31, 2020. The estimated amount to be reclassified from other comprehensive income (loss) into earnings during both the remainder of 2021 and the next 12 months are losses of $1 million (net-of-tax). All cash flow hedges were highly effective for the three and nine months ended September 30, 2021.

Net Investment Hedges The Company uses forward commitments to sell specified amounts of certain foreign currencies, and non-derivative debt instruments, to hedge the volatility of its net investment in foreign operations driven by fluctuations in foreign currency exchange rates. The carrying amount of non-derivative debt instruments designated as net investment hedges was $1.4 billion at September 30, 2021 and December 31, 2020.

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 mortgage loans held for sale ("MLHFS") and unfunded mortgage loan commitments. The Company also enters into interest rate swaps, swaptions, 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 to earnings 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 certain unfunded mortgage loan commitments and swap agreements related to the sale of a portion of its Class B common and preferred shares of Visa Inc. Refer to Note 15 for further information on these swap agreements.

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
September 30, 2021						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	$ 700	$ —	.04	$ 2,250	$ —	3.70
Pay fixed/receive floating swaps	1,330	—	9.23	1,850	—	8.95
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	—	—	—	250	—	.23
Net investment hedges						
Foreign exchange forward contracts	826	7	.06	—	—	—
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	5,325	29	.07	10,347	69	.05
Sell	28,069	139	.29	17,637	57	.14
Options						
Purchased	16,930	235	3.34	—	—	—
Written	3,620	78	.09	7,541	241	2.11
Receive fixed/pay floating swaps	4,423	—	4.38	5,690	—	10.29
Pay fixed/receive floating swaps	2,006	—	4.26	4,562	—	4.24
Foreign exchange forward contracts	292	2	.04	275	2	.05
Equity contracts	21	2	.31	184	5	.70
Other (a)	601	9	.02	2,386	147	1.31
Total	$64,143	$501		$52,972	$521	
December 31, 2020						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps	$ 8,400	$ —	1.76	$ —	$ —	—
Pay fixed/receive floating swaps	—	—	—	100	—	9.63
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps	—	—	—	3,250	—	4.59
Net investment hedges						
Foreign exchange forward contracts	479	—	.06	336	3	.06
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy	16,431	73	.50	1,925	5	.07
Sell	10,440	48	.04	28,976	157	.07
Options						
Purchased	11,610	121	4.11	—	—	—
Written	5,073	202	.13	7,770	198	2.53
Receive fixed/pay floating swaps	11,064	—	7.31	907	—	23.43
Pay fixed/receive floating swaps	78	—	13.68	8,538	—	5.67
Foreign exchange forward contracts	292	1	.04	341	2	.05
Equity contracts	127	3	.39	45	—	.46
Other (a)	47	1	.11	1,832	183	2.44
Total	$64,041	$449		$54,020	$548	

(a) Includes derivative liability swap agreements related to the sale of a portion of the Company's Class B common and preferred shares of Visa Inc. The Visa swap agreements had a total notional value, fair value and weighted-average remaining maturity of $1.8 billion, $139 million and 1.75 years at September 30, 2021, respectively, compared to $1.8 billion, $182 million and 2.50 years at December 31, 2020, respectively. In addition, includes short-term underwriting purchase and sale commitments with total asset and liability notional values of $602 million at September 30, 2021, and $47 million at December 31, 2020.

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

(Dollars in Millions)	Asset Derivatives Notional Value	Asset Derivatives Fair Value	Asset Derivatives Weighted-Average Remaining Maturity In Years	Liability Derivatives Notional Value	Liability Derivatives Fair Value	Liability Derivatives Weighted-Average Remaining Maturity In Years
September 30, 2021						
Interest rate contracts						
Receive fixed/pay floating swaps	$124,770	$2,398	4.80	$ 46,250	$ 296	6.61
Pay fixed/receive floating swaps	47,573	80	6.65	119,027	784	4.51
Other (a)	8,463	1	3.98	7,260	3	4.66
Options						
Purchased	85,251	217	1.29	2,701	41	1.86
Written	2,690	41	1.85	79,781	192	1.23
Futures						
Buy	3,456	—	.14	318	—	1.97
Sell	2,583	—	1.43	565	—	.45
Foreign exchange rate contracts						
Forwards, spots and swaps	38,518	1,112	1.20	39,988	1,121	1.45
Options						
Purchased	629	18	.96	—	—	—
Written	—	—	—	629	18	.96
Credit contracts	2,737	—	2.49	6,934	6	4.41
Total	$316,670	$3,867		$303,453	$2,461	
December 31, 2020						
Interest rate contracts						
Receive fixed/pay floating swaps	$144,859	$3,782	4.93	$ 12,027	$ 99	8.72
Pay fixed/receive floating swaps	15,048	2	8.43	134,963	1,239	4.71
Other (a)	9,921	6	3.75	6,387	3	4.22
Options						
Purchased	72,655	111	1.40	1,454	46	2.96
Written	1,736	46	2.76	68,205	81	1.25
Futures						
Buy	1,851	—	1.22	924	—	.05
Sell	—	—	—	4,090	—	.72
Foreign exchange rate contracts						
Forwards, spots and swaps	44,845	1,590	.96	45,992	1,565	1.13
Options						
Purchased	519	14	.90	—	—	—
Written	—	—	—	519	14	.90
Credit contracts	2,876	1	2.75	7,479	7	3.81
Total	$294,310	$5,552		$282,040	$3,054	

(a) Primarily represents floating rate interest rate swaps that pay based on differentials between specified interest rate indexes.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	Gains (Losses) Recognized in Other Comprehensive Income (Loss)		Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings		Gains (Losses) Recognized in Other Comprehensive Income (Loss)		Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings	
(Dollars in Millions)	2021	2020	2021	2020	2021	2020	2021	2020
Asset and Liability Management Positions								
Cash flow hedges								
Interest rate contracts	$ 6	$ 21	$ (6)	$ (2)	$91	$(171)	$ (3)	$ (5)
Net investment hedges								
Foreign exchange forward contracts	17	(4)	—	—	16	6	—	—
Non-derivative debt instruments	27	(45)	—	—	61	(41)	—	—

Note: The Company does not exclude components from effectiveness testing for cash flow and net investment hedges.

The table below shows the effect of fair value and cash flow hedge accounting on the Consolidated Statement of Income:

	Interest Income		Interest Expense		Interest Income		Interest Expense	
	Three Months Ended September 30				Nine Months Ended September 30			
(Dollars in Millions)	2021	2020	2021	2020	2021	2020	2021	2020
Total amount of income and expense line items presented in the Consolidated Statement of Income in which the effects of fair value or cash flow hedges are recorded	$3,409	$3,573	$ 238	$346	$10,132	$11,361	$ 761	$1,711
Asset and Liability Management Positions								
Fair value hedges								
Interest rate contract derivatives	45	—	112	28	14	—	185	(166)
Hedged items	(45)	—	(113)	(27)	(15)	—	(185)	167
Cash flow hedges								
Interest rate contract derivatives	—	—	8	3	—	—	4	7

Note: The Company does not exclude components from effectiveness testing for fair value and cash flow hedges. The Company reclassified losses of $13 million and $40 million into earnings during the three and nine months ended September 30, 2021, respectively, as a result of realized cash flows on discontinued cash flow hedges. The Company reclassified losses of $18 million and $24 million into earnings during the three and nine months ended September 30, 2020, respectively, as a result of realized cash flows on discontinued cash flow hedges. No amounts were reclassified into earnings on discontinued cash flow hedges because it is probable the original hedged forecasted cash flows will not occur.

The table below shows cumulative hedging adjustments and the carrying amount of assets and liabilities designated in fair value hedges:

	Carrying Amount of the Hedged Assets and Liabilities		Cumulative Hedging Adjustment (a)	
(Dollars in Millions)	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Line Item in the Consolidated Balance Sheet				
Available-for-sale investment securities	$3,127	$ 99	$ (22)	$ (1)
Long-term debt	2,940	8,567	692	903

(a) The cumulative hedging adjustment related to discontinued hedging relationships on available-for-sale investment securities and long-term debt was $(6) million and $700 million, respectively, at September 30, 2021. The cumulative hedging adjustment related to discontinued hedging relationships on long-term debt was $726 million at December 31, 2020.

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

		Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in Millions)	Location of Gains (Losses) Recognized in Earnings	2021	2020	2021	2020
Asset and Liability Management Positions					
Other economic hedges					
Interest rate contracts					
Futures and forwards	Mortgage banking revenue/ other noninterest income	$101	$ 46	$ 432	$ 53
Purchased and written options	Mortgage banking revenue	171	428	436	1,173
Swaps	Mortgage banking revenue	(39)	(51)	(236)	724
Foreign exchange forward contracts	Other noninterest income	9	(2)	(1)	9
Equity contracts	Compensation expense	1	3	6	—
Other	Other noninterest income	2	(69)	3	(70)
Customer-Related Positions					
Interest rate contracts					
Swaps	Commercial products revenue	26	59	78	103
Purchased and written options	Commercial products revenue	(1)	(14)	(4)	3
Futures	Commercial products revenue	—	—	—	(18)
Foreign exchange rate contracts					
Forwards, spots and swaps	Commercial products revenue	23	20	69	54
Purchased and written options	Commercial products revenue	1	1	1	1
Credit contracts	Commercial products revenue	(1)	(10)	(3)	(15)

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 derivative positions that are centrally cleared through clearinghouses, 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 generally require the counterparty to deliver collateral (typically cash or U.S. Treasury and agency securities) equal to the Company's net derivative receivable, subject to minimum transfer and credit rating requirements.

The Company's collateral arrangements are predominately bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on net liability thresholds and may be contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral arrangements, the counterparties to the derivatives could request immediate additional collateral coverage up to and including full collateral coverage for derivatives in a net liability position. The aggregate fair value of all derivatives under collateral arrangements that were in a net liability position at September 30, 2021, was $874 million. At September 30, 2021, the Company had $589 million of cash posted as collateral against this net liability position.

Note 14 Netting Arrangements for Certain Financial Instruments and Securities Financing Activities

The Company's derivative portfolio consists of bilateral over-the-counter trades, certain interest rate derivatives and credit contracts required to be centrally cleared through clearinghouses per current regulations, and exchange-traded positions which may include U.S. Treasury and Eurodollar futures or options on U.S. Treasury futures. Of the Company's $737.2 billion total notional amount of derivative positions at September 30, 2021, $384.1 billion related to bilateral over-the-counter trades, $331.5 billion related to those centrally cleared through clearinghouses and $21.6 billion related to those that were exchange-traded. The Company's derivative contracts typically 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 used as collateral can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Refer to Note 13 for further discussion of the Company's derivatives, including collateral arrangements.

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

Securities transferred to counterparties under repurchase agreements and securities loaned transactions continue to be recognized on the Consolidated Balance Sheet, are measured at fair value, and are included in investment securities or other assets. Securities received from counterparties under reverse repurchase agreements and securities borrowed transactions are not recognized on the Consolidated Balance Sheet unless the counterparty defaults. The securities transferred under repurchase and reverse repurchase transactions typically are U.S. Treasury and agency securities, residential agency mortgage-backed securities or corporate debt securities. The securities loaned or borrowed typically are corporate debt securities traded by the Company's broker-dealer subsidiary. 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.

The following table summarizes the maturities by category of collateral pledged for repurchase agreements and securities loaned transactions:

(Dollars in Millions)	Overnight and Continuous	Less Than 30 Days	30-89 Days	Greater Than 90 Days	Total
September 30, 2021					
Repurchase agreements					
U.S. Treasury and agencies	$ 568	$–	$–	$–	$ 568
Residential agency mortgage-backed securities	838	–	–	–	838
Corporate debt securities	692	–	–	–	692
Total repurchase agreements	2,098	–	–	–	2,098
Securities loaned					
Corporate debt securities	166	–	–	–	166
Total securities loaned	166	–	–	–	166
Gross amount of recognized liabilities	$2,264	$–	$–	$–	$2,264
December 31, 2020					
Repurchase agreements					
U.S. Treasury and agencies	$ 472	$–	$–	$–	$ 472
Residential agency mortgage-backed securities	398	–	–	–	398
Corporate debt securities	560	–	–	–	560
Total repurchase agreements	1,430	–	–	–	1,430
Securities loaned					
Corporate debt securities	218	–	–	–	218
Total securities loaned	218	–	–	–	218
Gross amount of recognized liabilities	$1,648	$–	$–	$–	$1,648

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. 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:

				Gross Amounts Not Offset on the Consolidated Balance Sheet		
(Dollars in Millions)	Gross Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet (a)	Net Amounts Presented on the Consolidated Balance Sheet	Financial Instruments (b)	Collateral Received (c)	Net Amount
September 30, 2021						
Derivative assets (d)	$4,275	$(1,858)	$2,417	$(104)	$ (141)	$2,172
Reverse repurchase agreements	418	–	418	(317)	(101)	–
Securities borrowed	1,978	–	1,978	–	(1,925)	53
Total	$6,671	$(1,858)	$4,813	$(421)	$(2,167)	$2,225
December 31, 2020						
Derivative assets (d)	$5,744	$(1,874)	$3,870	$(109)	$ (287)	$3,474
Reverse repurchase agreements	377	–	377	(262)	(115)	–
Securities borrowed	1,716	–	1,716	–	(1,670)	46
Total	$7,837	$(1,874)	$5,963	$(371)	$(2,072)	$3,520

(a) Includes $750 million and $898 million of cash collateral related payables that were netted against derivative assets at September 30, 2021 and December 31, 2020, 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 $93 million and $257 million at September 30, 2021 and December 31, 2020, respectively, of derivative assets not subject to netting arrangements.

(Dollars in Millions)	Gross Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet (a)	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments (b)	Collateral Pledged (c)	
September 30, 2021						
Derivative liabilities (d)	$2,809	$(1,697)	$1,112	$(104)	$ –	$1,008
Repurchase agreements	2,098	–	2,098	(317)	(1,779)	2
Securities loaned	166	–	166	–	(164)	2
Total	$5,073	$(1,697)	$3,376	$(421)	$(1,943)	$1,012
December 31, 2020						
Derivative liabilities (d)	$3,419	$(2,312)	$1,107	$(109)	$ –	$ 998
Repurchase agreements	1,430	–	1,430	(262)	(1,168)	–
Securities loaned	218	–	218	–	(215)	3
Total	$5,067	$(2,312)	$2,755	$(371)	$(1,383)	$1,001

(a) Includes $589 million and $1.3 billion of cash collateral related receivables that were netted against derivative liabilities at September 30, 2021 and December 31, 2020, 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 $173 million and $183 million at September 30, 2021 and December 31, 2020, respectively, of derivative liabilities not subject to netting arrangements.

Note 15 Fair Values of Assets and Liabilities

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

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

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.
- 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 and certain derivative contracts.

Valuation Methodologies

The valuation methodologies used by the Company to measure financial assets and liabilities at fair value are described below. 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 descriptions include information about the valuation models and key inputs to those models. During the nine months ended September 30, 2021 and 2020, there were no significant changes to the valuation techniques used by the Company to measure fair value.

Available-For-Sale 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. Level 2 investment securities are predominantly agency mortgage-backed securities, certain other asset-backed securities, obligations of state and political subdivisions and agency 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 net loss of $18 million and a net gain of $97 million for the three months ended September 30, 2021 and 2020, respectively, and a net loss of $135 million and a net gain of $271 million for the nine months ended September 30, 2021 and 2020, 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.

Mortgage Servicing Rights MSRs are valued using a discounted cash flow methodology, and are classified within Level 3. The Company determines fair value of the MSRs by projecting future cash flows for different interest rate scenarios using prepayment rates and other assumptions, and discounts these cash flows using a risk adjusted rate based on option adjusted spread levels. There is minimal observable market activity for MSRs on comparable portfolios and, therefore, the determination of fair value requires significant management judgment. Refer to Note 7 for further information on MSR valuation assumptions.

Derivatives The majority of derivatives held by the Company are executed over-the-counter or centrally cleared through clearinghouses and are valued using market standard cash flow valuation techniques. The models incorporate inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. All derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk including external assessments of credit risk. 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 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 and preferred 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. The Visa swaps require payments by either the Company or the purchaser of the Visa Inc. Class B common and preferred shares when there are changes in the conversion rate of the Visa Inc. Class B common and preferred shares to Visa Inc. Class A common and preferred shares, respectively, 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 Inc. related litigation contingencies, and the associated escrow funding. 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 16 for further information on the Visa Inc. restructuring and related card association litigation.

Significant Unobservable Inputs of Level 3 Assets and Liabilities

The following section provides information to facilitate an understanding of the uncertainty in the fair value measurements for the Company's Level 3 assets and liabilities recorded at fair value on the Consolidated Balance Sheet. This section includes a description of the significant inputs used by the Company and a description of any interrelationships between these inputs. 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.

Mortgage Servicing Rights The significant unobservable inputs used in the fair value measurement of the Company's MSRs are expected prepayments and the option adjusted spread that is added to the risk-free rate to discount projected cash flows. Significant increases in either of these inputs in isolation would have resulted in a significantly lower fair value measurement. Significant decreases in either of these inputs in isolation would have resulted in a significantly higher fair value measurement. There is no direct interrelationship between prepayments and option adjusted spread. Prepayment rates generally move in the opposite direction of market interest rates. Option adjusted spread is generally impacted by changes in market return requirements.

The following table shows the significant valuation assumption ranges for MSRs at September 30, 2021:

	Minimum	Maximum	Weighted-Average (a)
Expected prepayment	3%	13%	10%
Option adjusted spread	6	11	7

(a) Determined based on the relative fair value of the related mortgage loans serviced.

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 have resulted in a larger derivative asset or liability. A significant increase in the inherent MSR value would have resulted in an increase in the derivative asset or a reduction in the derivative liability. Expected loan close rates and the inherent MSR values are directly impacted by changes in market rates and will generally move in the same direction as interest rates.

The following table shows the significant valuation assumption ranges for the Company's derivative commitments to purchase and originate mortgage loans at September 30, 2021:

	Minimum	Maximum	Weighted-Average (a)
Expected loan close rate	1%	100%	76%
Inherent MSR value (basis points per loan)	47	187	121

(a) Determined based on the relative fair value of the related mortgage loans.

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 have resulted in a lower fair value measurement. A significant decrease in the credit valuation adjustment would have resulted in a higher fair value measurement. The credit valuation adjustment is impacted by changes in market rates, volatility, market implied credit spreads, and loss recovery rates, as well as the Company's assessment of the counterparty's credit position. At September 30, 2021, the minimum, maximum and weighted-average credit valuation adjustment as a percentage of the net fair value of the counterparty's derivative contracts prior to adjustment was 0 percent, 97 percent and 2 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 occurring, 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 have resulted in an increase in the derivative liability. A decrease in the loss estimate or an acceleration of the resolution of the related litigation would have resulted 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
September 30, 2021					
Available-for-sale securities					
U.S. Treasury and agencies	$14,344	$ 4,147	$ –	$ –	$ 18,491
Mortgage-backed securities					
Residential agency	–	112,796	–	–	112,796
Commercial agency	–	7,686	–	–	7,686
Asset-backed securities	–	61	8	–	69
Obligations of state and political subdivisions	–	10,326	1	–	10,327
Other	–	7	–	–	7
Total available-for-sale	14,344	135,023	9	–	149,376
Mortgage loans held for sale	–	6,176	–	–	6,176
Mortgage servicing rights	–	–	2,910	–	2,910
Derivative assets	6	2,691	1,671	(1,858)	2,510
Other assets	322	2,118	–	–	2,440
Total	$14,672	$146,008	$4,590	$(1,858)	$163,412
Derivative liabilities	$ –	$ 2,429	$ 553	$(1,697)	$ 1,285
Short-term borrowings and other liabilities (a)	205	1,893	–	–	2,098
Total	$ 205	$ 4,322	$ 553	$(1,697)	$ 3,383
December 31, 2020					
Available-for-sale securities					
U.S. Treasury and agencies	$19,251	$ 3,140	$ –	$ –	$ 22,391
Mortgage-backed securities					
Residential agency	–	99,968	–	–	99,968
Commercial agency	–	5,406	–	–	5,406
Asset-backed securities	–	198	7	–	205
Obligations of state and political subdivisions	–	8,860	1	–	8,861
Other	–	9	–	–	9
Total available-for-sale	19,251	117,581	8	–	136,840
Mortgage loans held for sale	–	8,524	–	–	8,524
Mortgage servicing rights	–	–	2,210	–	2,210
Derivative assets	4	3,235	2,762	(1,874)	4,127
Other assets	302	1,601	–	–	1,903
Total	$19,557	$130,941	$4,980	$(1,874)	$153,604
Derivative liabilities	$ –	$ 3,166	$ 436	$(2,312)	$ 1,290
Short-term borrowings and other liabilities (a)	85	1,672	–	–	1,757
Total	$ 85	$ 4,838	$ 436	$(2,312)	$ 3,047

Note: Excluded from the table above are equity investments without readily determinable fair values. The Company has elected to carry these investments at historical cost, adjusted for impairment and any changes resulting from observable price changes for identical or similar investments of the issuer. The aggregate carrying amount of these equity investments was $73 million and $85 million at September 30, 2021 and December 31, 2020, respectively. The Company has not recorded impairments or adjustments for observable price changes on these equity investments during the first nine months of 2021 and 2020, or on a cumulative basis.

(a) Primarily 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 three months ended September 30:

(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 Held at End of Period
2021										
Available-for-sale securities										
Asset-backed securities	$ 8	$ –	$–	$ –	$ –	$–	$ –	$ –	$ 8	$ –
Obligations of state and political subdivisions	1	–	–	–	–	–	–	–	1	–
Total available-for-sale	9	–	–	–	–	–	–	–	9	–
Mortgage servicing rights	2,713	(96) (a)	–	9	–	–	284 (c)	–	2,910	(96) (a)
Net derivative assets and liabilities	1,500	(225) (b)	–	106	(1)	–	–	(262)	1,118	(203) (d)
2020										
Available-for-sale securities										
Asset-backed securities	$ 7	$ –	$–	$ –	$ –	$–	$ –	$ –	$ 7	$ –
Obligations of state and political subdivisions	1	–	–	–	–	–	–	–	1	–
Total available-for-sale	8	–	–	–	–	–	–	–	8	–
Mortgage servicing rights	1,840	(192) (a)	–	8	1	–	321 (c)	–	1,978	(192) (a)
Net derivative assets and liabilities	2,841	211 (e)	–	152	(1)	–	–	(579)	2,624	228 (f)

(a) Included in mortgage banking revenue.
(b) Approximately $208 million, $(434) million and $1 million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.
(c) Represents MSRs capitalized during the period.
(d) Approximately $57 million, $(261) million and $1 million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.
(e) Approximately $508 million, $(228) million and $(69) million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.
(f) Approximately $291 million, $6 million and $(69) million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.

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

(Dollars in Millions)	Beginning 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 Held at End of Period
2021										
Available-for-sale securities										
Asset-backed securities	$ 7	$ –	$ 1	$ –	$ –	$ –	$ –	$ –	$ 8	$ 1
Obligations of state and political subdivisions	1	–	–	–	–	–	–	–	1	–
Total available-for-sale	8	–	1	–	–	–	–	–	9	1
Mortgage servicing rights	2,210	(233) (a)	–	36	1	–	896 (c)	–	2,910	(233) (a)
Net derivative assets and liabilities	2,326	(604) (b)	–	166	(2)	–	–	(768)	1,118	(761) (d)
2020										
Available-for-sale securities										
Asset-backed securities	$ 8	$ –	$ –	$ –	$ –	$(1)	$ –	$ –	$ 7	$ –
Obligations of state and political subdivisions	1	–	–	–	–	–	–	–	1	–
Total available-for-sale	9	–	–	–	–	(1)	–	–	8	–
Mortgage servicing rights	2,546	(1,299) (a)	–	16	3	–	712 (c)	–	1,978	(1,299) (a)
Net derivative assets and liabilities	810	2,685 (e)	–	247	(2)	–	–	(1,116)	2,624	1,888 (f)

(a) Included in mortgage banking revenue.
(b) Approximately $544 million, $(1.2) billion and $2 million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.
(c) Represents MSRs capitalized during the period.
(d) Approximately $57 million, $(820) million and $2 million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.
(e) Approximately $1.5 billion, $1.3 billion and $(70) million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.
(f) Approximately $291 million, $1.7 billion and $(70) million included in mortgage banking revenue, commercial products revenue and other noninterest income, respectively.

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:

	September 30, 2021				December 31, 2020			
(Dollars in Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans (a)	$–	$–	$65	$65	$–	$–	$385	$385
Other assets (b)	–	–	67	67	–	–	30	30

(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:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in Millions)	2021	2020	2021	2020
Loans (a)	$15	$184	$58	$244
Other assets (b)	1	13	7	19

(a) Represents write-downs of loans which were based on the fair value of the collateral, excluding loans fully charged-off.
(b) Primarily represents related losses of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

Fair Value Option

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

	September 30, 2021			December 31, 2020		
(Dollars in Millions)	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	$6,176	$6,017	$159	$8,524	$8,136	$388
Nonaccrual loans	1	1	–	1	1	–
Loans 90 days or more past due	1	1	–	2	2	–

Fair Value of Financial Instruments

The following section summarizes the estimated fair value for financial instruments accounted for at amortized cost as of September 30, 2021 and December 31, 2020. 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, receivables and payables due in one year or less, insurance contracts, equity investments not accounted for at fair value, and deposits with no defined or contractual maturities are excluded.

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

	September 30, 2021					December 31, 2020				
		Fair Value					Fair Value			
(Dollars in Millions)	Carrying Amount	Level 1	Level 2	Level 3	Total	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets										
Cash and due from banks	$ 63,904	$63,904	$ –	$ –	$ 63,904	$ 62,580	$62,580	$ –	$ –	$ 62,580
Federal funds sold and securities purchased under resale agreements	440	–	440	–	440	377	–	377	–	377
Loans held for sale (a)	15	–	–	15	15	237	–	–	237	237
Loans	291,816	–	–	298,764	298,764	290,393	–	–	300,419	300,419
Other (b)	1,472	–	630	842	1,472	1,772	–	731	1,041	1,772
Financial Liabilities										
Time deposits	22,879	–	22,946	–	22,946	30,694	–	30,864	–	30,864
Short-term borrowings (c)	13,990	–	13,894	–	13,894	10,009	–	9,956	–	9,956
Long-term debt	35,671	–	36,262	–	36,262	41,297	–	42,485	–	42,485
Other (d)	3,972	–	1,114	2,858	3,972	4,052	–	1,234	2,818	4,052

(a) Excludes mortgages held for sale for which the fair value option under applicable accounting guidance was elected.
(b) Includes investments in Federal Reserve Bank and Federal Home Loan Bank stock and tax-advantaged investments.
(c) Excludes the Company's obligation on securities sold short required to be accounted for at fair value per applicable accounting guidance.
(d) Includes operating lease liabilities and liabilities related to tax-advantaged investments.

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 $577 million and $774 million at September 30, 2021 and December 31, 2020, respectively. The carrying value of other guarantees was $278 million and $362 million at September 30, 2021 and December 31, 2020, respectively.

Note 16 Guarantees and Contingent Liabilities

Visa Restructuring and Card Association Litigation The Company's payment services business issues credit and debit cards 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 Brands") are defendants in antitrust lawsuits challenging the practices of the Card Brands (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.

In October 2012, Visa signed a settlement agreement to resolve class action claims associated with the multidistrict interchange litigation pending in the United States District Court for the Eastern District of New York (the "Multi-District Litigation"). The U.S. Court of Appeals for the Second Circuit reversed the approval of that settlement and remanded the matter to the district court. Thereafter, the case was split into two putative class actions, one seeking damages (the "Damages Action") and a separate class action seeking injunctive relief only (the "Injunctive Action"). In September 2018, Visa signed a new settlement agreement, superseding the original settlement agreement, to resolve the Damages Action. The Damages Action settlement was approved by the United States District Court for the Eastern District of New York, but is now on appeal. The Injunctive Action, which generally seeks changes to Visa rules, is still pending.

Other Guarantees and Contingent Liabilities

The following table is a summary of other guarantees and contingent liabilities of the Company at September 30, 2021:

(Dollars in Millions)	Collateral Held	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit	$ –	$ 60	$ 9,556
Third party borrowing arrangements	–	–	4
Securities lending indemnifications	10,479	–	10,157
Asset sales	–	84	6,793 (a)
Merchant processing	827	172	121,902
Tender option bond program guarantee	1,719	–	1,490
Other	–	22	1,532

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

Merchant Processing The Company, through its subsidiaries, provides merchant processing services. Under the rules of credit card associations, a merchant processor retains a contingent liability for credit card transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In this situation, the transaction is "charged-back" to the merchant and the disputed

amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant, it bears the loss for the amount of the refund paid to the cardholder.

The Company currently processes card transactions in the United States, Canada and Europe through wholly-owned subsidiaries. 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 the purchase price of such products or services purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At September 30, 2021, the value of airline tickets purchased to be delivered at a future date through card transactions processed by the Company was $7.2 billion. The Company held collateral of $653 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets. In addition to specific collateral or other credit enhancements, the Company maintains a liability for its implied guarantees associated with future delivery. At September 30, 2021, the liability was $155 million primarily related to these airline processing arrangements.

Asset Sales The Company regularly sells loans to GSEs as part of its mortgage banking activities. The Company provides customary representations and warranties to 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 GSE for losses. At September 30, 2021, the Company had reserved $18 million for potential losses from representation and warranty obligations, compared with $19 million at December 31, 2020. 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 September 30, 2021 and December 31, 2020, the Company had $14 million and $13 million, respectively, of unresolved representation and warranty claims from GSEs. The Company does not have a significant amount of unresolved claims from investors other than GSEs.

Litigation and Regulatory Matters

The Company is subject to various litigation and regulatory matters that arise in the ordinary course of its business. The Company establishes reserves for such matters when potential losses become probable and can be reasonably estimated. The Company believes the ultimate resolution of existing legal and regulatory matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company. However, in light of the uncertainties inherent in these matters, it is possible that the ultimate resolution of one or more of these matters may have a material adverse effect on the Company's results from operations for a particular period, and future 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.

Residential Mortgage-Backed Securities Litigation Starting in 2011, the Company and other large financial institutions have been sued in their capacity as trustee for residential mortgage—backed securities trusts. In the lawsuits brought against the Company, the investors allege that the Company's banking subsidiary, U.S. Bank National Association ("U.S. Bank"), 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 in these matters seek monetary damages in unspecified amounts and most also seek equitable relief.

Regulatory Matters The Company is continually subject to examinations, inquiries and investigations in areas of heightened regulatory scrutiny, such as compliance, risk management, third-party risk management and consumer protection. For example, the Consumer Financial Protection Bureau ("CFPB") is investigating certain of the Company's consumer sales practices, and the Company has responded and continues to respond to the CFPB. 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).

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 the range 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 17 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. 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. The Company has five reportable operating segments:

Corporate and Commercial Banking Corporate and Commercial Banking offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets services, 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 Business Banking Consumer and Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices. It encompasses community banking, metropolitan banking and indirect lending, as well as mortgage banking.

Wealth Management and Investment Services Wealth Management and Investment Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through four businesses: Wealth Management, Global Corporate Trust & Custody, U.S. Bancorp Asset Management 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, funding, capital management, interest rate risk management, income taxes not allocated to business segments, 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.

Basis of Presentation Business segment 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 business segments according to the volume and credit quality of the loan balances managed, but with the impact of changes in economic forecasts recorded in Treasury and Corporate Support. Goodwill and other intangible assets are assigned to the business segments based on the mix of business of an entity acquired by the Company. Within the Company, capital levels are evaluated and managed centrally; however, capital is allocated to the business segments to support evaluation of business performance. Business segments 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 segment includes credit allocations following a Basel III regulatory framework. Interest income and expense is determined based on the assets and liabilities managed by the business segment. 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 segment 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 segment, 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 business segments. Generally, operating losses are charged to the business segment when the loss event is realized in a manner similar to a loan charge-off. Noninterest expenses incurred by centrally managed operations or business segments that directly support another business segment's operations are charged to the applicable business segment 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 business segments or for which the business segments are not considered financially accountable in evaluating their performance are not charged to the business segments. The income or expenses associated with these corporate activities is reported within the Treasury and Corporate Support business segment. Income taxes are assessed to each business segment 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 2021, certain organization and methodology changes were made and, accordingly, 2020 results were restated and presented on a comparable basis.

Business segment results for the three months ended September 30 were as follows:

(Dollars in Millions)	Corporate and Commercial Banking 2021	Corporate and Commercial Banking 2020	Consumer and Business Banking 2021	Consumer and Business Banking 2020	Wealth Management and Investment Services 2021	Wealth Management and Investment Services 2020
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 717	$ 852	$ 1,551	$ 1,474	$ 225	$ 301
Noninterest income	253	267	715	848	558	505
Total net revenue	970	1,119	2,266	2,322	783	806
Noninterest expense	418	428	1,450	1,383	507	489
Other intangibles	–	–	3	4	4	3
Total noninterest expense	418	428	1,453	1,387	511	492
Income (loss) before provision and income taxes	552	691	813	935	272	314
Provision for credit losses	15	95	(25)	69	11	11
Income (loss) before income taxes	537	596	838	866	261	303
Income taxes and taxable-equivalent adjustment	134	149	210	217	65	76
Net income (loss)	403	447	628	649	196	227
Net (income) loss attributable to noncontrolling interests	–	–	–	–	–	–
Net income (loss) attributable to U.S. Bancorp	$ 403	$ 447	$ 628	$ 649	$ 196	$ 227
Average Balance Sheet						
Loans	$102,431	$115,547	$140,833	$145,229	$ 18,454	$ 15,616
Other earning assets	4,722	4,110	7,645	8,195	225	288
Goodwill	1,650	1,647	3,506	3,475	1,618	1,618
Other intangible assets	5	6	2,754	1,942	80	37
Assets	114,629	128,369	160,882	164,246	21,566	18,708
Noninterest-bearing deposits	62,642	48,058	34,416	34,288	24,453	17,719
Interest-bearing deposits	68,917	87,558	160,271	133,095	71,841	73,857
Total deposits	131,559	135,616	194,687	167,383	96,294	91,576
Total U.S. Bancorp shareholders' equity	13,772	15,051	12,277	13,562	3,172	2,968

(Dollars in Millions)	Payment Services 2021	Payment Services 2020	Treasury and Corporate Support 2021	Treasury and Corporate Support 2020	Consolidated Company 2021	Consolidated Company 2020
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 616	$ 643	$ 88	$ (18)	$ 3,197	$ 3,252
Noninterest income	946 (a)	867 (a)	221	225	2,693 (b)	2,712 (b)
Total net revenue	1,562	1,510	309	207	5,890 (c)	5,964 (c)
Noninterest expense	817	797	196	230	3,388	3,327
Other intangibles	34	37	–	–	41	44
Total noninterest expense	851	834	196	230	3,429	3,371
Income (loss) before provision and income taxes	711	676	113	(23)	2,461	2,593
Provision for credit losses	166	246	(330)	214	(163)	635
Income (loss) before income taxes	545	430	443	(237)	2,624	1,958
Income taxes and taxable-equivalent adjustment	136	108	45	(178)	590	372
Net income (loss)	409	322	398	(59)	2,034	1,586
Net (income) loss attributable to noncontrolling interests	–	–	(6)	(6)	(6)	(6)
Net income (loss) attributable to U.S. Bancorp	$ 409	$ 322	$ 392	$ (65)	$ 2,028	$ 1,580
Average Balance Sheet						
Loans	$ 31,378	$ 31,168	$ 3,643	$ 3,458	$296,739	$311,018
Other earning assets	5	5	193,989	162,488	206,586	175,086
Goodwill	3,168	3,123	–	–	9,942	9,863
Other intangible assets	496	602	–	–	3,335	2,587
Assets	37,173	36,191	219,196	189,388	553,446	536,902
Noninterest-bearing deposits	4,913	6,886	2,594	2,424	129,018	109,375
Interest-bearing deposits	150	124	1,290	1,514	302,469	296,148
Total deposits	5,063	7,010	3,884	3,938	431,487	405,523
Total U.S. Bancorp shareholders' equity	7,561	7,716	17,491	13,119	54,273	52,416

(a) Presented net of related rewards and rebate costs and certain partner payments of $652 million and $525 million for the three months ended September 30, 2021 and 2020, respectively.

(b) Includes revenue generated from certain contracts with customers of $2.0 billion and $1.8 billion for the three months ended September 30, 2021 and 2020, respectively.

(c) The Company, as a lessor, originates retail and commercial leases either directly to the consumer or indirectly through dealer networks. Under these arrangments, the Company recorded $220 million and $246 million of revenue for the three months ended September 30, 2021 and 2020, respectively, primarily consisting of interest income on sales-type and direct financing leases.

Business segment results for the nine months ended September 30 were as follows:

(Dollars in Millions)	Corporate and Commercial Banking 2021	Corporate and Commercial Banking 2020	Consumer and Business Banking 2021	Consumer and Business Banking 2020	Wealth Management and Investment Services 2021	Wealth Management and Investment Services 2020
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 2,172	$ 2,623	$ 4,603	$ 4,239	$ 721	$ 964
Noninterest income	786	899	1,918	2,433	1,638	1,507
Total net revenue	2,958	3,522	6,521	6,672	2,359	2,471
Noninterest expense	1,257	1,310	4,210	4,061	1,499	1,445
Other intangibles	–	–	9	12	10	9
Total noninterest expense	1,257	1,310	4,219	4,073	1,509	1,454
Income (loss) before provision and income taxes	1,701	2,212	2,302	2,599	850	1,017
Provision for credit losses	(20)	572	(143)	269	26	34
Income (loss) before income taxes	1,721	1,640	2,445	2,330	824	983
Income taxes and taxable-equivalent adjustment	430	410	612	583	206	246
Net income (loss)	1,291	1,230	1,833	1,747	618	737
Net (income) loss attributable to noncontrolling interests	–	–	–	–	–	–
Net income (loss) attributable to U.S. Bancorp	$ 1,291	$ 1,230	$ 1,833	$ 1,747	$ 618	$ 737
Average Balance Sheet						
Loans	$102,117	$118,686	$141,220	$139,981	$ 17,584	$ 15,151
Other earning assets	4,485	4,170	8,606	6,578	247	285
Goodwill	1,648	1,647	3,485	3,508	1,618	1,617
Other intangible assets	5	6	2,692	2,095	69	40
Assets	114,182	131,106	162,316	157,177	20,676	18,324
Noninterest-bearing deposits	59,841	41,091	33,734	29,397	23,024	16,285
Interest-bearing deposits	69,999	90,581	156,821	126,934	76,098	76,736
Total deposits	129,840	131,672	190,555	156,331	99,122	93,021
Total U.S. Bancorp shareholders' equity	13,995	15,201	12,378	12,797	3,099	2,924

(Dollars in Millions)	Payment Services 2021	Payment Services 2020	Treasury and Corporate Support 2021	Treasury and Corporate Support 2020	Consolidated Company 2021	Consolidated Company 2020
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 1,841	$ 1,910	$ 113	$ (13)	$ 9,450	$ 9,723
Noninterest income	2,644 (a)	2,319 (a)	707	693	7,693 (b)	7,851 (b)
Total net revenue	4,485	4,229	820	680	17,143 (c)	17,574 (c)
Noninterest expense	2,381	2,296	729	764	10,076	9,876
Other intangibles	100	108	–	–	119	129
Total noninterest expense	2,481	2,404	729	764	10,195	10,005
Income (loss) before provision and income taxes	2,004	1,825	91	(84)	6,948	7,569
Provision for credit losses	216	477	(1,239)	2,013	(1,160)	3,365
Income (loss) before income taxes	1,788	1,348	1,330	(2,097)	8,108	4,204
Income taxes and taxable-equivalent adjustment	447	338	106	(833)	1,801	744
Net income (loss)	1,341	1,010	1,224	(1,264)	6,307	3,460
Net (income) loss attributable to noncontrolling interests	–	–	(17)	(20)	(17)	(20)
Net income (loss) attributable to U.S. Bancorp	$ 1,341	$ 1,010	$ 1,207	$ (1,284)	$ 6,290	$ 3,440
Average Balance Sheet						
Loans	$ 30,353	$ 31,725	$ 3,740	$ 3,392	$295,014	$308,935
Other earning assets	5	5	192,259	156,045	205,602	167,083
Goodwill	3,174	3,027	–	–	9,925	9,799
Other intangible assets	519	584	–	–	3,285	2,725
Assets	35,972	36,497	218,053	182,276	551,199	525,380
Noninterest-bearing deposits	5,068	3,852	2,595	2,310	124,262	92,935
Interest-bearing deposits	141	119	1,718	3,293	304,777	297,663
Total deposits	5,209	3,971	4,313	5,603	429,039	390,598
Total U.S. Bancorp shareholders' equity	7,544	7,269	16,311	13,745	53,327	51,936

(a) Presented net of related rewards and rebate costs and certain partner payments of $1.8 billion and $1.5 billion for the nine months ended September 30, 2021 and 2020, respectively.

(b) Includes revenue generated from certain contracts with customers of $5.6 billion and $5.1 billion for the nine months ended September 30, 2021 and 2020, respectively.

(c) The Company, as a lessor, originates retail and commercial leases either directly to the consumer or indirectly through dealer networks. Under these arrangments, the Company recorded $686 million and $714 million of revenue for the nine months ended September 30, 2021 and 2020, respectively, primarily consisting of interest income on sales-type and direct financing leases.

Note 18 Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2021 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 Daily Average Balance Sheet and Related Yields and Rates (a)

(Dollars in Millions) (Unaudited)	For the Three Months Ended September 30 2021 Average Balances	2021 Interest	2021 Yields and Rates	2020 Average Balances	2020 Interest	2020 Yields and Rates	% Change Average Balances
Assets							
Investment securities	$151,755	$ 624	1.64%	$128,565	$ 602	1.87%	18.0%
Loans held for sale	7,438	54	2.92	7,983	61	3.06	(6.8)
Loans (b)							
Commercial	101,832	711	2.77	115,489	718	2.48	(11.8)
Commercial real estate	38,921	303	3.09	40,929	341	3.31	(4.9)
Residential mortgages	74,104	604	3.25	75,786	687	3.62	(2.2)
Credit card	21,905	569	10.30	22,052	583	10.51	(.7)
Other retail	59,977	532	3.52	56,762	572	4.01	5.7
Total loans	296,739	2,719	3.64	311,018	2,901	3.72	(4.6)
Other earning assets	47,393	38	.31	38,538	34	.35	23.0
Total earning assets	503,325	3,435	2.72	486,104	3,598	2.95	3.5
Allowance for loan losses	(5,972)			(7,824)			23.7
Unrealized gain (loss) on investment securities	1,231			3,655			(66.3)
Other assets	54,862			54,967			(.2)
Total assets	$553,446			$536,902			3.1
Liabilities and Shareholders' Equity							
Noninterest-bearing deposits	$129,018			$109,375			18.0%
Interest-bearing deposits							
Interest checking	103,036	5	.02	84,494	7	.04	21.9
Money market savings	112,543	50	.17	124,115	68	.22	(9.3)
Savings accounts	63,387	2	.01	53,499	5	.04	18.5
Time deposits	23,503	21	.35	34,040	50	.58	(31.0)
Total interest-bearing deposits	302,469	78	.10	296,148	130	.17	2.1
Short-term borrowings	14,688	18	.49	18,049	19	.43	(18.6)
Long-term debt	35,972	142	1.57	43,542	197	1.80	(17.4)
Total interest-bearing liabilities	353,129	238	.27	357,739	346	.39	(1.3)
Other liabilities	16,391			16,742			(2.1)
Shareholders' equity							
Preferred equity	5,968			5,984			(.3)
Common equity	48,305			46,432			4.0
Total U.S. Bancorp shareholders' equity	54,273			52,416			3.5
Noncontrolling interests	635			630			.8
Total equity	54,908			53,046			3.5
Total liabilities and equity	$553,446			$536,902			3.1
Net interest income		$3,197			$3,252		
Gross interest margin			2.45%			2.56%	
Gross interest margin without taxable-equivalent increments			2.43%			2.54%	
Percent of Earning Assets							
Interest income			2.72%			2.95%	
Interest expense			.19			.28	
Net interest margin			2.53%			2.67%	
Net interest margin without taxable-equivalent increments			2.51%			2.65%	

(a) Interest and rates are presented on a fully taxable-equivalent basis based on a federal income tax rate of 21 percent.
(b) Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

U.S. Bancorp

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

(Dollars in Millions) (Unaudited)	For the Nine Months Ended September 30 2021 Average Balances	2021 Interest	2021 Yields and Rates	2020 Average Balances	2020 Interest	2020 Yields and Rates	% Change Average Balances
Assets							
Investment securities	$152,653	$ 1,793	1.57%	$123,444	$ 1,953	2.11%	23.7%
Loans held for sale	8,422	176	2.79	6,352	157	3.31	32.6
Loans (b)							
Commercial	102,298	2,060	2.69	116,501	2,492	2.86	(12.2)
Commercial real estate	38,757	914	3.15	40,699	1,129	3.71	(4.8)
Residential mortgages	74,215	1,870	3.36	72,612	1,985	3.65	2.2
Credit card	21,391	1,701	10.63	22,465	1,794	10.66	(4.8)
Other retail	58,353	1,594	3.65	56,658	1,783	4.20	3.0
Total loans	295,014	8,139	3.69	308,935	9,183	3.97	(4.5)
Other earning assets	44,527	103	.31	37,287	144	.52	19.4
Total earning assets	500,616	10,211	2.72	476,018	11,437	3.21	5.2
Allowance for loan losses	(6,513)			(6,656)			2.1
Unrealized gain (loss) on investment securities	1,304			2,863			(54.5)
Other assets	55,792			53,155			5.0
Total assets	$551,199			$525,380			4.9
Liabilities and Shareholders' Equity							
Noninterest-bearing deposits	$124,262			$ 92,935			33.7%
Interest-bearing deposits							
Interest checking	101,280	18	.02	81,890	58	.10	23.7
Money market savings	116,968	150	.17	125,247	474	.51	(6.6)
Savings accounts	61,462	5	.01	50,937	42	.11	20.7
Time deposits	25,067	72	.38	39,589	275	.93	(36.7)
Total interest-bearing deposits	304,777	245	.11	297,663	849	.38	2.4
Short-term borrowings	14,758	52	.47	21,335	127	.80	(30.8)
Long-term debt	37,196	464	1.67	44,587	738	2.21	(16.6)
Total interest-bearing liabilities	356,731	761	.28	363,585	1,714	.63	(1.9)
Other liabilities	16,247			16,294			(.3)
Shareholders' equity							
Preferred equity	6,049			5,984			1.1
Common equity	47,278			45,952			2.9
Total U.S. Bancorp shareholders' equity	53,327			51,936			2.7
Noncontrolling interests	632			630			.3
Total equity	53,959			52,566			2.7
Total liabilities and equity	$551,199			$525,380			4.9
Net interest income		$ 9,450			$ 9,723		
Gross interest margin			2.44%			2.58%	
Gross interest margin without taxable-equivalent increments			2.42%			2.56%	
Percent of Earning Assets							
Interest income			2.72%			3.21%	
Interest expense			.20			.48	
Net interest margin			2.52%			2.73%	
Net interest margin without taxable-equivalent increments			2.50%			2.71%	

(a) Interest and rates are presented on a fully taxable-equivalent basis based on a federal income tax rate of 21 percent.
(b) Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

Part II — Other Information

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

Item 1A. Risk Factors — There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for discussion of these risks.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds — Refer to the "Capital Management" section within Management's Discussion and Analysis in Part I, Item 2 of this Report for information regarding shares repurchased by the Company during the third quarter of 2021.

Item 6. Exhibits

2.1	Share Purchase Agreement, dated as of September 21, 2021, among Mitsubishi UFJ Financial Group, Inc., MUFG Americas Holdings Corporation, and U.S. Bancorp (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on September 24, 2021).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page of U.S. Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL (included within the Exhibit 101 attachments).

SIGNATURE

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

U.S. BANCORP

By: /s/ LISA R. STARK

Lisa R. Stark
Controller
(Principal Accounting Officer and Duly Authorized Officer)

Dated: November 2, 2021

EXHIBIT 31.1

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

I, Andrew Cecere, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

/s/ Andrew Cecere

Andrew Cecere
Chief Executive Officer

Dated: November 2, 2021

EXHIBIT 31.2

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

I, Terrance R. Dolan, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

/s/ TERRANCE R. DOLAN

Terrance R. Dolan
Chief Financial Officer

Dated: November 2, 2021

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Andrew Cecere

Andrew Cecere
Chief Executive Officer

/s/ Terrance R. Dolan

Terrance R. Dolan
Chief Financial Officer

Dated: November 2, 2021

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 Company. 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 505000
Louisville, KY 40233
Phone: 888-778-1311 or 201-680-6578 (international calls)
Internet: www.computershare.com/investor

Registered or Certified Mail:
Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202

Telephone representatives are available weekdays from 8 a.m. to 6 p.m., Central Time, and automated support is available 24 hours a day, seven 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.

Investor Relations Contact

Jennifer A. Thompson, CFA
Executive Vice President, Investor Relations
jen.thompson@usbank.com
Phone: 612-303-0778 or 866-775-9668

Financial Information

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

Website For information about U.S. Bancorp, including news, financial results, annual reports and other documents filed with the Securities and Exchange Commission, visit usbank.com and click on *About Us*.

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

U.S. Bancorp Investor Relations
800 Nicollet Mall
Minneapolis, MN 55402
investorrelations@usbank.com
Phone: 866-775-9668

Media Requests

David R. Palombi
Global Chief Communications Officer
Public Affairs and Communications
david.palombi@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 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 ethical culture has been recognized by the Ethisphere Institute, which again named us to its World's Most Ethical Companies® list.

For details about our Code of Ethics and Business Conduct, visit usbank.com and click on *About Us* and then *Investor Relations* and then *Corporate Governance*.

Diversity and Inclusion

At U.S. Bancorp, embracing diversity, championing equity and fostering inclusion are business imperatives. We view everything we do through a diversity, equity and inclusion lens to deepen our relationships with our stakeholders: our employees, customers, shareholders and communities.

Our 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, creed, citizenship, 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 Company complies with municipal, state and federal fair employment laws, including regulations applying to federal contractors.

U.S. Bancorp, including each of our subsidiaries, is an equal opportunity employer committed to creating a diverse workforce.

Accessibility

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

EQUAL HOUSING LENDER

U.S. Bancorp
Member FDIC

usbancorp

This report has been produced on recycled paper.