US BANCORP \DE\
Form 10-Q
November 02, 2018

Table of Contents

Table of Contents

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, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES 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. (Check one):

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, 2018
Common Stock, $0.01 Par Value	1,616,092,910 shares

Table of Contents

Table of Contents and Form 10-Q Cross Reference Index

Part I Financial Information

1) Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 2)	3
a) Overview	3
b) Statement of Income Analysis	4
c) Balance Sheet Analysis	6
d) Non-GAAP Financial Measures	30
e) Critical Accounting Policies	32
f) Controls and Procedures (Item 4)	32
2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)	8
a) Overview	8
b) Credit Risk Management	9
c) Residual Value Risk Management	21
d) Operational Risk Management	21
e) Compliance Risk Management	21
f) Interest Rate Risk Management	21
g) Market Risk Management	22
h) Liquidity Risk Management	24
i) Capital Management	25
3) Line of Business Financial Review	26
4) Financial Statements (Item 1)	33

Part II Other Information

1) Legal Proceedings (Item 1)	75
2) Risk Factors (Item 1A)	75
3) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)	75
4) Exhibits (Item 6)	75
5) Signature	76
6) Exhibits	77

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. 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. Stress in the commercial real estate markets, as well as a downturn in the residential real estate markets, could cause credit losses and deterioration in asset values. In addition, 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; 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; changes in the level of tariffs and other trade policies of the United

States and its global trading partners; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational risk.

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, 2017, 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. However, factors other than these also could adversely affect U.S. Bancorp s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

Table of Contents

Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30 2018	2017	Percent Change	Nine Months Ended September 30 2018	2017	Percent Change
Condensed Income Statement						
Net interest income	$ 3,251	$ 3,176	2.4%	$ 9,616	$ 9,205	4.5%
Taxable-equivalent adjustment (a)	30	51	(41.2)	88	152	(42.1)
Net interest income (taxable-equivalent basis) (b)	3,281	3,227	1.7	9,704	9,357	3.7
Noninterest income	2,408	2,331	3.3	7,079	6,900	2.6
Securities gains (losses), net	10	9	11.1	25	47	(46.8)
Total net revenue	5,699	5,567	2.4	16,808	16,304	3.1
Noninterest expense	3,044	2,998	1.5	9,184	8,891	3.3
Provision for credit losses	343	360	(4.7)	1,011	1,055	(4.2)
Income before taxes	2,312	2,209	4.7	6,613	6,358	4.0
Income taxes and taxable-equivalent adjustment	490	640	(23.4)	1,351	1,791	(24.6)
Net income	1,822	1,569	16.1	5,262	4,567	15.2
Net (income) loss attributable to noncontrolling interests	(7)	(6)	(16.7)	(22)	(31)	29.0
Net income attributable to U.S. Bancorp	$ 1,815	$ 1,563	16.1	$ 5,240	$ 4,536	15.5
Net income applicable to U.S. Bancorp common shareholders	$ 1,732	$ 1,485	16.6	$ 5,007	$ 4,302	16.4
Per Common Share						
Earnings per share	$ 1.06	$ .89	19.1%	$ 3.05	$ 2.56	19.1%
Diluted earnings per share	1.06	.88	20.5	3.04	2.55	19.2
Dividends declared per share	.37	.30	23.3	.97	.86	12.8
Book value per share (c)	27.35	25.98	5.3			
Market value per share	52.81	53.59	(1.5)			
Average common shares outstanding	1,629	1,672	(2.6)	1,641	1,683	(2.5)
Average diluted common shares outstanding	1,633	1,678	(2.7)	1,645	1,689	(2.6)
Financial Ratios						
Return on average assets	1.58%	1.38%		1.54%	1.36%	
Return on average common equity	15.5	13.6		15.2	13.4	
Net interest margin (taxable-equivalent basis) (a)	3.15	3.14		3.14	3.09	
Efficiency ratio (b)	53.5	53.9		54.7	54.7	
Net charge-offs as a percent of average loans outstanding	.46	.47		.48	.49	
Average Balances						
Loans	$ 281,065	$ 277,626	1.2%	$ 279,699	$ 275,454	1.5%

Loans held for sale	3,109	3,935	(21.0)	3,262	3,457	(5.6)
Investment securities (d)	113,547	111,832	1.5	113,873	111,325	2.3
Earning assets	415,177	408,825	1.6	413,246	404,031	2.3
Assets	456,916	450,630	1.4	455,241	446,049	2.1
Noninterest-bearing deposits	77,192	81,964	(5.8)	78,546	81,808	(4.0)
Deposits	330,121	335,151	(1.5)	333,159	331,610	.5
Short-term borrowings	22,186	15,505	43.1	21,881	14,423	51.7
Long-term debt	39,701	35,544	11.7	36,400	35,697	2.0
Total U.S. Bancorp shareholders equity	50,138	48,819	2.7	49,433	48,342	2.3

	September 30, 2018	December 31, 2017	
Period End Balances			
Loans	$ 281,461	$ 280,432	.4%
Investment securities	110,958	112,499	(1.4)
Assets	464,607	462,040	.6
Deposits	331,178	347,215	(4.6)
Long-term debt	40,894	32,259	26.8
Total U.S. Bancorp shareholders equity	50,375	49,040	2.7
Asset Quality			
Nonperforming assets	$ 1,004	$ 1,200	(16.3)%
Allowance for credit losses	4,426	4,417	.2
Allowance for credit losses as a percentage of period-end loans	1.57%	1.58%	
Capital Ratios			
Basel III standardized approach:			
Common equity tier 1 capital	9.0%	9.3%	
Tier 1 capital	10.6	10.8	
Total risk-based capital	12.6	12.9	
Leverage	9.0	8.9	
Common equity tier 1 capital to risk-weighted assets for the Basel III advanced approaches	11.8	12.0	
Tangible common equity to tangible assets (b)	7.7	7.6	
Tangible common equity to risk-weighted assets (b)	9.3	9.4	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)		9.1	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)		11.6	

(a) Based on federal income tax rates of 21 percent for 2018 and 35 percent for 2017, 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 30.
(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.

Table of Contents

Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.8 billion for the third quarter of 2018, or $1.06 per diluted common share, compared with $1.6 billion, or $0.88 per diluted common share, for the third quarter of 2017. Return on average assets and return on average common equity were 1.58 percent and 15.5 percent, respectively, for the third quarter of 2018, compared with 1.38 percent and 13.6 percent, respectively, for the third quarter of 2017.

Total net revenue for the third quarter of 2018 was $132 million (2.4 percent) higher than the third quarter of 2017, reflecting a 2.4 percent increase in net interest income (1.7 percent on a taxable-equivalent basis) and a 3.3 percent increase in noninterest income. The increase in net interest income from the third quarter of 2017 was mainly a result of the impact of rising interest rates, earning assets growth, and higher yields on the reinvestment of securities, partially offset by higher rates on deposits and funding mix changes. The noninterest income increase was driven by strong growth in payment services revenue and trust and investment management fees, along with an increase in other noninterest income, partially offset by decreases in mortgage banking revenue and commercial products revenue.

Noninterest expense in the third quarter of 2018 was $46 million (1.5 percent) higher than the third quarter of 2017, primarily due to increased compensation expense related to supporting business growth and compliance programs, merit increases, and variable compensation related to revenue growth, higher employee benefits expense, and higher technology and communications expense in support of business growth. Partially offsetting these increases was lower other noninterest expense driven by lower costs related to tax-advantaged projects, lower Federal Deposit Insurance Corporation (FDIC) insurance expense, a reduction in mortgage servicing costs, and lower pension related costs.

The provision for credit losses for the third quarter of 2018 of $343 million was $17 million (4.7 percent) lower than the third quarter of 2017. Net charge-offs in the third quarter of 2018 were $328 million, compared with $330 million in the third quarter of 2017. 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 2018 was $5.2 billion, or $3.04 per diluted common share, compared with $4.5 billion, or $2.55 per diluted common share, for the first nine months of 2017. Return on average assets and return on average common equity were 1.54 percent and 15.2 percent, respectively, for the first nine months of 2018, compared with 1.36 percent and 13.4 percent, respectively, for the first nine months of 2017.

Total net revenue for the first nine months of 2018 was $504 million (3.1 percent) higher than the first nine months of 2017, reflecting a 4.5 percent increase in net interest income (3.7 percent on a taxable-equivalent basis) and a 2.3 percent increase in noninterest income. The increase in net interest income from a year ago was mainly a result of the impact of rising interest rates, earnings assets growth, and higher yields on the reinvestment of securities, partially offset by higher rates on deposits and funding mix changes. The noninterest income increase was driven by strong growth in payment services revenue and trust and investment management fees, along with increases in other noninterest income and ATM processing services revenue, partially offset by decreases in mortgage banking revenue and commercial products revenue.

Noninterest expense in the first nine months of 2018 was $293 million (3.3 percent) higher than the first nine months of 2017, primarily due to increased compensation expense related to supporting business growth and compliance programs, merit increases, and variable compensation related to revenue growth, higher employee benefits expense, and higher technology and communications expense in support of business growth. Partially offsetting these increases was lower other noninterest expense driven by lower costs related to tax-advantaged projects, lower FDIC insurance expense, a reduction in mortgage servicing costs, and lower pension related costs.

The provision for credit losses for the first nine months of 2018 of $1.0 billion was $44 million (4.2 percent) lower than the first nine months of 2017. Net charge-offs were $1.0 billion in both the first nine months of 2018 and 2017. Refer to Corporate Risk

Table of Contents

Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended September 30 2018	2017	Percent Change	Nine Months Ended September 30 2018	2017	Percent Change
Credit and debit card revenue	$ 344	$ 318	8.2%	$ 1,019	$ 947	7.6%
Corporate payment products revenue	169	150	12.7	481	427	12.6
Merchant processing services	392	377	4.0	1,142	1,112	2.7
ATM processing services	85	77	10.4	254	223	13.9
Trust and investment management fees	411	380	8.2	1,210	1,128	7.3
Deposit service charges	198	187	5.9	563	538	4.6
Treasury management fees	146	153	(4.6)	451	466	(3.2)
Commercial products revenue	216	240	(10.0)	670	730	(8.2)
Mortgage banking revenue	174	213	(18.3)	549	632	(13.1)
Investment products fees	47	42	11.9	140	128	9.4
Securities gains (losses), net	10	9	11.1	25	47	(46.8)
Other	226	194	16.5	600	569	5.4
Total noninterest income	$ 2,418	$ 2,340	3.3%	$ 7,104	$ 6,947	2.3%

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.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $3.3 billion in the third quarter and $9.7 billion in the first nine months of 2018, representing increases of $54 million (1.7 percent) and $347 million (3.7 percent), respectively, over the same periods of 2017. The increases were principally driven by the impact of rising interest rates, earning assets growth, and higher yields on securities, partially offset by changes in loan mix, higher rates on deposits and changes in funding mix, as well as the impact of the Tax Cuts and Jobs Act (tax reform) enacted by Congress in late 2017 which reduced the taxable-equivalent adjustment benefit related to tax exempt assets, and higher interest recoveries in the prior year. Average earning assets were $6.4 billion (1.6 percent) higher in the third quarter and $9.2 billion (2.3 percent) higher in the first nine months of 2018, compared with the same periods of 2017, reflecting increases in loans, investment securities and other earning assets. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2018 was 3.15 percent and 3.14 percent, respectively, compared with 3.14 percent and 3.09 percent in the third quarter and first nine months of 2017, respectively. The increases in the net interest margin from the same periods of the prior year were primarily due to higher interest rates, partially offset by higher funding costs, changes in loan mix, and the impact of tax reform. 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 2018 were $3.4 billion (1.2 percent) and $4.2 billion (1.5 percent) higher, respectively, than the same periods of 2017, due to growth in residential mortgages, commercial loans and credit card loans. In addition, average other retail loans were also higher in the first nine months of 2018, compared to the same period of the prior year. The increases were driven by higher demand for loans from new and

existing customers. These increases were partially offset by a decrease in commercial real estate loans due to disciplined underwriting and customers paying down balances over the past year, as well as a decrease in loans covered by loss sharing agreements with the FDIC, a run-off portfolio.

Average investment securities in the third quarter and first nine months of 2018 were $1.7 billion (1.5 percent) and $2.5 billion (2.3 percent) higher, respectively, than the same periods of 2017, primarily due to purchases of U.S. Treasury, mortgage-backed and state and political securities, net of prepayments and maturities.

Average total deposits were $5.0 billion (1.5 percent) lower in the third quarter and $1.5 billion (0.5 percent) higher in the first nine months of 2018, respectively, compared to the same periods of 2017. Average noninterest-bearing deposits for the third quarter and first nine months of 2018 decreased $4.8 billion (5.8 percent) and $3.3 billion (4.0 percent), respectively, from the same periods of 2017, primarily due to decreases in business deposits within Corporate and Commercial Banking, and trust balances within Wealth Management and Investment Services. Average total savings deposits for the third quarter and first nine months of 2018 were $1.9 billion (0.9 percent) and $54 million lower, respectively, than the same periods of 2017, driven by decreases in Corporate and Commercial Banking, and Wealth Management and Investment Services balances,

Table of Contents

Table 3 Noninterest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
(Dollars in Millions)	2018	2017	Percent Change	2018	2017	Percent Change
Compensation	$ 1,529	$ 1,440	6.2%	$ 4,594	$ 4,247	8.2%
Employee benefits	294	268	9.7	923	843	9.5
Net occupancy and equipment	270	258	4.7	797	760	4.9
Professional services	96	104	(7.7)	274	305	(10.2)
Marketing and business development	106	92	15.2	314	291	7.9
Technology and communications	247	227	8.8	724	667	8.5
Postage, printing and supplies	84	82	2.4	244	244	
Other intangibles	41	44	(6.8)	120	131	(8.4)
Other	377	483	(21.9)	1,194	1,403	(14.9)
Total noninterest expense	$ 3,044	$ 2,998	1.5%	$ 9,184	$ 8,891	3.3%
Efficiency ratio (a)	53.5%	53.9%		54.7%	54.7%	

a) See Non-GAAP Financial Measures beginning on page 30.

partially offset by increases in Consumer and Business Banking balances. The declines in Corporate and Commercial Banking total savings balances reflect expected run-off related to the business merger of a large financial customer. Average time deposits for the third quarter and first nine months of 2018 increased $1.7 billion (4.6 percent) and $4.9 billion (14.9 percent), respectively, over the same periods of 2017. The increases were largely related to those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2018 decreased $17 million (4.7 percent) and $44 million (4.2 percent), respectively, from the same periods of 2017. Net charge-offs decreased $2 million (0.6 percent) and $4 million (0.4 percent) in the third quarter and first nine months of 2018, respectively, compared with the same periods of the prior year, primarily due to lower commercial loan and residential mortgage net charge-offs, partially offset by higher credit card loan net charge-offs. 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 $2.4 billion in the third quarter and $7.1 billion in the first nine months of 2018, representing increases of $78 million (3.3 percent) and $157 million (2.3 percent), respectively, compared with the same periods of 2017. The increases from a year ago reflected strong growth in payment services revenue and trust and investment management fees, along with increases in other noninterest income and ATM processing services revenue. These increases were partially offset by lower mortgage banking revenue and commercial products revenue, which were impacted by industry trends in these revenue categories. The increase in payment services revenue reflected higher credit and debit card revenue, corporate payment products revenue, and merchant processing services revenue, all driven by higher sales volumes. Trust and investment management fees increased due to business growth and favorable market conditions. ATM processing services revenue increased due to higher transaction volumes.

Other noninterest income increased in the third quarter of 2018, compared to the third quarter of 2017, primarily due to higher equity investment income and tax-advantaged project syndication revenue. Other noninterest income increased in the first nine months of 2018, compared with the same period of the prior year, primarily due to higher tax-advantaged project syndication revenue. The decrease in mortgage banking revenue was primarily due to lower mortgage production and the adverse impact on gain on sale margins due to excess capacity in the industry in the near term. The decrease in commercial products revenue was primarily due to lower corporate bond underwriting fees and loan syndication fees. Commercial products revenue further decreased in the first nine months of 2018, compared with the same period of the prior year, due to lower trading revenue.

Noninterest Expense Noninterest expense was $3.0 billion in the third quarter and $9.2 billion in the first nine months of 2018, representing increases of $46 million (1.5 percent) and $293 million (3.3 percent) over the same periods of 2017. The increases from a year ago were primarily due to higher personnel costs and technology and communications expense, partially offset by lower other noninterest expense. Compensation expense increased principally due to the impact of hiring to support business growth and compliance programs, merit increases, and higher variable compensation related

to business production. Employee benefits expense increased primarily due to increased medical costs and staffing, while technology and communications expense increased primarily due to technology investment initiatives. Other noninterest expense decreased due to lower costs related to tax-advantaged projects, lower FDIC insurance expense, a reduction in mortgage servicing costs and lower pension-related costs as a result of contributions to the Company s pension plans in 2017.

Income Tax Expense The provision for income taxes was $460 million (an effective rate of 20.2 percent) for the third quarter and $1.3 billion (an effective rate of 19.4 percent) for the first nine months of 2018, compared with $589 million (an effective rate of 27.3 percent) and $1.6 billion (an effective rate of 26.4 percent) for the same periods of 2017. The lower 2018 tax rates reflect tax reform enacted in late 2017. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $281.5 billion at September 30, 2018, compared with $280.4 billion at December 31, 2017, an increase of $1.1 billion (0.4 percent). The increase was driven by higher residential mortgages and commercial loans, partially offset by lower other retail loans, commercial real estate loans, credit card loans and covered loans.

Residential mortgages held in the loan portfolio increased $3.1 billion (5.2 percent) at September 30, 2018, compared with December 31, 2017, as origination activity more than offset the effect of customers paying down balances in the first nine months of 2018. 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 loans increased $1.7 billion (1.8 percent) at September 30, 2018, compared with December 31, 2017, reflecting higher demand from new and existing customers.

Other retail loans decreased $1.3 billion (2.2 percent) at September 30, 2018, compared with December 31, 2017, reflecting the sale of the Company s federally guaranteed student loans during the first nine months of 2018, along with decreases in auto loans and home equity loans. Partially offsetting these decreases were increases in installment and retail leasing loans.

Commercial real estate loans decreased $497 million (1.2 percent) at September 30, 2018, compared with December 31, 2017, primarily the result of continued disciplined underwriting and customers paying down balances.

Credit card loans decreased $311 million (1.4 percent) at September 30, 2018, compared with December 31, 2017, primarily the result of customers paying down balances.

Covered loans decreased $1.7 billion (55.1 percent) at September 30, 2018, compared with December 31, 2017, reflecting the transfer of $1.3 billion of covered residential mortgage loans from the loan portfolio to loans held for sale at the end of the third quarter of 2018.

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 of residential mortgages and other loans to be sold in the secondary market, were $4.5 billion at September 30, 2018, compared with $3.6 billion at December 31, 2017. The increase in loans held for sale was principally due to the transfer of $1.3 billion of covered residential mortgage loan balances to loans held for sale at the end of the third quarter of 2018. This increase was partially offset by a decrease in originated residential mortgage loans held for sale (MLHFS) balances due to a lower level of mortgage loan closings in the third quarter of 2018. Almost all of the residential mortgage loans the Company originates or purchases for sale follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises (GSEs).

Investment Securities Investment securities totaled $111.0 billion at September 30, 2018, compared with $112.5 billion at December 31, 2017. The $1.5 billion (1.4 percent) decrease was primarily due to a $1.4 billion unfavorable change in net unrealized gains (losses) on available-for-sale investment securities.

Table of Contents

Table 4 Investment Securities

At September 30, 2018 (Dollars in Millions)	Available-for-Sale Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Held-to-Maturity Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 3,028	$ 3,016	.4	1.26%	$ 650	$ 646	.7	1.73%
Maturing after one year through five years	16,490	15,935	3.0	1.70	2,912	2,755	4.4	1.64
Maturing after five years through ten years	658	630	7.6	2.85	1,550	1,475	5.7	2.10
Maturing after ten years								
Total	$ 20,176	$ 19,581	2.8	1.67%	$ 5,112	$ 4,876	4.3	1.79%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 69	$ 69	.4	3.83%	$ 36	$ 36	.8	2.51%
Maturing after one year through five years	13,644	13,074	4.4	2.09	15,158	14,479	4.0	2.03
Maturing after five years through ten years	23,195	22,574	6.3	2.63	25,348	24,544	6.3	2.67
Maturing after ten years	2,583	2,598	14.4	3.18	360	361	14.0	3.06
Total	$ 39,491	$ 38,315	6.2	2.48%	$ 40,902	$ 39,420	5.5	2.43%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$		%	$	$		%
Maturing after one year through five years	402	408	3.6	3.49	3	4	3.3	2.90
Maturing after five years through ten years					2	3	6.4	3.00
Maturing after ten years						1	17.0	2.84
Total	$ 402	$ 408	3.6	3.49%	$ 5	$ 8	4.4	2.93%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 238	$ 242	.6	5.70%	$	$	.2	6.24%
Maturing after one year through five years	583	587	3.5	4.62	1	1	3.4	6.67
Maturing after five years through ten years	3,886	3,818	8.2	4.37	5	6	7.5	2.01
Maturing after ten years	2,140	1,961	19.0	4.11				
Total	$ 6,847	$ 6,608	10.9	4.35%	$ 6	$ 7	7.0	2.55%
Other								
Maturing in one year or less	$	$		%	$ 9	$ 9	.1	3.21%

Maturing after one year through five years					12	12	1.2	3.08
Maturing after five years through ten years								
Maturing after ten years								
Total	$	$		%	$ 21	$ 21	.7	3.14%
Total investment securities (d)	$ 66,916	$ 64,912	5.6	2.43%	$ 46,046	$ 44,332	5.4	2.36%

(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 the available-for-sale investment securities was 5.1 years at December 31, 2017, with a corresponding weighted-average yield of 2.25 percent.
The weighted-average maturity of the held-to-maturity investment securities was 4.7 years at December 31, 2017, with a corresponding weighted-average yield of 2.14 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 for 2018 and 35 percent for 2017. Yields on available-for-sale and held-to-maturity investment securities are computed based on amortized cost balances, excluding any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.

	September 30, 2018		December 31, 2017	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 25,288	22.4%	$ 28,767	25.5%
Mortgage-backed securities	80,393	71.2	77,606	68.6
Asset-backed securities	407	.3	419	.4
Obligations of state and political subdivisions	6,853	6.1	6,246	5.5
Other	21		41	
Total investment securities	$ 112,962	100.0%	$ 113,079	100.0%

The Company s available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At September 30, 2018, the Company s net unrealized losses on available-for-sale securities were $2.0 billion, compared with $580 million at December 31, 2017. The unfavorable change in net unrealized gains (losses) was primarily due to decreases in the fair value of U.S. Treasury, mortgage-backed and state and political securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale securities totaled $2.1 billion at September 30, 2018, compared with $888 million at December 31, 2017. At September 30, 2018, 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 3 and 14 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $331.2 billion at September 30, 2018, compared with $347.2 billion at December 31, 2017, the result of decreases in total savings deposits and noninterest-bearing deposits, partially offset by an increase in time deposits. Money market deposit balances decreased $7.3 billion (6.8 percent) at September 30, 2018, compared with December 31, 2017, primarily due to lower Wealth Management and Investment Services, Corporate and Commercial Banking, and Consumer and Business Banking balances. The decline in Corporate and Commercial Banking balances reflects expected run-off related to the business merger of a large financial customer. Interest checking balances decreased $4.7 billion (6.3 percent) at September 30, 2018, compared with December 31, 2017, primarily due to lower Wealth Management and Investment Services, and Corporate and Commercial Banking balances, partially offset by higher Consumer and Business Banking balances. Savings account balances increased $853 million (1.9 percent), primarily due to higher Consumer and Business Banking balances. Noninterest-bearing deposits decreased $10.4 billion (11.9 percent) at September 30, 2018, compared with December 31, 2017, primarily due to lower Wealth Management and Investment Services, and Corporate and Commercial Banking balances, partially offset by higher Consumer and Business Banking balances. Time deposits increased $5.6 billion (16.7 percent) at September 30, 2018, compared with December 31, 2017, driven by an increase in those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics, along with higher 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 $23.9 billion at September 30, 2018, compared with $16.7 billion at December 31, 2017. The $7.2 billion (43.3 percent) increase in short-term borrowings was due to higher federal funds purchased, repurchase agreement and other short-term borrowings balances, partially offset by lower commercial paper balances. Long-term debt was $40.9 billion at September 30, 2018, compared with $32.3 billion at December 31, 2017. The $8.6 billion (26.8 percent) increase was primarily due to issuances of $8.4 billion of bank notes and $1.3 billion of medium-term notes, partially offset by a $901 million decrease in Federal Home Loan Bank (FHLB) advances. 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 reputational risks, by directing timely and comprehensive actions. Senior operating committees have also been established, each responsible for overseeing a specified category of risk.

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

compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, MLHFS, mortgage servicing rights (MSRs) and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations or new business at a reasonable cost and in a timely manner. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss resulting from breaches in data security. Operational risk can also include the risk of loss due to failures by third parties with which the Company does business. Compliance risk is the risk of loss arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards, potentially exposing the Company to fines, civil money penalties, payment of damages and the voiding of contracts. Strategic risk is the risk to current or projected financial condition arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. Reputational risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company s competitiveness by affecting its ability to establish new relationships, offer new 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, 2017, for a detailed discussion of these factors.

The Company s Board of Directors 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:

- Qualitative considerations, such as the macroeconomic environment, regulatory and compliance changes, litigation developments, and technology and cybersecurity;
- Capital ratios and projections, including regulatory measures and stressed scenarios;
- Credit measures, including adversely rated and nonperforming loans, leveraged transactions, credit concentrations and lending limits;
- Interest rate and market risk, including market value and net income simulation, and trading-related Value at Risk (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; and

Reputational and strategic risk considerations, impacts and responses.

Credit Risk Management The Company s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or

customer-specific concentrations), collateral values, trends in loan performance and macroeconomic factors, such as changes in unemployment rates, gross domestic product and consumer bankruptcy filings, as well as the potential impact on customers and the domestic economy resulting from new tariffs or increases in existing tariffs. The Risk Management Committee oversees the Company s credit risk management process.

In addition, credit quality ratings as defined by the Company are an important part of the Company s overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company s rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including loans that are 90 days or more past due and still accruing, nonaccrual loans, those loans considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company s internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. Refer to Note 4 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, 2017, 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 three segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company s three loan portfolio segments are commercial lending, consumer lending and covered loans.

The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution, non-profit and public sector customers. Key risk characteristics relevant to commercial lending segment loans include the industry and geography of the borrower s business, purpose of the loan, repayment source, borrower s debt capacity and financial flexibility, loan covenants, and nature of pledged collateral, if any. These risk characteristics, among others, are considered in determining estimates about the likelihood of default by the borrowers and the severity of loss in the event of default. The Company considers these risk characteristics in assigning internal risk ratings to, or forecasting losses on, these loans, which are the significant factors in determining the allowance for credit losses for loans in the commercial lending segment.

The consumer lending segment represents loans and leases made to consumer customers, including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, 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, 2018, substantially all of the Company s home equity lines were in the draw period. Approximately $1.4 billion, or 10 percent, of the outstanding home equity line balances at September 30, 2018, will enter the amortization period within the next 36 months. Key risk characteristics relevant to consumer lending

segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and credit scores, and in some cases, updated loan-to-value (LTV) information reflecting current market conditions on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

The covered loan segment represents loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC that greatly reduce the risk of future credit losses to the Company. Key risk

Table of Contents

characteristics for covered segment loans are consistent with the segment they would otherwise be included in had the loss share coverage not been in place, but consider the indemnification provided by the FDIC.

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

The Company s consumer lending segment utilizes several distinct business processes and channels to originate consumer credit, including traditional branch lending, mobile and on-line banking, indirect lending, 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 a LTV or CLTV, primarily due to lack of availability of relevant automated valuation model and/or home price indices values, or lack of necessary valuation data on acquired loans.

The following tables provide summary information of residential mortgages and home equity and second mortgages by LTV and borrower type at September 30, 2018:

Residential Mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$ 2,088	$ 52,312	$ 54,400	86.5%
Over 80% through 90%	7	4,054	4,061	6.5
Over 90% through 100%	3	457	460	.7
Over 100%	1	451	452	.7
No LTV available		48	48	.1
Loans purchased from GNMA mortgage pools (a)		3,483	3,483	5.5
Total	$ 2,099	$ 60,805	$ 62,904	100.0%
Borrower Type				
Prime borrowers	$ 2,099	$ 56,292	$ 58,391	92.8%
Sub-prime borrowers		727	727	1.2

Other borrowers		303	303	.5
Loans purchased from GNMA mortgage pools (a)		3,483	3,483	5.5
Total	$ 2,099	$ 60,805	$ 62,904	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.

Home Equity and Second Mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$ 11,760	$ 781	$ 12,541	78.6%
Over 80% through 90%	1,966	736	2,702	16.9
Over 90% through 100%	318	85	403	2.5
Over 100%	238	16	254	1.6
No LTV/CLTV available	55	11	66	.4
Total	$ 14,337	$ 1,629	$ 15,966	100.0%
Borrower Type				
Prime borrowers	$ 14,123	$ 1,565	$ 15,688	98.3%
Sub-prime borrowers	42	57	99	.6
Other borrowers	172	7	179	1.1
Total	$ 14,337	$ 1,629	$ 15,966	100.0%

The total amount of consumer lending segment residential mortgage and home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only 0.2 percent of the Company s total assets at September 30, 2018 and December 31, 2017. The Company considers sub-prime loans to be those loans made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company s underwriting programs

Table of Contents

specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company s program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

Home equity and second mortgages were $16.0 billion at September 30, 2018, compared with $16.3 billion at December 31, 2017, and included $4.3 billion of home equity lines in a first lien position and $11.7 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at September 30, 2018, included approximately $4.9 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $6.8 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, 2018:

	Junior Liens Behind		
(Dollars in Millions)	Company Owned or Serviced First Lien	Third Party First Lien	Total
Total	$ 4,858	$ 6,845	$ 11,703
Percent 30-89 days past due	.35%	.45%	.41%
Percent 90 days or more past due	.06%	.08%	.07%
Weighted-average CLTV	71%	67%	69%
Weighted-average credit score	779	775	777

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

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

90 days or more past due excluding nonperforming loans	September 30, 2018	December 31, 2017
Commercial		
Commercial	.07%	.06%
Lease financing		
Total commercial	.06	.06
Commercial Real Estate		

Commercial mortgages		
Construction and development	.03	.05
Total commercial real estate	.01	.01
Residential Mortgages (a)	.19	.22
Credit Card	1.18	1.28
Other Retail		
Retail leasing	.02	.03
Home equity and second mortgages	.32	.28
Other	.14	.15
Total other retail	.17	.17
Total loans, excluding covered loans	.19	.21
Covered Loans (b)	.86	4.74
Total loans	.20%	.26%

90 days or more past due including nonperforming loans	September 30, 2018	December 31, 2017
Commercial	.28%	.31%
Commercial real estate	.27	.37
Residential mortgages (a)	.69	.96
Credit card	1.18	1.28
Other retail	.49	.46
Total loans, excluding covered loans	.48	.57
Covered loans (b)	.86	4.93
Total loans	.48%	.62%

(a) Delinquent loan ratios exclude $1.7 billion at September 30, 2018, and $1.9 billion December 31, 2017, 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 3.35 percent at September 30, 2018, and 4.16 percent at December 31, 2017.

(b) Effective September 30, 2018, the Company transferred $1.3 billion of covered loans to loans held for sale. Included in the amount transferred were $108 million of loans 90 days or more past due and $6 million that were nonperforming.

Table of Contents

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 $551 million at September 30, 2018, compared with $720 million at December 31, 2017. These balances exclude loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the 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 0.20 percent at September 30, 2018, compared with 0.26 percent at December 31, 2017.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Residential Mortgages (a)				
30-89 days	$ 167	$ 198	.27%	.33%
90 days or more	118	130	.19	.22
Nonperforming	317	442	.50	.74
Total	$ 602	$ 770	.96%	1.29%
Credit Card				
30-89 days	$ 309	$ 302	1.42%	1.37%
90 days or more	259	284	1.18	1.28
Nonperforming		1		
Total	$ 568	$ 587	2.60%	2.65%
Other Retail				
Retail Leasing				
30-89 days	$ 32	$ 33	.38%	.41%
90 days or more	2	2	.02	.03
Nonperforming	11	8	.13	.10
Total	$ 45	$ 43	.53%	.54%
Home Equity and Second Mortgages				
30-89 days	$ 71	$ 78	.45%	.48%
90 days or more	51	45	.32	.28
Nonperforming	125	126	.78	.77
Total	$ 247	$ 249	1.55%	1.53%
Other (b)				
30-89 days	$ 262	$ 265	.83%	.80%
90 days or more	44	48	.14	.15
Nonperforming	39	34	.12	.10

Total	$ 345	$ 347	1.09%	1.05%

(a) Excludes $414 million of loans 30-89 days past due and $1.7 billion of loans 90 days or more past due at September 30, 2018, purchased from GNMA mortgage pools that continue to accrue interest, compared with $385 million and $1.9 billion at December 31, 2017, respectively.

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

Table of Contents

The following table provides summary delinquency information for covered loans:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
30-89 days	$ 6	$ 50	.43%	1.61%
90 days or more	12	148	.86	4.74
Nonperforming		6		.19
Total (a)	$ 18	$ 204	1.29%	6.54%

(a) Effective September 30, 2018, the Company transferred $1.3 billion of covered loans to loans held for sale. Included in the amount transferred were $42 million of loans 30-89 days past due, $108 million of loans 90 days or more past due and $6 million that were nonperforming.

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, 2018, performing TDRs were $3.9 billion, compared with $4.0 billion at December 31, 2017. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

The Company has also implemented certain residential mortgage loan restructuring programs that may result in TDRs. The Company 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.

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

Table of Contents

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

At September 30, 2018 (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	$ 237	2.7%	2.0%	$ 129(a)	$ 366
Commercial real estate	222	.6		36(b)	258
Residential mortgages	1,430	3.1	4.2	224	1,654(d)
Credit card	239	11.2	6.0		239
Other retail	134	6.6	6.6	49(c)	183(e)
TDRs, excluding GNMA and covered loans	2,262	3.9	3.9	438	2,700
Loans purchased from GNMA mortgage pools (g)	1,668				1,668(f)
Covered loans	10	7.5	2.5		10
Total	$ 3,940	2.2%	2.2%	$ 438	$ 4,378

(a) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months) and small business credit cards with a modified rate equal to 0 percent.
(b) Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months).
(c) Primarily represents loans with a modified rate equal to 0 percent.
(d) Includes $299 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $46 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(e) Includes $74 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $12 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(f) Includes $195 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 $398 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(g) Approximately 5.7 percent and 46.1 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 Modifications The Company makes short-term modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modified loans were not material at September 30, 2018.

Table of Contents

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

At September 30, 2018, total nonperforming assets were $1.0 billion, compared with $1.2 billion at December 31, 2017. The $196 million (16.3 percent) decrease in nonperforming assets was driven by improvements in residential mortgages, commercial real estate loans, commercial loans and OREO, partially offset by increases in nonperforming other retail loans and other nonperforming assets. The ratio of total nonperforming assets to total loans and other real estate was 0.36 percent at September 30, 2018, compared with 0.43 percent at December 31, 2017.

OREO, excluding covered assets, was $100 million at September 30, 2018, compared with $141 million at December 31, 2017, 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, excluding covered assets, as a percent of their related loan balances, including geographical location detail for residential (residential mortgage, home equity and second mortgage) and commercial (commercial and commercial real estate) loan balances:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Residential				
Illinois	$ 11	$ 14	.25%	.32%
New York	8	8	1.01	1.01
Minnesota	6	11	.10	.18
Wisconsin	5	8	.24	.38
Oregon	5	3	.15	.09
All other states	60	91	.10	.15
Total residential	95	135	.12	.18
Commercial				
California	3	4	.01	.02
Idaho	1	1	.09	.07
All other states	1	1		
Total commercial	5	6		
Total	$ 100	$ 141	.04%	.05%

Table of Contents

Table 6 Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2018	December 31, 2017
Commercial		
Commercial	$ 193	$ 225
Lease financing	23	24
Total commercial	216	249
Commercial Real Estate		
Commercial mortgages	77	108
Construction and development	28	34
Total commercial real estate	105	142
Residential Mortgages (b)	317	442
Credit Card		1
Other Retail		
Retail leasing	11	8
Home equity and second mortgages	125	126
Other	39	34
Total other retail	175	168
Total nonperforming loans, excluding covered loans	813	1,002
Covered Loans		6
Total nonperforming loans	813	1,008
Other Real Estate (c)	100	141
Covered Other Real Estate	19	21
Other Assets	72	30
Total nonperforming assets	$ 1,004	$ 1,200
Accruing loans 90 days or more past due (b)	$ 551	$ 720
Nonperforming loans to total loans	.29%	.36%
Nonperforming assets to total loans plus other real estate (c)	.36%	.43%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Covered Assets	Total
Balance December 31, 2017	$ 404	$ 769	$ 27	$ 1,200
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	265	247	10	522
Advances on loans	19	1	1	21
Total additions	284	248	11	543
Reductions in nonperforming assets				
Paydowns, payoffs	(152)	(108)	(1)	(261)
Net sales	(44)	(110)	(12)	(166)
Return to performing status	(11)	(132)		(143)
Charge-offs (d)	(148)	(21)		(169)

Total reductions		(355)		(371)		(13)	(739)
Net additions to (reductions in) nonperforming assets		(71)		(123)		(2)	(196)
Balance September 30, 2018	$	333	$	646	$	25	$ 1,004

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

(b) Excludes $1.7 billion and $1.9 billion at September 30, 2018 and December 31, 2017, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

(c) Foreclosed GNMA loans of $240 million and $267 million at September 30, 2018, and December 31, 2017, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the 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 of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Commercial				
Commercial	.27%	.34%	.25%	.33%
Lease financing	.22	.29	.27	.27
Total commercial	.26	.34	.25	.33
Commercial Real Estate				
Commercial mortgages	(.07)	(.03)	(.04)	(.04)
Construction and development	(.14)	(.17)	(.04)	(.09)
Total commercial real estate	(.09)	(.07)	(.04)	(.06)
Residential Mortgages	.03	.05	.03	.06
Credit Card	3.75	3.55	3.91	3.73
Other Retail				
Retail leasing	.14	.10	.15	.13
Home equity and second mortgages	(.02)	(.02)	(.03)	(.02)
Other	.74	.73	.76	.74
Total other retail	.43	.42	.45	.44
Total loans, excluding covered loans	.47	.48	.48	.49
Covered Loans				
Total loans	.46%	.47%	.48%	.49%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $328 million for the third quarter and $1.0 billion for the first nine months of 2018, compared with $330 million and $1.0 billion for the same periods of 2017. 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 2018 was 0.46 percent and 0.48 percent, respectively, compared with 0.47 percent and 0.49 percent, respectively, for the same periods of 2017. The year-over-year decreases in total net charge-offs reflected lower commercial loan and residential mortgage net charge-offs, partially offset by higher credit card loan net charge-offs.

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

The allowance recorded for loans in the commercial lending segment is based on reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. For each loan type, this historical loss experience is adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions. The results of the analysis are evaluated quarterly to confirm the selected loss experience is appropriate for each commercial loan type. The allowance recorded for impaired loans greater than $5 million in the commercial lending segment is based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or the fair value of the collateral, less selling costs, for collateral-dependent loans,

rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, delinquency status, bankruptcy experience, portfolio growth and historical losses, adjusted for current trends.

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

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At September 30, 2018, the Company serviced the first lien on 42 percent of the home equity loans and lines in a junior lien position. The Company also considers information received from its primary regulator on the status of the first liens that are

serviced by other large servicers in the industry and the status of first lien mortgage accounts reported on customer credit bureau files. Regardless of whether or not the Company services the first lien, an assessment is made of economic conditions, problem loans, recent loss experience and other factors in determining the allowance for credit losses. Based on the available information, the Company estimated $286 million or 1.8 percent of its total home equity portfolio at September 30, 2018, represented non-delinquent junior liens where the first lien was delinquent or modified.

The Company uses historical loss experience on the loans and lines in a junior lien position where the first lien is serviced by the Company, or can be identified in credit bureau data, to establish loss estimates for junior lien loans and lines the Company services that are current, but the first lien is delinquent or modified. Historically, the number of junior lien defaults has been a small percentage of the total portfolio (approximately 1 percent annually), while the long-term average loss rate on loans that default has been approximately 90 percent. In addition, the Company obtains updated credit scores on its home equity portfolio each quarter, and in some cases more frequently, and uses this information to qualitatively supplement its loss estimation methods. Credit score distributions for the portfolio are monitored monthly and any changes in the distribution are one of the factors considered in assessing the Company s loss estimates. In its evaluation of the allowance for credit losses, the Company also considers the increased risk of loss associated with home equity lines that are contractually scheduled to convert from a revolving status to a fully amortizing payment and with residential lines and loans that have a balloon payoff provision.

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

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

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

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

The Company s methodology for determining the appropriate allowance for credit losses for all the loan segments also considers the imprecision inherent in the methodologies used. As a result, in addition to the amounts determined under

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

Refer to Management s Discussion and Analysis Analysis of the Allowance for Credit Losses in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, for further discussion on the analysis and determination of the allowance for credit losses.

At September 30, 2018, the allowance for credit losses was $4.4 billion (1.57 percent of period-end loans), compared with an allowance of $4.4 billion (1.58 percent of period-end loans) at December 31, 2017. The ratio of the allowance for credit losses to nonperforming loans was 544 percent at September 30, 2018, compared with 438 percent at December 31, 2017. The ratio of the allowance for credit losses to annualized loan net charge-offs was 340 percent at September 30, 2018, compared with 332 percent of full-year 2017 net charge-offs at December 31, 2017.

Table of Contents

Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30 2018	Three Months Ended September 30 2017	Nine Months Ended September 30 2018	Nine Months Ended September 30 2017
Balance at beginning of period	$ 4,411	$ 4,377	$ 4,417	$ 4,357
Charge-Offs				
Commercial				
Commercial	83	109	248	296
Lease financing	5	6	17	19
Total commercial	88	115	265	315
Commercial real estate				
Commercial mortgages	1	1	4	5
Construction and development		1	2	2
Total commercial real estate	1	2	6	7
Residential mortgages	12	16	37	49
Credit card	231	214	727	653
Other retail				
Retail leasing	6	3	16	11
Home equity and second mortgages	6	8	18	25
Other	84	75	249	227
Total other retail	96	86	283	263
Covered loans (a)				
Total charge-offs	428	433	1,318	1,287
Recoveries				
Commercial				
Commercial	20	30	75	71
Lease financing	2	2	6	8
Total commercial	22	32	81	79
Commercial real estate				
Commercial mortgages	6	3	13	15
Construction and development	4	6	5	10
Total commercial real estate	10	9	18	25
Residential mortgages	8	9	22	22
Credit card	25	27	100	72
Other retail				
Retail leasing	3	1	7	4
Home equity and second mortgages	7	9	22	28
Other	25	16	67	52
Total other retail	35	26	96	84
Covered loans (a)				
Total recoveries	100	103	317	282
Net Charge-Offs				
Commercial				
Commercial	63	79	173	225
Lease financing	3	4	11	11
Total commercial	66	83	184	236

Commercial real estate				
Commercial mortgages	(5)	(2)	(9)	(10)
Construction and development	(4)	(5)	(3)	(8)
Total commercial real estate	(9)	(7)	(12)	(18)
Residential mortgages	4	7	15	27
Credit card	206	187	627	581
Other retail				
Retail leasing	3	2	9	7
Home equity and second mortgages	(1)	(1)	(4)	(3)
Other	59	59	182	175
Total other retail	61	60	187	179
Covered loans (a)				
Total net charge-offs	328	330	1,001	1,005
Provision for credit losses	343	360	1,011	1,055
Other changes (b)			(1)	
Balance at end of period (c)	$ 4,426	$ 4,407	$ 4,426	$ 4,407
Components				
Allowance for loan losses	$ 3,954	$ 3,908		
Liability for unfunded credit commitments	472	499		
Total allowance for credit losses	$ 4,426	$ 4,407		
Allowance for Credit Losses as a Percentage of				
Period-end loans	1.57%	1.58%		
Nonperforming loans	544	426		
Nonperforming and accruing loans 90 days or more past due	324	262		
Nonperforming assets	441	352		
Annualized net charge-offs	340	337		

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

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

(c) At September 30, 2018 and 2017, $1.7 billion of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

Table of Contents

Residual Value Risk Management The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2018, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2017. 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, 2017, for further discussion on residual value risk management.

Operational Risk Management Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company s objectives. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. 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, 2017, for further discussion on operational risk management.

Compliance Risk Management The Company may suffer legal or regulatory sanctions, material financial loss, or damage to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct, 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. 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, 2017, 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, market valuations and the safety and soundness of an entity. To manage the impact on net interest income and the market value of assets and liabilities, the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability 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. The Company uses net interest income simulation analysis and market value of equity modeling for measuring and analyzing consolidated interest rate risk. The Company has established policy limits within which it manages the overall interest rate risk profile, and at September 30, 2018 and December 31, 2017, the Company was within those limits.

Net Interest Income Simulation Analysis Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. 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 assumptions based on historical information and expected behaviors, actual outcomes could vary significantly. For example, if deposit outflows are more limited (stable) than the assumptions the Company used in preparing Table 9, the projected impact to net interest income would increase to 1.72 percent in the Up 50 basis point (bps) and 3.85 percent in the Up 200 bps scenarios. Refer to Management s Discussion and Analysis Net Interest Income Simulation Analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, for further discussion on net interest income simulation analysis.

Table 9 Sensitivity of Net Interest Income

	September 30, 2018				December 31, 2017			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	(1.42)%	1.02%	(3.84)%	1.49%	(2.07)%	1.13%	*	1.72%

**Given the level of interest rates, downward rate scenario is not computed.*

Table of Contents

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts, and flattening or steepening of the yield curve. A 200 bps increase would have resulted in a 3.7 percent decrease in the market value of equity at September 30, 2018, compared with a 3.1 percent decrease at December 31, 2017. A 200 bps decrease would have resulted in a 5.2 percent decrease in the market value of equity at September 30, 2018, compared with an 8.0 percent decrease at December 31, 2017. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, for further discussion on market value of equity modeling.

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

- To convert fixed-rate debt from fixed-rate payments to floating-rate payments;
- To convert the cash flows associated with floating-rate 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.

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

The Company does not designate all of the derivatives that it enters into for risk management purposes as accounting hedges because of the inefficiency of applying the accounting requirements and may instead elect fair value accounting for the related hedged items. In particular, the Company enters into interest rate swaps, 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, 2018, the Company had $4.0 billion of forward commitments to sell, hedging $2.2 billion of MLHFS and $2.3 billion of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives under the accounting guidance related to accounting for derivative instruments and hedging activities. The Company has elected the fair value option for the MLHFS.

Derivatives are subject to credit risk associated with counterparties to the contracts. Credit risk associated with derivatives is measured by the Company based on the probability of counterparty default. The Company manages the credit risk of its derivative positions by diversifying its positions among various counterparties, by entering into

master netting arrangements, and, where possible, by requiring collateral arrangements. The Company may also transfer counterparty credit risk related to interest rate swaps to third parties through the use of risk participation agreements. In addition, certain interest rate swaps, 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 12 and 13 in the Notes to Consolidated Financial Statements.

Market Risk Management In addition to interest rate risk, the Company is exposed to other forms of market risk, principally related to trading activities which support customers strategies to manage their own foreign currency, interest rate risk and funding activities. For purposes of its internal capital adequacy assessment

Table of Contents

process, the Company considers risk arising from its trading activities employing methodologies consistent with the requirements of regulatory rules for market risk. The Company s Market Risk Committee (MRC), within the framework of the ALCO, oversees market risk management. The MRC monitors and reviews the Company s trading positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company uses a VaR approach to measure general market risk. Theoretically, VaR represents the statistical risk of loss the Company has to adverse market movements over a one-day time horizon. The Company uses the Historical Simulation method to calculate VaR for its trading businesses measured at the ninety-ninth percentile using a one-year look-back period for distributions derived from past market data. The market factors used in the calculations include those pertinent to market risks inherent in the underlying trading portfolios, principally those that affect the Company s corporate bond trading business, foreign currency transaction business, client derivatives business, loan trading business and municipal securities business. On average, the Company expects the one-day VaR to be exceeded by actual losses two to three times per year for its trading businesses. The Company monitors the effectiveness of its risk programs by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. If the Company were to experience market losses in excess of the estimated VaR more often than expected, the VaR models and associated assumptions would be analyzed and adjusted.

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

Nine Months Ended September 30

(Dollars in Millions)	2018	2017
Average	$ 1	$ 1
High	1	1
Low	1	1
Period-end	1	1

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR during the nine months ended September 30, 2018 and 2017. The Company stress tests its market risk measurements to provide management with perspectives on market events that may not be captured by its VaR models, including worst case historical market movement combinations that have not necessarily occurred on the same date.

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

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

Nine Months Ended September 30

(Dollars in Millions)	2018	2017
Average	$ 5	$ 4
High	8	6
Low	2	2

Period-end	6	6

Valuations of positions in the client derivatives and foreign currency transaction businesses 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 the Company s market risk management department. Valuation of positions in the corporate bond trading, loan trading and municipal securities businesses are based on trader marks. These trader marks are evaluated against third party prices, with significant variances approved by the Company s risk management department.

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

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

Nine Months Ended September 30

(Dollars in Millions)	2018	2017
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$ 1	$
High	2	1
Low		
Mortgage Servicing Rights and Related Hedges		
Average	$ 6	$ 8
High	7	10
Low	4	6

Table of Contents

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 at the FHLB and the Federal Reserve Bank s Discount Window. At September 30, 2018, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $98.9 billion, compared with $100.3 billion at December 31, 2017. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company s practice of pledging loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At September 30, 2018, the Company could have borrowed an additional $92.1 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 $331.2 billion at September 30, 2018, compared with $347.2 billion at December 31, 2017. 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 $40.9 billion at September 30, 2018, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $23.9 billion at September 30, 2018, 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, 2018, parent company long-term debt outstanding was $17.1 billion, compared with $15.8 billion at December 31, 2017. The increase was primarily due to the issuance of $1.3 billion of medium-term notes. As of September 30, 2018, there was $1.5 billion of parent company debt scheduled to mature in the remainder of 2018.

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, 2018, 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, 2017, 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. 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,

Table of Contents

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, 2018, the Company had an aggregate amount on deposit with European banks of approximately $8.1 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 deterioration in economic conditions in Europe is unlikely to have a significant effect on the Company related to these activities.

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 15 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 5 of the Notes to Consolidated Financial Statements for further information related to the Company s interests in variable interest entities.

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for banking organizations. The regulatory capital requirements effective for the Company follow Basel III, which includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches, with the Company s capital adequacy being evaluated against the methodology that is most restrictive. Currently, the standardized approach is the most restrictive. Beginning January 1, 2018, the regulatory capital requirements reflect the full implementation of Basel III. Prior to 2018, the Company s capital ratios reflected certain transitional adjustments. Table 10 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2018 and December 31, 2017. All regulatory ratios exceeded regulatory well-capitalized requirements. At September 30, 2018, the Company s common equity tier 1 capital ratio using the Basel III standardized approach was 9.0 percent, compared with an estimated fully implemented common equity tier 1 capital ratio using the Basel III standardized approach of 9.1 percent at December 31, 2017.

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 calculated under the standardized approach, was 7.7 percent and 9.3 percent, respectively, at September 30, 2018, compared with 7.6 percent and 9.4 percent, respectively, at December 31, 2017.

Total U.S. Bancorp shareholders equity was $50.4 billion at September 30, 2018, compared with $49.0 billion at December 31, 2017. The increase was primarily the result of the Company s earnings and a preferred stock issuance, partially offset by common share repurchases, dividends and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income (loss).

Table 10 Regulatory Capital Ratios

(Dollars in Millions)	September 30, 2018	December 31, 2017
Basel III standardized approach:		
Common equity tier 1 capital	$ 34,097	$ 34,369
Tier 1 capital	40,114	39,806
Total risk-based capital	47,531	47,503
Risk-weighted assets	377,713	367,771
Common equity tier 1 capital as a percent of risk-weighted assets	9.0%	9.3%
Tier 1 capital as a percent of risk-weighted assets	10.6	10.8
Total risk-based capital as a percent of risk-weighted assets	12.6	12.9
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.0	8.9
Basel III advanced approaches:		
Common equity tier 1 capital	$ 34,097	$ 34,369
Tier 1 capital	40,114	39,806
Total risk-based capital	44,492	44,477
Risk-weighted assets	289,600	287,211
Common equity tier 1 capital as a percent of risk-weighted assets	11.8%	12.0%
Tier 1 capital as a percent of risk-weighted assets	13.9	13.9
Total risk-based capital as a percent of risk-weighted assets	15.4	15.5
Tier 1 capital as a percent of total on- and off-balance sheet leverage exposure (total leverage exposure ratio)	7.2	

Table of Contents

On June 28, 2018, the Company announced its Board of Directors had approved an authorization to repurchase up to $3.0 billion of its common stock, from July 1, 2018 through June 30, 2019.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the third quarter of 2018:

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	7,231,555	$ 52.11	7,231,555	$ 2,623
August	4,217,974	53.51	4,217,974	2,398
September	2,772,471	54.23	2,772,471	2,247
Total	14,222,000	$ 52.94	14,222,000	$ 2,247

(a) All shares were purchased under the July 1, 2018 through June 30, 2019, $3.0 billion common stock repurchase authorization program announced on June 28, 2018.

On September 18, 2018, the Company announced its Board of Directors had approved a 23 percent increase in the Company s dividend rate per common share from $0.30 per quarter to $0.37 per quarter.

Refer to Management s Discussion and Analysis Capital Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, 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. The allowance for credit losses and related provision expense are allocated to the lines of business based on the related loan balances managed. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2018, certain organization and methodology changes were made and, accordingly, 2017 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 $394 million of the Company s net income in the third quarter and $1.2 billion in the first nine months of 2018, or increases of $30 million (8.2 percent) and $123 million (11.4 percent), respectively, compared with the same periods of 2017.

Net revenue decreased $14 million (1.5 percent) in the third quarter and $58 million (2.0 percent) in the first nine months of 2018, compared with the same periods of 2017. Noninterest income decreased $18 million (8.2 percent) in the third quarter and $74 million (10.5 percent) in the first nine months of 2018, compared with the same periods of 2017, primarily due to lower corporate bond underwriting fees, syndication fees and loan fees. Net interest income, on a taxable-equivalent basis, increased $4 million (0.5 percent) in the third quarter and $16 million (0.7 percent) in the first nine months of 2018, compared with the same periods of 2017, primarily due to the impact of rising rates on the margin benefit from deposits, offset by lower rates on loans, reflecting a competitive marketplace, loan mix and lower deposits. Noninterest bearing deposits are declining as customers deploy balances to support business growth. Decreases in interest-bearing deposits reflect expected balance run-off related to the business merger of a larger financial services customer.

Noninterest expense decreased $10 million (2.6 percent) in the third quarter and increased $8 million (0.7 percent) in the first nine months of 2018, compared with the same periods of 2017. The changes reflect lower FDIC insurance expense and lower variable compensation expense related to capital markets activities, offset by higher net shared services expense driven by technology development and investment in infrastructure. The provision for credit losses increased $44 million in the third quarter and $28 million in the first nine months of 2018, compared with the same periods of 2017, reflecting unfavorable changes in the reserve allocation, partially offset by lower net charge-offs.

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 $596 million of the Company s net income in the third quarter and $1.7 billion in the first nine months of 2018, or increases of $114 million (23.7 percent) and $352 million (25.9 percent), respectively, compared with the same periods of 2017.

Net revenue increased $48 million (2.3 percent) in the third quarter and $199 million (3.2 percent) in the first nine months of 2018, compared with the same periods of 2017. Net interest income, on a taxable-equivalent basis, increased $82 million (5.6 percent) in the third quarter and $250 million (5.8 percent) in the first nine months of 2018, compared with the same periods of 2017. The increases were primarily due to the impact of rising rates on the margin benefit from deposits along with growth in average loan and core deposit balances, partially offset by lower rates on loans. Noninterest income decreased $34 million (5.5 percent) in the third quarter and $51 million (2.8 percent) in the first nine months of 2018, compared with the same periods of 2017, principally driven by lower mortgage banking revenue, in line with industry trends, primarily due to lower mortgage production and gain on sale margins, and a reduction in other noninterest income driven by lower end of term gains in retail leasing due to lower vehicle sales. These decreases were partially offset by higher deposit service charges and ATM processing services fees, reflecting higher transaction volumes.

Noninterest expense increased $50 million (4.0 percent) in the third quarter and $131 million (3.5 percent) in the first nine months of 2018, compared with the same periods of 2017, primarily due to higher net shared services expense and higher personnel expense, reflecting the impact of investments supporting business growth and development as well as higher production related incentives. These increases were partially offset by lower mortgage banking costs. The provision for credit losses decreased $39 million (41.9 percent) in the third quarter and $78 million (32.2 percent) in the first nine months of 2018, compared with the same periods of 2017, reflecting favorable changes in the reserve allocation as well as lower net charge-offs.

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 five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Investment Services contributed $221 million of the Company s net income in the third quarter and $623 million in the first nine months of 2018, or increases of $59 million (36.4 percent) and $145 million (30.3 percent), respectively, compared with the same periods of 2017.

Net revenue increased $62 million (9.4 percent) in the third quarter and $181 million (9.2 percent) in the first nine months of 2018, compared with the same periods of 2017. Net interest income, on a taxable-equivalent basis, increased $29 million (11.5 percent) in the third quarter and $97 million (13.1 percent) in the first nine months of 2018, compared with the same periods of 2017. The increases were primarily due to the impact of rising rates on the margin benefit from deposits. Noninterest income increased $33 million (8.0 percent) in the third quarter and $84 million (6.9 percent) in the first nine months of 2018, compared with the same periods of 2017, principally due to favorable market conditions, business growth and net asset inflows.

Noninterest expense increased $25 million (6.1 percent) in the third quarter and $104 million (8.6 percent) in the first nine months of 2018, compared with the same periods of 2017, primarily due to increased net shared services expense and higher personnel expense driven by investments to support business growth, higher production related incentives and increased staffing to support business development. Noninterest expense further increased in the first nine months of 2018, compared to the same period of the prior year, as a result of settling certain litigation matters during the

current year.

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 $393 million of the Company s net income in the third quarter and $1.1 billion in the first nine months of 2018, or increases of $82 million (26.4 percent) and $207 million (23.2 percent), respectively, compared with the same periods of 2017.

Net revenue increased $65 million (4.4 percent) in the third quarter and $193 million (4.5 percent) in the first nine months of 2018, compared with the same periods of 2017. Noninterest income increased $60 million (7.1 percent) in the third quarter and $163 million (6.5 percent) in the first nine months of

Table of Contents

Table 11 Line of Business Financial Performance

Three Months Ended September 30 (Dollars in Millions)	Corporate and Commercial Banking 2018	Corporate and Commercial Banking 2017	Percent Change	Consumer and Business Banking 2018	Consumer and Business Banking 2017	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 739	$ 735	.5%	$ 1,557	$ 1,475	5.6%
Noninterest income	201	219	(8.2)	582	616	(5.5)
Securities gains (losses), net						
Total net revenue	940	954	(1.5)	2,139	2,091	2.3
Noninterest expense	379	389	(2.6)	1,283	1,232	4.1
Other intangibles	1	1		7	8	(12.5)
Total noninterest expense	380	390	(2.6)	1,290	1,240	4.0
Income before provision and income taxes	560	564	(.7)	849	851	(.2)
Provision for credit losses	35	(9)	*	54	93	(41.9)
Income before income taxes	525	573	(8.4)	795	758	4.9
Income taxes and taxable-equivalent adjustment	131	209	(37.3)	199	276	(27.9)
Net income	394	364	8.2	596	482	23.7
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 394	$ 364	8.2	$ 596	$ 482	23.7
Average Balance Sheet						
Commercial	$ 74,828	$ 73,825	1.4%	$ 9,985	$ 10,119	(1.3)%
Commercial real estate	18,529	20,111	(7.9)	16,232	16,668	(2.6)
Residential mortgages	6	6		58,624	56,111	4.5
Credit card						
Other retail	1		*	53,742	53,830	(.2)
Total loans, excluding covered loans	93,364	93,942	(.6)	138,583	136,728	1.4
Covered loans				2,756	3,347	(17.7)
Total loans	93,364	93,942	(.6)	141,339	140,075	.9
Goodwill	1,647	1,647		3,631	3,632	
Other intangible assets	10	13	(23.1)	2,974	2,702	10.1
Assets	102,146	102,267	(.1)	155,586	154,748	.5
Noninterest-bearing deposits	32,539	35,401	(8.1)	28,005	28,389	(1.4)
Interest checking	9,627	9,710	(.9)	50,319	47,301	6.4
Savings products	40,356	45,138	(10.6)	61,600	60,673	1.5
Time deposits	18,571	19,613	(5.3)	13,634	12,888	5.8
Total deposits	101,093	109,862	(8.0)	153,558	149,251	2.9
Total U.S. Bancorp shareholders equity	10,426	9,951	4.8	11,847	11,147	6.3

Nine Months Ended September 30 (Dollars in Millions)	Corporate and Commercial Banking 2018	2017	Percent Change	Consumer and Business Banking 2018	2017	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 2,186	$ 2,170	.7%	$ 4,587	$ 4,337	5.8%
Noninterest income	632	709	(10.9)	1,741	1,792	(2.8)
Securities gains (losses), net		(3)	*			
Total net revenue	2,818	2,876	(2.0)	6,328	6,129	3.2
Noninterest expense	1,175	1,167	.7	3,863	3,731	3.5
Other intangibles	3	3		21	22	(4.5)
Total noninterest expense	1,178	1,170	.7	3,884	3,753	3.5
Income before provision and income taxes	1,640	1,706	(3.9)	2,444	2,376	2.9
Provision for credit losses	37	9	*	164	242	(32.2)
Income before income taxes	1,603	1,697	(5.5)	2,280	2,134	6.8
Income taxes and taxable-equivalent adjustment	401	618	(35.1)	571	777	(26.5)
Net income	1,202	1,079	11.4	1,709	1,357	25.9
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 1,202	$ 1,079	11.4	$ 1,709	$ 1,357	25.9
Average Balance Sheet						
Commercial	$ 74,781	$ 73,179	2.2%	$ 9,811	$ 9,979	(1.7)%
Commercial real estate	18,782	20,739	(9.4)	16,318	16,742	(2.5)
Residential mortgages	6	7	(14.3)	57,756	55,704	3.7
Credit card						
Other retail	1		*	53,994	52,610	2.6
Total loans, excluding covered loans	93,570	93,925	(.4)	137,879	135,035	2.1
Covered loans				2,900	3,531	(17.9)
Total loans	93,570	93,925	(.4)	140,779	138,566	1.6
Goodwill	1,647	1,647		3,632	3,632	
Other intangible assets	11	14	(21.4)	2,926	2,733	7.1
Assets	102,417	102,520	(.1)	155,239	152,879	1.5
Noninterest-bearing deposits	33,438	36,256	(7.8)	27,443	27,387	.2
Interest checking	9,556	9,506	.5	50,052	46,938	6.6
Savings products	42,227	46,556	(9.3)	61,621	60,317	2.2
Time deposits	17,829	15,238	17.0	12,996	12,967	.2
Total deposits	103,050	107,556	(4.2)	152,112	147,609	3.1
Total U.S. Bancorp shareholders equity	10,447	9,850	6.1	11,850	11,154	6.2

* *Not meaningful*

(a) *Presented net of related rewards and rebate costs and certain partner payments of $539 million and $504 million for the three months ended September 30, 2018 and 2017, respectively, and $1.6 billion and $1.5 billion for the nine months ended September 30, 2018 and 2017, respectively.*

(b) *Includes revenue generated from certain contracts with customers of $1.8 billion and $1.7 billion for the three months ended September 30, 2018 and 2017, respectively, and $5.5 billion and $5.2 billion for the nine months*

ended September 30, 2018 and 2017, respectively.

Table of Contents

alth Management and nvestment Services			Payment Services			Treasury and Corporate Support			Consolidated Company	
8	2017	Percent Change	2018	2017	Percent Change	2018	2017	Percent Change	2018	2017
31	$ 252	11.5%	$ 619	$ 614	.8%	$ 85	$ 151	(43.7)%	$ 3,281	$ 3,227
4	411	8.0	911(a)	851(a)	7.1	270	234	15.4	2,408(b)	2,331(b)
						10	9	11.1	10	9
25	663	9.4	1,530	1,465	4.4	365	394	(7.4)	5,699	5,567
29	403	6.5	713	676	5.5	199	254	(21.7)	3,003	2,954
4	5	(20.0)	29	30	(3.3)				41	44
33	408	6.1	742	706	5.1	199	254	(21.7)	3,044	2,998
92	255	14.5	788	759	3.8	166	140	18.6	2,655	2,569
3)	1	*	264	270	(2.2)	(7)	5	*	343	360
95	254	16.1	524	489	7.2	173	135	28.1	2,312	2,209
74	92	(19.6)	131	178	(26.4)	(45)	(115)	60.9	490	640
21	162	36.4	393	311	26.4	218	250	(12.8)	1,822	1,569
						(7)	(6)	(16.7)	(7)	(6)
21	$ 162	36.4	$ 393	$ 311	26.4	$ 211	$ 244	(13.5)	$ 1,815	$ 1,563
33	$ 3,506	7.9%	$ 9,272	$ 8,233	12.6%	$ 1,180	$ 950	24.2%	$ 99,048	$ 96,633
29	517	2.3				4,252	4,325	(1.7)	39,542	41,621
08	2,905	17.3				4	8	(50.0)	62,042	59,030
			21,774	20,926	4.1				21,774	20,926
63	1,780	(1.0)	397	453	(12.4)		6	*	55,903	56,069
83	8,708	8.9	31,443	29,612	6.2	5,436	5,289	2.8	278,309	274,279
									2,756	3,347
83	8,708	8.9	31,443	29,612	6.2	5,436	5,289	2.8	281,065	277,626
18	1,618		2,563	2,468	3.8				9,459	9,365
61	79	(22.8)	400	384	4.2				3,445	3,178
63	11,657	8.6	37,128	35,019	6.0	149,393	146,939	1.7	456,916	450,630
90	14,742	(10.5)	1,064	1,029	3.4	2,394	2,403	(.4)	77,192	81,964
51	11,016	(15.1)				33	39	(15.4)	69,330	68,066
03	42,288	1.0	108	103	4.9	769	519	48.2	145,536	148,721
83	3,526	10.1	3	1	*	1,972	372	*	38,063	36,400
27	71,572	(3.4)	1,175	1,133	3.7	5,168	3,333	55.1	330,121	335,151
36	2,434	2.1	6,584	6,205	6.1	19,425	19,710	(1.4)	50,768	49,447

alth Management and nvestment Services			Payment Services			Treasury and Corporate Support			Consolidated Company	
8	2017	Percent Change	2018	2017	Percent Change	2018	2017	Percent Change	2018	2017
40	$ 743	13.1%	$ 1,822	$ 1,792	1.7%	$ 269	$ 315	(14.6)%	$ 9,704	$ 9,357
05	1,221	6.9	2,662(a)	2,499(a)	6.5	739	679	8.8	7,079(b)	6,900(b)
						25	50	(50.0)	25	47

45	1,964	9.2	4,484	4,291	4.5	1,033	1,044	(1.1)	16,808	16,304
04	1,197	8.9	2,117	1,983	6.8	605	682	(11.3)	9,064	8,760
12	15	(20.0)	84	91	(7.7)				120	131
16	1,212	8.6	2,201	2,074	6.1	605	682	(11.3)	9,184	8,891
29	752	10.2	2,283	2,217	3.0	428	362	18.2	7,624	7,413
2)	1	*	817	794	2.9	(5)	9	*	1,011	1,055
31	751	10.7	1,466	1,423	3.0	433	353	22.7	6,613	6,358
08	273	(23.8)	367	518	(29.2)	(196)	(395)	50.4	1,351	1,791
23	478	30.3	1,099	905	21.4	629	748	(15.9)	5,262	4,567
				(13)	*	(22)	(18)	(22.2)	(22)	(31)
23	$ 478	30.3	$ 1,099	$ 892	23.2	$ 607	$ 730	(16.8)	$ 5,240	$ 4,536
27	$ 3,358	11.0%	$ 8,866	$ 7,942	11.6%	$ 1,110	$ 889	24.9%	$ 98,295	$ 95,347
20	514	1.2				4,298	4,442	(3.2)	39,918	42,437
56	2,777	17.2				5	8	(37.5)	61,023	58,496
			21,428	20,801	3.0				21,428	20,801
28	1,757	(1.7)	410	466	(12.0)	2	2		56,135	54,835
31	8,406	9.8	30,704	29,209	5.1	5,415	5,341	1.4	276,799	271,916
							7	*	2,900	3,538
31	8,406	9.8	30,704	29,209	5.1	5,415	5,348	1.3	279,699	275,454
19	1,617	.1	2,546	2,459	3.5				9,444	9,355
56	83	(20.5)	396	409	(3.2)				3,399	3,239
13	11,620	6.0	36,614	34,781	5.3	148,658	144,249	3.1	455,241	446,049
06	14,860	(5.1)	1,092	1,023	6.7	2,467	2,282	8.1	78,546	81,808
20	10,534	(3.0)				37	43	(14.0)	69,865	67,021
31	42,629	(.2)	106	101	5.0	738	518	42.5	147,223	150,121
25	4,188	(8.7)	3	1	*	2,872	266	*	37,525	32,660
32	72,211	(2.1)	1,201	1,125	6.8	6,114	3,109	96.7	333,159	331,610
71	2,428	1.8	6,602	6,285	5.0	18,691	19,258	(2.9)	50,061	48,975

2018, compared with the same periods of 2017, mainly due to higher credit and debit card revenue, corporate payment products revenue and merchant processing services revenue, all driven by higher sales volumes. Net interest income, on a taxable-equivalent basis, increased $5 million (0.8 percent) in the third quarter and $30 million (1.7 percent) in the first nine months of 2018, compared with the same periods of 2017, primarily due to higher loan volumes, partially offset by compression on loan rates in a rising environment.

Noninterest expense increased $36 million (5.1 percent) in the third quarter and $127 million (6.1 percent) in the first nine months of 2018, compared with the same periods of 2017, principally due to higher net shared services expense and personnel expense driven by implementation costs of capital investments, higher production related incentives and increased staffing to support business development. The provision for credit losses decreased $6 million (2.2 percent) in the third quarter of 2018, compared with the third quarter of 2017, reflecting a favorable change in the reserve allocation, mostly offset by higher net charge-offs. The provision for credit losses increased $23 million (2.9 percent) in the first nine months of 2018, compared with the same period of 2017, primarily due to higher net charge-offs, partially offset by a favorable change in the reserve allocation.

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 $211 million in the third quarter and $607 million in the first nine months of 2018, compared with $244 million and $730 million in the same periods of 2017, respectively.

Net revenue decreased $29 million (7.4 percent) in the third quarter and $11 million (1.1 percent) in the first nine months of 2018, compared with the same periods of 2017. Net interest income, on a taxable-equivalent basis, decreased $66 million (43.7 percent) in the third quarter and $46 million (14.6 percent) in the first nine months of 2018, compared with the same periods of 2017, primarily due to higher funding costs, partially offset by growth in the investment portfolio. Noninterest income increased $37 million (15.2 percent) in the third quarter and $35 million (4.8 percent) in the first nine months of 2018, compared with the same periods of 2017, reflecting changes in tax-advantaged project syndication revenue and equity investment income. Noninterest income further increased in the first nine months of 2018, compared with the same period of 2017, due to a gain on the sale of student loans in the second quarter of 2018.

Noninterest expense decreased $55 million (21.7 percent) in the third quarter and $77 million (11.3 percent) in the first nine months of 2018, compared with the same periods of 2017, due to a favorable change in net shared services expense allocated to manage the business, lower costs related to tax-advantaged projects, and higher accruals for legal and regulatory matters in the prior year. Noninterest expense further decreased in the first nine months of 2018, compared to the same period of 2017, as a result of the allocation of previously reserved litigation items to the business units, at settlement. These decreases were partially offset by higher personnel expense driven by increased staffing, higher variable compensation, and technology development related to business development efforts. The provision for credit losses was $12 million lower in the third quarter of 2018, compared with the third quarter of 2017, due to a favorable change in the reserve allocation. The provision for credit losses was $14 million lower in the first nine months of 2018, compared with the same period of 2017, due to a favorable change in the reserve allocation, partially offset by higher net charge-offs.

Income taxes are assessed to each line of business at a managerial tax rate of 25.0 percent starting in 2018 due to tax reform, compared with 36.4 percent in 2017. The residual tax expense or benefit to arrive at the consolidated effective tax rate is 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, and
- Tangible common equity to risk-weighted assets.

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

Table of Contents

defined in banking regulations. As a result, these capital measures disclosed by the Company may be considered non-GAAP financial measures. In addition, certain capital measures related to prior periods are presented on the same basis as those capital measures in the current period. The effective capital ratios defined by banking regulations for these periods were subject to certain transitional provisions. 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, 2018	December 31, 2017
Total equity	$ 51,007	$ 49,666
Preferred stock	(5,984)	(5,419)
Noncontrolling interests	(632)	(626)
Goodwill (net of deferred tax liability) (1)	(8,682)	(8,613)
Intangible assets, other than mortgage servicing rights	(627)	(583)
Tangible common equity (a)	35,082	34,425
Total assets	464,607	462,040
Goodwill (net of deferred tax liability) (1)	(8,682)	(8,613)
Intangible assets, other than mortgage servicing rights	(627)	(583)
Tangible assets (b)	455,298	452,844
Risk-weighted assets, determined in accordance with the Basel III standardized approach (c)	377,713	367,771
Tangible common equity (as calculated above)		34,425
Adjustments (2)		(550)
Common equity tier 1 capital estimated for the Basel III fully implemented standardized and advanced approaches (d)		33,875
Risk-weighted assets, determined in accordance with prescribed transitional standardized approach regulatory requirements		367,771
Adjustments (3)		4,473
Risk-weighted assets estimated for the Basel III fully implemented standardized approach (e)		372,244
		287,211

Risk-weighted assets, determined in accordance with prescribed transitional advanced approaches regulatory requirements		
Adjustments (4)		4,769
Risk-weighted assets estimated for the Basel III fully implemented advanced approaches (f)		291,980
Ratios		
Tangible common equity to tangible assets (a)/(b)	7.7%	7.6%
Tangible common equity to risk-weighted assets (a)/(c)	9.3	9.4
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (d)/(e)		9.1
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (d)/(f)		11.6

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net interest income	$ 3,251	$ 3,176	$ 9,616	$ 9,205
Taxable-equivalent adjustment (5)	30	51	88	152
Net interest income, on a taxable-equivalent basis	3,281	3,227	9,704	9,357
Net interest income, on a taxable-equivalent basis (as calculated above)	3,281	3,227	9,704	9,357
Noninterest income	2,418	2,340	7,104	6,947
Less: Securities gains (losses), net	10	9	25	47
Total net revenue, excluding net securities gains (losses) (g)	5,689	5,558	16,783	16,257
Noninterest expense (h)	3,044	2,998	9,184	8,891
Efficiency ratio (h)/(g)	53.5%	53.9%	54.7%	54.7%

(1) Includes goodwill related to certain investments in unconsolidated financial institutions per prescribed regulatory requirements.

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

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

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

(5) Interest and rates are presented on a fully taxable-equivalent basis based on a federal income tax rate of 21 percent for 2018 and 35 percent for 2017.

Table of Contents

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The Company s financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company s financial statements. Critical accounting policies are those policies management believes are the most important to the portrayal of the Company s financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, purchased loans and related indemnification assets, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company s Audit Committee. These accounting policies are discussed in detail in Management s Discussion and Analysis Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

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.

Table of Contents

U.S. Bancorp

Consolidated Balance Sheet

(Dollars in Millions)	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	$ 20,082	$ 19,505
Investment securities		
Held-to-maturity (fair value $44,332 and $43,723, respectively)	46,046	44,362
Available-for-sale ($2,668 and $689 pledged as collateral, respectively) (a)	64,912	68,137
Loans held for sale (including $3,228 and $3,534 of mortgage loans carried at fair value, respectively)	4,533	3,554
Loans		
Commercial	99,273	97,561
Commercial real estate	39,966	40,463
Residential mortgages	62,904	59,783
Credit card	21,869	22,180
Other retail	56,049	57,324
Total loans, excluding covered loans	280,061	277,311
Covered loans	1,400	3,121
Total loans	281,461	280,432
Less allowance for loan losses	(3,954)	(3,925)
Net loans	277,507	276,507
Premises and equipment	2,438	2,432
Goodwill	9,530	9,434
Other intangible assets	3,544	3,228
Other assets (including $690 and $238 of trading securities at fair value pledged as collateral, respectively) (a)	36,015	34,881
Total assets	$ 464,607	$ 462,040
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	$ 77,146	$ 87,557
Interest-bearing (b)	254,032	259,658
Total deposits	331,178	347,215
Short-term borrowings	23,868	16,651
Long-term debt	40,894	32,259
Other liabilities	17,660	16,249
Total liabilities	413,600	412,374
Shareholders equity		
Preferred stock	5,984	5,419
Common stock, par value $0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/18 and 12/31/17 2,125,725,742 shares	21	21
Capital surplus	8,479	8,464
Retained earnings	57,878	54,142

Less cost of common stock in treasury: 9/30/18 502,672,407 shares; 12/31/17 470,080,231 shares		(19,414)		(17,602)
Accumulated other comprehensive income (loss)		(2,573)		(1,404)
Total U.S. Bancorp shareholders equity		50,375		49,040
Noncontrolling interests		632		626
Total equity		51,007		49,666
Total liabilities and equity	$	464,607	$	462,040

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

(b) lncludes time deposits greater than $250,000 balances of $10.0 billion and $6.8 billion at September 30, 2018 and December 31, 2017, respectively.

See Notes to Consolidated Financial Statements.

Table of Contents

U.S. Bancorp

Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30		Nine Months Ended September 30	
(Unaudited)	2018	2017	2018	2017
Interest Income				
Loans	$ 3,353	$ 3,049	$ 9,645	$ 8,728
Loans held for sale	36	40	108	104
Investment securities	661	568	1,927	1,653
Other interest income	73	47	182	131
Total interest income	4,123	3,704	11,862	10,616
Interest Expense				
Deposits	491	293	1,263	730
Short-term borrowings	104	39	265	96
Long-term debt	277	196	718	585
Total interest expense	872	528	2,246	1,411
Net interest income	3,251	3,176	9,616	9,205
Provision for credit losses	343	360	1,011	1,055
Net interest income after provision for credit losses	2,908	2,816	8,605	8,150
Noninterest Income				
Credit and debit card revenue	344	318	1,019	947
Corporate payment products revenue	169	150	481	427
Merchant processing services	392	377	1,142	1,112
ATM processing services	85	77	254	223
Trust and investment management fees	411	380	1,210	1,128
Deposit service charges	198	187	563	538
Treasury management fees	146	153	451	466
Commercial products revenue	216	240	670	730
Mortgage banking revenue	174	213	549	632
Investment products fees	47	42	140	128
Realized securities gains (losses), net	10	9	25	47
Other	226	194	600	569
Total noninterest income	2,418	2,340	7,104	6,947
Noninterest Expense				
Compensation	1,529	1,440	4,594	4,247
Employee benefits	294	268	923	843
Net occupancy and equipment	270	258	797	760
Professional services	96	104	274	305
Marketing and business development	106	92	314	291
Technology and communications	247	227	724	667
Postage, printing and supplies	84	82	244	244
Other intangibles	41	44	120	131
Other	377	483	1,194	1,403

Total noninterest expense	3,044	2,998	9,184	8,891
Income before income taxes	2,282	2,158	6,525	6,206
Applicable income taxes	460	589	1,263	1,639
Net income	1,822	1,569	5,262	4,567
Net (income) loss attributable to noncontrolling interests	(7)	(6)	(22)	(31)
Net income attributable to U.S. Bancorp	$ 1,815	$ 1,563	$ 5,240	$ 4,536
Net income applicable to U.S. Bancorp common shareholders	$ 1,732	$ 1,485	$ 5,007	$ 4,302
Earnings per common share	$ 1.06	$ .89	$ 3.05	$ 2.56
Diluted earnings per common share	$ 1.06	$ .88	$ 3.04	$ 2.55
Dividends declared per common share	$ .37	$ .30	$ .97	$ .86
Average common shares outstanding	1,629	1,672	1,641	1,683
Average diluted common shares outstanding	1,633	1,678	1,645	1,689

See Notes to Consolidated Financial Statements.

Table of Contents

U.S. Bancorp

Consolidated Statement of Comprehensive Income

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
(Unaudited)	2018	2017	2018	2017
Net income	$ 1,822	$ 1,569	$ 5,262	$ 4,567
Other Comprehensive Income (Loss)				
Changes in unrealized gains and losses on investment securities available-for-sale	(411)	24	(1,399)	479
Changes in unrealized gains and losses on derivative hedges	40	(3)	159	(33)
Foreign currency translation	7	2	12	11
Changes in unrealized gains and losses on retirement plans			(1)	
Reclassification to earnings of realized gains and losses	20	21	70	58
Income taxes related to other comprehensive income (loss)	86	(17)	290	(199)
Total other comprehensive income (loss)	(258)	27	(869)	316
Comprehensive income	1,564	1,596	4,393	4,883
Comprehensive (income) loss attributable to noncontrolling interests	(7)	(6)	(22)	(31)
Comprehensive income attributable to U.S. Bancorp	$ 1,557	$ 1,590	$ 4,371	$ 4,852

See Notes to Consolidated Financial Statements.

Table of Contents

U.S. Bancorp

Consolidated Statement of Shareholders Equity

	U.S. Bancorp Shareholders									
(Dollars and Shares in Millions) (Unaudited)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shareholders Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2016	1,697	$ 5,501	$ 21	$ 8,440	$ 50,151	$ (15,280)	$ (1,535)	$ 47,298	$ 635	$ 47,933
Net income (loss)					4,536			4,536	31	4,567
Other comprehensive income (loss)							316	316		316
Preferred stock dividends					(204)			(204)		(204)
Common stock dividends					(1,450)			(1,450)		(1,450)
Issuance of preferred stock		993						993		993
Redemption of preferred stock		(1,075)			(10)			(1,085)		(1,085)
Issuance of common and treasury stock	7			(115)		257		142		142
Purchase of treasury stock	(37)					(1,955)		(1,955)		(1,955)
Distributions to noncontrolling interests									(41)	(41)
Net other changes in noncontrolling interests									3	3
Stock option and restricted stock grants				132				132		132
Balance September 30, 2017	1,667	$ 5,419	$ 21	$ 8,457	$ 53,023	$ (16,978)	$ (1,219)	$ 48,723	$ 628	$ 49,351
Balance December 31,	1,656	$ 5,419	$ 21	$ 8,464	$ 54,142	$ (17,602)	$ (1,404)	$ 49,040	$ 626	$ 49,666

2017										
Change in accounting principles (a)					299		(300)	(1)		(1)
Net income (loss)					5,240			5,240	22	5,262
Other comprehensive income (loss)							(869)	(869)		(869)
Preferred stock dividends					(210)			(210)		(210)
Common stock dividends					(1,593)			(1,593)		(1,593)
Issuance of preferred stock		565						565		565
Issuance of common and treasury stock	5			(130)		207		77		77
Purchase of treasury stock	(38)					(2,019)		(2,019)		(2,019)
Distributions to noncontrolling interests									(22)	(22)
Net other changes in noncontrolling interests									6	6
Stock option and restricted stock grants				145				145		145
Balance September 30, 2018	1,623	$ 5,984	$ 21	$ 8,479	$ 57,878	$ (19,414)	$ (2,573)	$ 50,375	$ 632	$ 51,007

a) *Includes the impact of the reduced federal statutory tax rate for corporations included in 2017 tax reform legislation, reclassified out of accumulated other comprehensive income and into retained earnings as of the beginning of the period.*

See Notes to Consolidated Financial Statements.

Table of Contents

U.S. Bancorp

Consolidated Statement of Cash Flows

(Dollars in Millions)	Nine Months Ended September 30	
(Unaudited)	2018	2017
Operating Activities		
Net income attributable to U.S. Bancorp	$ 5,240	$ 4,536
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,011	1,055
Depreciation and amortization of premises and equipment	226	219
Amortization of intangibles	120	131
(Gain) loss on sale of loans held for sale	(330)	(544)
(Gain) loss on sale of securities and other assets	(309)	(387)
Loans originated for sale in the secondary market, net of repayments	(23,418)	(26,080)
Proceeds from sales of loans held for sale	23,747	27,481
Other, net	1,627	230
Net cash provided by operating activities	7,914	6,641
Investing Activities		
Proceeds from sales of available-for-sale investment securities	1,304	3,063
Proceeds from maturities of held-to-maturity investment securities	5,072	6,348
Proceeds from maturities of available-for-sale investment securities	8,757	9,459
Purchases of held-to-maturity investment securities	(8,229)	(7,403)
Purchases of available-for-sale investment securities	(6,848)	(13,575)
Net increase in loans outstanding	(3,241)	(5,698)
Proceeds from sales of loans	2,608	1,348
Purchases of loans	(2,748)	(2,245)
Other, net	(895)	(617)
Net cash used in investing activities	(4,220)	(9,320)
Financing Activities		
Net (decrease) increase in deposits	(16,037)	7,999
Net increase in short-term borrowings	7,217	1,893
Proceeds from issuance of long-term debt	10,082	7,726
Principal payments or redemption of long-term debt	(1,326)	(6,561)
Proceeds from issuance of preferred stock	565	993
Proceeds from issuance of common stock	73	138
Repurchase of preferred stock		(1,085)
Repurchase of common stock	(2,004)	(1,950)
Cash dividends paid on preferred stock	(198)	(213)
Cash dividends paid on common stock	(1,489)	(1,426)
Net cash (used in) provided by financing activities	(3,117)	7,514
Change in cash and due from banks	577	4,835
Cash and due from banks at beginning of period	19,505	15,705
Cash and due from banks at end of period	$ 20,082	$ 20,540

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, 2017. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs, expenses and other financial elements to each line of business. Table 11 Line of Business Financial Performance included in Management s Discussion and Analysis provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

Note 2 Accounting Changes

Revenue Recognition Effective January 1, 2018, the Company adopted accounting guidance, issued by the Financial Accounting Standards Board (FASB) in May 2014, clarifying the principles for recognizing revenue from certain contracts with customers. The guidance does not apply to revenue associated with financial instruments, such as loans and securities. The adoption of this guidance was not material to the Company s financial statements.

Financial Instruments Hedge Accounting Effective January 1, 2018, the Company adopted accounting guidance, issued by the FASB in August 2017, related to hedge accounting. This guidance makes targeted changes to the hedge accounting model to simplify the application of hedge accounting and more closely align financial reporting to an entity s risk management activities. This guidance expands risk management strategies that qualify for hedge accounting, simplifies certain effectiveness assessment requirements, eliminates separate reporting of ineffectiveness and changes certain presentation and disclosure requirements for hedge accounting activities. Upon adoption, the Company elected to apply the guidance to existing fair value hedges. The Company also elected upon adoption to transfer $1.5 billion of its fixed rate residential agency mortgage-backed securities from the held-to-maturity to available-for-sale category. The adoption of this guidance was not material to the Company s financial statements.

Income Taxes Effective January 1, 2018, the Company adopted accounting guidance, issued by the FASB in February 2018, which allows entities to reclassify from accumulated other comprehensive income to retained earnings, the impact of the reduced federal statutory tax rate for corporations included in the Tax Cuts and Jobs Act (tax reform) enacted by Congress in late 2017. Upon adoption, the Company increased retained earnings and reduced accumulated other comprehensive income by $300 million. After adoption, the income tax effect on items included in accumulated other comprehensive income is consistent with the related deferred tax balances, and the income tax effect will be released from accumulated other comprehensive income and the related deferred tax balances when the

applicable tax differences reverse.

Accounting for Leases In February 2016, the FASB issued accounting guidance, effective for the Company on January 1, 2019, related to the accounting for leases. This guidance requires lessees to recognize all leases on the Consolidated Balance Sheet as lease assets and lease liabilities based primarily on the present value of future lease payments. Lessor accounting is largely unchanged. In July 2018, the FASB issued additional guidance allowing for a modified retrospective adoption approach where the guidance would only be applied to existing leases in effect at the adoption date and new leases going forward, with a cumulative effect adjustment to retained earnings as of the adoption date and additional required disclosures regarding leasing arrangements only for those periods after adoption. The Company currently expects to recognize approximately $1.5 billion of lease assets and related liabilities on its Consolidated Balance Sheet at the adoption date. The Company expects the adoption of this guidance will not be material to its Consolidated Statement of Income.

Table of Contents

Financial Instruments Credit Losses In June 2016, the FASB issued accounting guidance, effective for the Company no later than January 1, 2020, related to the impairment of financial instruments. This guidance changes existing impairment recognition to a model that is based on expected losses rather than incurred losses, which is intended to result in more timely recognition of credit losses. This guidance is also intended to reduce the complexity of current accounting guidance by decreasing the number of credit impairment models that entities use to account for debt instruments. A modified retrospective approach is required at adoption with a cumulative effect adjustment to retained earnings as of the adoption date. The guidance also requires additional credit quality disclosures for loans. The Company is currently evaluating the impact of this guidance on its financial statements, and expects its allowance for credit losses to increase upon adoption. The extent of this increase will continue to be evaluated and will depend on economic conditions and the composition of the Company s loan portfolio at the time of adoption.

Note 3 Investment Securities

The Company s held-to-maturity investment securities are carried at historical cost, adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment. 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 amortized cost, other-than-temporary impairment recorded in other comprehensive income (loss), gross unrealized holding gains and losses, and fair value of held-to-maturity and available-for-sale investment securities were as follows:

	September 30, 2018					December 31, 2017				
			Unrealized Losses					Unrealized Losses		
(Dollars in Millions)	Amortized Cost	Unrealized Gains	Other-than-Temporary (a)	Other (b)	Fair Value	Amortized Cost	Unrealized Gains	Other-than-Temporary (a)	Other (b)	Fair Value
Held-to-maturity										
U.S. Treasury and agencies	$ 5,112	$	$	$ (236)	$ 4,876	$ 5,181	$ 5	$	$ (120)	$ 5,066
Residential agency mortgage-backed securities	40,902	30		(1,512)	39,420	39,150	48		(579)	38,619
Asset-backed securities										
Collateralized debt obligations/Collateralized loan obligations		1			1		4			4
Other	5	2			7	6	2			8
Obligations of state and political subdivisions	6	1			7	6	1			7
Obligations of foreign governments	9				9	7				7
Other	12				12	12				12
Total held-to-maturity	$ 46,046	$ 34	$	$ (1,748)	$ 44,332	$ 44,362	$ 60	$	$ (699)	$ 43,723
Available-for-sale										
U.S. Treasury and agencies	$ 20,176	$ 1	$	$ (596)	$ 19,581	$ 23,586	$ 3	$	$ (288)	$ 23,301
Mortgage-backed securities										

Residential agency	39,486	103		(1,279)	38,310	38,450	152		(571)	38,031
Commercial agency	5				5	6				6
Other asset-backed securities	402	6			408	413	6			419
Obligations of state and political subdivisions	6,847	21		(260)	6,608	6,240	147		(29)	6,358
Other						22				22
Total available-for-sale	$ 66,916	$ 131	$	$ (2,135)	$ 64,912	$ 68,717	$ 308	$	$ (888)	$ 68,137

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

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

The weighted-average maturity of the available-for-sale investment securities was 5.6 years at September 30, 2018, compared with 5.1 years at December 31, 2017. The corresponding weighted-average yields were 2.43 percent and 2.25 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 5.4 years at September 30, 2018 and 4.7 years at December 31, 2017. The corresponding weighted-average yields were 2.36 percent and 2.14 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale investment securities outstanding at September 30, 2018, refer to Table 4 included in Management s Discussion and Analysis, which is incorporated by reference into these Notes to Consolidated Financial Statements.

Investment securities with a fair value of $10.3 billion at September 30, 2018, and $12.8 billion at December 31, 2017, 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

Table of Contents

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 $2.7 billion at September 30, 2018, and $689 million at December 31, 2017.

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)	2018	2017	2018	2017
Taxable	$ 605	$ 523	$ 1,763	$ 1,513
Non-taxable	56	45	164	140
Total interest income from investment securities	$ 661	$ 568	$ 1,927	$ 1,653

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)	2018	2017	2018	2017
Realized gains	$ 10	$ 9	$ 25	$ 65
Realized losses				(18)
Net realized gains (losses)	$ 10	$ 9	$ 25	$ 47
Income tax (benefit) on net realized gains (losses)	$ 2	$ 3	$ 6	$ 18

The Company conducts a regular assessment of its investment securities with unrealized losses to determine whether investment securities are other-than-temporarily impaired considering, among other factors, the nature of the investment securities, the credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, the existence of any government or agency guarantees, market conditions and whether the Company intends to sell or it is more likely than not the Company will be required to sell the investment securities. The Company determines other-than-temporary impairment recorded in earnings for investment securities not intended to be sold by estimating the future cash flows of each individual investment security, using market information where available, and discounting the cash flows at the original effective rate of the investment security. Other-than-temporary impairment recorded in other comprehensive income (loss) is measured as the difference between that discounted amount and the fair value of each investment security. The total amount of other-than-temporary impairment recorded was immaterial for the three and nine months ended September 30, 2018 and 2017.

At September 30, 2018, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company s investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2018:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity						
U.S. Treasury and agencies	$ 1,867	$ (43)	$ 2,993	$ (193)	$ 4,860	$ (236)
Residential agency mortgage-backed securities	18,097	(522)	18,191	(990)	36,288	(1,512)
Other asset-backed securities			2		2	
Obligations of foreign governments	1				1	
Other			12		12	
Total held-to-maturity	$ 19,965	$ (565)	$ 21,198	$ (1,183)	$ 41,163	$ (1,748)
Available-for-sale						
U.S. Treasury and agencies	$ 8,685	$ (225)	$ 10,848	$ (371)	$ 19,533	$ (596)
Residential agency mortgage-backed securities	10,786	(246)	20,350	(1,033)	31,136	(1,279)
Commercial agency mortgage-backed securities	5				5	
Obligations of state and political subdivisions	3,950	(125)	1,197	(135)	5,147	(260)
Total available-for-sale	$ 23,426	$ (596)	$ 32,395	$ (1,539)	$ 55,821	$ (2,135)

Table of Contents

The Company does not consider these unrealized losses to be credit-related. These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either U.S. Treasury and agencies, agency mortgage-backed or state and political securities. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these investment securities. At September 30, 2018, the Company had no plans to sell investment securities with unrealized losses, and believes it is more likely than not it would not be required to sell such investment securities before recovery of their amortized cost.

Note 4 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, 2018 Amount	Percent of Total	December 31, 2017 Amount	Percent of Total
Commercial				
Commercial	$ 93,692	33.3%	$ 91,958	32.8%
Lease financing	5,581	2.0	5,603	2.0
Total commercial	99,273	35.3	97,561	34.8
Commercial Real Estate				
Commercial mortgages	28,633	10.2	29,367	10.5
Construction and development	11,333	4.0	11,096	4.0
Total commercial real estate	39,966	14.2	40,463	14.5
Residential Mortgages				
Residential mortgages	50,614	18.0	46,685	16.6
Home equity loans, first liens	12,290	4.3	13,098	4.7
Total residential mortgages	62,904	22.3	59,783	21.3
Credit Card	21,869	7.8	22,180	7.9
Other Retail				
Retail leasing	8,447	3.0	7,988	2.8
Home equity and second mortgages	15,966	5.7	16,327	5.8
Revolving credit	3,129	1.1	3,183	1.1
Installment	9,666	3.4	8,989	3.2
Automobile	18,547	6.6	18,934	6.8
Student (a)	294	.1	1,903	.7
Total other retail	56,049	19.9	57,324	20.4
Total loans, excluding covered loans	280,061	99.5	277,311	98.9
Covered Loans (b)	1,400	.5	3,121	1.1
Total loans	$ 281,461	100.0%	$ 280,432	100.0%

(a) During the first nine months of 2018, the Company sold all of its federally guaranteed student loans.
(b) Effective September 30, 2018, the Company transferred $1.3 billion of its covered residential mortgage loans to loans held for sale.

The Company had loans of $89.0 billion at September 30, 2018, and $83.3 billion at December 31, 2017, pledged at the Federal Home Loan Bank, and loans of $69.2 billion at September 30, 2018, and $68.0 billion at December 31, 2017, 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 $841 million at September 30, 2018 and $830 million at December 31, 2017. All purchased loans and related indemnification assets are recorded at fair value at the date of purchase. The Company evaluates purchased loans for impairment at the date of purchase in accordance with applicable authoritative accounting guidance. Purchased loans with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are considered purchased impaired loans. All other purchased loans are considered purchased nonimpaired loans.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in Millions)	2018	2017	2018	2017
Balance at beginning of period	$ 157	$ 546	$ 350	$ 698
Accretion	(96)	(107)	(277)	(286)
Disposals	(9)	(17)	(36)	(68)
Reclassifications from nonaccretable difference (a)	4	47	19	130
Other		(3)		(8)
Balance at end of period	$ 56	$ 466	$ 56	$ 466

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

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

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

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

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

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

Table of Contents

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

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

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

Three Months Ended September 30 (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
2018								
Balance at beginning of period	$ 1,391	$ 812	$ 436	$ 1,082	$ 667	$ 4,388	$ 23	$ 4,411
Add								
Provision for credit losses	88	(12)	8	221	41	346	(3)	343
Deduct								
Loans charged-off	88	1	12	231	96	428		428
Less recoveries of loans charged-off	(22)	(10)	(8)	(25)	(35)	(100)		(100)
Net loans charged-off	66	(9)	4	206	61	328		328
Balance at end of period	$ 1,413	$ 809	$ 440	$ 1,097	$ 647	$ 4,406	$ 20	$ 4,426
2017								
Balance at beginning of period	$ 1,395	$ 856	$ 455	$ 990	$ 648	$ 4,344	$ 33	$ 4,377
Add								
Provision for credit losses	71	(12)	2	216	84	361	(1)	360
Deduct								
Loans charged-off	115	2	16	214	86	433		433
Less recoveries of loans charged-off	(32)	(9)	(9)	(27)	(26)	(103)		(103)
Net loans charged-off	83	(7)	7	187	60	330		330
Balance at end of period	$ 1,383	$ 851	$ 450	$ 1,019	$ 672	$ 4,375	$ 32	$ 4,407

Table of Contents

Nine Months Ended September 30 (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
2018								
Balance at beginning of period	$ 1,372	$ 831	$ 449	$ 1,056	$ 678	$ 4,386	$ 31	$ 4,417
Add								
Provision for credit losses	225	(34)	6	668	156	1,021	(10)	1,011
Deduct								
Loans charged-off	265	6	37	727	283	1,318		1,318
Less recoveries of loans charged-off	(81)	(18)	(22)	(100)	(96)	(317)		(317)
Net loans charged-off	184	(12)	15	627	187	1,001		1,001
Other changes (a)							(1)	(1)
Balance at end of period	$ 1,413	$ 809	$ 440	$ 1,097	$ 647	$ 4,406	$ 20	$ 4,426
2017								
Balance at beginning of period	$ 1,450	$ 812	$ 510	$ 934	$ 617	$ 4,323	$ 34	$ 4,357
Add								
Provision for credit losses	169	21	(33)	666	234	1,057	(2)	1,055
Deduct								
Loans charged-off	315	7	49	653	263	1,287		1,287
Less recoveries of loans charged-off	(79)	(25)	(22)	(72)	(84)	(282)		(282)
Net loans charged-off	236	(18)	27	581	179	1,005		1,005
Balance at end of period	$ 1,383	$ 851	$ 450	$ 1,019	$ 672	$ 4,375	$ 32	$ 4,407

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

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

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
Allowance Balance at September 30, 2018 Related to								
Loans individually evaluated for impairment (a)	$ 30	$ 8	$	$	$	$ 38	$	$ 38
TDRs collectively evaluated for impairment	13	4	124	64	15	220	1	221
Other loans collectively evaluated for impairment	1,370	795	316	1,033	632	4,146		4,146

Loans acquired with deteriorated credit quality		2				2	19	21
Total allowance for credit losses	$ 1,413	$ 809	$ 440	$ 1,097	$ 647	$ 4,406	$ 20	$ 4,426
Allowance Balance at December 31, 2017 Related to								
Loans individually evaluated for impairment (a)	$ 23	$ 4	$	$	$	$ 27	$	$ 27
TDRs collectively evaluated for impairment	14	4	139	60	19	236	1	237
Other loans collectively evaluated for impairment	1,335	818	310	996	659	4,118		4,118
Loans acquired with deteriorated credit quality		5				5	30	35
Total allowance for credit losses	$ 1,372	$ 831	$ 449	$ 1,056	$ 678	$ 4,386	$ 31	$ 4,417

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

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

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans (b)	Total Loans
September 30, 2018								
Loans individually evaluated for impairment (a)	$ 242	$ 144	$	$	$	$ 386	$	$ 386
TDRs collectively evaluated for impairment	157	149	3,322	239	183	4,050	10	4,060
Other loans collectively evaluated for impairment	98,874	39,633	59,581	21,630	55,866	275,584	721	276,305
Loans acquired with deteriorated credit quality		40	1			41	669	710
Total loans	$ 99,273	$ 39,966	$ 62,904	$ 21,869	$ 56,049	$ 280,061	$ 1,400	$ 281,461
December 31, 2017								
Loans individually evaluated for impairment (a)	$ 337	$ 71	$	$	$	$ 408	$	$ 408
TDRs collectively evaluated for impairment	148	145	3,524	230	186	4,233	36	4,269
Other loans collectively evaluated for impairment	97,076	40,174	56,258	21,950	57,138	272,596	1,073	273,669
Loans acquired with deteriorated credit quality		73	1			74	2,012	2,086
Total loans	$ 97,561	$ 40,463	$ 59,783	$ 22,180	$ 57,324	$ 277,311	$ 3,121	$ 280,432

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

Table of Contents

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 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.

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

Table of Contents

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

(Dollars in Millions)	Current	Accruing 30-89 Days Past Due	90 Days or More Past Due	Nonperforming	Total
September 30, 2018					
Commercial	$ 98,765	$ 230	$ 62	$ 216	$ 99,273
Commercial real estate	39,828	30	3	105	39,966
Residential mortgages (a)	62,302	167	118	317	62,904
Credit card	21,301	309	259		21,869
Other retail	55,412	365	97	175	56,049
Total loans, excluding covered loans	277,608	1,101	539	813	280,061
Covered loans (b)	1,382	6	12		1,400
Total loans	$ 278,990	$ 1,107	$ 551	$ 813	$ 281,461
December 31, 2017					
Commercial	$ 97,005	$ 250	$ 57	$ 249	$ 97,561
Commercial real estate	40,279	36	6	142	40,463
Residential mortgages (a)	59,013	198	130	442	59,783
Credit card	21,593	302	284	1	22,180
Other retail	56,685	376	95	168	57,324
Total loans, excluding covered loans	274,575	1,162	572	1,002	277,311
Covered loans	2,917	50	148	6	3,121
Total loans	$ 277,492	$ 1,212	$ 720	$ 1,008	$ 280,432

(a) At September 30, 2018, $414 million of loans 30 89 days past due and $1.7 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 $385 million and $1.9 billion at December 31, 2017, respectively.

(b) Effective September 30, 2018, the Company transferred $1.3 billion of covered loans to loans held for sale. Included in the amount transferred were $42 million of loans 30-89 days past due, $108 million of loans 90 days or more past due and $6 million of loans that were nonperforming.

At September 30, 2018, the amount of foreclosed residential real estate held by the Company, and included in other real estate owned (OREO), was $114 million, compared with $156 million at December 31, 2017. These amounts exclude $240 million and $267 million at September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, was $1.6 billion and $1.7 billion, respectively, of which $1.2 billion and $1.3 billion at September 30, 2018 and December 31, 2017, 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 portfolios using internal credit quality ratings on a quarterly basis. These ratings include pass, special mention and classified, and are an important part of the Company s overall credit risk management process and evaluation of the allowance for credit losses. Loans with a pass rating represent those 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.

Table of Contents

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

			Criticized		
(Dollars in Millions)	Pass	Special Mention	Classified (a)	Total Criticized	Total
September 30, 2018					
Commercial	$ 96,739	$ 1,382	$ 1,152	$ 2,534	$ 99,273
Commercial real estate	38,820	542	604	1,146	39,966
Residential mortgages (b)	62,401	14	489	503	62,904
Credit card	21,610		259	259	21,869
Other retail	55,732	8	309	317	56,049
Total loans, excluding covered loans	275,302	1,946	2,813	4,759	280,061
Covered loans	1,358		42	42	1,400
Total loans	$ 276,660	$ 1,946	$ 2,855	$ 4,801	$ 281,461
Total outstanding commitments	$ 595,205	$ 2,810	$ 3,517	$ 6,327	$ 601,532
December 31, 2017					
Commercial	$ 95,297	$ 1,130	$ 1,134	$ 2,264	$ 97,561
Commercial real estate	39,162	648	653	1,301	40,463
Residential mortgages (b)	59,141	16	626	642	59,783
Credit card	21,895		285	285	22,180
Other retail	57,009	6	309	315	57,324
Total loans, excluding covered loans	272,504	1,800	3,007	4,807	277,311
Covered loans	3,072		49	49	3,121
Total loans	$ 275,576	$ 1,800	$ 3,056	$ 4,856	$ 280,432
Total outstanding commitments	$ 584,072	$ 3,142	$ 3,987	$ 7,129	$ 591,201

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

(b) At September 30, 2018, $1.7 billion of GNMA loans 90 days or more past due and $1.7 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 $1.9 billion and $1.7 billion at December 31, 2017, respectively.

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

Factors used by the Company in determining whether all principal and interest payments due on commercial and commercial real estate loans will be collected and, therefore, whether those loans are impaired include, but are not limited to, the financial condition of the borrower, collateral and/or guarantees on the loan, and the borrower s estimated future ability to pay based on industry, geographic location and certain financial ratios. The evaluation of impairment on residential mortgages, credit card loans and other retail loans is primarily driven by delinquency status of individual loans or whether a loan has been modified, and considers any government guarantee where applicable.

Individual covered loans, whose future losses are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Company, are evaluated for impairment and accounted for in a manner consistent with the class of loan they would have been included in had the loss sharing coverage not been in place.

Table of Contents

A summary of impaired loans, which include all nonaccrual and TDR loans, by portfolio class was as follows:

(Dollars in Millions)	Period-end Recorded Investment (a)	Unpaid Principal Balance	Valuation Allowance	Commitments to Lend Additional Funds
September 30, 2018				
Commercial	$ 453	$ 812	$ 44	$ 141
Commercial real estate	327	538	13	17
Residential mortgages	1,747	1,875	95	
Credit card	239	239	64	
Other retail	309	391	19	5
Total loans, excluding GNMA and covered loans	3,075	3,855	235	163
Loans purchased from GNMA mortgage pools	1,668	1,668	30	
Covered loans	10	31	1	
Total	$ 4,753	$ 5,554	$ 266	$ 163
December 31, 2017				
Commercial	$ 550	$ 915	$ 44	$ 199
Commercial real estate	280	596	11	
Residential mortgages	1,946	2,339	116	1
Credit card	230	230	60	
Other retail	302	400	22	4
Total loans, excluding GNMA and covered loans	3,308	4,480	253	204
Loans purchased from GNMA mortgage pools	1,681	1,681	25	
Covered loans	38	44	1	
Total	$ 5,027	$ 6,205	$ 279	$ 204

(a) Substantially all loans classified as impaired at September 30, 2018 and December 31, 2017, had an associated allowance for credit losses.

Additional information on impaired loans follows:

	2018		2017	
(Dollars in Millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three Months Ended September 30				
Commercial	$ 470	$ 3	$ 624	$ 3
Commercial real estate	279	4	272	2
Residential mortgages	1,779	18	2,111	25
Credit card	236	1	231	1
Other retail	309	4	288	4
Total loans, excluding GNMA and covered loans	3,073	30	3,526	35
Loans purchased from GNMA mortgage pools	1,666	12	1,672	17

Covered loans	23		38	
Total	$ 4,762	$ 42	$ 5,236	$ 52
Nine Months Ended September 30				
Commercial	$ 510	$ 5	$ 720	$ 5
Commercial real estate	263	8	274	7
Residential mortgages	1,846	57	2,178	82
Credit card	234	3	229	3
Other retail	304	12	282	11
Total loans, excluding GNMA and covered loans	3,157	85	3,683	108
Loans purchased from GNMA mortgage pools	1,635	36	1,688	54
Covered loans	33	1	37	
Total	$ 4,825	$ 122	$ 5,408	$ 162

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

Table of Contents

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

	2018			2017		
(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	700	$ 42	$ 33	616	$ 40	$ 27
Commercial real estate	38	123	125	29	18	16
Residential mortgages	144	19	17	141	15	16
Credit card	8,450	42	43	8,106	38	38
Other retail	763	17	16	1,949	39	32
Total loans, excluding GNMA and covered loans	10,095	243	234	10,841	150	129
Loans purchased from GNMA mortgage pools	1,649	216	211	1,340	169	171
Covered loans	3	1	1	3		
Total loans	11,747	$ 460	$ 446	12,184	$ 319	$ 300
Nine Months Ended September 30						
Commercial	2,047	$ 255	$ 234	2,117	$ 239	$ 195
Commercial real estate	97	154	155	93	56	55
Residential mortgages	397	56	53	641	72	73
Credit card	24,457	122	124	25,657	123	124
Other retail	1,857	45	43	3,210	65	55
Total loans, excluding GNMA and covered loans	28,855	632	609	31,718	555	502
Loans purchased from GNMA mortgage pools	4,785	631	619	5,312	697	686
Covered loans	3	1	1	10	2	2
Total loans	33,643	$ 1,264	$ 1,229	37,040	$ 1,254	$ 1,190

Residential mortgages, home equity and second mortgages, and loans purchased from GNMA mortgage pools in the table above include trial period arrangements offered to customers during the periods presented. The post-modification balances for these loans reflect the current outstanding balance until a permanent modification is made. In addition, the post-modification balances typically include capitalization of unpaid accrued interest and/or fees under the various modification programs. For those loans modified as TDRs during the third quarter of 2018, at September 30, 2018, 66 residential mortgages, 36 home equity and second mortgage loans and 1,127 loans purchased from GNMA mortgage pools with outstanding balances of $12 million, $3 million and $149 million, respectively, were in a trial period and have estimated post-modification balances of $12 million, $3 million and $151 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.

Table of Contents

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

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

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

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

(Dollars in Millions)	2018 Number of Loans	2018 Amount Defaulted	2017 Number of Loans	2017 Amount Defaulted
Three Months Ended September 30				
Commercial	207	$ 51	200	$ 25
Commercial real estate	10	2	10	3
Residential mortgages	34	4	84	7
Credit card	1,924	9	2,076	9
Other retail	93	1	89	1
Total loans, excluding GNMA and covered loans	2,268	67	2,459	45
Loans purchased from GNMA mortgage pools	380	50	354	46
Covered loans			1	
Total loans	2,648	$ 117	2,814	$ 91
Nine Months Ended September 30				
Commercial	623	$ 63	555	$ 49
Commercial real estate	26	8	28	6
Residential mortgages	148	15	251	26
Credit card	5,893	26	6,107	26
Other retail	240	3	320	4
Total loans, excluding GNMA and covered loans	6,930	115	7,261	111
Loans purchased from GNMA mortgage pools	1,129	148	711	95
Covered loans	1		2	
Total loans	8,060	$ 263	7,974	$ 206

In addition to the defaults in the table above, the Company had a total of 240 and 716 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, 2018, 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 $27 million and $73 million for the three months and nine months ended September 30, 2018, respectively.

Table of Contents

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

	September 30, 2018				December 31, 2017			
(Dollars in Millions)	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other	Total	Purchased Impaired Loans	Purchased Nonimpaired Loans	Other	Total
Residential mortgage loans (a)	$ 669	$ 245	$	$ 914	$ 2,012	$ 400	$	$ 2,412
Other retail loans		99		99		151		151
Losses reimbursable by the FDIC (b)			329	329			320	320
Unamortized changes in FDIC asset (c)			58	58			238	238
Covered loans	669	344	387	1,400	2,012	551	558	3,121
Covered loans held for sale (a)			1,296	1,296				
Foreclosed real estate			19	19			21	21
Total covered assets	$ 669	$ 344	$ 1,702	$ 2,715	$ 2,012	$ 551	$ 579	$ 3,142

(a) Effective September 30, 2018, the Company transferred $1.3 billion of covered residential mortgage loans to loans held for sale.

(b) Relates to loss sharing agreements with remaining terms up through the fourth quarter of 2019.

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

Interest income is recognized on purchased impaired loans through accretion of the difference between the carrying amount of those loans and their expected cash flows. The initial determination of the fair value of the purchased loans includes the impact of expected credit losses and, therefore, no allowance for credit losses is recorded at the purchase date. To the extent credit deterioration occurs after the date of acquisition, the Company records an allowance for credit losses.

Note 5 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 15.

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 6. 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