

US BANCORP \DE\
Form 10-Q
May 03, 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 March 31, 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
(State or other jurisdiction of
incorporation or organization)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

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

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
Non-accelerated filer

Accelerated filer
Smaller reporting company

(Do not check if a 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
Common Stock, \$0.01 Par Value

Outstanding as of April 30, 2018
1,642,459,857 shares

Table of Contents**Table of Contents and Form 10-Q Cross Reference Index****Part I Financial Information**

<u>1) Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)</u>	3
<u>a) Overview</u>	3
<u>b) Statement of Income Analysis</u>	3
<u>c) Balance Sheet Analysis</u>	5
<u>d) Non-GAAP Financial Measures</u>	28
<u>e) Critical Accounting Policies</u>	30
<u>f) Controls and Procedures (Item 4)</u>	30
<u>2) Quantitative and Qualitative Disclosures About Market Risk/Corporate Risk Profile (Item 3)</u>	7
<u>a) Overview</u>	7
<u>b) Credit Risk Management</u>	8
<u>c) Residual Value Risk Management</u>	20
<u>d) Operational Risk Management</u>	20
<u>e) Compliance Risk Management</u>	20
<u>f) Interest Rate Risk Management</u>	20
<u>g) Market Risk Management</u>	21
<u>h) Liquidity Risk Management</u>	23
<u>i) Capital Management</u>	24
<u>3) Line of Business Financial Review</u>	25
<u>4) Financial Statements (Item 1)</u>	31
Part II Other Information	
<u>1) Legal Proceedings (Item 1)</u>	71
<u>2) Risk Factors (Item 1A)</u>	71
<u>3) Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)</u>	71
<u>4) Exhibits (Item 6)</u>	71
<u>5) Signature</u>	72
<u>6) Exhibits</u>	73

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A reversal or slowing of the current economic recovery or another severe contraction could adversely affect U.S. Bancorp's revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a downturn in the residential real estate markets could cause credit losses and deterioration in asset values. In addition, 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 deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of its investment securities; legal and regulatory

developments; litigation; increased competition from both banks and non-banks; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational risk.

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.

U.S. Bancorp

1

Table of Contents**Table 1** Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended		
	2018	March 31 2017	Percent Change
Condensed Income Statement			
Net interest income	\$ 3,168	\$ 2,980	6.3%
Taxable-equivalent adjustment (a)	29	50	(42.0)
Net interest income (taxable-equivalent basis) (b)	3,197	3,030	5.5
Noninterest income	2,267	2,230	1.7
Securities gains (losses), net	5	29	(82.8)
Total net revenue	5,469	5,289	3.4
Noninterest expense	3,055	2,909	5.0
Provision for credit losses	341	345	(1.2)
Income before taxes	2,073	2,035	1.9
Income taxes and taxable-equivalent adjustment	391	549	(28.8)
Net income	1,682	1,486	13.2
Net (income) loss attributable to noncontrolling interests	(7)	(13)	46.2
Net income attributable to U.S. Bancorp	\$ 1,675	\$ 1,473	13.7
Net income applicable to U.S. Bancorp common shareholders	\$ 1,597	\$ 1,387	15.1
Per Common Share			
Earnings per share	\$.97	\$.82	18.3%
Diluted earnings per share	.96	.82	17.1
Dividends declared per share	.30	.28	7.1
Book value per share (c)	26.54	25.05	5.9
Market value per share	50.50	51.50	(1.9)
Average common shares outstanding	1,652	1,694	(2.5)
Average diluted common shares outstanding	1,657	1,701	(2.6)
Financial Ratios			
Return on average assets	1.50%	1.35%	
Return on average common equity	14.9	13.3	
Net interest margin (taxable-equivalent basis) (a)	3.13	3.06	
Efficiency ratio (b)	55.9	55.3	
Net charge-offs as a percent of average loans outstanding	.49	.50	
Average Balances			
Loans	\$ 279,388	\$ 273,158	2.3%
Loans held for sale	3,134	3,625	(13.5)
Investment securities (d)	113,493	110,764	2.5
Earning assets	411,849	399,281	3.1
Assets	454,288	441,311	2.9
Noninterest-bearing deposits	79,482	80,738	(1.6)
Deposits	334,580	328,433	1.9
Short-term borrowings	22,862	13,201	73.2
Long-term debt	33,655	35,274	(4.6)
Total U.S. Bancorp shareholders equity	48,825	47,923	1.9

	March 31, 2018	December 31, 2017	
Period End Balances			
Loans	\$ 277,911	\$ 280,432	(.9)%
Investment securities	111,737	112,499	(.7)
Assets	460,119	462,040	(.4)
Deposits	344,526	347,215	(.8)
Long-term debt	33,201	32,259	2.9
Total U.S. Bancorp shareholders equity	49,187	49,040	.3
Asset Quality			
Nonperforming assets	\$ 1,204	\$ 1,200	.3%
Allowance for credit losses	4,417	4,417	
Allowance for credit losses as a percentage of period-end loans	1.59%	1.58%	
Capital Ratios			
Basel III standardized approach:			
Common equity tier 1 capital	9.0%	9.3%	
Tier 1 capital	10.4	10.8	
Total risk-based capital	12.5	12.9	
Leverage	8.8	8.9	
Common equity tier 1 capital to risk-weighted assets for the Basel III advanced approaches	11.5	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 and 35 percent for the three months ended March 31, 2018 and 2017, respectively, 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 28.

(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 \$1.7 billion for the first quarter of 2018, or \$0.96 per diluted common share, compared with \$1.5 billion, or \$0.82 per diluted common share, for the first quarter of 2017. Return on average assets and return on average common equity were 1.50 percent and 14.9 percent, respectively, for the first quarter of 2018, compared with 1.35 percent and 13.3 percent, respectively, for the first quarter of 2017.

Total net revenue for the first quarter of 2018 was \$180 million (3.4 percent) higher than the first quarter of 2017, reflecting a 6.3 percent increase in net interest income (5.5 percent on a taxable-equivalent basis) and a 0.6 percent increase in noninterest income. The increase in net interest income from the first quarter of 2017 was mainly a result of the impact of rising interest rates and loan growth. The noninterest income increase was principally due to higher payment services revenue, trust and investment management fees and deposit service charges, partially offset by decreases in commercial products revenue and mortgage banking revenue, in addition to lower equity investment income and securities gains compared with a year ago.

Noninterest expense in the first quarter of 2018 was \$146 million (5.0 percent) higher than the first quarter of 2017, primarily due to increased compensation expense related to hiring to support business growth and compliance programs, merit increases, variable compensation related to revenue growth, increased expense from a change to a shorter vesting period for new stock-based compensation grants, and higher employee benefits expense, partially offset by lower professional services expense driven by lower consulting costs for risk and compliance programs, and other expenses.

The provision for credit losses for the first quarter of 2018 of \$341 million was \$4 million (1.2 percent) lower than the first quarter of 2017. Net charge-offs in the first quarter of 2018 were \$341 million, compared with \$335 million in the first 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.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was \$3.2 billion in the first quarter of 2018, representing an increase of \$167 million (5.5 percent) over the first quarter of 2017. The increase was principally driven by the impact of rising interest rates and loan growth, partially offset by changes in deposit and funding mix and 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. Average earning assets were \$12.6 billion (3.1 percent) higher than the first quarter of 2017, reflecting increases of \$6.2 billion (2.3 percent) in loans, \$2.7 billion (2.5 percent) in investment securities and \$4.1 billion (34.9 percent) in other earning assets. The net interest margin, on a taxable-equivalent basis, in the first quarter of 2018 was 3.13 percent, compared with 3.06 percent in the first quarter of 2017. The increase in the net interest margin from the first quarter of 2017 was primarily due to higher interest rates, partially offset by changes in loan mix, the impact of tax reform, higher funding costs and higher cash balances. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates table for further information on net interest income.

Average total loans were \$6.2 billion (2.3 percent) higher in the first quarter of 2018 than the first quarter of 2017, due to growth in commercial loans (4.0 percent), other retail loans (6.1 percent), residential mortgages (3.9 percent) and credit card loans (2.1 percent). 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 (6.5 percent) due to disciplined underwriting and customers paying down balances, as well as a decrease in loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC) (18.3 percent), a run-off portfolio.

Average investment securities in the first quarter of 2018 were \$2.7 billion (2.5 percent) higher than the first quarter of 2017, primarily due to purchases of U.S. Treasury and U.S. government mortgage-backed securities, net of prepayments and maturities, in support of liquidity management.

U.S. Bancorp

3

Table of Contents**Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended		
	2018	2017	Percent Change
Credit and debit card revenue	\$ 324	\$ 299	8.4%
Corporate payment products revenue	154	137	12.4
Merchant processing services	363	354	2.5
ATM processing services	79	71	11.3
Trust and investment management fees	398	368	8.2
Deposit service charges	182	172	5.8
Treasury management fees	150	153	(2.0)
Commercial products revenue	220	247	(10.9)
Mortgage banking revenue	184	207	(11.1)
Investment products fees	46	42	9.5
Securities gains (losses), net	5	29	(82.8)
Other	167	180	(7.2)
Total noninterest income	\$ 2,272	\$ 2,259	.6%

Average total deposits for the first quarter of 2018 were \$6.1 billion (1.9 percent) higher than the first quarter of 2017. Average time deposits were \$6.3 billion (20.7 percent) higher year-over-year. The increase was 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. Average total savings deposits were \$1.1 billion (0.5 percent) higher, driven by growth in Consumer and Business Banking balances, partially offset by a decrease in Corporate and Commercial Banking balances. Average noninterest-bearing deposits decreased \$1.3 billion (1.6 percent) from the prior year, primarily due to a decrease in Corporate and Commercial Banking balances, partially offset by increases in Consumer and Business Banking, and Wealth Management and Investment Services balances.

Provision for Credit Losses The provision for credit losses for the first quarter of 2018 was \$341 million, a decrease of \$4 million (1.2 percent) from the first quarter of 2017. Net charge-offs increased \$6 million (1.8 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to higher credit card loan net charge-offs, partially offset by lower commercial loan net charge-offs driven by higher recoveries. 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 \$2.3 billion in the first quarter of 2018, representing an increase of \$13 million (0.6 percent), compared with the first quarter of 2017. The increase from a year ago reflected strong growth in payment services revenue, trust and investment management fees, and deposit service charges, partially offset by lower commercial products revenue and mortgage banking revenue, reflecting industry trends in these revenue categories. The increase in noninterest income was further offset by lower equity investment income, included in other income, and securities gains compared with a year ago. Payment services revenue increased 6.5 percent due to stronger credit and debit card revenue of \$25 million (8.4 percent), an increase in corporate payment products revenue of \$17 million (12.4 percent), and improving merchant processing services revenue due to higher sales volumes. Trust and investment management fees increased \$30 million (8.2 percent) due to business growth, net asset inflows and favorable market conditions. Deposit service charges increased \$10 million (5.8 percent)

primarily due to higher transaction volumes and account growth. Commercial products revenue decreased \$27 million (10.9 percent) mainly due to lower corporate bond underwriting fees and syndication fees, while mortgage banking revenue decreased \$23 million (11.1 percent) primarily due to lower margin on mortgage loan sales.

Noninterest Expense Noninterest expense was \$3.1 billion in the first quarter of 2018, representing an increase of \$146 million (5.0 percent) over the first quarter of 2017. The increase from a year ago was primarily due to higher personnel expense, net occupancy and equipment costs, and technology and communications expense, partially offset by lower other noninterest expense and professional services expense. Compensation expense increased \$132 million (9.5 percent), principally due to the impact of hiring to support business growth and compliance programs, merit increases, higher variable compensation related to business production, and the impact of changes in the vesting provisions related to stock-based compensation programs. Employee benefits expense increased \$29 million (9.6 percent), primarily driven by increased medical costs and staffing. Net occupancy and equipment

Table of Contents**Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended		
	2018	March 31 2017	Percent Change
Compensation	\$ 1,523	\$ 1,391	9.5%
Employee benefits	330	301	9.6
Net occupancy and equipment	265	247	7.3
Professional services	83	96	(13.5)
Marketing and business development	97	90	7.8
Technology and communications	235	217	8.3
Postage, printing and supplies	80	81	(1.2)
Other intangibles	39	44	(11.4)
Other	403	442	(8.8)
Total noninterest expense	\$ 3,055	\$ 2,909	5.0%
Efficiency ratio (a)	55.9%	55.3%	

(a) See *Non-GAAP Financial Measures* beginning on page 28.

expense increased \$18 million (7.3 percent) due to higher rent and maintenance costs, while technology and communications expense increased \$18 million (8.3 percent) primarily due to technology investment initiatives. Other noninterest expense decreased \$39 million (8.8 percent) due to lower mortgage servicing-related costs and lower pension-related costs as a result of contributions to the Company's pension plans in 2017. Professional services expense decreased \$13 million (13.5 percent), primarily due to fewer consulting services as compliance programs near maturity.

Income Tax Expense The provision for income taxes was \$362 million (an effective rate of 17.7 percent) for the first quarter of 2018, compared with \$499 million (an effective rate of 25.1 percent) for the first quarter of 2017. The first quarter of 2018 tax rate reflected tax reform, a favorable settlement of tax matters, and the tax benefit of restricted stock vesting and option exercises. 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 \$277.9 billion at March 31, 2018, compared with \$280.4 billion at December 31, 2017, a decrease of \$2.5 billion (0.9 percent). The decrease was driven by lower other retail loans, credit card loans, commercial real estate loans and covered loans, partially offset by higher residential mortgages and commercial loans.

Other retail loans decreased \$2.0 billion (3.5 percent) at March 31, 2018, compared with December 31, 2017, reflecting the transfer of the Company's federally guaranteed student loans from the loan portfolio to loans held for sale at the end of the first quarter of 2018, along with decreases in home equity loans, auto loans and revolving credit balances. Partially offsetting these decreases were increases in installment and retail leasing loans.

Credit card loans decreased \$1.3 billion (5.8 percent) at March 31, 2018, compared with December 31, 2017, primarily the result of customers seasonally paying down balances.

Commercial real estate loans decreased \$323 million (0.8 percent) at March 31, 2018, compared with December 31, 2017, primarily the result of disciplined underwriting and customers paying down balances.

Residential mortgages held in the loan portfolio increased \$694 million (1.2 percent) at March 31, 2018, compared with December 31, 2017, as origination activity more than offset the effect of customers paying down balances in the first quarter 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 \$536 million (0.5 percent) at March 31, 2018, compared with December 31, 2017, reflecting higher demand from new and existing customers.

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 \$4.8 billion at March 31, 2018, compared with \$3.6 billion at December 31, 2017. The increase in loans held for sale was principally due to the transfer of the Company's federally guaranteed student loan balances to loans held for sale at the end of the first quarter of 2018, partially offset by a decrease in residential mortgage loans held for sale (MLHFS)

Table of Contents**Table 4** Investment Securities

At March 31, 2018 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity				
	Amortized Cost	Fair Value	Weighted- Average Maturity in Years	Weighted- Average Yield (e)	Amortized Cost	Fair Value	Weighted- Average Maturity in Years	Weighted- Average Yield (e)	
U.S. Treasury and Agencies									
Maturing in one year or less	\$ 4,338	\$ 4,320	.4	.88%	\$	\$		%	
Maturing after one year through five years	17,042	16,640	3.3	1.66	1,880	1,843	3.3	1.82	
Maturing after five years through ten years	1,043	1,006	7.0	2.29	3,273	3,131	5.7	1.79	
Maturing after ten years									
Total	\$ 22,423	\$ 21,966	2.9	1.54%	\$ 5,153	\$ 4,974	4.8	1.80%	
Mortgage-Backed Securities (a)									
Maturing in one year or less	\$ 110	\$ 111	.6	4.22%	\$ 30	\$ 30	1.3	2.54%	
Maturing after one year through five years	13,809	13,498	4.5	2.22	18,232	17,747	4.2	2.14	
Maturing after five years through ten years	22,800	22,275	6.0	2.35	20,867	20,322	6.1	2.42	
Maturing after ten years	2,556	2,566	14.5	2.78	297	298	13.9	2.67	
Total	\$ 39,275	\$ 38,450	6.0	2.34%	\$ 39,426	\$ 38,397	5.3	2.29%	
Asset-Backed Securities (a)									
Maturing in one year or less	\$	\$		%	\$	\$	1	.4	2.48%
Maturing after one year through five years	408	415	3.7	4.63	4	4	1.7	2.60	
Maturing after five years through ten years					2	2	4.7	2.56	
Maturing after ten years						2	13.3	2.50	
Total	\$ 408	\$ 415	3.7	4.63%	\$ 6	\$ 9	2.9	2.58%	
Obligations of State and Political Subdivisions (b) (c)									
Maturing in one year or less	\$ 129	\$ 131	.4	5.88%	\$	\$.7	6.33%	
Maturing after one year through five years	661	678	3.2	4.92	1	1	3.9	6.78	
Maturing after five years through ten years	3,672	3,667	8.5	4.46	5	6	8.0	2.18	
Maturing after ten years	1,918	1,818	19.2	4.11					
Total	\$ 6,380	\$ 6,294	11.0	4.43%	\$ 6	\$ 7	7.4	2.75%	
Other									
Maturing in one year or less	\$	\$.01%	\$	\$		%	

Maturing after one year through five years					21	21	1.0	2.52
Maturing after five years through ten years								
Maturing after ten years								
Total	\$	\$.01%	\$ 21	\$ 21	1.0	2.52%
Total investment securities (d)	\$ 68,486	\$ 67,125	5.5	2.29%	\$ 44,612	\$ 43,408	5.2	2.24%

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.
- (c) Maturity calculations for obligations of state and political subdivisions are based on the first optional call date for securities with a fair value above par and contractual maturity for securities with a fair value equal to or below par.
- (d) The weighted-average maturity of the available-for-sale investment securities was 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 and 35 percent for the three months ended March 31, 2018 and 2017, respectively. 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.

(Dollars in Millions)	March 31, 2018		December 31, 2017	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 27,576	24.4%	\$ 28,767	25.5%
Mortgage-backed securities	78,701	69.6	77,606	68.6
Asset-backed securities	414	.4	419	.4
Obligations of state and political subdivisions	6,386	5.6	6,246	5.5
Other	21		41	
Total investment securities	\$ 113,098	100.0%	\$ 113,079	100.0%

Table of Contents

balances due to a lower level of mortgage loan closings in the first 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 \$111.7 billion at March 31, 2018, compared with \$112.5 billion at December 31, 2017. The \$762 million (0.7 percent) decrease was primarily due to a \$782 million unfavorable change in net unrealized gains (losses) on available-for-sale investment securities.

The Company's available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At March 31, 2018, the Company's net unrealized losses on available-for-sale securities were \$1.4 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, U.S. government mortgage-backed and state and political securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale securities totaled \$1.6 billion at March 31, 2018, compared with \$888 million at December 31, 2017. At March 31, 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 \$344.5 billion at March 31, 2018, compared with \$347.2 billion at December 31, 2017, the result of decreases in noninterest-bearing deposits and total savings deposits, partially offset by an increase in time deposits. Noninterest-bearing deposits decreased \$5.3 billion (6.1 percent) at March 31, 2018, compared with December 31, 2017, primarily due to lower Wealth Management and Investment Services balances. Money market deposit balances decreased \$3.6 billion (3.4 percent) at March 31, 2018, compared with December 31, 2017, primarily due to lower Wealth Management and Investment Services, and Corporate and Commercial Banking balances. Interest checking balances decreased \$1.4 billion (1.9 percent) 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 \$1.4 billion (3.3 percent), primarily due to higher Consumer and Business Banking balances. Time deposits increased \$6.2 billion (18.7 percent) at March 31, 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.

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 \$17.7 billion at March 31, 2018, compared with \$16.7 billion at December 31, 2017. The \$1.1 billion (6.3 percent) increase in short-term borrowings was primarily due to higher other short-term borrowings balances, partially offset by lower commercial paper balances. Long-term debt was \$33.2 billion at March 31, 2018, compared with \$32.3 billion at December 31, 2017. The \$942 million (2.9 percent) increase was primarily due to issuances of \$2.0 billion of bank notes, partially offset by a \$1.0 billion 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,

Table of Contents

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 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

Table of Contents

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. 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 March 31, 2018, substantially all of the Company's home equity lines were in the draw period.

Approximately \$1.4 billion, or 9 percent, of the outstanding home equity line balances at March 31, 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.

Table of Contents

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

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

The Company's consumer lending segment utilizes several distinct business processes and channels to originate consumer credit, including traditional branch lending, 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 March 31, 2018:

Residential Mortgages	Interest Only	Amortizing	Total	Percent of Total
(Dollars in Millions)				
Loan-to-Value				
Less than or equal to 80%	\$ 1,930	\$ 49,409	\$ 51,339	84.9%
Over 80% through 90%	26	3,837	3,863	6.4
Over 90% through 100%	2	837	839	1.4
Over 100%	1	649	650	1.0
No LTV available	1	33	34	.1
Loans purchased from GNMA mortgage pools (a)		3,752	3,752	6.2
Total	\$ 1,960	\$ 58,517	\$ 60,477	100.0%
Borrower Type				

Prime borrowers	\$ 1,960	\$ 53,636	\$ 55,596	91.9%
Sub-prime borrowers		787	787	1.3
Other borrowers		342	342	.6
Loans purchased from GNMA mortgage pools (a)		3,752	3,752	6.2
Total	\$ 1,960	\$ 58,517	\$ 60,477	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%	\$ 11,282	\$ 642	\$ 11,924	74.4%
Over 80% through 90%	2,132	709	2,841	17.7
Over 90% through 100%	698	105	803	5.0
Over 100%	363	21	384	2.4
No LTV/CLTV available	67	11	78	.5
Total	\$ 14,542	\$ 1,488	\$ 16,030	100.0%
Borrower Type				
Prime borrowers	\$ 14,289	\$ 1,417	\$ 15,706	98.0%
Sub-prime borrowers	50	64	114	.7
Other borrowers	203	7	210	1.3
Total	\$ 14,542	\$ 1,488	\$ 16,030	100.0%

The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only 0.2 percent of the Company's total assets at March 31, 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 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

Table of Contents

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 March 31, 2018, compared with \$16.3 billion at December 31, 2017, and included \$4.5 billion of home equity lines in a first lien position and \$11.5 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at March 31, 2018, included approximately \$4.8 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately \$6.7 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company's junior lien positions at March 31, 2018:

(Dollars in Millions)	Junior Liens Behind		Total
	Company Owned or Serviced	Third Party First Lien	
	First Lien	Third Party First Lien	Total
Total	\$ 4,827	\$ 6,728	\$ 11,555
Percent 30-89 days past due	.30%	.44%	.38%
Percent 90 days or more past due	.11%	.10%	.10%
Weighted-average CLTV	73%	69%	71%
Weighted-average credit score	777	772	774

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

	March 31, 2018	December 31, 2017
90 days or more past due excluding nonperforming loans		
Commercial		
Commercial	.07%	.06%
Lease financing		
Total commercial	.06	.06
Commercial Real Estate		
Commercial mortgages		
Construction and development	.04	.05
Total commercial real estate	.01	.01
Residential Mortgages (a)	.22	.22
Credit Card	1.29	1.28
Other Retail		
Retail leasing	.02	.03
Home equity and second mortgages	.32	.28
Other	.15	.15
Total other retail (b)	.18	.17
Total loans, excluding covered loans	.21	.21
Covered Loans	4.57	4.74
Total loans	.25%	.26%
	March 31, 2018	December 31, 2017
90 days or more past due including nonperforming loans		
Commercial	.37%	.31%
Commercial real estate	.31	.37
Residential mortgages (a)	.93	.96
Credit card	1.29	1.28
Other retail (b)	.48	.46
Total loans, excluding covered loans	.58	.57
Covered loans	4.77	4.93
Total loans	.62%	.62%

(a) Delinquent loan ratios exclude \$1.9 billion of loans at March 31, 2018, and December 31, 2017, 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 4.15 percent at March 31, 2018, and 4.16 percent at December 31, 2017.

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including these loans, the ratio of total other retail loans 90 days or more past due including all nonperforming loans was .57 percent at March 31, 2018, and .56 percent at December 31, 2017.

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 \$702 million (\$566 million excluding covered loans) at March 31, 2018, compared with \$720 million (\$572 million excluding covered loans) 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, as well as student loans guaranteed by the federal government. 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 0.25 percent (0.21 percent excluding covered loans) at March 31, 2018, compared with 0.26 percent (0.21 percent excluding covered loans) at December 31, 2017.

Table of Contents

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Residential Mortgages (a)				
30-89 days	\$ 146	\$ 198	.24%	.33%
90 days or more	132	130	.22	.22
Nonperforming	430	442	.71	.74
Total	\$ 708	\$ 770	1.17%	1.29%
Credit Card				
30-89 days	\$ 275	\$ 302	1.32%	1.37%
90 days or more	270	284	1.29	1.28
Nonperforming		1		
Total	\$ 545	\$ 587	2.61%	2.65%
Other Retail				
Retail Leasing				
30-89 days	\$ 27	\$ 33	.34%	.41%
90 days or more	2	2	.02	.03
Nonperforming	7	8	.09	.10
Total	\$ 36	\$ 43	.45%	.54%
Home Equity and Second Mortgages				
30-89 days	\$ 65	\$ 78	.41%	.48%
90 days or more	51	45	.32	.28
Nonperforming	127	126	.79	.77
Total	\$ 243	\$ 249	1.52%	1.53%
Other (b)				
30-89 days	\$ 228	\$ 265	.73%	.80%
90 days or more	46	48	.15	.15
Nonperforming	34	34	.11	.10
Total	\$ 308	\$ 347	.99%	1.05%

(a) Excludes \$376 million of loans 30-89 days past due and \$1.9 billion of loans 90 days or more past due at March 31, 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.

The following table provides summary delinquency information for covered loans:

Amount	As a Percent of Ending Loan Balances
--------	--------------------------------------

(Dollars in Millions)	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
30-89 days	\$ 47	\$ 50	1.57%	1.61%
90 days or more	136	148	4.57	4.74
Nonperforming	6	6	.20	.19
Total	\$ 189	\$ 204	6.34%	6.54%

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 March 31, 2018, performing TDRs were \$3.8 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

Table of Contents

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.

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:

(Dollars in Millions)	As a Percent of Performing TDRs				
	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	Total TDRs
Commercial	\$ 239	3.8%	1.6%	\$ 145(a)	\$ 384
Commercial real estate	135	4.3		29(b)	164
Residential mortgages	1,451	3.4	3.2	322	1,773(d)
Credit card	234	10.6	6.5	(c)	234
Other retail	131	4.8	4.8	50(c)	181(e)
TDRs, excluding GNMA and covered loans	2,190	4.3	3.3	546	2,736
Loans purchased from GNMA mortgage pools (g)	1,566				1,566(f)
Covered loans	32	2.7	8.6	4	36
Total	\$ 3,788	2.5%	2.0%	\$ 550	\$ 4,338

(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 \$322 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$39 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.*
- (e) Includes \$76 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 \$212 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 \$377 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.*
- (g) Approximately 8.4 percent and 44.3 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.*

Table of Contents

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 March 31, 2018.

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.

Total nonperforming assets were \$1.2 billion at March 31, 2018 and December 31, 2017. The \$4 million (0.3 percent) increase in nonperforming assets was driven by an increase in nonperforming commercial loans, partially offset by improvements in commercial real estate loans, residential mortgages and OREO. Nonperforming covered assets were \$26 million at March 31, 2018, compared with \$27 million at December 31, 2017. The ratio of total nonperforming assets to total loans and other real estate was 0.43 percent at March 31, 2018 and December 31, 2017.

OREO, excluding covered assets, was \$124 million at March 31, 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:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Residential				
California	\$ 13	\$ 13	.06%	.06%
Illinois	12	14	.28	.32
Minnesota	9	11	.15	.18
New York	7	8	.88	1.01
Wisconsin	6	8	.29	.38
All other states	71	81	.17	.19
Total residential	118	135	.15	.18

Commercial				
California	4	4	.02	.02
Idaho	1	1	.08	.07
Washington				
Louisiana				
Tennessee				
All other states	1	1		
Total commercial	6	6		
Total	\$ 124	\$ 141	.05%	.05%

U.S. Bancorp

15

Table of Contents**Table 6** Nonperforming Assets (a)

(Dollars in Millions)	March 31, 2018	December 31, 2017
Commercial		
Commercial	\$ 274	\$ 225
Lease financing	27	24
Total commercial	301	249
Commercial Real Estate		
Commercial mortgages	86	108
Construction and development	33	34
Total commercial real estate	119	142
Residential Mortgages (b)	430	442
Credit Card		1
Other Retail		
Retail leasing	7	8
Home equity and second mortgages	127	126
Other	34	34
Total other retail	168	168
Total nonperforming loans, excluding covered loans	1,018	1,002
Covered Loans	6	6
Total nonperforming loans	1,024	1,008
Other Real Estate (c)	124	141
Covered Other Real Estate	20	21
Other Assets	36	30
Total nonperforming assets	\$ 1,204	\$ 1,200
Total nonperforming assets, excluding covered assets	\$ 1,178	\$ 1,173
Excluding covered assets		
Accruing loans 90 days or more past due (b)	\$ 566	\$ 572
Nonperforming loans to total loans	.37%	.36%
Nonperforming assets to total loans plus other real estate (c)	.43%	.42%
Including covered assets		
Accruing loans 90 days or more past due (b)	\$ 702	\$ 720
Nonperforming loans to total loans	.37%	.36%
Nonperforming assets to total loans plus other real estate (c)	.43%	.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	129	72	3	204

Advances on loans	12			12
Total additions	141	72	3	216
Reductions in nonperforming assets				
Paydowns, payoffs	(30)	(39)	(1)	(70)
Net sales	(20)	(40)	(3)	(63)
Return to performing status	(5)	(11)		(16)
Charge-offs (d)	(57)	(6)		(63)
Total reductions	(112)	(96)	(4)	(212)
Net additions to (reductions in) nonperforming assets	29	(24)	(1)	4
Balance March 31, 2018	\$ 433	\$ 745	\$ 26	\$ 1,204

- (a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
- (b) Excludes \$1.9 billion at March 31, 2018 and December 31, 2017, 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 \$243 million and \$267 million at March 31, 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 March 31	
	2018	2017
Commercial		
Commercial	.25%	.33%
Lease financing	.29	.30
Total commercial	.25	.32
Commercial Real Estate		
Commercial mortgages	(.06)	(.01)
Construction and development	.04	(.03)
Total commercial real estate	(.03)	(.02)
Residential Mortgages	.05	.08
Credit Card	4.02	3.70
Other Retail		
Retail leasing	.15	.19
Home equity and second mortgages	(.03)	(.02)
Other	.79	.76
Total other retail	.47	.45
Total loans, excluding covered loans	.50	.50
Covered Loans		
Total loans	.49%	.50%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were \$341 million for the first quarter of 2018, compared with \$335 million for the first quarter of 2017. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the first quarter of 2018 was 0.49 percent, compared with 0.50 percent for the first quarter of 2017. The increase in net charge-offs for the first quarter of 2018, compared with the first quarter of 2017, reflected higher credit card loan net charge-offs, partially offset by lower commercial loan net charge-offs driven by higher recoveries.

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 March 31, 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

Table of Contents

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 \$301 million or 1.9 percent of its total home equity portfolio at March 31, 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 March 31, 2018, the allowance for credit losses was \$4.4 billion (1.59 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 431 percent at March 31, 2018, compared with 438 percent at December 31, 2017. The ratio of the allowance for credit losses to annualized loan net charge-offs was 319 percent at March 31, 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 March 31	
	2018	2017
Balance at beginning of period	\$ 4,417	\$ 4,357
Charge-Offs		
Commercial		
Commercial	88	90
Lease financing	6	6
Total commercial	94	96
Commercial real estate		
Commercial mortgages	2	2
Construction and development	1	1
Total commercial real estate	3	3
Residential mortgages	13	17
Credit card	248	212
Other retail		
Retail leasing	5	4
Home equity and second mortgages	6	8
Other	84	77
Total other retail	95	89
Covered loans (a)		
Total charge-offs	453	417
Recoveries		
Commercial		
Commercial	32	19
Lease financing	2	2
Total commercial	34	21
Commercial real estate		
Commercial mortgages	6	3
Construction and development		2
Total commercial real estate	6	5
Residential mortgages	6	5
Credit card	37	22
Other retail		
Retail leasing	2	1
Home equity and second mortgages	7	9
Other	20	19
Total other retail	29	29
Covered loans (a)		
Total recoveries	112	82
Net Charge-Offs		
Commercial		
Commercial	56	71
Lease financing	4	4
Total commercial	60	75

Commercial real estate		
Commercial mortgages	(4)	(1)
Construction and development	1	(1)
Total commercial real estate	(3)	(2)
Residential mortgages	7	12
Credit card	211	190
Other retail		
Retail leasing	3	3
Home equity and second mortgages	(1)	(1)
Other	64	58
Total other retail	66	60
Covered loans (a)		
Total net charge-offs	341	335
Provision for credit losses	341	345
Other changes (b)		(1)
Balance at end of period (c)	\$ 4,417	\$ 4,366
Components		
Allowance for loan losses	\$ 3,918	\$ 3,816
Liability for unfunded credit commitments	499	550
Total allowance for credit losses	\$ 4,417	\$ 4,366
Allowance for Credit Losses as a Percentage of		
Period-end loans, excluding covered loans	1.60%	1.61%
Nonperforming loans, excluding covered loans	431	338
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	277	240
Nonperforming assets, excluding covered assets	373	296
Annualized net charge-offs, excluding covered loans	318	319
Period-end loans	1.59%	1.60%
Nonperforming loans	431	338
Nonperforming and accruing loans 90 days or more past due	256	217
Nonperforming assets	367	292
Annualized net charge-offs	319	321

(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 March 31, 2018 and 2017, \$1.7 billion and \$1.6 billion, respectively, 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 March 31, 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 March 31, 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 2.07 percent in the Up 50 basis point (bps) and 4.19 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

	March 31, 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	(2.27)%	1.50%	*	2.09%	(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 3.6 percent decrease in the market value of equity at March 31, 2018, compared with a 3.1 percent decrease at December 31, 2017. A 200 bps decrease, where possible given current rates, would have resulted in a 5.6 percent decrease in the market value of equity at March 31, 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 March 31, 2018, the Company had \$5.1 billion of forward commitments to sell, hedging \$2.5 billion of MLHFS and \$2.7 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

Table of Contents

purposes of its internal capital adequacy assessment process, the Company considers risk arising from its trading activities employing methodologies consistent with the requirements of regulatory rules for market risk. The Company's Market Risk Committee (MRC), within the framework of the ALCO, oversees market risk management. The MRC monitors and reviews the Company's trading positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company uses a 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:

Three Months Ended March 31

(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 three months ended March 31, 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:

Three Months Ended March 31

(Dollars in Millions)	2018	2017
Average	\$ 4	\$ 4
High	4	5

Low	2	3
Period-end	3	5

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:

Three Months Ended March 31

(Dollars in Millions)	2018	2017
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	\$ 1	\$
High	1	1
Low		
Mortgage Servicing Rights and Related Hedges		
Average	\$ 6	\$ 9
High	7	10
Low	5	7

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 the 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 March 31, 2018, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled \$102.6 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 March 31, 2018, the Company could have borrowed an additional \$86.9 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 \$344.5 billion at March 31, 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 \$33.2 billion at March 31, 2018, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were \$17.7 billion at March 31, 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.

Parent company long-term debt outstanding was \$15.8 billion at March 31, 2018 and December 31, 2017. As of March 31, 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 March 31, 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, 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 March 31, 2018, the Company had an aggregate amount

Table of Contents

on deposit with European banks of approximately \$8.5 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, which is currently the standardized approach. Beginning January 1, 2018, the regulatory capital requirements fully reflect 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 March 31, 2018 and December 31, 2017. All regulatory ratios exceeded regulatory well-capitalized requirements. At March 31, 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 March 31, 2018, compared with 7.6 percent and 9.4 percent, respectively, at December 31, 2017.

Total U.S. Bancorp shareholders' equity was \$49.2 billion at March 31, 2018, compared with \$49.0 billion at December 31, 2017. The increase was primarily the result of corporate earnings, 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)	March 31, 2018	December 31, 2017
Basel III standardized approach:		
Common equity tier 1 capital	\$ 33,539	\$ 34,369
Tier 1 capital	38,991	39,806
Total risk-based capital	46,640	47,503
Risk-weighted assets	373,141	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	10.4	10.8
Total risk-based capital as a percent of risk-weighted assets	12.5	12.9
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	8.8	8.9
Basel III advanced approaches:		
Common equity tier 1 capital	\$ 33,539	\$ 34,369
Tier 1 capital	38,991	39,806
Total risk-based capital	43,630	44,477
Risk-weighted assets	292,643	287,211
Common equity tier 1 capital as a percent of risk-weighted assets	11.5%	12.0%
Tier 1 capital as a percent of risk-weighted assets	13.3	13.9
Total risk-based capital as a percent of risk-weighted assets	14.9	15.5
Tier 1 capital as a percent of total on- and off-balance sheet leverage exposure (total leverage exposure ratio)	7.0	

Table of Contents

On June 28, 2017, the Company announced its Board of Directors had approved an authorization to repurchase up to \$2.6 billion of its common stock, from July 1, 2017 through June 30, 2018.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the first 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)
January	4,773,755(b)	\$ 57.35	4,723,755	\$ 997
February	4,797,702(c)	55.16	4,747,702	735
March	1,154,108	52.77	1,154,108	674
Total	10,725,565(d)	\$ 55.88	10,625,565	\$ 674

(a) All shares were purchased under the stock repurchase program announced on June 28, 2017.

(b) Includes 50,000 shares of common stock purchased, at an average price per share of \$57.93, in open-market transactions by U.S. Bank National Association, the Company's banking subsidiary, in its capacity as trustee of the Company's Employee Retirement Savings Plan.

(c) Includes 50,000 shares of common stock purchased, at an average price per share of \$53.17, in open-market transactions by U.S. Bank National Association in its capacity as trustee of the Company's Employee Retirement Savings Plan.

(d) Includes 100,000 shares of common stock purchased, at an average price per share of \$55.55, in open-market transactions by U.S. Bank National Association in its capacity as trustee of the Company's Employee Retirement Savings Plan.

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 \$384 million of the Company's net income in the first quarter of 2018, or an increase of \$50 million (15.0 percent) compared with the first quarter of 2017.

Net revenue decreased \$25 million (2.6 percent) in the first quarter of 2018, compared with the first quarter of 2017, due to a decrease in noninterest income, partially offset by an increase in net interest income. Noninterest income decreased \$37 million (15.2 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to stronger capital markets volume in the first quarter of 2017 and lower loan fees in the current year reflecting industry trends in these revenue categories. Net interest income, on a taxable-equivalent basis, increased \$12 million (1.7 percent) in the first quarter of 2018, compared with the first quarter of 2017. The increase was primarily due to the impact of rising rates on the margin benefit from deposits, partially offset by lower rates on loans, reflecting a competitive marketplace, and lower noninterest-bearing deposits.

Noninterest expense increased \$10 million (2.5 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to an increase in net shared services expense allocated to manage the business, partially offset by lower variable compensation related to business production. The provision for credit losses decreased \$22 million (61.1 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to lower net charge-offs driven by higher recoveries.

Table of Contents**Table 11** Line of Business Financial Performance

Three Months Ended March 31 (Dollars in Millions)	Corporate and Commercial Banking			Consumer and Business Banking		
	2018	2017	Percent Change	2018	2017	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	\$ 724	\$ 712	1.7%	\$ 1,524	\$ 1,418	7.5%
Noninterest income	207	247	(16.2)	568	571	(.5)
Securities gains (losses), net		(3)	*			
Total net revenue	931	956	(2.6)	2,092	1,989	5.2
Noninterest expense	404	394	2.5	1,291	1,253	3.0
Other intangibles	1	1		7	7	
Total noninterest expense	405	395	2.5	1,298	1,260	3.0
Income before provision and income taxes	526	561	(6.2)	794	729	8.9
Provision for credit losses	14	36	(61.1)	56	65	(13.8)
Income before income taxes	512	525	(2.5)	738	664	11.1
Income taxes and taxable-equivalent adjustment	128	191	(33.0)	185	242	(23.6)
Net income	384	334	15.0	553	422	31.0
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	\$ 384	\$ 334	15.0	\$ 553	\$ 422	31.0
Average Balance Sheet						
Commercial	\$ 74,808	\$ 72,414	3.3%	\$ 9,838	\$ 9,913	(.8)%
Commercial real estate	19,137	21,305	(10.2)	18,217	18,551	(1.8)
Residential mortgages	6	8	(25.0)	57,066	55,239	3.3
Credit card						
Other retail				55,010	51,687	6.4
Total loans, excluding covered loans	93,951	93,727	.2	140,131	135,390	3.5
Covered loans				3,048	3,717	(18.0)
Total loans	93,951	93,727	.2	143,179	139,107	2.9
Goodwill	1,647	1,647		3,681	3,681	
Other intangible assets	12	15	(20.0)	2,871	2,768	3.7
Assets	102,642	102,309	.3	157,544	153,647	2.5
Noninterest-bearing deposits	34,388	36,939	(6.9)	27,381	26,965	1.5
Interest checking	9,493	9,256	2.6	49,400	46,298	6.7
Savings products	43,938	48,820	(10.0)	61,543	59,850	2.8
Time deposits	16,523	12,484	32.4	12,576	13,207	(4.8)
Total deposits	104,342	107,499	(2.9)	150,900	146,320	3.1
Total U.S. Bancorp shareholders equity	10,417	9,680	7.6	12,219	11,522	6.0

* *Not meaningful*

(a) *Presented net of related rewards and rebate costs and certain partner payments of \$534 million and \$468 million for the three months ended March 31, 2018 and 2017, respectively.*

(b) *Includes revenue generated from contracts with customers of \$1.8 billion and \$1.7 billion for the three months ended March 31, 2018 and 2017, respectively.*

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 \$553 million of the Company's net income in the first quarter of 2018, or an increase of \$131 million (31.0 percent) compared with the first quarter of 2017.

Net revenue increased \$103 million (5.2 percent) in the first quarter of 2018, compared with the first quarter of 2017. Net interest income, on a taxable-equivalent basis, increased \$106 million (7.5 percent) in the first quarter of 2018, compared with the first quarter of 2017. The increase was primarily due to the impact of rising rates on the margin benefit from deposits along with growth in average loan and deposit balances, partially offset by lower rates on loans. Noninterest income decreased \$3 million (0.5 percent) in the first quarter of 2018, compared with the first quarter of 2017, principally driven by lower mortgage banking revenue, consistent with industry trends, due to lower margin on mortgage loan sales, partially offset by the favorable valuation of MSRs, net of hedging activities. Partially offsetting the impact of lower mortgage banking revenue were higher deposit service charges reflecting higher transaction volumes and account growth, and higher ATM processing services fees.

Noninterest expense increased \$38 million (3.0 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to higher net shared services expense allocated to manage the business, reflecting the impact of investments supporting business growth, and higher personnel expense, reflecting the impact of merit increases and variable compensation related to business production, partially offset by lower mortgage banking costs. The provision for credit losses

Table of Contents

	Wealth Management and Investment Services			Payment Services			Treasury and Corporate Support			Consolidated Company	
	2018	2017	Percent Change	2018	2017	Percent Change	2018	2017	Percent Change	2018	2017
4	\$ 250	13.6%	\$ 612	\$ 595	2.9%	\$ 53	\$ 55	(3.6)%	\$ 3,197	\$ 3,030	
2	399	8.3	847(a)	798(a)	6.1	213	215	(.9)	2,267(b)	2,230(b)	
						5	32	(84.4)	5	29	
6	649	10.3	1,459	1,393	4.7	271	302	(10.3)	5,469	5,289	
1	398	5.8	702	646	8.7	198	174	13.8	3,016	2,865	
4	5	(20.0)	27	31	(12.9)				39	44	
5	403	5.5	729	677	7.7	198	174	13.8	3,055	2,909	
1	246	18.3	730	716	2.0	73	128	(43.0)	2,414	2,380	
1	1		272	241	12.9	(2)	2	*	341	345	
0	245	18.4	458	475	(3.6)	75	126	(40.5)	2,073	2,035	
3	89	(18.0)	115	173	(33.5)	(110)	(146)	24.7	391	549	
7	156	39.1	343	302	13.6	185	272	(32.0)	1,682	1,486	
				(7)	*	(7)	(6)	(16.7)	(7)	(13)	
7	\$ 156	39.1	\$ 343	\$ 295	16.3	\$ 178	\$ 266	(33.1)	\$ 1,675	\$ 1,473	
0	\$ 3,190	14.7%	\$ 8,354	\$ 7,611	9.8%	\$ 805	\$ 611	31.8%	\$ 97,465	\$ 93,739	
9	514	(1.0)				2,503	2,788	(10.2)	40,366	43,158	
6	2,645	17.1				6	8	(25.0)	60,174	57,900	
			21,284	20,845	2.1				21,284	20,845	
7	1,617		424	480	(11.7)				57,051	53,784	
2	7,966	11.5	30,062	28,936	3.9	3,314	3,407	(2.7)	276,340	269,426	
							15	*	3,048	3,732	
2	7,966	11.5	30,062	28,936	3.9	3,314	3,422	(3.2)	279,388	273,158	
0	1,566	.3	2,542	2,453	3.6				9,440	9,347	
0	87	(19.5)	396	437	(9.4)				3,349	3,307	
5	11,446	3.7	36,173	34,566	4.6	146,054	139,343	4.8	454,288	441,311	
9	13,841	3.5	1,127	1,024	10.1	2,257	1,969	14.6	79,482	80,738	
3	10,087	13.2				42	40	5.0	70,358	65,681	
2	42,145	(1.1)	103	99	4.0	509	454	12.1	147,755	151,368	
5	4,755	(22.3)	3	1	*	4,188	199	*	36,985	30,646	
9	70,828	.4	1,233	1,124	9.7	6,996	2,662	*	334,580	328,433	
9	2,403	(.2)	6,622	6,405	3.4	17,168	17,913	(4.2)	48,825	47,923	

decreased \$9 million (13.8 percent) in the first quarter of 2018, compared with the first quarter of 2017, reflecting a favorable change 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 \$217 million of the Company's net income in the first quarter of 2018, or an increase of \$61 million (39.1 percent) compared with the first quarter of 2017.

Net revenue increased \$67 million (10.3 percent) in the first quarter of 2018, compared with the first quarter of 2017. Net interest income, on a taxable-equivalent basis, increased \$34 million (13.6 percent) in the first quarter of 2018, compared with the first quarter of 2017. The increase was primarily due to the impact of rising rates on the margin benefit from deposits along with growth in average loan and deposit balances, partially offset by lower rates on loans. Noninterest income increased \$33 million (8.3 percent) in the first quarter of 2018, compared with the first quarter of 2017, principally due to business growth, net asset inflows and favorable market conditions.

Noninterest expense increased \$22 million (5.5 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily as a result of higher net shared services expense allocated to manage the business, reflecting the impact of implementation costs of capital investments to support business growth, and higher compensation expense, reflecting higher staffing along with merit increases and variable compensation related to business production, partially offset by lower professional services expense.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate, government and purchasing card services,

Table of Contents

consumer lines of credit and merchant processing. Payment Services contributed \$343 million of the Company's net income in the first quarter of 2018, or an increase of \$48 million (16.3 percent) compared with the first quarter of 2017.

Net revenue increased \$66 million (4.7 percent) in the first quarter of 2018, compared with the first quarter of 2017. Net interest income, on a taxable-equivalent basis, increased \$17 million (2.9 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to higher loan volumes. Noninterest income increased \$49 million (6.1 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to higher credit and debit card revenue and corporate payment products revenue, both driven by higher sales volumes.

Noninterest expense increased \$52 million (7.7 percent) in the first quarter of 2018, compared with the first quarter of 2017, principally due to higher net shared services expense allocated to manage the business, reflecting the impact of investments supporting business growth, and higher personnel expense and equipment costs. The provision for credit losses increased \$31 million (12.9 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to higher net charge-offs.

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 \$178 million in the first quarter of 2018, compared with \$266 million in the first quarter of 2017.

Net revenue decreased \$31 million (10.3 percent) in the first quarter of 2018, compared with the first quarter of 2017. Noninterest income decreased \$29 million (11.7 percent) in the first quarter of 2018, compared with the first quarter of 2017, primarily due to lower equity investment income and securities gains compared with a year ago.

Noninterest expense increased \$24 million (13.8 percent) in the first quarter of 2018, compared with the first quarter of 2017, principally due to higher personnel expense, reflecting the impact of increased staffing and merit increases including variable compensation related to the impact of changes in the vesting provisions related to stock-based compensation programs, as well as higher net occupancy and equipment costs. These increases were partially offset by a favorable change in net shared services expense allocated to manage the business. The provision for credit losses was \$4 million lower in the first quarter of 2018, compared with the first quarter of 2017, due to a favorable change in the reserve allocation.

Income taxes are assessed to each line of business at a managerial tax rate of 25.0 percent starting in the first quarter of 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 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.

Table of Contents

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

(Dollars in Millions)	March 31, 2018	December 31, 2017
Total equity	\$ 49,812	\$ 49,666
Preferred stock	(5,419)	(5,419)
Noncontrolling interests	(625)	(626)
Goodwill (net of deferred tax liability) (1)	(8,609)	(8,613)
Intangible assets, other than mortgage servicing rights	(608)	(583)
Tangible common equity (a)	34,551	34,425
Total assets	460,119	462,040
Goodwill (net of deferred tax liability) (1)	(8,609)	(8,613)
Intangible assets, other than mortgage servicing rights	(608)	(583)
Tangible assets (b)	450,902	452,844
Risk-weighted assets, determined in accordance with the Basel III standardized approach (c)	373,141	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
Risk-weighted assets, determined in accordance with prescribed transitional advanced approaches regulatory requirements		287,211
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 March 31
2018 2017

Net interest income	\$ 3,168	\$ 2,980
Taxable-equivalent adjustment (5)	29	50
Net interest income, on a taxable-equivalent basis	3,197	3,030
Net interest income, on a taxable-equivalent basis (as calculated above)	3,197	3,030
Noninterest income	2,272	2,259
Less: Securities gains (losses), net	5	29
Total net revenue, excluding net securities gains (losses) (g)	5,464	5,260
Noninterest expense (h)	3,055	2,909
Efficiency ratio (h)/(g)	55.9%	55.3%

- (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, MSR's and other adjustments.
- (4) Primarily reflects higher risk-weighting for MSR's.
- (5) Interest and rates are presented on a fully taxable-equivalent basis based on a federal income tax rate of 21 percent and 35 percent for the three months ended March 31, 2018 and 2017, respectively.

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)	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	\$ 19,246	\$ 19,505
Investment securities		
Held-to-maturity (fair value \$43,408 and \$43,723, respectively)	44,612	44,362
Available-for-sale (\$571 and \$689 pledged as collateral, respectively) (a)	67,125	68,137
Loans held for sale (including \$3,271 and \$3,534 of mortgage loans carried at fair value, respectively)	4,777	3,554
Loans		
Commercial	98,097	97,561
Commercial real estate	40,140	40,463
Residential mortgages	60,477	59,783
Credit card	20,901	22,180
Other retail	55,317	57,324
Total loans, excluding covered loans	274,932	277,311
Covered loans	2,979	3,121
Total loans	277,911	280,432
Less allowance for loan losses	(3,918)	(3,925)
Net loans	273,993	276,507
Premises and equipment	2,441	2,432
Goodwill	9,440	9,434
Other intangible assets	3,388	3,228
Other assets (including \$829 and \$238 of trading securities at fair value pledged as collateral, respectively) (a)	35,097	34,881
Total assets	\$ 460,119	\$ 462,040
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	\$ 82,211	\$ 87,557
Interest-bearing (b)	262,315	259,658
Total deposits	344,526	347,215
Short-term borrowings	17,703	16,651
Long-term debt	33,201	32,259
Other liabilities	14,877	16,249
Total liabilities	410,307	412,374
Shareholders equity		
Preferred stock	5,419	5,419
Common stock, par value \$0.01 a share authorized: 4,000,000,000 shares; issued: 3/31/18 and 12/31/17 2,125,725,742 shares	21	21
Capital surplus	8,438	8,464
Retained earnings	55,549	54,142

Less cost of common stock in treasury: 3/31/18 476,747,913 shares; 12/31/17 470,080,231 shares	(18,047)	(17,602)
Accumulated other comprehensive income (loss)	(2,193)	(1,404)
Total U.S. Bancorp shareholders equity	49,187	49,040
Noncontrolling interests	625	626
Total equity	49,812	49,666
Total liabilities and equity	\$ 460,119	\$ 462,040

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

(b) Includes time deposits greater than \$250,000 balances of \$7.8 billion and \$6.8 billion at March 31, 2018 and December 31, 2017, respectively.

See Notes to Consolidated Financial Statements.

U.S. Bancorp

31

Table of Contents

U.S. Bancorp

Consolidated Statement of Income

Three Months Ended
March 31

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

(Unaudited)	2018	2017
Interest Income		
Loans	\$ 3,095	\$ 2,790
Loans held for sale	33	35
Investment securities	613	530
Other interest income	50	38
Total interest income	3,791	3,393
Interest Expense		
Deposits	345	199
Short-term borrowings	75	24
Long-term debt	203	190
Total interest expense	623	413
Net interest income	3,168	2,980
Provision for credit losses	341	345
Net interest income after provision for credit losses	2,827	2,635
Noninterest Income		
Credit and debit card revenue	324	299
Corporate payment products revenue	154	137
Merchant processing services	363	354
ATM processing services	79	71
Trust and investment management fees	398	368
Deposit service charges	182	172
Treasury management fees	150	153
Commercial products revenue	220	247
Mortgage banking revenue	184	207
Investment products fees	46	42
Realized securities gains (losses), net	5	29
Other	167	180
Total noninterest income	2,272	2,259
Noninterest Expense		
Compensation	1,523	1,391
Employee benefits	330	301
Net occupancy and equipment	265	247
Professional services	83	96
Marketing and business development	97	90
Technology and communications	235	217
Postage, printing and supplies	80	81
Other intangibles	39	44

Other	403	442
Total noninterest expense	3,055	2,909
Income before income taxes	2,044	1,985
Applicable income taxes	362	499
Net income	1,682	1,486
Net (income) loss attributable to noncontrolling interests	(7)	(13)
Net income attributable to U.S. Bancorp	\$ 1,675	\$ 1,473
Net income applicable to U.S. Bancorp common shareholders	\$ 1,597	\$ 1,387
Earnings per common share	\$.97	\$.82
Diluted earnings per common share	\$.96	\$.82
Dividends declared per common share	\$.30	\$.28
Average common shares outstanding	1,652	1,694
Average diluted common shares outstanding	1,657	1,701

See Notes to Consolidated Financial Statements.

Table of Contents

U.S. Bancorp

Consolidated Statement of Comprehensive Income

	Three Months Ended March 31	
(Dollars in Millions)		
(Unaudited)	2018	2017
Net income	\$ 1,682	\$ 1,486
Other Comprehensive Income (Loss)		
Changes in unrealized gains and losses on investment securities available-for-sale	(776)	127
Changes in unrealized gains and losses on derivative hedges	86	7
Foreign currency translation	13	10
Changes in unrealized gains and losses on retirement plans	(3)	
Reclassification to earnings of realized gains and losses	29	11
Income taxes related to other comprehensive income (loss)	162	(59)
Total other comprehensive income (loss)	(489)	96
Comprehensive income	1,193	1,582
Comprehensive (income) loss attributable to noncontrolling interests	(7)	(13)
Comprehensive income attributable to U.S. Bancorp	\$ 1,186	\$ 1,569
<i>See Notes to Consolidated Financial Statements.</i>		

U.S. Bancorp

33

Table of Contents

U.S. Bancorp

Consolidated Statement of Shareholders Equity

U.S. Bancorp Shareholders										
(Dollars and Shares in Millions)	Common Shares (Unaudited) Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shares 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)					1,473			1,473	13	1,486
Other comprehensive income (loss)							96	96		96
Preferred stock dividends					(69)			(69)		(69)
Common stock dividends					(476)			(476)		(476)
Issuance of preferred stock		993						993		993
Call of preferred stock		(1,075)			(10)			(1,085)		(1,085)
Issuance of common and treasury stock	6			(107)		220		113		113
Purchase of treasury stock	(11)					(600)		(600)		(600)
Distributions to noncontrolling interests									(13)	(13)
Stock option and restricted stock grants				55				55		55
Balance March 31, 2017	1,692	\$ 5,419	\$ 21	\$ 8,388	\$ 51,069	\$ (15,660)	\$ (1,439)	\$ 47,798	\$ 635	\$ 48,433
Balance December 31, 2017	1,656	\$ 5,419	\$ 21	\$ 8,464	\$ 54,142	\$ (17,602)	\$ (1,404)	\$ 49,040	\$ 626	\$ 49,666
Change in accounting principles (a)					299		(300)	(1)		(1)
					1,675			1,675	7	1,682

Net income (loss)											
Other comprehensive income (loss)						(489)	(489)	(489)			(489)
Preferred stock dividends						(70)	(70)	(70)			(70)
Common stock dividends						(497)	(497)	(497)			(497)
Issuance of common and treasury stock	4		(109)		149		40				40
Purchase of treasury stock	(11)				(594)		(594)				(594)
Distributions to noncontrolling interests									(7)		(7)
Net other changes in noncontrolling interests									(1)		(1)
Stock option and restricted stock grants						83		83			83
Balance											
March 31, 2018	1,649	\$ 5,419	\$ 21	\$ 8,438	\$ 55,549	\$ (18,047)	\$ (2,193)	\$ 49,187	\$ 625		\$ 49,812

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)	Three Months Ended	
	March 31	
(Unaudited)	2018	2017
Operating Activities		
Net income attributable to U.S. Bancorp	\$ 1,675	\$ 1,473
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	341	345
Depreciation and amortization of premises and equipment	74	73
Amortization of intangibles	39	44
(Gain) loss on sale of loans held for sale	(62)	(116)
(Gain) loss on sale of securities and other assets	(78)	(146)
Loans originated for sale in the secondary market, net of repayments	(7,762)	(7,802)
Proceeds from sales of loans held for sale	7,975	9,968
Other, net	(768)	(649)
Net cash provided by operating activities	1,434	3,190
Investing Activities		
Proceeds from sales of available-for-sale investment securities	944	828
Proceeds from maturities of held-to-maturity investment securities	1,598	2,085
Proceeds from maturities of available-for-sale investment securities	2,771	2,786
Purchases of held-to-maturity investment securities	(3,310)	(2,500)
Purchases of available-for-sale investment securities	(2,068)	(4,253)
Net decrease (increase) in loans outstanding	1,417	(250)
Proceeds from sales of loans	330	439
Purchases of loans	(1,135)	(932)
Other, net	(465)	76
Net cash provided by (used in) investing activities	82	(1,721)
Financing Activities		
Net (decrease) increase in deposits	(2,689)	2,283
Net increase (decrease) in short-term borrowings	1,052	(1,780)
Proceeds from issuance of long-term debt	2,110	3,162
Principal payments or redemption of long-term debt	(1,137)	(473)
Proceeds from issuance of preferred stock		993
Proceeds from issuance of common stock	40	112
Repurchase of common stock	(588)	(594)
Cash dividends paid on preferred stock	(64)	(80)
Cash dividends paid on common stock	(499)	(478)
Net cash (used in) provided by financing activities	(1,775)	3,145
Change in cash and due from banks	(259)	4,614
Cash and due from banks at beginning of period	19,505	15,705
Cash and due from banks at end of period	\$ 19,246	\$ 20,319

See Notes to Consolidated Financial Statements.

U.S. Bancorp

35

Table of Contents

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. A modified retrospective approach is required at adoption which requires all prior periods presented in the financial statements to be restated, with a cumulative effect adjustment to retained earnings as of the beginning of the earliest period presented. This guidance also requires additional disclosures regarding leasing arrangements. The Company expects the adoption of this guidance will not be material to its financial statements.

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:

(Dollars in Millions)	March 31, 2018			Fair Value	December 31, 2017			Fair Value
	Amortized Cost	Other-than-Temporary (a)	Other (b)		Amortized Cost	Other-than-Temporary (a)	Other (b)	
Held-to-maturity								
U.S. Treasury and agencies	\$ 5,153	\$ 2	\$ (181)	\$ 4,974	\$ 5,181	\$ 5	\$ (120)	\$ 5,066
Residential agency mortgage-backed securities	39,426	37	(1,066)	38,397	39,150	48	(579)	38,619
Asset-backed securities								
Collateralized debt obligations/Collateralized loan obligations		2		2		4		4
Other	6	1		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	\$ 44,612	\$ 43	\$ (1,247)	\$ 43,408	\$ 44,362	\$ 60	\$ (699)	\$ 43,723
Available-for-sale								
U.S. Treasury and agencies	\$ 22,423	\$ 1	\$ (458)	\$ 21,966	\$ 23,586	\$ 3	\$ (288)	\$ 23,301

Mortgage-backed securities								
Residential agency	39,268	143	(968)	38,443	38,450	152	(571)	38,031
Commercial agency	7			7	6			6
Other asset-backed securities	408	7		415	413	6		419
Obligations of state and political subdivisions								
Other	6,380	51	(137)	6,294	6,240	147	(29)	6,358
						22		22
Total available-for-sale	\$ 68,486	\$ 202	\$ (1,563)	\$ 67,125	\$ 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 5.5 years at March 31, 2018, compared with 5.1 years at December 31, 2017. The corresponding weighted-average yields were 2.29 percent and 2.25 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 5.2 years at March 31, 2018 and 4.7 years at December 31, 2017. The corresponding weighted-average yields were 2.24 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 March 31, 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 \$8.0 billion at March 31, 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 counterparties

Table of Contents

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 \$571 million at March 31, 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 March 31

(Dollars in Millions)	2018	2017
Taxable	\$ 561	\$ 483
Non-taxable	52	47
Total interest income from investment securities	\$ 613	\$ 530

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