

US BANCORP \DE\  
Form 10-Q  
May 03, 2018  
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**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)

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

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

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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



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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A reversal or slowing of the current 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.

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

| (Dollars and Shares in Millions, Except Per Share Data)    | Three Months Ended |                  |                   |
|------------------------------------------------------------|--------------------|------------------|-------------------|
|                                                            | 2018               | March 31<br>2017 | Percent<br>Change |
| <b>Condensed Income Statement</b>                          |                    |                  |                   |
| 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              |
| <b>Per Common Share</b>                                    |                    |                  |                   |
| 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)             |
| <b>Financial Ratios</b>                                    |                    |                  |                   |
| 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              |                   |
| <b>Average Balances</b>                                    |                    |                  |                   |
| 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,<br>2018 | December 31,<br>2017 |       |
|------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|-------|
| <b>Period End Balances</b>                                                                                                   |                   |                      |       |
| 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    |
| <b>Asset Quality</b>                                                                                                         |                   |                      |       |
| 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%                |       |
| <b>Capital Ratios</b>                                                                                                        |                   |                      |       |
| 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.

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Management's Discussion and Analysis

**OVERVIEW**

**Earnings Summary** U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of \$1.7 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.

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|                                      | Three Months Ended |                 |            |
|--------------------------------------|--------------------|-----------------|------------|
|                                      | March 31           |                 | Percent    |
| (Dollars in Millions)                | 2018               | 2017            | 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)      |
| <b>Total noninterest income</b>      | <b>\$ 2,272</b>    | <b>\$ 2,259</b> | <b>.6%</b> |

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

|                                    | Three Months Ended |          |                |
|------------------------------------|--------------------|----------|----------------|
|                                    | March 31           |          |                |
| (Dollars in Millions)              | 2018               | 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).

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| At March 31, 2018<br>(Dollars in Millions)                     | Available-for-Sale |            |                                                 |                                      | Held-to-Maturity  |            |                                                 |                                      |
|----------------------------------------------------------------|--------------------|------------|-------------------------------------------------|--------------------------------------|-------------------|------------|-------------------------------------------------|--------------------------------------|
|                                                                | Amortized<br>Cost  | Fair Value | Weighted-<br>Average<br>Maturity<br>in<br>Years | Weighted-<br>Average<br>Yield<br>(e) | Amortized<br>Cost | Fair Value | Weighted-<br>Average<br>Maturity<br>in<br>Years | Weighted-<br>Average<br>Yield<br>(e) |
| <b>U.S. Treasury and Agencies</b>                              |                    |            |                                                 |                                      |                   |            |                                                 |                                      |
| 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%                                |
| <b>Mortgage-Backed Securities (a)</b>                          |                    |            |                                                 |                                      |                   |            |                                                 |                                      |
| 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%                                |
| <b>Asset-Backed Securities (a)</b>                             |                    |            |                                                 |                                      |                   |            |                                                 |                                      |
| 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%                                |
| <b>Obligations of State and Political Subdivisions (b) (c)</b> |                    |            |                                                 |                                      |                   |            |                                                 |                                      |
| 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%                                |
| <b>Other</b>                                                   |                    |            |                                                 |                                      |                   |            |                                                 |                                      |
| 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%           |

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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,

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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

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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.

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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                        | Percent of    |            |           |        |
|----------------------------------------------|---------------|------------|-----------|--------|
| (Dollars in Millions)                        | Interest Only | Amortizing | Total     | Total  |
| <b>Loan-to-Value</b>                         |               |            |           |        |
| 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% |
| <b>Borrower Type</b>                         |               |            |           |        |

|                                              |          |           |           |        |
|----------------------------------------------|----------|-----------|-----------|--------|
| 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<br>(Dollars in Millions) | Lines     | Loans    | Total     | Percent<br>of<br>Total |
|-----------------------------------------------------------|-----------|----------|-----------|------------------------|
| <b>Loan-to-Value</b>                                      |           |          |           |                        |
| 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%                 |
| <b>Borrower Type</b>                                      |           |          |           |                        |
| 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

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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:

|                                  | Junior Liens Behind<br>Company Owned<br>or<br>Serviced |                           |           |
|----------------------------------|--------------------------------------------------------|---------------------------|-----------|
| (Dollars in Millions)            | First<br>Lien                                          | Third Party<br>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.

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|                                                               | March 31,<br>2018 | December 31,<br>2017 |
|---------------------------------------------------------------|-------------------|----------------------|
| 90 days or more past due <b>excluding</b> nonperforming loans |                   |                      |
| <b>Commercial</b>                                             |                   |                      |
| Commercial                                                    | .07%              | .06%                 |
| Lease financing                                               |                   |                      |
| Total commercial                                              | .06               | .06                  |
| <b>Commercial Real Estate</b>                                 |                   |                      |
| Commercial mortgages                                          |                   |                      |
| Construction and development                                  | .04               | .05                  |
| Total commercial real estate                                  | .01               | .01                  |
| <b>Residential Mortgages (a)</b>                              | .22               | .22                  |
| <b>Credit Card</b>                                            | 1.29              | 1.28                 |
| <b>Other Retail</b>                                           |                   |                      |
| 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                  |
| <b>Covered Loans</b>                                          | 4.57              | 4.74                 |
| Total loans                                                   | .25%              | .26%                 |
|                                                               | March 31,<br>2018 | December 31,<br>2017 |
| 90 days or more past due <b>including</b> nonperforming loans |                   |                      |
| <b>Commercial</b>                                             | .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.

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

| (Dollars in Millions)                   | Amount         |                   | As a Percent of Ending Loan Balances |                   |
|-----------------------------------------|----------------|-------------------|--------------------------------------|-------------------|
|                                         | March 31, 2018 | December 31, 2017 | March 31, 2018                       | December 31, 2017 |
| <b>Residential Mortgages (a)</b>        |                |                   |                                      |                   |
| 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%             |
| <b>Credit Card</b>                      |                |                   |                                      |                   |
| 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%             |
| <b>Other Retail</b>                     |                |                   |                                      |                   |
| <b>Retail Leasing</b>                   |                |                   |                                      |                   |
| 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%              |
| <b>Home Equity and Second Mortgages</b> |                |                   |                                      |                   |
| 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%             |
| <b>Other (b)</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,<br>2018 | December 31,<br>2017 | March 31,<br>2018 | December 31,<br>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

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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:

| At March 31, 2018                            | As a Percent of Performing TDRs |                     |                          |                    |            |
|----------------------------------------------|---------------------------------|---------------------|--------------------------|--------------------|------------|
|                                              | Performing TDRs                 | 30-89 Days Past Due | 90 Days or More Past Due | Nonperforming TDRs | Total TDRs |
| (Dollars in Millions)                        |                                 |                     |                          |                    |            |
| 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.*

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**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 |
| <b>Residential</b>    |                |                   |                                      |                   |
| 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               |

|                   |        |        |      |      |
|-------------------|--------|--------|------|------|
| <b>Commercial</b> |        |        |      |      |
| 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% |

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

| (Dollars in Millions)                                          | March 31,<br>2018 | December 31,<br>2017 |
|----------------------------------------------------------------|-------------------|----------------------|
| <b>Commercial</b>                                              |                   |                      |
| Commercial                                                     | \$ 274            | \$ 225               |
| Lease financing                                                | 27                | 24                   |
| Total commercial                                               | 301               | 249                  |
| <b>Commercial Real Estate</b>                                  |                   |                      |
| Commercial mortgages                                           | 86                | 108                  |
| Construction and development                                   | 33                | 34                   |
| Total commercial real estate                                   | 119               | 142                  |
| <b>Residential Mortgages (b)</b>                               | 430               | 442                  |
| <b>Credit Card</b>                                             |                   | 1                    |
| <b>Other Retail</b>                                            |                   |                      |
| 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                |
| <b>Covered Loans</b>                                           | 6                 | 6                    |
| Total nonperforming loans                                      | 1,024             | 1,008                |
| <b>Other Real Estate (c)</b>                                   | 124               | 141                  |
| <b>Covered Other Real Estate</b>                               | 20                | 21                   |
| <b>Other Assets</b>                                            | 36                | 30                   |
| Total nonperforming assets                                     | \$ 1,204          | \$ 1,200             |
| Total nonperforming assets, excluding covered assets           | \$ 1,178          | \$ 1,173             |
| <b>Excluding covered assets</b>                                |                   |                      |
| 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%                 |
| <b>Including covered assets</b>                                |                   |                      |
| 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%                 |
| <b>Changes in Nonperforming Assets</b>                         |                   |                      |

|                                                | Commercial and<br>Commercial<br>Real Estate | Residential<br>Mortgages,<br>Credit Card and<br>Other | Covered<br>Assets | Total    |
|------------------------------------------------|---------------------------------------------|-------------------------------------------------------|-------------------|----------|
| (Dollars in Millions)                          |                                             |                                                       |                   |          |
| <b>Balance December 31, 2017</b>               | \$ 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               |
| <b>Balance March 31, 2018</b>                         | <b>\$ 433</b> | <b>\$ 745</b> | <b>\$ 26</b> | <b>\$ 1,204</b> |

- (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<br>March 31 |       |
|--------------------------------------|--------------------------------|-------|
|                                      | 2018                           | 2017  |
| <b>Commercial</b>                    |                                |       |
| Commercial                           | .25%                           | .33%  |
| Lease financing                      | .29                            | .30   |
| Total commercial                     | .25                            | .32   |
| <b>Commercial Real Estate</b>        |                                |       |
| Commercial mortgages                 | (.06)                          | (.01) |
| Construction and development         | .04                            | (.03) |
| Total commercial real estate         | (.03)                          | (.02) |
| <b>Residential Mortgages</b>         | .05                            | .08   |
| <b>Credit Card</b>                   | 4.02                           | 3.70  |
| <b>Other Retail</b>                  |                                |       |
| 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   |
| <b>Covered Loans</b>                 |                                |       |
| 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

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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<br>March 31 |          |
|----------------------------------|--------------------------------|----------|
|                                  | 2018                           | 2017     |
| Balance at beginning of period   | \$ 4,417                       | \$ 4,357 |
| <b>Charge-Offs</b>               |                                |          |
| 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      |
| <b>Recoveries</b>                |                                |          |
| 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       |
| <b>Net Charge-Offs</b>           |                                |          |
| 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 |
| <b>Components</b>                                                                  |          |          |
| Allowance for loan losses                                                          | \$ 3,918 | \$ 3,816 |
| Liability for unfunded credit commitments                                          | 499      | 550      |
| Total allowance for credit losses                                                  | \$ 4,417 | \$ 4,366 |
| <b>Allowance for Credit Losses as a Percentage of</b>                              |          |          |
| 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.

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**Residual Value Risk Management** The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of 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<br>Immediate | Up 50 bps<br>Immediate | Down 200 bps<br>Gradual | Up 200 bps<br>Gradual | Down 50 bps<br>Immediate | Up 50 bps<br>Immediate | Down 200 bps<br>Gradual | Up 200 bps<br>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.*

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**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

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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 |
|--------------------------------------------------------------------|------|------|
| <b>Residential Mortgage Loans Held For Sale and Related Hedges</b> |      |      |
| Average                                                            | \$ 1 | \$   |
| High                                                               | 1    | 1    |
| Low                                                                |      |      |
| <b>Mortgage Servicing Rights and Related Hedges</b>                |      |      |
| Average                                                            | \$ 6 | \$ 9 |
| High                                                               | 7    | 10   |
| Low                                                                | 5    | 7    |

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**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

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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,<br>2018 | December 31,<br>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<br>(total leverage exposure ratio) | 7.0               |                      |

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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<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Program (a) | Approximate Dollar<br>Value of Shares<br>that May Yet Be<br>Purchased Under<br>the Program<br>(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                                   | Corporate and<br>Commercial Banking |           |                   | Consumer and<br>Business Banking |          |                   |
|---------------------------------------------------------------|-------------------------------------|-----------|-------------------|----------------------------------|----------|-------------------|
|                                                               | 2018                                | 2017      | Percent<br>Change | 2018                             | 2017     | Percent<br>Change |
| <b>Condensed Income Statement</b>                             |                                     |           |                   |                                  |          |                   |
| Net interest income<br>(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<br>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<br>adjustment             | 128                                 | 191       | (33.0)            | 185                              | 242      | (23.6)            |
| Net income                                                    | 384                                 | 334       | 15.0              | 553                              | 422      | 31.0              |
| Net (income) loss attributable to<br>noncontrolling interests |                                     |           |                   |                                  |          |                   |
| Net income attributable to U.S.<br>Bancorp                    | \$ 384                              | \$ 334    | 15.0              | \$ 553                           | \$ 422   | 31.0              |
| <b>Average Balance Sheet</b>                                  |                                     |           |                   |                                  |          |                   |
| 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<br>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

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| Wealth Management and Investment Services |          |                | Payment Services |          |                | Treasury and Corporate Support |         |                | Consolidated Company |           |
|-------------------------------------------|----------|----------------|------------------|----------|----------------|--------------------------------|---------|----------------|----------------------|-----------|
|                                           | 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,

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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.

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

| (Dollars in Millions)                                                                                                            | March 31,<br>2018 | December 31,<br>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              |
| <b>Ratios</b>                                                                                                                    |                   |                      |
| 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.

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**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.

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Consolidated Balance Sheet

| (Dollars in Millions)                                                                                                      | March 31,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|----------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>Assets</b>                                                                                                              |                                  |                      |
| 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           |
| <b>Liabilities and Shareholders' Equity</b>                                                                                |                                  |                      |
| 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.

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U.S. Bancorp

Consolidated Statement of Income

Three Months Ended  
March 31

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

| (Unaudited)                                           | 2018     | 2017     |
|-------------------------------------------------------|----------|----------|
| <b>Interest Income</b>                                |          |          |
| 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    |
| <b>Interest Expense</b>                               |          |          |
| 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    |
| <b>Noninterest Income</b>                             |          |          |
| 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    |
| <b>Noninterest Expense</b>                            |          |          |
| 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.*

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U.S. Bancorp

Consolidated Statement of Comprehensive Income

|                                                                                    | Three Months Ended<br>March 31 |          |
|------------------------------------------------------------------------------------|--------------------------------|----------|
| (Dollars in Millions)                                                              |                                |          |
| (Unaudited)                                                                        | 2018                           | 2017     |
| Net income                                                                         | \$ 1,682                       | \$ 1,486 |
| <b>Other Comprehensive Income (Loss)</b>                                           |                                |          |
| 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>                             |                                |          |

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Consolidated Statement of Shareholders' Equity

| U.S. Bancorp Shareholders                       |                                          |                    |                 |                    |                      |                   |                                                           |                                         |                                      |                 |
|-------------------------------------------------|------------------------------------------|--------------------|-----------------|--------------------|----------------------|-------------------|-----------------------------------------------------------|-----------------------------------------|--------------------------------------|-----------------|
| (Dollars and<br>Shares in<br>Millions)          | Common Shares<br>(Unaudited) Outstanding | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | U.S. Bancorp<br>Shareholders'<br>Equity | Total<br>Noncontrolling<br>Interests | Total<br>Equity |
| <b>Balance<br/>December 31,<br/>2016</b>        | 1,697                                    | \$ 5,501           | \$ 21           | \$ 8,440           | \$ 50,151            | \$ (15,280)       | \$ (1,535)                                                | \$ 47,298                               | \$ 635                               | \$ 47,933       |
| Net income<br>(loss)                            |                                          |                    |                 |                    | 1,473                |                   |                                                           | 1,473                                   | 13                                   | 1,486           |
| Other<br>comprehensive<br>income (loss)         |                                          |                    |                 |                    |                      |                   | 96                                                        | 96                                      |                                      | 96              |
| Preferred stock<br>dividends                    |                                          |                    |                 |                    | (69)                 |                   |                                                           | (69)                                    |                                      | (69)            |
| Common stock<br>dividends                       |                                          |                    |                 |                    | (476)                |                   |                                                           | (476)                                   |                                      | (476)           |
| Issuance of<br>preferred stock                  |                                          | 993                |                 |                    |                      |                   |                                                           | 993                                     |                                      | 993             |
| Call of preferred<br>stock                      |                                          | (1,075)            |                 |                    | (10)                 |                   |                                                           | (1,085)                                 |                                      | (1,085)         |
| Issuance of<br>common and<br>treasury stock     | 6                                        |                    |                 | (107)              |                      | 220               |                                                           | 113                                     |                                      | 113             |
| Purchase of<br>treasury stock                   | (11)                                     |                    |                 |                    |                      | (600)             |                                                           | (600)                                   |                                      | (600)           |
| Distributions to<br>noncontrolling<br>interests |                                          |                    |                 |                    |                      |                   |                                                           |                                         | (13)                                 | (13)            |
| Stock option and<br>restricted stock<br>grants  |                                          |                    |                 | 55                 |                      |                   |                                                           | 55                                      |                                      | 55              |
| <b>Balance<br/>March 31, 2017</b>               | 1,692                                    | \$ 5,419           | \$ 21           | \$ 8,388           | \$ 51,069            | \$ (15,660)       | \$ (1,439)                                                | \$ 47,798                               | \$ 635                               | \$ 48,433       |
| <b>Balance<br/>December 31,<br/>2017</b>        | 1,656                                    | \$ 5,419           | \$ 21           | \$ 8,464           | \$ 54,142            | \$ (17,602)       | \$ (1,404)                                                | \$ 49,040                               | \$ 626                               | \$ 49,666       |
| Change in<br>accounting<br>principles (a)       |                                          |                    |                 |                    | 299                  |                   | (300)                                                     | (1)                                     |                                      | (1)             |
|                                                 |                                          |                    |                 |                    | 1,675                |                   |                                                           | 1,675                                   | 7                                    | 1,682           |

|                                               |       |          |       |          |           |             |            |           |        |           |  |
|-----------------------------------------------|-------|----------|-------|----------|-----------|-------------|------------|-----------|--------|-----------|--|
| Net income (loss)                             |       |          |       |          |           |             |            |           |        |           |  |
| Other comprehensive income (loss)             |       |          |       |          |           | (489)       | (489)      | (489)     |        |           |  |
| Preferred stock dividends                     |       |          |       | (70)     |           |             |            | (70)      | (70)   |           |  |
| Common stock dividends                        |       |          |       | (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        |  |
| <b>Balance</b>                                |       |          |       |          |           |             |            |           |        |           |  |
| <b>March 31, 2018</b>                         | 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.

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## Consolidated Statement of Cash Flows

| (Dollars in Millions)                                                            | Three Months Ended<br>March 31 |           |
|----------------------------------------------------------------------------------|--------------------------------|-----------|
|                                                                                  | 2018                           | 2017      |
| (Unaudited)                                                                      |                                |           |
| <b>Operating Activities</b>                                                      |                                |           |
| 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     |
| <b>Investing Activities</b>                                                      |                                |           |
| 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)   |
| <b>Financing Activities</b>                                                      |                                |           |
| 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.

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## Notes to Consolidated Financial Statements

(Unaudited)

**Note 1** Basis of Presentation

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

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**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 |             |            |           | December 31, 2017 |             |          |           |
|-----------------------------------------------------------------|----------------|-------------|------------|-----------|-------------------|-------------|----------|-----------|
|                                                                 | Unrealized     |             | Losses     |           | Unrealized        |             | Losses   |           |
|                                                                 | Amortized      | Other-than- | Other      | Fair      | Amortized         | Other-than- | Other    | Fair      |
|                                                                 | Cost           | Temporary   | Gain (a)   | Value     | Cost              | Temporary   | Gain (a) | Value     |
| <b>Held-to-maturity</b>                                         |                |             |            |           |                   |             |          |           |
| 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 |
| <b>Available-for-sale</b>                                       |                |             |            |           |                   |             |          |           |
| 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

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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:

## Three Months Ended March 31

| (Dollars in Millions)                               | 2018 | 2017  |
|-----------------------------------------------------|------|-------|
| Realized gains                                      | \$ 5 | \$ 47 |
| Realized losses                                     |      | (18)  |
| Net realized gains (losses)                         | \$ 5 | \$ 29 |
| Income tax (benefit) on net realized gains (losses) | \$ 1 | \$ 11 |

The Company conducts a regular assessment of its investment securities with unrealized losses to determine whether investment securities are other-than-temporarily impaired considering, among other factors, the nature of the investment securities, the credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, the existence of any government or agency guarantees, market conditions and whether the Company intends to sell or it is more likely than not the Company will be required to sell the investment securities. The Company determines other-than-temporary impairment recorded in earnings for investment securities not intended to be sold by estimating the future cash flows of each individual investment security, using market information where available, and discounting the cash flows at the original effective rate of the investment security. Other-than-temporary impairment recorded in other comprehensive income (loss) is measured as the difference between that discounted amount and the fair value of each investment security. The total amount of other-than-temporary impairment recorded was immaterial for the three months ended March 31, 2018 and 2017.

At March 31, 2018, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at March 31, 2018:

|                     | 12 Months or<br>Greater | Total |
|---------------------|-------------------------|-------|
| Less Than 12 Months |                         |       |

| (Dollars in Millions)                           | Fair<br>Unrealized |          | Fair<br>Unrealized |            | Fair<br>Unrealized |            |
|-------------------------------------------------|--------------------|----------|--------------------|------------|--------------------|------------|
|                                                 | Value              | Losses   | Value              | Losses     | Value              | Losses     |
| <b>Held-to-maturity</b>                         |                    |          |                    |            |                    |            |
| U.S. Treasury and agencies                      | \$ 2,261           | \$ (42)  | \$ 2,557           | \$ (139)   | \$ 4,818           | \$ (181)   |
| Residential agency mortgage-backed securities   | 19,957             | (448)    | 14,298             | (618)      | 34,255             | (1,066)    |
| Other asset-backed securities                   |                    |          | 2                  |            | 2                  |            |
| Other                                           |                    |          | 12                 |            | 12                 |            |
| Total held-to-maturity                          | \$ 22,218          | \$ (490) | \$ 16,869          | \$ (757)   | \$ 39,087          | \$ (1,247) |
| <b>Available-for-sale</b>                       |                    |          |                    |            |                    |            |
| U.S. Treasury and agencies                      | \$ 13,116          | \$ (253) | \$ 8,747           | \$ (205)   | \$ 21,863          | \$ (458)   |
| Residential agency mortgage-backed securities   | 11,235             | (236)    | 18,977             | (732)      | 30,212             | (968)      |
| Commercial agency mortgage-backed securities    | 6                  |          |                    |            | 6                  |            |
| Obligations of state and political subdivisions | 2,437              | (46)     | 1,249              | (91)       | 3,686              | (137)      |
| Total available-for-sale                        | \$ 26,794          | \$ (535) | \$ 28,973          | \$ (1,028) | \$ 55,767          | \$ (1,563) |

The Company does not consider these unrealized losses to be credit-related. These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either U.S. Treasury and agencies, agency mortgage-backed or state and political securities. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these investment securities. At March 31, 2018,

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the Company had no plans to sell investment securities with unrealized losses, and believes it is more likely than not it would not be required to sell such investment securities before recovery of their amortized cost.

**Note 4** Loans and Allowance for Credit Losses

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

|                                      | March 31, 2018 |                  | December 31, 2017 |                  |
|--------------------------------------|----------------|------------------|-------------------|------------------|
|                                      | Amount         | Percent of Total | Amount            | Percent of Total |
| (Dollars in Millions)                |                |                  |                   |                  |
| <b>Commercial</b>                    |                |                  |                   |                  |
| Commercial                           | \$ 92,511      | 33.3%            | \$ 91,958         | 32.8%            |
| Lease financing                      | 5,586          | 2.0              | 5,603             | 2.0              |
| Total commercial                     | 98,097         | 35.3             | 97,561            | 34.8             |
| <b>Commercial Real Estate</b>        |                |                  |                   |                  |
| Commercial mortgages                 | 28,982         | 10.4             | 29,367            | 10.5             |
| Construction and development         | 11,158         | 4.0              | 11,096            | 4.0              |
| Total commercial real estate         | 40,140         | 14.4             | 40,463            | 14.5             |
| <b>Residential Mortgages</b>         |                |                  |                   |                  |
| Residential mortgages                | 47,583         | 17.1             | 46,685            | 16.6             |
| Home equity loans, first liens       | 12,894         | 4.7              | 13,098            | 4.7              |
| Total residential mortgages          | 60,477         | 21.8             | 59,783            | 21.3             |
| <b>Credit Card</b>                   | 20,901         | 7.5              | 22,180            | 7.9              |
| <b>Other Retail</b>                  |                |                  |                   |                  |
| Retail leasing                       | 8,048          | 2.9              | 7,988             | 2.8              |
| Home equity and second mortgages     | 16,030         | 5.8              | 16,327            | 5.8              |
| Revolving credit                     | 3,061          | 1.1              | 3,183             | 1.1              |
| Installment                          | 9,089          | 3.3              | 8,989             | 3.2              |
| Automobile                           | 18,762         | 6.7              | 18,934            | 6.8              |
| Student (a)                          | 327            | .1               | 1,903             | .7               |
| Total other retail                   | 55,317         | 19.9             | 57,324            | 20.4             |
| Total loans, excluding covered loans | 274,932        | 98.9             | 277,311           | 98.9             |
| <b>Covered Loans</b>                 | 2,979          | 1.1              | 3,121             | 1.1              |
| Total loans                          | \$ 277,911     | 100.0%           | \$ 280,432        | 100.0%           |

(a) Effective March 31, 2018, the Company transferred all of its federally guaranteed student loans to loans held for sale.

The Company had loans of \$83.9 billion at March 31, 2018, and \$83.3 billion at December 31, 2017, pledged at the Federal Home Loan Bank, and loans of \$68.4 billion at March 31, 2018, and \$68.0 billion at December 31, 2017, pledged at the Federal Reserve Bank.

Originated loans are reported at the principal amount outstanding, net of unearned interest and deferred fees and costs, and any partial charge-offs recorded. Net unearned interest and deferred fees and costs amounted to \$826 million at

March 31, 2018 and \$830 million at December 31, 2017. All purchased loans and related indemnification assets are recorded at fair value at the date of purchase. The Company evaluates purchased loans for impairment at the date of purchase in accordance with applicable authoritative accounting guidance. Purchased loans with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are considered purchased impaired loans. All other purchased loans are considered purchased nonimpaired loans.

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

Three Months Ended March 31

| (Dollars in Millions)                               | 2018   | 2017   |
|-----------------------------------------------------|--------|--------|
| Balance at beginning of period                      | \$ 350 | \$ 698 |
| Accretion                                           | (91)   | (90)   |
| Disposals                                           | (12)   | (23)   |
| Reclassifications from nonaccretable difference (a) | 10     | 53     |
| Other                                               |        | (1)    |
| Balance at end of period                            | \$ 257 | \$ 637 |

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

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

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

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

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

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

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

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

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

| (Dollars in Millions)                | Commercial | Commercial Real Estate | Residential Mortgages | Credit Card | Other Retained | Total Loans, Excluding Covered Loans | Covered Loans | Total Loans |
|--------------------------------------|------------|------------------------|-----------------------|-------------|----------------|--------------------------------------|---------------|-------------|
| <b>Balance at December 31, 2017</b>  | \$ 1,372   | \$ 831                 | \$ 449                | \$ 1,056    | \$ 678         | \$ 4,386                             | \$ 31         | \$ 4,417    |
| Add                                  |            |                        |                       |             |                |                                      |               |             |
| Provision for credit losses          | 74         | (8)                    | 1                     | 219         | 60             | 346                                  | (5)           | 341         |
| Deduct                               |            |                        |                       |             |                |                                      |               |             |
| Loans charged-off                    | 94         | 3                      | 13                    | 248         | 95             | 453                                  |               | 453         |
| Less recoveries of loans charged-off | (34)       | (6)                    | (6)                   | (37)        | (29)           | (112)                                |               | (112)       |
| Net loans charged-off                | 60         | (3)                    | 7                     | 211         | 66             | 341                                  |               | 341         |
| Other changes (a)                    |            |                        |                       |             |                |                                      |               |             |
| <b>Balance at March 31, 2018</b>     | \$ 1,386   | \$ 826                 | \$ 443                | \$ 1,064    | \$ 672         | \$ 4,391                             | \$ 26         | \$ 4,417    |
| <b>Balance at December 31, 2016</b>  | \$ 1,450   | \$ 812                 | \$ 510                | \$ 934      | \$ 617         | \$ 4,323                             | \$ 34         | \$ 4,357    |
| Add                                  |            |                        |                       |             |                |                                      |               |             |
| Provision for credit losses          | 54         | 28                     | (13)                  | 211         | 65             | 345                                  |               | 345         |
| Deduct                               |            |                        |                       |             |                |                                      |               |             |
| Loans charged-off                    | 96         | 3                      | 17                    | 212         | 89             | 417                                  |               | 417         |
| Less recoveries of loans charged-off | (21)       | (5)                    | (5)                   | (22)        | (29)           | (82)                                 |               | (82)        |
| Net loans charged-off                | 75         | (2)                    | 12                    | 190         | 60             | 335                                  |               | 335         |
| Other changes (a)                    |            |                        |                       |             |                |                                      | (1)           | (1)         |
| <b>Balance at March 31, 2017</b>     | \$ 1,429   | \$ 842                 | \$ 485                | \$ 955      | \$ 622         | \$ 4,333                             | \$ 33         | \$ 4,366    |

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

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

| (Dollars in Millions)                                 | Commercial | Commercial Real Estate | Residential Mortgages | Credit Card | Other Retained | Total Loans, Excluding Covered Loans | Covered Loans | Total Loans |
|-------------------------------------------------------|------------|------------------------|-----------------------|-------------|----------------|--------------------------------------|---------------|-------------|
| <b>Allowance Balance at March 31, 2018 Related to</b> |            |                        |                       |             |                |                                      |               |             |
| Loans individually evaluated for impairment (a)       | \$ 28      | \$ 3                   | \$                    | \$          | \$             | \$ 31                                | \$            | \$ 31       |
| TDRs collectively evaluated for impairment            | 12         | 5                      | 138                   | 60          | 16             | 231                                  |               | 231         |
| Other loans collectively evaluated for impairment     | 1,346      | 815                    | 305                   | 1,004       | 656            | 4,126                                |               | 4,126       |
|                                                       |            | 3                      |                       |             |                | 3                                    | 26            | 29          |

|                                                          |    |       |    |     |    |     |    |       |        |     |       |       |    |    |       |       |
|----------------------------------------------------------|----|-------|----|-----|----|-----|----|-------|--------|-----|-------|-------|----|----|-------|-------|
| Loans acquired with deteriorated credit quality          |    |       |    |     |    |     |    |       |        |     |       |       |    |    |       |       |
| Total allowance for credit losses                        | \$ | 1,386 | \$ | 826 | \$ | 443 | \$ | 1,064 | \$ 672 | \$  | 4,391 | \$    | 26 | \$ | 4,417 |       |
| <b>Allowance Balance at December 31, 2017 Related to</b> |    |       |    |     |    |     |    |       |        |     |       |       |    |    |       |       |
| Loans individually evaluated for impairment (a)          | \$ | 23    | \$ | 4   | \$ |     | \$ |       | \$     |     | \$    | 27    | \$ |    | \$    | 27    |
| TDRs collectively evaluated for impairment               |    | 14    |    | 4   |    | 139 |    | 60    |        | 19  |       | 236   |    | 1  |       | 237   |
| Other loans collectively evaluated for impairment        |    | 1,335 |    | 818 |    | 310 |    | 996   |        | 659 |       | 4,118 |    |    |       | 4,118 |
| Loans acquired with deteriorated credit quality          |    |       |    | 5   |    |     |    |       |        |     |       | 5     |    | 30 |       | 35    |
| Total allowance for credit losses                        | \$ | 1,372 | \$ | 831 | \$ | 449 | \$ | 1,056 | \$ 678 | \$  | 4,386 | \$    | 31 | \$ | 4,417 |       |

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

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

|                                                   | Commercial |             |                       |                   | Credit Card | Other Retail | Total Loans, Excluding Covered Loans |            | Total Loans |
|---------------------------------------------------|------------|-------------|-----------------------|-------------------|-------------|--------------|--------------------------------------|------------|-------------|
| (Dollars in Millions)                             | Commercial | Real Estate | Residential Mortgages | Covered Loans (b) |             |              |                                      |            |             |
| <b>March 31, 2018</b>                             |            |             |                       |                   |             |              |                                      |            |             |
| Loans individually evaluated for impairment (a)   | \$ 327     | \$ 50       | \$                    | \$                | \$          | \$ 377       | \$                                   | \$ 377     |             |
| TDRs collectively evaluated for impairment        | 154        | 151         | 3,339                 | 234               | 181         | 4,059        | 36                                   | 4,095      |             |
| Other loans collectively evaluated for impairment | 97,616     | 39,881      | 57,137                | 20,667            | 55,136      | 270,437      | 977                                  | 271,414    |             |
| Loans acquired with deteriorated credit quality   |            | 58          | 1                     |                   |             | 59           | 1,966                                | 2,025      |             |
| Total loans                                       | \$ 98,097  | \$ 40,140   | \$ 60,477             | \$ 20,901         | \$ 55,317   | \$ 274,932   | \$ 2,979                             | \$ 277,911 |             |
| <b>December 31, 2017</b>                          |            |             |                       |                   |             |              |                                      |            |             |
| Loans individually evaluated for impairment (a)   | \$ 337     | \$ 71       | \$                    | \$                | \$          | \$ 408       | \$                                   | \$ 408     |             |
| TDRs collectively evaluated for impairment        | 148        | 145         | 3,524                 | 230               | 186         | 4,233        | 36                                   | 4,269      |             |
| Other loans collectively evaluated for impairment | 97,076     | 40,174      | 56,258                | 21,950            | 57,138      | 272,596      | 1,073                                | 273,669    |             |
| Loans acquired with deteriorated credit quality   |            | 73          | 1                     |                   |             | 74           | 2,012                                | 2,086      |             |
| Total loans                                       | \$ 97,561  | \$ 40,463   | \$ 59,783             | \$ 22,180         | \$ 57,324   | \$ 277,311   | \$ 3,121                             | \$ 280,432 |             |

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

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

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

For all loan classes, loans are considered past due based on the number of days delinquent except for monthly amortizing loans which are classified delinquent based upon the number of contractually required payments not made

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(for example, two missed payments is considered 30 days delinquent). When a loan is placed on nonaccrual status, unpaid accrued interest is reversed, reducing interest income in the current period.

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

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

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

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

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

| (Dollars in Millions)                | Current    | Accruing<br>30-89 Days<br>Past Due | 90 Days or<br>More Past Due | Nonperforming | Total      |
|--------------------------------------|------------|------------------------------------|-----------------------------|---------------|------------|
| <b>March 31, 2018</b>                |            |                                    |                             |               |            |
| Commercial                           | \$ 97,494  | \$ 241                             | \$ 61                       | \$ 301        | \$ 98,097  |
| Commercial real estate               | 39,979     | 38                                 | 4                           | 119           | 40,140     |
| Residential mortgages (a)            | 59,769     | 146                                | 132                         | 430           | 60,477     |
| Credit card                          | 20,356     | 275                                | 270                         |               | 20,901     |
| Other retail                         | 54,730     | 320                                | 99                          | 168           | 55,317     |
| Total loans, excluding covered loans | 272,328    | 1,020                              | 566                         | 1,018         | 274,932    |
| Covered loans                        | 2,790      | 47                                 | 136                         | 6             | 2,979      |
| Total loans                          | \$ 275,118 | \$ 1,067                           | \$ 702                      | \$ 1,024      | \$ 277,911 |
| <b>December 31, 2017</b>             |            |                                    |                             |               |            |
| Commercial                           | \$ 97,005  | \$ 250                             | \$ 57                       | \$ 249        | \$ 97,561  |
| Commercial real estate               | 40,279     | 36                                 | 6                           | 142           | 40,463     |
| Residential mortgages (a)            | 59,013     | 198                                | 130                         | 442           | 59,783     |
| Credit card                          | 21,593     | 302                                | 284                         | 1             | 22,180     |
| Other retail                         | 56,685     | 376                                | 95                          | 168           | 57,324     |
| Total loans, excluding covered loans | 274,575    | 1,162                              | 572                         | 1,002         | 277,311    |
| Covered loans                        | 2,917      | 50                                 | 148                         | 6             | 3,121      |
| Total loans                          | \$ 277,492 | \$ 1,212                           | \$ 720                      | \$ 1,008      | \$ 280,432 |

(a) At March 31, 2018, \$376 million of loans 30-89 days past due and \$1.9 billion of loans 90 days or more past due purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs, were classified as current, compared with \$385 million and \$1.9 billion at December 31, 2017, respectively.

At March 31, 2018, the amount of foreclosed residential real estate held by the Company, and included in OREO, was \$138 million (\$118 million excluding covered assets), compared with \$156 million (\$135 million excluding covered assets) at December 31, 2017. These amounts exclude \$243 million and \$267 million at March 31, 2018 and December 31, 2017, respectively, of foreclosed residential real estate related to mortgage loans whose payments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. In addition, the amount of residential mortgage loans secured by residential real estate in the process of foreclosure at March 31, 2018 and December 31, 2017, was \$1.7 billion, of which \$1.3 billion related to loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

The Company classifies its loan portfolios using internal credit quality ratings on a quarterly basis. These ratings include pass, special mention and classified, and are an important part of the Company's overall credit risk management process and evaluation of the allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company's rating scale for problem credits, as minimal credit risk has been identified. Special mention loans are those loans that have a potential weakness deserving management's close attention. Classified loans

are those loans where a well-defined weakness has been identified that may put full collection of contractual cash flows at risk. It is possible that others, given the same information, may reach different reasonable conclusions regarding the credit quality rating classification of specific loans.

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

| (Dollars in Millions)                | Pass       | Special<br>Mention | Criticized<br>Classified (a) | Total<br>Criticized | Total      |
|--------------------------------------|------------|--------------------|------------------------------|---------------------|------------|
| <b>March 31, 2018</b>                |            |                    |                              |                     |            |
| Commercial                           | \$ 95,757  | \$ 1,290           | \$ 1,050                     | \$ 2,340            | \$ 98,097  |
| Commercial real estate               | 38,990     | 556                | 594                          | 1,150               | 40,140     |
| Residential mortgages (b)            | 59,855     | 18                 | 604                          | 622                 | 60,477     |
| Credit card                          | 20,631     |                    | 270                          | 270                 | 20,901     |
| Other retail                         | 55,005     | 10                 | 302                          | 312                 | 55,317     |
| Total loans, excluding covered loans | 270,238    | 1,874              | 2,820                        | 4,694               | 274,932    |
| Covered loans                        | 2,932      |                    | 47                           | 47                  | 2,979      |
| Total loans                          | \$ 273,170 | \$ 1,874           | \$ 2,867                     | \$ 4,741            | \$ 277,911 |
| Total outstanding commitments        | \$ 586,609 | \$ 3,129           | \$ 3,616                     | \$ 6,745            | \$ 593,354 |
| <b>December 31, 2017</b>             |            |                    |                              |                     |            |
| Commercial                           | \$ 95,297  | \$ 1,130           | \$ 1,134                     | \$ 2,264            | \$ 97,561  |
| Commercial real estate               | 39,162     | 648                | 653                          | 1,301               | 40,463     |
| Residential mortgages (b)            | 59,141     | 16                 | 626                          | 642                 | 59,783     |
| Credit card                          | 21,895     |                    | 285                          | 285                 | 22,180     |
| Other retail                         | 57,009     | 6                  | 309                          | 315                 | 57,324     |
| Total loans, excluding covered loans | 272,504    | 1,800              | 3,007                        | 4,807               | 277,311    |
| Covered loans                        | 3,072      |                    | 49                           | 49                  | 3,121      |
| Total loans                          | \$ 275,576 | \$ 1,800           | \$ 3,056                     | \$ 4,856            | \$ 280,432 |
| Total outstanding commitments        | \$ 584,072 | \$ 3,142           | \$ 3,987                     | \$ 7,129            | \$ 591,201 |

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

(b) At March 31, 2018, \$1.9 billion of GNMA loans 90 days or more past due and \$1.6 billion of restructured GNMA loans whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs were classified with a pass rating, compared with \$1.9 billion and \$1.7 billion at December 31, 2017, respectively.

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

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

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

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

| (Dollars in Millions)                         | Period-end<br>Recorded<br>Investment (a) | Unpaid<br>Principal<br>Balance | Valuation<br>Allowance | Commitments<br>to Lend<br>Additional<br>Funds |
|-----------------------------------------------|------------------------------------------|--------------------------------|------------------------|-----------------------------------------------|
| <b>March 31, 2018</b>                         |                                          |                                |                        |                                               |
| Commercial                                    | \$ 540                                   | \$ 833                         | \$ 42                  | \$ 214                                        |
| Commercial real estate                        | 254                                      | 573                            | 9                      |                                               |
| Residential mortgages                         | 1,881                                    | 2,118                          | 109                    | 1                                             |
| Credit card                                   | 234                                      | 234                            | 60                     |                                               |
| Other retail                                  | 299                                      | 383                            | 19                     | 4                                             |
| Total loans, excluding GNMA and covered loans | 3,208                                    | 4,141                          | 239                    | 219                                           |
| Loans purchased from GNMA mortgage pools      | 1,566                                    | 1,566                          | 30                     |                                               |
| Covered loans                                 | 38                                       | 46                             | 1                      |                                               |
| Total                                         | \$ 4,812                                 | \$ 5,753                       | \$ 270                 | \$ 219                                        |
| <b>December 31, 2017</b>                      |                                          |                                |                        |                                               |
| Commercial                                    | \$ 550                                   | \$ 915                         | \$ 44                  | \$ 199                                        |
| Commercial real estate                        | 280                                      | 596                            | 11                     |                                               |
| Residential mortgages                         | 1,946                                    | 2,339                          | 116                    | 1                                             |
| Credit card                                   | 230                                      | 230                            | 60                     |                                               |
| Other retail                                  | 302                                      | 400                            | 22                     | 4                                             |
| Total loans, excluding GNMA and covered loans | 3,308                                    | 4,480                          | 253                    | 204                                           |
| Loans purchased from GNMA mortgage pools      | 1,681                                    | 1,681                          | 25                     |                                               |
| Covered loans                                 | 38                                       | 44                             | 1                      |                                               |
| Total                                         | \$ 5,027                                 | \$ 6,205                       | \$ 279                 | \$ 204                                        |

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

Additional information on impaired loans follows:

| Three Months Ended March 31                   | 2018                              |                                  | 2017                              |                                  |
|-----------------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                               | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| (Dollars in Millions)                         |                                   |                                  |                                   |                                  |
| Commercial                                    | \$ 545                            | \$ 1                             | \$ 817                            | \$ 1                             |
| Commercial real estate                        | 267                               | 2                                | 278                               | 2                                |
| Residential mortgages                         | 1,914                             | 20                               | 2,240                             | 29                               |
| Credit card                                   | 232                               | 1                                | 225                               | 1                                |
| Other retail                                  | 300                               | 4                                | 280                               | 4                                |
| Total loans, excluding GNMA and covered loans | 3,258                             | 28                               | 3,840                             | 37                               |
| Loans purchased from GNMA mortgage pools      | 1,624                             | 12                               | 1,646                             | 18                               |
| Covered loans                                 | 38                                |                                  | 36                                |                                  |

|       |          |       |          |       |
|-------|----------|-------|----------|-------|
| Total | \$ 4,920 | \$ 40 | \$ 5,522 | \$ 55 |
|-------|----------|-------|----------|-------|

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

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

| Three Months Ended March 31<br>(Dollars in Millions) | 2018                                   |                                                    |                                                     | 2017                                   |                                                    |                                                     |
|------------------------------------------------------|----------------------------------------|----------------------------------------------------|-----------------------------------------------------|----------------------------------------|----------------------------------------------------|-----------------------------------------------------|
|                                                      | Pre-Modification<br>Number<br>of Loans | Pre-Modification<br>Outstanding<br>Loan<br>Balance | Post-Modification<br>Outstanding<br>Loan<br>Balance | Pre-Modification<br>Number<br>of Loans | Pre-Modification<br>Outstanding<br>Loan<br>Balance | Post-Modification<br>Outstanding<br>Loan<br>Balance |
| Commercial                                           | 623                                    | \$ 81                                              | \$ 75                                               | 830                                    | \$ 137                                             | \$ 128                                              |
| Commercial real estate                               | 29                                     | 16                                                 | 16                                                  | 23                                     | 9                                                  | 8                                                   |
| Residential mortgages                                | 148                                    | 17                                                 | 16                                                  | 356                                    | 40                                                 | 41                                                  |
| Credit card                                          | 8,546                                  | 43                                                 | 43                                                  | 9,405                                  | 45                                                 | 46                                                  |
| Other retail                                         | 559                                    | 11                                                 | 10                                                  | 622                                    | 11                                                 | 9                                                   |
| Total loans, excluding GNMA<br>and covered loans     | 9,905                                  | 168                                                | 160                                                 | 11,236                                 | 242                                                | 232                                                 |
| Loans purchased from GNMA<br>mortgage pools          | 888                                    | 117                                                | 113                                                 | 2,929                                  | 387                                                | 378                                                 |
| Covered loans                                        |                                        |                                                    |                                                     | 4                                      | 1                                                  | 1                                                   |
| Total loans                                          | 10,793                                 | \$ 285                                             | \$ 273                                              | 14,169                                 | \$ 630                                             | \$ 611                                              |

Residential mortgages, home equity and second mortgages, and loans purchased from GNMA mortgage pools in the table above include trial period arrangements offered to customers during the periods presented. The post-modification balances for these loans reflect the current outstanding balance until a permanent modification is made. In addition, the post-modification balances typically include capitalization of unpaid accrued interest and/or fees under the various modification programs. For those loans modified as TDRs during the first quarter of 2018, at March 31, 2018, 50 residential mortgages, 31 home equity and second mortgage loans and 781 loans purchased from GNMA mortgage pools with outstanding balances of \$8 million, \$3 million and \$105 million, respectively, were in a trial period and have estimated post-modification balances of \$8 million, \$3 million and \$101 million, respectively, assuming permanent modification occurs at the end of the trial period.

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

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

Modifications for the consumer lending segment are generally part of programs the Company has initiated. The Company modifies residential mortgage loans under Federal Housing Administration, United States Department of Veterans Affairs, or its own internal programs. Under these programs, the Company offers qualifying homeowners the opportunity to permanently modify their loan and achieve more affordable monthly payments by providing loan concessions. These concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extension of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan

restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement, and the loan documents are not modified until that time. The Company reports loans in a trial period arrangement as TDRs and continues to report them as TDRs after the trial period.

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

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

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

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

| Three Months Ended March 31                   | 2018            |                  | 2017            |                  |
|-----------------------------------------------|-----------------|------------------|-----------------|------------------|
|                                               | Number of Loans | Amount Defaulted | Number of Loans | Amount Defaulted |
| (Dollars in Millions)                         |                 |                  |                 |                  |
| Commercial                                    | 239             | \$ 9             | 173             | \$ 8             |
| Commercial real estate                        | 8               | 4                | 8               | 2                |
| Residential mortgages                         | 56              | 4                | 72              | 9                |
| Credit card                                   | 2,036           | 9                | 2,047           | 9                |
| Other retail                                  | 77              | 1                | 129             | 2                |
| Total loans, excluding GNMA and covered loans | 2,416           | 27               | 2,429           | 30               |
| Loans purchased from GNMA mortgage pools      | 232             | 31               | 218             | 30               |
| Covered loans                                 | 1               |                  |                 |                  |
| Total loans                                   | 2,649           | \$ 58            | 2,647           | \$ 60            |

In addition to the defaults in the table above, the Company had a total of 275 residential mortgage loans, home equity and second mortgage loans and loans purchased from GNMA mortgage pools for the three months ended March 31, 2018, where borrowers did not successfully complete the trial period arrangement and, therefore, are no longer eligible for a permanent modification under the applicable modification program. These loans had aggregate outstanding balances of \$23 million for the three months ended March 31, 2018.

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

|                                       | March 31, 2018           |                             |        |          | December 31, 2017        |                             |        |          |
|---------------------------------------|--------------------------|-----------------------------|--------|----------|--------------------------|-----------------------------|--------|----------|
|                                       | Purchased Impaired Loans | Purchased Nonimpaired Loans | Other  | Total    | Purchased Impaired Loans | Purchased Nonimpaired Loans | Other  | Total    |
| (Dollars in Millions)                 |                          |                             |        |          |                          |                             |        |          |
| Residential mortgage loans            | \$ 1,966                 | \$ 374                      | \$     | \$ 2,340 | \$ 2,012                 | \$ 400                      | \$     | \$ 2,412 |
| Other retail loans                    |                          | 137                         |        | 137      |                          | 151                         |        | 151      |
| Losses reimbursable by the FDIC       |                          |                             |        |          |                          |                             |        |          |
| (a)                                   |                          |                             | 327    | 327      |                          |                             | 320    | 320      |
| Unamortized changes in FDIC asset (b) |                          |                             | 175    | 175      |                          |                             | 238    | 238      |
| Covered loans                         | 1,966                    | 511                         | 502    | 2,979    | 2,012                    | 551                         | 558    | 3,121    |
| Foreclosed real estate                |                          |                             | 20     | 20       |                          |                             | 21     | 21       |
| Total covered assets                  | \$ 1,966                 | \$ 511                      | \$ 522 | \$ 2,999 | \$ 2,012                 | \$ 551                      | \$ 579 | \$ 3,142 |

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

(b) Represents decreases in expected reimbursements by the FDIC as a result of decreases in expected losses on the covered loans. These amounts are amortized as a reduction in interest income on covered loans over the shorter of

*the expected life of the respective covered loans or the remaining contractual term of the indemnification agreements.*

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

**Note 5** Accounting for Transfers and Servicing of Financial Assets and Variable Interest Entities

The Company transfers financial assets in the normal course of business. The majority of the Company's financial asset transfers are residential mortgage loan sales primarily to government-sponsored enterprises (GSEs), transfers of tax-advantaged investments, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. Guarantees provided to certain third parties in connection with the transfer of assets are further discussed in Note 15.

For loans sold under participation agreements, the Company also considers whether the terms of the loan participation agreement meet the accounting definition of a participating interest. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. Any gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by

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the Company are initially recognized at fair value. For further information on mortgage servicing rights ( MSRs ), refer to Note 6. On a limited basis, the Company may acquire and package high-grade corporate bonds for select corporate customers, in which the Company generally has no continuing involvement with these transactions. Additionally, the Company is an authorized GNMA issuer and issues GNMA securities on a regular basis. The Company has no other asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

The Company also provides financial support primarily through the use of waivers of management fees associated with various unconsolidated registered money market funds it manages. The Company provided \$6 million of support to the funds during both the three months ended March 31, 2018 and 2017, respectively.

The Company is involved in various entities that are considered to be variable interest entities ( VIEs ). The Company's investments in VIEs are primarily related to investments promoting affordable housing, community development and renewable energy sources. Some of these tax-advantaged investments support the Company's regulatory compliance with the Community Reinvestment Act. The Company's investments in these entities generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. These tax credits are recognized as a reduction of tax expense or, for investments qualifying as investment tax credits, as a reduction to the related investment asset. The Company recognized federal and state income tax credits related to its affordable housing and other tax-advantaged investments in tax expense of \$166 million and \$161 million for the three months ended March 31, 2018 and 2017, respectively. The Company also recognized \$137 million and \$259 million of investment tax credits for the three months ended March 31, 2018 and 2017, respectively. The Company recognized \$146 million and \$145 million of expenses related to all of these investments for the three months ended March 31, 2018 and 2017, respectively, of which \$67 million and \$63 million, respectively, were included in tax expense and the remaining amounts were included in noninterest expense.

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

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

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

|                       | March 31, | December 31, |
|-----------------------|-----------|--------------|
| (Dollars in Millions) | 2018      | 2017         |

|                                        |          |          |
|----------------------------------------|----------|----------|
| Investment carrying amount             | \$ 5,637 | \$ 5,660 |
| Unfunded capital and other commitments | 2,648    | 2,770    |
| Maximum exposure to loss               | 12,264   | 12,120   |

The Company also has noncontrolling financial investments in private investment funds and partnerships considered to be VIEs, which are not consolidated. The Company's recorded investment in these entities, carried in other assets on the Consolidated Balance Sheet, was approximately \$30 million at March 31, 2018 and December 31, 2017. The maximum exposure to loss related to these VIEs was \$51 million at March 31, 2018 and December 31, 2017, representing the Company's investment balance and its unfunded commitments to invest additional amounts.

The Company's individual net investments in unconsolidated VIEs, which exclude any unfunded capital commitments, ranged from less than \$1 million to \$54 million at March 31, 2018, compared with less than \$1 million to \$56 million at December 31, 2017.

The Company is required to consolidate VIEs in which it has concluded it has a controlling financial interest. The Company sponsors entities to which it transfers its interests in tax-advantaged investments to third parties. At

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March 31, 2018, approximately \$3.4 billion of the Company's assets and \$2.5 billion of its liabilities included on the Consolidated Balance Sheet were related to community development and tax-advantaged investment VIEs which the Company has consolidated, primarily related to these transfers. These amounts compared to \$3.5 billion and \$2.5 billion, respectively, at December 31, 2017. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt and other liabilities. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIEs is generally limited to the carrying value of its variable interests plus any related tax credits previously recognized or transferred to others with a guarantee.

The Company also sponsors a conduit to which it previously transferred high-grade investment securities. The Company consolidates the conduit because of its ability to manage the activities of the conduit. At March 31, 2018 and December 31, 2017, \$18 million of the held-to-maturity investment securities on the Company's Consolidated Balance Sheet were related to the conduit.

In addition, the Company sponsors a municipal bond securities tender option bond program. The Company controls the activities of the program's entities, is entitled to the residual returns and provides liquidity and remarketing arrangements to the program. As a result, the Company has consolidated the program's entities. At March 31, 2018, \$2.4 billion of available-for-sale investment securities and \$2.3 billion of short-term borrowings on the Consolidated Balance Sheet were related to the tender option bond program, compared with \$2.5 billion of available-for-sale investment securities and \$2.3 billion of short-term borrowings at December 31, 2017.

**Note 6** Mortgage Servicing Rights

The Company capitalizes MSR as separate assets when loans are sold and servicing is retained, or if they are purchased from others. The Company carries MSR at fair value, with changes in the fair value recorded in earnings during the period in which they occur. The Company serviced \$235.0 billion of residential mortgage loans for others at March 31, 2018, and \$234.7 billion at December 31, 2017, which include subserviced mortgages with no corresponding MSR asset. The net impact included in mortgage banking revenue of fair value changes of MSR due to changes in valuation assumptions and derivatives used to economically hedge MSR were net gains of \$19 million and \$12 million for the three months ended March 31, 2018 and 2017, respectively. Loan servicing and ancillary fees, not including valuation changes, included in mortgage banking revenue were \$190 million and \$192 million for the three months ended March 31, 2018 and 2017, respectively.

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

| (Dollars in Millions)                            | Three Months Ended<br>March 31 |          |
|--------------------------------------------------|--------------------------------|----------|
|                                                  | 2018                           | 2017     |
| Balance at beginning of period                   | \$ 2,645                       | \$ 2,591 |
| Rights purchased                                 | 2                              | 2        |
| Rights capitalized                               | 100                            | 122      |
| Changes in fair value of MSR                     |                                |          |
| Due to fluctuations in market interest rates (a) | 114                            | 20       |
| Due to revised assumptions or models (b)         | 24                             | 12       |
| Other changes in fair value (c)                  | (105)                          | (105)    |

Balance at end of period \$ 2,780    \$ 2,642

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

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

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

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

|                              | March 31, 2018 |             |             |           |           |            | December 31, 2017 |             |             |           |           |            |
|------------------------------|----------------|-------------|-------------|-----------|-----------|------------|-------------------|-------------|-------------|-----------|-----------|------------|
| (Dollars in Millions)        | Down 100 bps   | Down 50 bps | Down 25 bps | Up 25 bps | Up 50 bps | Up 100 bps | Down 100 bps      | Down 50 bps | Down 25 bps | Up 25 bps | Up 50 bps | Up 100 bps |
| MSR portfolio                | \$ (433)       | \$ (192)    | \$ (90)     | \$ 77     | \$ 142    | \$ 240     | \$ (520)          | \$ (231)    | \$ (109)    | \$ 95     | \$ 177    | \$ 302     |
| Derivative instrument hedges | 399            | 187         | 90          | (82)      | (154)     | (277)      | 453               | 216         | 105         | (96)      | (184)     | (336)      |
| Net sensitivity              | \$ (34)        | \$ (5)      | \$          | \$ (5)    | \$ (12)   | \$ (37)    | \$ (67)           | \$ (15)     | \$ (4)      | \$ (1)    | \$ (7)    | \$ (34)    |

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The fair value of MSR assets and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of government-insured mortgages, conventional mortgages and Housing Finance Agency (HFA) mortgages. The servicing portfolios are predominantly comprised of fixed-rate agency loans with limited adjustable-rate or jumbo mortgage loans. The HFA servicing portfolio is comprised of loans originated under state and local housing authority program guidelines which assist purchases by first-time or low- to moderate-income homebuyers through a favorable rate subsidy, down payment and/or closing cost assistance on government- and conventional-insured mortgages.

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

|                                                                 | March 31, 2018 |            |                  |            | December 31, 2017 |            |                  |            |
|-----------------------------------------------------------------|----------------|------------|------------------|------------|-------------------|------------|------------------|------------|
| (Dollars in Millions)                                           | HFA            | Government | Conventional (c) | Total      | HFA               | Government | Conventional (c) | Total      |
| Servicing portfolio (a)                                         | \$ 41,815      | \$ 37,055  | \$ 154,182       | \$ 233,052 | \$ 40,737         | \$ 36,756  | \$ 155,353       | \$ 232,846 |
| Fair value                                                      | \$ 486         | \$ 461     | \$ 1,833         | \$ 2,780   | \$ 450            | \$ 428     | \$ 1,767         | \$ 2,645   |
| Value (bps) (b)                                                 | 116            | 124        | 119              | 119        | 110               | 116        | 114              | 114        |
| Weighted-average servicing fees (bps)                           | 35             | 35         | 27               | 29         | 35                | 34         | 27               | 29         |
| Multiple (value/servicing fees)                                 | 3.36           | 3.59       | 4.44             | 4.05       | 3.17              | 3.38       | 4.24             | 3.86       |
| Weighted-average note rate                                      | 4.46%          | 3.93%      | 4.02%            | 4.08%      | 4.43%             | 3.92%      | 4.02%            | 4.08%      |
| Weighted-average age (in years)                                 | 3.1            | 4.3        | 4.3              | 4.1        | 3.0               | 4.3        | 4.2              | 4.0        |
| Weighted-average expected prepayment (constant prepayment rate) | 9.3%           | 10.8%      | 8.8%             | 9.2%       | 9.8%              | 11.6%      | 9.7%             | 10.0%      |
| Weighted-average expected life (in years)                       | 7.9            | 6.8        | 7.3              | 7.3        | 7.7               | 6.5        | 6.9              | 7.0        |
| Weighted-average option adjusted spread (d)                     | 8.8%           | 8.4%       | 7.3%             | 7.8%       | 9.9%              | 9.2%       | 7.2%             | 8.0%       |

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

(b) Calculated as fair value divided by the servicing portfolio.

(c) Represents loans sold primarily to GSEs.

(d) Option adjusted spread is the incremental spread added to the risk-free rate to reflect optionality and other risk inherent in the MSR assets.

**Note 7** Preferred Stock

At March 31, 2018 and December 31, 2017, the Company had authority to issue 50 million shares of preferred stock. The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock were as follows:

| (Dollars in Millions)     | March 31, 2018        |                 |                     |                 | December 31, 2017     |                 |                     |                 |
|---------------------------|-----------------------|-----------------|---------------------|-----------------|-----------------------|-----------------|---------------------|-----------------|
|                           | Shares                | and Liquidation | Preference Discount | Carrying Amount | Shares                | and Liquidation | Preference Discount | Carrying Amount |
|                           | Issued<br>Outstanding |                 |                     |                 | Issued<br>Outstanding |                 |                     |                 |
| Series A                  | 12,510                | \$ 1,251        | \$ 145              | \$ 1,106        | 12,510                | \$ 1,251        | \$ 145              | \$ 1,106        |
| Series B                  | 40,000                | 1,000           |                     | 1,000           | 40,000                | 1,000           |                     | 1,000           |
| Series F                  | 44,000                | 1,100           | 12                  | 1,088           | 44,000                | 1,100           | 12                  | 1,088           |
| Series H                  | 20,000                | 500             | 13                  | 487             | 20,000                | 500             | 13                  | 487             |
| Series I                  | 30,000                | 750             | 5                   | 745             | 30,000                | 750             | 5                   | 745             |
| Series J                  | 40,000                | 1,000           | 7                   | 993             | 40,000                | 1,000           | 7                   | 993             |
| Total preferred stock (a) | 186,510               | \$ 5,601        | \$ 182              | \$ 5,419        | 186,510               | \$ 5,601        | \$ 182              | \$ 5,419        |

(a) The par value of all shares issued and outstanding at March 31, 2018 and December 31, 2017, was \$1.00 per share.

**Table of Contents****Note 8** Accumulated Other Comprehensive Income (Loss)

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

|  | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on Transferred<br>From<br>Available-For-Sale<br>to Held-To-Maturity | Unrealized Gains<br>(Losses) on<br>Investment<br>Securities<br>on 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(a) Represents 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.

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

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

| (Dollars in Millions)                                                                                      | Impact to Net Income |        | Affected Line Item in the Consolidated Statement of Income |
|------------------------------------------------------------------------------------------------------------|----------------------|--------|------------------------------------------------------------|
|                                                                                                            | 2018                 | 2017   |                                                            |
| Unrealized gains (losses) on investment securities available-for-sale                                      |                      |        |                                                            |
| Realized gains (losses) on sale of investment securities                                                   | \$ 5                 | \$ 29  | Total securities gains (losses), net                       |
|                                                                                                            | (1)                  | (11)   | Applicable income taxes                                    |
|                                                                                                            | 4                    | 18     | Net-of-tax                                                 |
| Unrealized gains (losses) on investment securities transferred from available-for-sale to held-to-maturity |                      |        |                                                            |
| Amortization of unrealized gains                                                                           | 3                    | 3      | Interest income                                            |
|                                                                                                            | (1)                  | (1)    | Applicable income taxes                                    |
|                                                                                                            | 2                    | 2      | Net-of-tax                                                 |
| Unrealized gains (losses) on derivative hedges                                                             |                      |        |                                                            |
| Realized gains (losses) on derivative hedges                                                               | (3)                  | (14)   | Interest expense                                           |
|                                                                                                            | 1                    | 5      | Applicable income taxes                                    |
|                                                                                                            | (2)                  | (9)    | Net-of-tax                                                 |
| Unrealized gains (losses) on retirement plans                                                              |                      |        |                                                            |
| Actuarial gains (losses) and prior service cost (credit) amortization                                      | (34)                 | (29)   | Employee benefits expense                                  |
|                                                                                                            | 8                    | 11     | Applicable income taxes                                    |
|                                                                                                            | (26)                 | (18)   | Net-of-tax                                                 |
| Total impact to net income                                                                                 | \$ (22)              | \$ (7) |                                                            |

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The components of earnings per share were:

| (Dollars and Shares in Millions, Except Per Share Data)         | Three Months Ended<br>March 31 |          |
|-----------------------------------------------------------------|--------------------------------|----------|
|                                                                 | 2018                           | 2017     |
| Net income attributable to U.S. Bancorp                         | \$ 1,675                       | \$ 1,473 |
| Preferred dividends                                             | (70)                           | (69)     |
| Impact of preferred stock call (a)                              |                                | (10)     |
| Earnings allocated to participating stock awards                | (8)                            | (7)      |
| Net income applicable to U.S. Bancorp common shareholders       | \$ 1,597                       | \$ 1,387 |
| Average common shares outstanding                               | 1,652                          | 1,694    |
| Net effect of the exercise and assumed purchase of stock awards | 5                              | 7        |
| Average diluted common shares outstanding                       | 1,657                          | 1,701    |
| Earnings per common share                                       | \$ .97                         | \$ .82   |
| Diluted earnings per common share                               | \$ .96                         | \$ .82   |

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

Options outstanding at March 31, 2018 and 2017, to purchase 1 million common shares, were not included in the computation of diluted earnings per share for the three months ended March 31, 2018 and 2017, because they were antidilutive.

**Note 10** Employee Benefits

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

| (Dollars in Millions)                    | Three Months Ended March 31 |       |                                |        |
|------------------------------------------|-----------------------------|-------|--------------------------------|--------|
|                                          | Pension Plans               |       | Postretirement<br>Welfare Plan |        |
|                                          | 2018                        | 2017  | 2018                           | 2017   |
| Service cost                             | \$ 52                       | \$ 47 | \$                             | \$     |
| Interest cost                            | 56                          | 55    | 1                              | 1      |
| Expected return on plan assets           | (95)                        | (71)  | (1)                            | (1)    |
| Prior service cost (credit) amortization |                             | (1)   | (1)                            | (1)    |
| Actuarial loss (gain) amortization       | 37                          | 32    | (2)                            | (1)    |
| Net periodic benefit cost (a)            | \$ 50                       | \$ 62 | \$ (3)                         | \$ (2) |

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

**Note 11** Income Taxes

The components of income tax expense were:

| (Dollars in Millions)      | Three Months<br>Ended<br>March 31 |        |
|----------------------------|-----------------------------------|--------|
|                            | 2018                              | 2017   |
| <b>Federal</b>             |                                   |        |
| Current                    | \$ 234                            | \$ 531 |
| Deferred                   | 19                                | (120)  |
| Federal income tax         | 253                               | 411    |
| <b>State</b>               |                                   |        |
| Current                    | 92                                | 65     |
| Deferred                   | 17                                | 23     |
| State income tax           | 109                               | 88     |
| Total income tax provision | \$ 362                            | \$ 499 |

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A reconciliation of expected income tax expense at the federal statutory rate of 21 percent and 35 percent for the three months ended March 31, 2018 and 2017, respectively, to the Company's applicable income tax expense follows:

| (Dollars in Millions)                                            | Three Months Ended<br>March 31 |        |
|------------------------------------------------------------------|--------------------------------|--------|
|                                                                  | 2018                           | 2017   |
| Tax at statutory rate                                            | \$ 429                         | \$ 695 |
| State income tax, at statutory rates, net of federal tax benefit | 89                             | 63     |
| Tax effect of                                                    |                                |        |
| Tax credits and benefits, net of related expenses                | (115)                          | (193)  |
| Exam resolutions                                                 | (49)                           |        |
| Tax-exempt income                                                | (32)                           | (49)   |
| Noncontrolling interests                                         | (1)                            | (5)    |
| Other items                                                      | 41                             | (12)   |
| Applicable income taxes                                          | \$ 362                         | \$ 499 |

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of March 31, 2018, the federal taxing authority has completed its examination of the Company through the fiscal year ended December 31, 2010. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax asset was \$671 million at March 31, 2018 and \$473 million at December 31, 2017.

**Note 12** Derivative Instruments

In the ordinary course of business, the Company enters into derivative transactions to manage various risks and to accommodate the business requirements of its customers. The Company recognizes all derivatives on the Consolidated Balance Sheet at fair value in other assets or in other liabilities. On the date the Company enters into a derivative contract, the derivative is designated as either a fair value hedge, cash flow hedge, net investment hedge, or a designation is not made as it is a customer-related transaction, an economic hedge for asset/liability risk management purposes or another stand-alone derivative created through the Company's operations (free-standing derivative). When a derivative is designated as a fair value, cash flow or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s).

**Fair Value Hedges** These derivatives are interest rate swaps the Company uses to hedge the change in fair value related to interest rate changes of its underlying fixed-rate debt. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. All fair value hedges were highly effective for the three months ended March 31, 2018.

**Cash Flow Hedges** These derivatives are interest rate swaps the Company uses to hedge the forecasted cash flows from its underlying variable-rate debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until the cash flows of the hedged items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged

forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within other comprehensive income (loss). At March 31, 2018, the Company had \$152 million (net-of-tax) of realized and unrealized gains on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with \$71 million (net-of-tax) of realized and unrealized gains at December 31, 2017. The estimated amount to be reclassified from other comprehensive income (loss) into earnings during the remainder of 2018 and the next 12 months are gains of \$17 million (net-of-tax) and \$22 million (net-of-tax), respectively. This amount includes gains and losses related to hedges that were terminated early for which the forecasted transactions are still probable. All cash flow hedges were highly effective for the three months ended March 31, 2018.

**Net Investment Hedges** The Company uses forward commitments to sell specified amounts of certain foreign currencies, and non-derivative debt instruments, to hedge the volatility of its net investment in foreign operations driven by

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fluctuations in foreign currency exchange rates. The carrying amount of non-derivative debt instruments designated as net investment hedges was \$1.2 billion at March 31, 2018 and December 31, 2017.

**Other Derivative Positions** The Company enters into free-standing derivatives to mitigate interest rate risk and for other risk management purposes. These derivatives include forward commitments to sell to-be-announced securities ( TBAs ) and other commitments to sell residential mortgage loans, which are used to economically hedge the interest rate risk related to residential mortgage loans held for sale ( MLHFS ) and unfunded mortgage loan commitments. The Company also enters into interest rate swaps, swaptions, forward commitments to buy TBAs, U.S. Treasury and Eurodollar futures and options on U.S. Treasury futures to economically hedge the change in the fair value of the Company's MSR's. The Company also enters into foreign currency forwards to economically hedge remeasurement gains and losses the Company recognizes on foreign currency denominated assets and liabilities. In addition, the Company acts as a seller and buyer of interest rate derivatives and foreign exchange contracts for its customers. The Company mitigates the market and liquidity risk associated with these customer derivatives by entering into similar offsetting positions with broker-dealers, or on a portfolio basis by entering into other derivative or non-derivative financial instruments that partially or fully offset the exposure from these customer-related positions. The Company's customer derivatives and related hedges are monitored and reviewed by the Company's Market Risk Committee, which establishes policies for market risk management, including exposure limits for each portfolio. The Company also has derivative contracts that are created through its operations, including certain unfunded mortgage loan commitments and swap agreements related to the sale of a portion of its Class B common shares of Visa Inc. Refer to Note 14 for further information on these swap agreements.

For additional information on the Company's purpose for entering into derivative transactions and its overall risk management strategies, refer to Management Discussion and Analysis Use of Derivatives to Manage Interest Rate and Other Risks , which is incorporated by reference into these Notes to Consolidated Financial Statements.

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The following table summarizes the asset and liability management derivative positions of the Company:

|                                    | Asset Derivatives |            |                                              | Liability Derivatives |            |                                              |
|------------------------------------|-------------------|------------|----------------------------------------------|-----------------------|------------|----------------------------------------------|
|                                    | Notional Value    | Fair Value | Weighted-Average Remaining Maturity In Years | Notional Value        | Fair Value | Weighted-Average Remaining Maturity In Years |
| (Dollars in Millions)              |                   |            |                                              |                       |            |                                              |
| <b>March 31, 2018</b>              |                   |            |                                              |                       |            |                                              |
| Fair value hedges                  |                   |            |                                              |                       |            |                                              |
| Interest rate contracts            |                   |            |                                              |                       |            |                                              |
| Receive fixed/pay floating swaps   | \$                | \$         |                                              | \$ 4,600              | \$ 37      | 2.42                                         |
| Cash flow hedges                   |                   |            |                                              |                       |            |                                              |
| Interest rate contracts            |                   |            |                                              |                       |            |                                              |
| Pay fixed/receive floating swaps   | 3,892             | 126        | 6.48                                         | 500                   |            | .63                                          |
| Net investment hedges              |                   |            |                                              |                       |            |                                              |
| Foreign exchange forward contracts | 192               | 1          | .05                                          | 199                   |            | .05                                          |
| Other economic hedges              |                   |            |                                              |                       |            |                                              |
| Interest rate contracts            |                   |            |                                              |                       |            |                                              |
| Futures and forwards               |                   |            |                                              |                       |            |                                              |
| Buy                                | 1,895             | 8          | .10                                          | 1,172                 | 2          | .09                                          |
| Sell                               | 19,126            | 19         | 1.14                                         | 5,193                 | 17         | .02                                          |
| Options                            |                   |            |                                              |                       |            |                                              |
| Purchased                          | 6,235             | 77         | 7.63                                         |                       |            |                                              |
| Written                            | 1,123             | 26         | .09                                          | 7                     |            | .12                                          |
| Receive fixed/pay floating swaps   | 2,750             |            | 15.03                                        | 4,420                 | 114        | 7.96                                         |
| Pay fixed/receive floating swaps   | 4,333             |            | 7.72                                         | 88                    |            | 5.23                                         |
| Foreign exchange forward contracts | 132               | 1          | .05                                          | 540                   | 3          | .04                                          |
| Equity contracts                   | 25                | 1          | .57                                          | 108                   | 4          | .50                                          |
| Credit contracts                   | 1,812             |            | 3.02                                         | 3,880                 | 1          | 3.15                                         |
| Other (a)                          | 300               | 5          | .02                                          | 1,514                 | 127        | 1.81                                         |
| Total                              | \$ 41,815         | \$ 264     |                                              | \$ 22,221             | \$ 305     |                                              |
| <b>December 31, 2017</b>           |                   |            |                                              |                       |            |                                              |
| Fair value hedges                  |                   |            |                                              |                       |            |                                              |
| Interest rate contracts            |                   |            |                                              |                       |            |                                              |
| Receive fixed/pay floating swaps   | \$ 1,000          | \$ 28      | 6.70                                         | \$ 3,600              | \$ 16      | 1.55                                         |
| Cash flow hedges                   |                   |            |                                              |                       |            |                                              |
| Interest rate contracts            |                   |            |                                              |                       |            |                                              |
| Pay fixed/receive floating swaps   | 3,772             | 5          | 6.73                                         |                       |            |                                              |
| Net investment hedges              |                   |            |                                              |                       |            |                                              |
| Foreign exchange forward contracts |                   |            |                                              | 373                   | 8          | .05                                          |
| Other economic hedges              |                   |            |                                              |                       |            |                                              |
| Interest rate contracts            |                   |            |                                              |                       |            |                                              |
| Futures and forwards               |                   |            |                                              |                       |            |                                              |
| Buy                                | 1,632             | 7          | .10                                          | 1,326                 | 2          | .04                                          |
| Sell                               | 15,291            | 10         | .89                                          | 4,511                 | 10         | .03                                          |

|                                    |           |        |       |           |        |      |
|------------------------------------|-----------|--------|-------|-----------|--------|------|
| Options                            |           |        |       |           |        |      |
| Purchased                          | 4,985     | 65     | 7.57  |           |        |      |
| Written                            | 1,285     | 21     | .10   | 5         |        | .05  |
| Receive fixed/pay floating swaps   | 2,019     | 5      | 16.49 | 5,469     |        | 8.43 |
| Pay fixed/receive floating swaps   | 4,844     | 21     | 7.69  | 46        | 1      | 6.70 |
| Foreign exchange forward contracts | 147       | 1      | .02   | 669       | 8      | .04  |
| Equity contracts                   | 45        |        | 1.10  | 88        | 1      | .58  |
| Credit contracts                   | 1,559     |        | 3.41  | 3,779     | 1      | 3.16 |
| Other (a)                          |           |        |       | 1,164     | 125    | 2.50 |
| Total                              | \$ 36,579 | \$ 163 |       | \$ 21,030 | \$ 172 |      |

(a) Includes derivative liability swap agreements related to the sale of a portion of the Company's Class B common shares of Visa Inc. The Visa swap agreements had a total notional value, fair value and weighted average remaining maturity of \$1.2 billion, \$122 million and 2.25 years at March 31, 2018, respectively, compared to \$1.2 billion, \$125 million and 2.50 years at December 31, 2017, respectively. In addition, includes short-term underwriting purchase and sale commitments with total asset and liability notional values of \$300 million at March 31, 2018.

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

| (Dollars in Millions)            | Asset Derivatives |            |                                              | Liability Derivatives |            |                                              |
|----------------------------------|-------------------|------------|----------------------------------------------|-----------------------|------------|----------------------------------------------|
|                                  | Notional Value    | Fair Value | Weighted-Average Remaining Maturity In Years | Notional Value        | Fair Value | Weighted-Average Remaining Maturity In Years |
| <b>March 31, 2018</b>            |                   |            |                                              |                       |            |                                              |
| Interest rate contracts          |                   |            |                                              |                       |            |                                              |
| Receive fixed/pay floating swaps | \$ 25,579         | \$ 492     | 4.41                                         | \$ 75,797             | \$ 630     | 4.45                                         |
| Pay fixed/receive floating swaps | 72,317            | 413        | 4.41                                         | 27,680                | 388        | 4.37                                         |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 32,509            | 46         | 1.53                                         | 1,960                 | 22         | 2.26                                         |
| Written                          | 2,060             | 23         | 2.38                                         | 30,225                | 43         | 1.39                                         |
| Futures                          |                   |            |                                              |                       |            |                                              |
| Sell                             | 8,151             | 8          | 1.08                                         |                       |            |                                              |
| Foreign exchange rate contracts  |                   |            |                                              |                       |            |                                              |
| Forwards, spots and swaps        | 26,646            | 776        | .77                                          | 25,751                | 756        | .77                                          |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 4,399             | 108        | 1.04                                         |                       |            |                                              |
| Written                          |                   |            |                                              | 4,399                 | 108        | 1.04                                         |
| Total                            | \$ 171,661        | \$ 1,866   |                                              | \$ 165,812            | \$ 1,947   |                                              |
| <b>December 31, 2017</b>         |                   |            |                                              |                       |            |                                              |
| Interest rate contracts          |                   |            |                                              |                       |            |                                              |
| Receive fixed/pay floating swaps | \$ 28,681         | \$ 679     | 5.71                                         | \$ 59,990             | \$ 840     | 4.27                                         |
| Pay fixed/receive floating swaps | 63,038            | 860        | 4.20                                         | 25,093                | 602        | 5.76                                         |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 29,091            | 22         | 1.61                                         | 880                   | 14         | 4.24                                         |
| Written                          | 880               | 15         | 4.24                                         | 27,056                | 20         | 1.50                                         |
| Futures                          |                   |            |                                              |                       |            |                                              |
| Sell                             | 7,007             | 4          | 1.21                                         |                       |            |                                              |
| Foreign exchange rate contracts  |                   |            |                                              |                       |            |                                              |
| Forwards, spots and swaps        | 24,099            | 656        | .81                                          | 23,440                | 636        | .83                                          |
| Options                          |                   |            |                                              |                       |            |                                              |
| Purchased                        | 4,026             | 83         | 1.20                                         |                       |            |                                              |
| Written                          |                   |            |                                              | 4,026                 | 83         | 1.20                                         |
| Total                            | \$ 156,822        | \$ 2,319   |                                              | \$ 140,485            | \$ 2,195   |                                              |

The table below shows the effective portion of the gains (losses) recognized in other comprehensive income (loss) and the gains (losses) reclassified from other comprehensive income (loss) into earnings (net-of-tax) for the three months ended March 31:

|                   |                                     |
|-------------------|-------------------------------------|
| Gains<br>(Losses) | Gains (Losses)<br>Reclassified from |
|-------------------|-------------------------------------|

|                                                 | Recognized in<br>Other<br>Comprehensive<br>Income<br>(Loss) |      | Other<br>Comprehensive<br>Income<br>(Loss) into Earnings |        |
|-------------------------------------------------|-------------------------------------------------------------|------|----------------------------------------------------------|--------|
| (Dollars in Millions)                           | 2018                                                        | 2017 | 2018                                                     | 2017   |
| <b>Asset and Liability Management Positions</b> |                                                             |      |                                                          |        |
| Cash flow hedges                                |                                                             |      |                                                          |        |
| Interest rate contracts                         | \$ 64                                                       | \$ 4 | \$ (2)                                                   | \$ (9) |
| Net investment hedges                           |                                                             |      |                                                          |        |
| Foreign exchange forward contracts              | 16                                                          | (7)  |                                                          |        |
| Non-derivative debt instruments                 | (34)                                                        |      |                                                          |        |

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

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The table below shows the effect of fair value and cash flow hedge accounting on the Consolidated Statement of Income for the three months ended March 31:

| (Dollars in Millions)                                                                                                                                               | Other Noninterest |        | Interest Expense |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------|------------------|--------|
|                                                                                                                                                                     | Income            |        | 2018             | 2017   |
|                                                                                                                                                                     | 2018              | 2017   | 2018             | 2017   |
| Total amount of income and expense line items presented in the Consolidated Statement of Income in which the effects of fair value or cash flow hedges are recorded | \$ 167            | \$ 180 | \$ 623           | \$ 413 |

**Asset and Liability Management Positions**

|                                    |  |      |      |    |
|------------------------------------|--|------|------|----|
| Fair value hedges                  |  |      |      |    |
| Interest rate contract derivatives |  | (10) | (43) |    |
| Hedged items                       |  | 10   | 43   |    |
| Cash Flow hedges                   |  |      |      |    |
| Interest rate contract derivatives |  |      | 3    | 14 |

*Note: The Company does not exclude components from effectiveness testing for fair value and cash flow hedges. The Company did not reclassify gains or losses into earnings as a result of the discontinuance of cash flow hedges during the three months ended March 31, 2018 and 2017.*

The table below shows the cumulative hedging adjustment for fair value hedges that are included in the carrying amount of the hedged assets (liabilities):

| (Dollars in Millions)                              | Carrying Amount of the |                   | Cumulative Hedging       |                   |
|----------------------------------------------------|------------------------|-------------------|--------------------------|-------------------|
|                                                    | Hedged Assets          |                   | Adjustment               |                   |
|                                                    | (Liabilities)          |                   | Included in the Carrying |                   |
|                                                    | Amount of the          |                   | Amount of the            |                   |
|                                                    | Hedged Assets          |                   | Hedged Assets            |                   |
|                                                    | (Liabilities)          |                   | (Liabilities)            |                   |
|                                                    | March 31, 2018         | December 31, 2017 | March 31, 2018           | December 31, 2017 |
| <b>Line Item in the Consolidated Balance Sheet</b> |                        |                   |                          |                   |
| Long-term Debt                                     | \$ 4,544               | \$ 4,584          | \$ (48)                  | \$ (8)            |

*Note: The Company does not have any hedging adjustments for discontinued fair value hedges.*

The table below shows the gains (losses) recognized in earnings for other economic hedges and the customer-related positions for the three months ended March 31:

| (Dollars in Millions) | Location of Gains (Losses) |  | 2018 | 2017 |
|-----------------------|----------------------------|--|------|------|
|                       | Recognized in Earnings     |  |      |      |

**Asset and Liability Management Positions**

Other economic hedges

Interest rate contracts

|                                    |                          |       |      |
|------------------------------------|--------------------------|-------|------|
| Futures and forwards               | Mortgage banking revenue | \$ 58 | \$ 6 |
| Purchased and written options      | Mortgage banking revenue | 42    | 40   |
| Receive fixed/pay floating swaps   | Mortgage banking revenue | (79)  | 31   |
| Pay fixed/receive floating swaps   | Mortgage banking revenue | (31)  | (40) |
| Foreign exchange forward contracts | Other noninterest income | 12    | (7)  |
| Equity contracts                   | Compensation expense     | (1)   | 1    |
| Credit contracts                   | Other noninterest income |       | 1    |

**Customer-Related Positions**

Interest rate contracts

|                                  |                             |         |       |
|----------------------------------|-----------------------------|---------|-------|
| Receive fixed/pay floating swaps | Other noninterest income    | (1,164) | (250) |
| Pay fixed/receive floating swaps | Other noninterest income    | 1,167   | 269   |
| Purchased and written options    | Other noninterest income    |         | (6)   |
| Futures                          | Other noninterest income    | 8       | (2)   |
| Foreign exchange rate contracts  |                             |         |       |
| Forwards, spots and swaps        | Commercial products revenue | 23      | 22    |
| Purchased and written options    | Commercial products revenue |         | 1     |

Derivatives are subject to credit risk associated with counterparties to the derivative contracts. The Company measures that credit risk using a credit valuation adjustment and includes it within the fair value of the derivative. The Company manages counterparty credit risk through diversification of its derivative positions among various counterparties, by entering into derivative positions that are centrally cleared through clearinghouses, by entering into master netting arrangements and, where possible, by requiring collateral arrangements. A master netting arrangement allows two counterparties, who have multiple derivative contracts with each other, the ability to net settle amounts under all contracts, including any related collateral, through a single payment and in a single currency. Collateral arrangements generally require the counterparty to deliver collateral (typically cash or U.S. Treasury and agency securities) equal to the Company's net derivative receivable, subject to minimum transfer and credit rating requirements.

The Company's collateral arrangements are predominately bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on net

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liability thresholds and may be contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral arrangements, the counterparties to the derivatives could request immediate additional collateral coverage up to and including full collateral coverage for derivatives in a net liability position. The aggregate fair value of all derivatives under collateral arrangements that were in a net liability position at March 31, 2018, was \$669 million. At March 31, 2018, the Company had \$617 million of cash posted as collateral against this net liability position.

**Note 13** Netting Arrangements for Certain Financial Instruments and Securities Financing Activities

The Company's derivative portfolio consists of bilateral over-the-counter trades, certain interest rate derivatives and credit contracts required to be centrally cleared through clearinghouses per current regulations, and exchange-traded positions which may include U.S. Treasury and Eurodollar futures or options on U.S. Treasury futures. Of the Company's \$401.5 billion total notional amount of derivative positions at March 31, 2018, \$207.4 billion related to bilateral over-the-counter trades, \$169.1 billion related to those centrally cleared through clearinghouses and \$25.0 billion related to those that were exchange-traded. The Company's derivative contracts typically include offsetting rights (referred to as netting arrangements), and depending on expected volume, credit risk, and counterparty preference, collateral maintenance may be required. For all derivatives under collateral support arrangements, fair value is determined daily and, depending on the collateral maintenance requirements, the Company and a counterparty may receive or deliver collateral, based upon the net fair value of all derivative positions between the Company and the counterparty. Collateral is typically cash, but securities may be allowed under collateral arrangements with certain counterparties. Receivables and payables related to cash collateral are included in other assets and other liabilities on the Consolidated Balance Sheet, along with the related derivative asset and liability fair values. Any securities pledged to counterparties as collateral remain on the Consolidated Balance Sheet. Securities received from counterparties as collateral are not recognized on the Consolidated Balance Sheet, unless the counterparty defaults. In general, securities used as collateral can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Refer to Note 12 for further discussion of the Company's derivatives, including collateral arrangements.

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

Securities transferred to counterparties under repurchase agreements and securities loaned transactions continue to be recognized on the Consolidated Balance Sheet, are measured at fair value, and are included in investment securities or other assets. Securities received from counterparties under reverse repurchase agreements and securities borrowed transactions are not recognized on the Consolidated Balance Sheet unless the counterparty defaults. The securities transferred under repurchase and reverse repurchase transactions typically are U.S. Treasury and agency securities, residential agency mortgage-backed securities or corporate debt securities. The securities loaned or borrowed typically are corporate debt securities traded by the Company's broker-dealer. In general, the securities transferred can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either

party. Repurchase/reverse repurchase and securities loaned/borrowed transactions expose the Company to counterparty risk. The Company manages this risk by performing assessments, independent of business line managers, and establishing concentration limits on each counterparty. Additionally, these transactions include collateral arrangements that require the fair values of the underlying securities to be determined daily, resulting in cash being obtained or refunded to counterparties to maintain specified collateral levels.

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

| (Dollars in Millions)                         | Overnight and<br>Continuous | Less Than<br>30 Days | Total    |
|-----------------------------------------------|-----------------------------|----------------------|----------|
| <b>March 31, 2018</b>                         |                             |                      |          |
| Repurchase agreements                         |                             |                      |          |
| U.S. Treasury and agencies                    | \$ 58                       | \$                   | \$ 58    |
| Residential agency mortgage-backed securities | 380                         | 177                  | 557      |
| Corporate debt securities                     | 279                         | 87                   | 366      |
| Total repurchase agreements                   | 717                         | 264                  | 981      |
| Securities loaned                             |                             |                      |          |
| Corporate debt securities                     | 400                         |                      | 400      |
| Total securities loaned                       | 400                         |                      | 400      |
| Gross amount of recognized liabilities        | \$ 1,117                    | \$ 264               | \$ 1,381 |
| <b>December 31, 2017</b>                      |                             |                      |          |
| Repurchase agreements                         |                             |                      |          |
| U.S. Treasury and agencies                    | \$ 25                       | \$                   | \$ 25    |
| Residential agency mortgage-backed securities | 644                         | 30                   | 674      |
| Corporate debt securities                     | 104                         |                      | 104      |
| Total repurchase agreements                   | 773                         | 30                   | 803      |
| Securities loaned                             |                             |                      |          |
| Corporate debt securities                     | 111                         |                      | 111      |
| Total securities loaned                       | 111                         |                      | 111      |
| Gross amount of recognized liabilities        | \$ 884                      | \$ 30                | \$ 914   |

The Company executes its derivative, repurchase/reverse repurchase and securities loaned/borrowed transactions under the respective industry standard agreements. These agreements include master netting arrangements that allow for multiple contracts executed with the same counterparty to be viewed as a single arrangement. This allows for net settlement of a single amount on a daily basis. In the event of default, the master netting arrangement provides for close-out netting, which allows all of these positions with the defaulting counterparty to be terminated and net settled with a single payment amount.

The Company has elected to offset the assets and liabilities under netting arrangements for the balance sheet presentation of the majority of its derivative counterparties. The netting occurs at the counterparty level, and includes all assets and liabilities related to the derivative contracts, including those associated with cash collateral received or delivered. The Company has not elected to offset the assets and liabilities under netting arrangements for the balance sheet presentation of repurchase/reverse repurchase and securities loaned/borrowed transactions.

The following tables provide information on the Company's netting adjustments, and items not offset on the Consolidated Balance Sheet but available for offset in the event of default:

| (Dollars in Millions) | Gross Amounts<br>Recognized | Net Gross Amounts Not Offset on the<br>Consolidated Balance Sheet | Net Amount |
|-----------------------|-----------------------------|-------------------------------------------------------------------|------------|
|-----------------------|-----------------------------|-------------------------------------------------------------------|------------|

|                               | Assets   | Offset on the Consolidated Balance Sheet (a) | Presented on the Consolidated Balance Sheet | Financial Instruments (b) | Collateral Received (c) |          |
|-------------------------------|----------|----------------------------------------------|---------------------------------------------|---------------------------|-------------------------|----------|
| <b>March 31, 2018</b>         |          |                                              |                                             |                           |                         |          |
| Derivative assets (d)         | \$ 2,094 | \$ (821)                                     | \$ 1,273                                    | \$ (74)                   | \$                      | \$ 1,199 |
| Reverse repurchase agreements | 159      |                                              | 159                                         | (6)                       | (153)                   |          |
| Securities borrowed           | 1,173    |                                              | 1,173                                       |                           | (1,141)                 | 32       |
| Total                         | \$ 3,426 | \$ (821)                                     | \$ 2,605                                    | \$ (80)                   | \$ (1,294)              | \$ 1,231 |
| <b>December 31, 2017</b>      |          |                                              |                                             |                           |                         |          |
| Derivative assets (d)         | \$ 1,759 | \$ (652)                                     | \$ 1,107                                    | \$ (110)                  | \$ (5)                  | \$ 992   |
| Reverse repurchase agreements | 24       |                                              | 24                                          | (24)                      |                         |          |
| Securities borrowed           | 923      |                                              | 923                                         |                           | (896)                   | 27       |
| Total                         | \$ 2,706 | \$ (652)                                     | \$ 2,054                                    | \$ (134)                  | \$ (901)                | \$ 1,019 |

- (a) Includes \$110 million and \$50 million of cash collateral related payables that were netted against derivative assets at March 31, 2018 and December 31, 2017, respectively.
- (b) For derivative assets this includes any derivative liability fair values that could be offset in the event of counterparty default; for reverse repurchase agreements this includes any repurchase agreement payables that could be offset in the event of counterparty default; for securities borrowed this includes any securities loaned payables that could be offset in the event of counterparty default.
- (c) Includes the fair value of securities received by the Company from the counterparty. These securities are not included on the Consolidated Balance Sheet unless the counterparty defaults.
- (d) Excludes \$36 million and \$723 million at March 31, 2018 and December 31, 2017, respectively, of derivative assets not subject to netting arrangements.

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|                            | Gross Amounts                |                                                           | Net Gross Amounts Not Offset on the Consolidated Balance Sheet |                           |                                   |
|----------------------------|------------------------------|-----------------------------------------------------------|----------------------------------------------------------------|---------------------------|-----------------------------------|
|                            | Gross Recognized Liabilities | Offset or Presented on the Consolidated Balance Sheet (a) | Amounts                                                        | Financial Instruments (b) | Collateral Pledged (c) Net Amount |
| (Dollars in Millions)      |                              |                                                           |                                                                |                           |                                   |
| <b>March 31, 2018</b>      |                              |                                                           |                                                                |                           |                                   |
| Derivative liabilities (d) | \$ 2,123                     | \$ (1,328)                                                | \$ 795                                                         | \$ (74)                   | \$ 721                            |
| Repurchase agreements      | 981                          |                                                           | 981                                                            | (6)                       | (975)                             |
| Securities loaned          | 400                          |                                                           | 400                                                            |                           | (395)                             |
| <b>Total</b>               | <b>\$ 3,504</b>              | <b>\$ (1,328)</b>                                         | <b>\$ 2,176</b>                                                | <b>\$ (80)</b>            | <b>\$ (1,370)</b>                 |
| <b>December 31, 2017</b>   |                              |                                                           |                                                                |                           |                                   |
| Derivative liabilities (d) | \$ 1,629                     | \$ (1,130)                                                | \$ 499                                                         | \$ (110)                  | \$ 389                            |
| Repurchase agreements      | 803                          |                                                           | 803                                                            | (24)                      | (779)                             |
| Securities loaned          | 111                          |                                                           | 111                                                            |                           | (110)                             |
| <b>Total</b>               | <b>\$ 2,543</b>              | <b>\$ (1,130)</b>                                         | <b>\$ 1,413</b>                                                | <b>\$ (134)</b>           | <b>\$ (889)</b>                   |

(a) Includes \$617 million and \$528 million of cash collateral related receivables that were netted against derivative liabilities at March 31, 2018 and December 31, 2017, respectively.

(b) For derivative liabilities this includes any derivative asset fair values that could be offset in the event of counterparty default; for repurchase agreements this includes any reverse repurchase agreement receivables that could be offset in the event of counterparty default; for securities loaned this includes any securities borrowed receivables that could be offset in the event of counterparty default.

(c) Includes the fair value of securities pledged by the Company to the counterparty. These securities are included on the Consolidated Balance Sheet unless the Company defaults.

(d) Excludes \$129 million and \$738 million at March 31, 2018 and December 31, 2017, respectively, of derivative liabilities not subject to netting arrangements.

**Note 14** Fair Values of Assets and Liabilities

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

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

The Company groups its assets and liabilities measured at fair value into a three-level hierarchy for valuation techniques used to measure financial assets and financial liabilities at fair value. This hierarchy is based on whether the valuation inputs are observable or unobservable. These levels are:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 includes U.S. Treasury securities, as well as exchange-traded instruments.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 includes debt securities that are traded less frequently than exchange-traded instruments and which are typically valued using third party pricing services; derivative contracts and other assets and liabilities, including securities, whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data; and MLHFS whose values are determined using quoted prices for similar assets or pricing models with inputs that are observable in the market or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

This category includes MSRs and certain derivative contracts.

When the Company changes its valuation inputs for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period in which the transfers occur. During the three months ended March 31, 2018 and 2017, there were no transfers of financial assets or financial liabilities between the hierarchy levels.

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The Company has processes and controls in place to increase the reliability of estimates it makes in determining fair value measurements. Items quoted on an exchange are verified to the quoted price. Items provided by a third party pricing service are subject to price verification procedures as described in more detail in the specific valuation discussions below. For fair value measurements modeled internally, the Company's valuation models are subject to the Company's Model Risk Governance Policy and Program, as maintained by the Company's risk management department. The purpose of model validation is to assess the accuracy of the models' input, processing, and reporting components. All models are required to be independently reviewed and approved prior to being placed in use, and are subject to formal change control procedures. Under the Company's Model Risk Governance Policy, models are required to be reviewed at least annually to ensure they are operating as intended. Inputs into the models are market observable inputs whenever available. When market observable inputs are not available, the inputs are developed based upon analysis of historical experience and evaluation of other relevant market data. Significant unobservable model inputs are subject to review by senior management in corporate functions, who are independent from the modeling. Significant unobservable model inputs are also compared to actual results, typically on a quarterly basis. Significant Level 3 fair value measurements are also subject to corporate-level review and are benchmarked to market transactions or other market data, when available. Additional discussion of processes and controls are provided in the valuation methodologies section that follows.

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities at fair value. In addition, the following section includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified. Where appropriate, the description includes information about the valuation models and key inputs to those models. During the three months ended March 31, 2018 and 2017, there were no significant changes to the valuation techniques used by the Company to measure fair value.

**Available-For-Sale Investment Securities** When quoted market prices for identical securities are available in an active market, these prices are used to determine fair value and these securities are classified within Level 1 of the fair value hierarchy. Level 1 investment securities include U.S. Treasury and exchange-traded securities.

For other securities, quoted market prices may not be readily available for the specific securities. When possible, the Company determines fair value based on market observable information, including quoted market prices for similar securities, inactive transaction prices, and broker quotes. These securities are classified within Level 2 of the fair value hierarchy. Level 2 valuations are generally provided by a third party pricing service. The Company reviews the valuation methodologies utilized by the pricing service and, on a quarterly basis, reviews the security level prices provided by the pricing service against management's expectation of fair value, based on changes in various benchmarks and market knowledge from recent trading activity. Additionally, each quarter, the Company validates the fair value provided by the pricing services by comparing them to recent observable market trades (where available), broker provided quotes, or other independent secondary pricing sources. Prices obtained from the pricing service are adjusted if they are found to be inconsistent with relevant market data. Level 2 investment securities are predominantly agency mortgage-backed securities, certain other asset-backed securities, obligations of state and political subdivisions and agency debt securities.

**Mortgage Loans Held For Sale** MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. MLHFS are classified within Level 2. The valuations of MLHFS are developed by the mortgage banking division and are subject to independent price verification procedures by corporate functions. Included in mortgage banking revenue was a \$51 million net loss and a \$21 million net gain for the three months ended March 31, 2018 and 2017, respectively, from the changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. Interest income for MLHFS is measured based on contractual interest rates and reported as interest income on the

Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

**Mortgage Servicing Rights** MSRs are valued using a discounted cash flow methodology, and are classified within Level 3. The Company determines fair value of the MSRs by projecting future cash flows for different interest rate scenarios using prepayment rates and other assumptions, and discounts these cash flows using a risk adjusted rate based on option adjusted spread levels. The MSR valuations, as well as the assumptions used, are developed by the mortgage banking division and are subject to review by senior management in corporate functions, who are

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independent from the modeling. The MSR valuations and assumptions are validated through comparison to trade information when available, publicly available data and industry surveys and are also compared to independent third party valuations each quarter. Risks inherent in MSR valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. There is minimal observable market activity for MSRs on comparable portfolios and, therefore, the determination of fair value requires significant management judgment. Refer to Note 6 for further information on MSR valuation assumptions.

**Derivatives** The majority of derivatives held by the Company are executed over-the-counter or centrally cleared through clearinghouses and are valued using standard cash flow, Black-Derman-Toy and Monte Carlo valuation techniques. The models incorporate inputs, depending on the type of derivative, including interest rate curves, foreign exchange rates and volatility. The inputs into these models are subject to independent review by corporate functions. Additionally, the Company's valuations are compared to counterparty valuations, where available. All derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk as well as external assessments of credit risk, where available. The Company monitors and manages its nonperformance risk by considering its ability to net derivative positions under master netting arrangements, as well as collateral received or provided under collateral arrangements. Accordingly, the Company has elected to measure the fair value of derivatives, at a counterparty level, on a net basis. The majority of the derivatives are classified within Level 2 of the fair value hierarchy, as the significant inputs to the models, including nonperformance risk, are observable. However, certain derivative transactions are with counterparties where risk of nonperformance cannot be observed in the market and, therefore, the credit valuation adjustments result in these derivatives being classified within Level 3 of the fair value hierarchy. The credit valuation adjustments for nonperformance risk are determined by the Company's treasury department using credit assumptions provided by the risk management department. The credit assumptions are compared to actual results quarterly and are recalibrated as appropriate.

The Company also has other derivative contracts that are created through its operations, including commitments to purchase and originate mortgage loans and swap agreements executed in conjunction with the sale of a portion of its Class B common shares of Visa Inc. (the "Visa swaps"). The mortgage loan commitments are valued by pricing models that include market observable and unobservable inputs, which result in the commitments being classified within Level 3 of the fair value hierarchy. The unobservable inputs include assumptions about the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value, both of which are developed by the Company's mortgage banking division. The closed loan percentages for the mortgage loan commitments are monitored on an on-going basis, as these percentages are also used for the Company's economic hedging activities. The inherent MSR value for the commitments are generated by the same models used for the Company's MSRs and thus are subject to the same processes and controls as described for the MSRs above. The Visa swaps require payments by either the Company or the purchaser of the Visa Inc. Class B common shares when there are changes in the conversion rate of the Visa Inc. Class B common shares to Visa Inc. Class A common shares, as well as quarterly payments to the purchaser based on specified terms of the agreements. Management reviews and updates the Visa swaps fair value in conjunction with its review of Visa Inc. related litigation contingencies, and the associated escrow funding. The fair value of the Visa swaps are calculated by the Company's corporate development department using a discounted cash flow methodology which includes unobservable inputs about the timing and settlement amounts related to the resolution of certain Visa Inc. related litigation. The expected litigation resolution impacts the Visa Inc. Class B common share to Visa Inc. Class A common share conversion rate, as well as the ultimate termination date for the Visa swaps. Accordingly, the Visa swaps are classified within Level 3. Refer to Note 15 for further information on the Visa Inc. restructuring and related card association litigation.

**Significant Unobservable Inputs of Level 3 Assets and Liabilities**

The following section provides information on the significant inputs used by the Company to determine the fair value measurements of Level 3 assets and liabilities recorded at fair value on the Consolidated Balance Sheet. In addition, the following section includes a discussion of the sensitivity of the fair value measurements to changes in the significant inputs and a description of any interrelationships between these inputs for Level 3 assets and liabilities recorded at fair value on a recurring basis. The discussion below excludes nonrecurring fair value measurements of collateral value used

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for impairment measures for loans and OREO. These valuations utilize third party appraisal or broker price opinions, and are classified as Level 3 due to the significant judgment involved.

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

The following table shows the significant valuation assumption ranges for MSRs at March 31, 2018:

|                        | Minimum | Maximum | Average |
|------------------------|---------|---------|---------|
| Expected prepayment    | 6%      | 17%     | 9%      |
| Option adjusted spread | 7       | 10      | 8       |

**Derivatives** The Company has two distinct Level 3 derivative portfolios: (i) the Company's commitments to purchase and originate mortgage loans that meet the requirements of a derivative and (ii) the Company's asset/liability and customer-related derivatives that are Level 3 due to unobservable inputs related to measurement of risk of nonperformance by the counterparty. In addition, the Company's Visa swaps are classified within Level 3.

The significant unobservable inputs used in the fair value measurement of the Company's derivative commitments to purchase and originate mortgage loans are the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value. A significant increase in the rate of loans that close would result in a larger derivative asset or liability. A significant increase in the inherent MSR value would result in an increase in the derivative asset or a reduction in the derivative liability. Expected loan close rates and the inherent MSR values are directly impacted by changes in market rates and will generally move in the same direction as interest rates.

The following table shows the significant valuation assumption ranges for the Company's derivative commitments to purchase and originate mortgage loans at March 31, 2018:

|                                            | Minimum | Maximum | Average |
|--------------------------------------------|---------|---------|---------|
| Expected loan close rate                   | 7%      | 100%    | 80%     |
| Inherent MSR value (basis points per loan) | 7       | 194     | 107     |

The significant unobservable input used in the fair value measurement of certain of the Company's asset/liability and customer-related derivatives is the credit valuation adjustment related to the risk of counterparty nonperformance. A significant increase in the credit valuation adjustment would result in a lower fair value measurement. A significant decrease in the credit valuation adjustment would result in a higher fair value measurement. The credit valuation adjustment is impacted by changes in the Company's assessment of the counterparty's credit position. At March 31, 2018, the minimum, maximum and average credit valuation adjustment as a percentage of the derivative contract fair value prior to adjustment was 0 percent, 93 percent and 1 percent, respectively.

The significant unobservable inputs used in the fair value measurement of the Visa swaps are management's estimate of the probability of certain litigation scenarios, and the timing of the resolution of the related litigation loss estimates in excess, or shortfall, of the Company's proportional share of escrow funds. An increase in the loss estimate or a delay in the resolution of the related litigation would result in an increase in the derivative liability. A decrease in the loss estimate or an acceleration of the resolution of the related litigation would result in a decrease in the derivative liability.

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The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis:

| (Dollars in Millions)                           | Level 1   | Level 2   | Level 3  | Netting    | Total     |
|-------------------------------------------------|-----------|-----------|----------|------------|-----------|
| <b>March 31, 2018</b>                           |           |           |          |            |           |
| Available-for-sale investment securities        |           |           |          |            |           |
| U.S. Treasury and agencies                      | \$ 21,258 | \$ 708    | \$       | \$         | \$ 21,966 |
| Mortgage-backed securities                      |           |           |          |            |           |
| Residential agency                              |           | 38,443    |          |            | 38,443    |
| Commercial agency                               |           | 7         |          |            | 7         |
| Other asset-backed securities                   |           | 415       |          |            | 415       |
| Obligations of state and political subdivisions |           | 6,294     |          |            | 6,294     |
| Total available-for-sale                        | 21,258    | 45,867    |          |            | 67,125    |
| Mortgage loans held for sale                    |           | 3,271     |          |            | 3,271     |
| Mortgage servicing rights                       |           |           | 2,780    |            | 2,780     |
| Derivative assets                               | 17        | 1,611     | 502      | (821)      | 1,309     |
| Other assets                                    | 199       | 1,615     |          |            | 1,814     |
| Total                                           | \$ 21,474 | \$ 52,364 | \$ 3,282 | \$ (821)   | \$ 76,299 |
| Derivative liabilities                          | \$        | \$ 1,618  | \$ 634   | \$ (1,328) | \$ 924    |
| Short-term borrowings and other liabilities (a) | 183       | 1,167     |          |            | 1,350     |
| Total                                           | \$ 183    | \$ 2,785  | \$ 634   | \$ (1,328) | \$ 2,274  |
| <b>December 31, 2017</b>                        |           |           |          |            |           |
| Available-for-sale investment securities        |           |           |          |            |           |
| U.S. Treasury and agencies                      | \$ 22,572 | \$ 729    | \$       | \$         | \$ 23,301 |
| Mortgage-backed securities                      |           |           |          |            |           |
| Residential agency                              |           | 38,031    |          |            | 38,031    |
| Commercial agency                               |           | 6         |          |            | 6         |
| Other asset-backed securities                   |           | 419       |          |            | 419       |
| Obligations of state and political subdivisions |           | 6,358     |          |            | 6,358     |
| Other                                           | 22        |           |          |            | 22        |
| Total available-for-sale                        | 22,594    | 45,543    |          |            | 68,137    |
| Mortgage loans held for sale                    |           | 3,534     |          |            | 3,534     |
| Mortgage servicing rights                       |           |           | 2,645    |            | 2,645     |
| Derivative assets                               | 6         | 1,960     | 516      | (652)      | 1,830     |
| Other assets                                    | 154       | 1,163     |          |            | 1,317     |
| Total                                           | \$ 22,754 | \$ 52,200 | \$ 3,161 | \$ (652)   | \$ 77,463 |
| Derivative liabilities                          | \$        | \$ 1,958  | \$ 409   | \$ (1,130) | \$ 1,237  |
| Short-term borrowings and other liabilities (a) | 101       | 894       |          |            | 995       |
| Total                                           | \$ 101    | \$ 2,852  | \$ 409   | \$ (1,130) | \$ 2,232  |

*Note: Excluded from the table above are equity investments without readily determinable fair values. The Company has elected to carry these investments at historical cost, adjusted for impairment and any changes resulting from observable price changes for identical or similar investments of the issuer. The aggregate carrying amount of these equity investments was \$74 million at March 31, 2018. The Company has not recorded impairments or adjustments for observable price changes on these equity investments during the first three months of 2018 or on a cumulative basis.*

*(a) Primarily represents the Company's obligation on securities sold short required to be accounted for at fair value per applicable accounting guidance.*

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The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31:

| (Dollars in Millions)                             | Beginning of Period | Net Gains (Losses) Included in Net Income | Net Gains (Losses) Included in Other Comprehensive Income | Purchases | Principal Payments | Issuances  | Settlements | Net Change in Unrealized Gains (Losses) Relating to Assets and Liabilities |
|---------------------------------------------------|---------------------|-------------------------------------------|-----------------------------------------------------------|-----------|--------------------|------------|-------------|----------------------------------------------------------------------------|
| <b>2018</b>                                       |                     |                                           |                                                           |           |                    |            |             |                                                                            |
| Mortgage servicing rights                         | \$ 2,645            | \$ 33 (c)                                 | \$                                                        | \$ 2      | \$                 | \$ 100 (e) | \$          | \$ 2,780 \$ 33 (c)                                                         |
| Net derivative assets and liabilities             | 107                 | (251) (d)                                 |                                                           | 1         | (6)                | 17         |             | (132) (212) (f)                                                            |
| <b>2017</b>                                       |                     |                                           |                                                           |           |                    |            |             |                                                                            |
| Available-for-sale investment securities          |                     |                                           |                                                           |           |                    |            |             |                                                                            |
| Residential non-agency mortgage-backed securities |                     |                                           |                                                           |           |                    |            |             |                                                                            |
| Prime (a)                                         | \$ 242              | \$                                        | \$ (2)                                                    | \$        | \$ (234)           | \$ (6)     | \$          | \$ \$                                                                      |
| Non-prime (b)                                     | 195                 |                                           | (17)                                                      |           | (175)              | (3)        |             |                                                                            |
| Other asset-backed securities                     | 2                   |                                           |                                                           |           | (2)                |            |             |                                                                            |
| Corporate debt securities                         | 9                   |                                           | 2                                                         |           | (11)               |            |             |                                                                            |
| Total available-for-sale                          | 448                 |                                           | (17) (g)                                                  |           | (422)              | (9)        |             |                                                                            |
| Mortgage servicing rights                         | 2,591               | (73) (c)                                  |                                                           | 2         |                    | 122 (e)    |             | 2,642 (73) (c)                                                             |
| Net derivative assets and liabilities             | 171                 | 46 (h)                                    |                                                           | 1         | (3)                |            | (50)        | 165 (7) (i)                                                                |

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

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

(c) Included in mortgage banking revenue.

(d)

Approximately \$(271) million included in other noninterest income and \$20 million included in mortgage banking revenue.

(e) Represents MSRs capitalized during the period.

(f) Approximately \$(240) million included in other noninterest income and \$28 million included in mortgage banking revenue.

(g) Included in changes in unrealized gains and losses on investment securities available-for-sale.

(h) Approximately \$(19) million included in other noninterest income and \$65 million included in mortgage banking revenue.

(i) Approximately \$(49) million included in other noninterest income and \$42 million included in mortgage banking revenue.

The Company is also required periodically to measure certain other financial assets at fair value on a nonrecurring basis. These measurements of fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

The following table summarizes the balances as of the measurement date of assets measured at fair value on a nonrecurring basis, and still held as of the reporting date:

| (Dollars in Millions) | March 31, 2018 |         |         |       | December 31, 2017 |         |         |        |
|-----------------------|----------------|---------|---------|-------|-------------------|---------|---------|--------|
|                       | Level 1        | Level 2 | Level 3 | Total | Level 1           | Level 2 | Level 3 | Total  |
| Loans (a)             | \$             | \$      | \$ 22   | \$ 22 | \$                | \$      | \$ 150  | \$ 150 |
| Other assets (b)      |                |         | 18      | 18    |                   |         | 31      | 31     |

(a) Represents the carrying value of loans for which adjustments were based on the fair value of the collateral, excluding loans fully charged-off.

(b) Primarily represents the fair value of foreclosed properties that were measured at fair value based on an appraisal or broker price opinion of the collateral subsequent to their initial acquisition.

The following table summarizes losses recognized related to nonrecurring fair value measurements of individual assets or portfolios for the three months ended March 31:

| (Dollars in Millions) | 2018  | 2017  |
|-----------------------|-------|-------|
| Loans (a)             | \$ 23 | \$ 37 |
| Other assets (b)      | 5     | 7     |

(a) Represents write-downs of loans which were based on the fair value of the collateral, excluding loans fully charged-off.

(b) Primarily represents related losses of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

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

| (Dollars in Millions)          | March 31, 2018             |                            |                                               | December 31, 2017          |                            |                                               |
|--------------------------------|----------------------------|----------------------------|-----------------------------------------------|----------------------------|----------------------------|-----------------------------------------------|
|                                | Fair Value Carrying Amount | Aggregate Unpaid Principal | Carrying Amount Over (Under) Unpaid Principal | Fair Value Carrying Amount | Aggregate Unpaid Principal | Carrying Amount Over (Under) Unpaid Principal |
| Total loans                    | \$ 3,271                   | \$ 3,208                   | \$ 63                                         | \$ 3,534                   | \$ 3,434                   | \$ 100                                        |
| Nonaccrual loans               | 1                          | 2                          | (1)                                           | 1                          | 2                          | (1)                                           |
| Loans 90 days or more past due | 1                          | 1                          |                                               | 1                          | 1                          |                                               |

**Disclosures About Fair Value of Financial Instruments**

The following table summarizes the estimated fair value for financial instruments accounted for at amortized cost as of March 31, 2018 and December 31, 2017. In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as the value of goodwill, long-term relationships with deposit, credit card, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other liabilities. Additionally, in accordance with the disclosure guidance, receivables and payables due in one year or less, insurance contracts, equity investments not accounted for at fair value, and deposits with no defined or contractual maturities are excluded.

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

|                                                                                    |           | March 31, 2018 |         |         |           |           | December 31, 2017 |         |         |           |  |
|------------------------------------------------------------------------------------|-----------|----------------|---------|---------|-----------|-----------|-------------------|---------|---------|-----------|--|
|                                                                                    | Carrying  | Fair Value     |         |         |           | Carrying  | Fair Value        |         |         |           |  |
| Dollars in<br>(Millions)                                                           | Amount    | Level 1        | Level 2 | Level 3 | Total     | Amount    | Level 1           | Level 2 | Level 3 | Total     |  |
| <b>Financial Assets</b>                                                            |           |                |         |         |           |           |                   |         |         |           |  |
| Cash and due<br>from banks                                                         | \$ 19,246 | \$ 19,246      | \$      | \$      | \$ 19,246 | \$ 19,505 | \$ 19,505         | \$      | \$      | \$ 19,505 |  |
| Federal funds<br>sold and<br>securities<br>purchased under<br>resale<br>agreements | 207       |                | 207     |         | 207       | 93        |                   | 93      |         | 93        |  |
| Investment<br>securities<br>held-to-maturity                                       | 44,612    | 4,553          | 38,842  | 13      | 43,408    | 44,362    | 4,613             | 39,095  | 15      | 43,723    |  |
| Loans held for<br>sale (a)                                                         | 1,506     |                |         | 1,506   | 1,506     | 20        |                   |         | 20      | 20        |  |

|                              |         |        |         |         |         |       |         |         |
|------------------------------|---------|--------|---------|---------|---------|-------|---------|---------|
| loans                        | 273,993 |        | 275,311 | 275,311 | 276,507 |       | 279,391 | 279,391 |
| Other                        | 2,442   | 1,281  | 1,161   | 2,442   | 2,393   | 1,037 | 1,364   | 2,401   |
| <b>Financial liabilities</b> |         |        |         |         |         |       |         |         |
| Time deposits                | 39,585  | 39,179 |         | 39,179  | 33,356  |       | 33,120  | 33,120  |
| Short-term                   |         |        |         |         |         |       |         |         |
| Borrowings (b)               | 16,353  | 16,129 |         | 16,129  | 15,656  |       | 15,447  | 15,447  |
| Long-term debt               | 33,201  | 32,963 |         | 32,963  | 32,259  |       | 32,377  | 32,377  |
| Other                        | 1,546   |        | 1,546   | 1,546   | 1,556   |       | 1,556   | 1,556   |

(a) Excludes mortgages held for sale for which the fair value option under applicable accounting guidance was elected.

(b) Excludes the Company's obligation on securities sold short required to be accounted for at fair value per applicable accounting guidance.

The fair value of unfunded commitments, deferred non-yield related loan fees, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments, deferred non-yield related loan fees and standby letters of credit was \$563 million and \$555 million at March 31, 2018 and December 31, 2017, respectively. The carrying value of other guarantees was \$190 million and \$192 million at March 31, 2018 and December 31, 2017, respectively.

#### **Note 15** Guarantees and Contingent Liabilities

**Visa Restructuring and Card Association Litigation** The Company's payment services business issues credit and debit cards and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively "Visa"). In 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of its initial public offering ("IPO") completed in the first quarter of 2008 (the "Visa Reorganization"). As a part of the Visa Reorganization, the Company received its proportionate number of shares of Visa Inc. common stock, which were subsequently converted to Class B shares of Visa Inc. ("Class B shares"). Visa U.S.A. Inc. ("Visa U.S.A.") and MasterCard International (collectively, the "Card Associations") are defendants in antitrust lawsuits challenging the practices of the Card Associations (the "Visa Litigation"). Visa U.S.A. member banks have a contingent obligation to indemnify Visa Inc. under the Visa U.S.A. bylaws (which were modified at the time of the restructuring in October 2007) for potential losses arising from the Visa Litigation. The indemnification by the Visa U.S.A. member banks has no specific maximum amount.

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Using proceeds from its IPO and through reductions to the conversion ratio applicable to the Class B shares held by Visa U.S.A. member banks, Visa Inc. has funded an escrow account for the benefit of member financial institutions to fund their indemnification obligations associated with the Visa Litigation. The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation contingent liability. On October 19, 2012, Visa signed a settlement agreement to resolve class action claims associated with the multi-district interchange litigation pending in the United States District Court for the Eastern District of New York. This case is the largest of the remaining Visa Litigation matters. The district court approved the settlement, but that approval was appealed by certain class members. On June 30, 2016, the United States Court of Appeals for the Second Circuit reversed the approval of the settlement and remanded the case to the district court for further proceedings consistent with the appellate ruling. On November 23, 2016, certain class members filed a petition with the United States Supreme Court asking it to review the Second Circuit's decision to reject the settlement. On March 27, 2017, the Supreme Court denied the class members' petition. The case is proceeding in the district court.

At March 31, 2018, the carrying amount of the Company's liability related to the Visa Litigation matters, net of its share of the escrow fundings, was \$19 million. During the three months ended March 31, 2018, the Company sold 0.3 million of its Class B shares. These sales, and any previous sales of its Class B shares, do not impact the Company's liability for the Visa Litigation matters or the receivable related to the escrow account. Upon final settlement of the Visa Litigation, the remaining 2.4 million Class B shares held by the Company will be eligible for conversion to Class A shares of Visa Inc., which are publicly traded. The Class B shares are excluded from the Company's financial instruments disclosures included in Note 14.

**Other Guarantees and Contingent Liabilities**

The following table is a summary of other guarantees and contingent liabilities of the Company at March 31, 2018:

| (Dollars in Millions)                | Collateral<br>Held | Carrying<br>Amount | Maximum<br>Potential<br>Future<br>Payments |
|--------------------------------------|--------------------|--------------------|--------------------------------------------|
| Standby letters of credit            | \$                 | \$ 53              | \$ 10,825                                  |
| Third party borrowing arrangements   |                    |                    | 12                                         |
| Securities lending indemnifications  | 3,850              |                    | 3,807                                      |
| Asset sales                          |                    | 122                | 6,758 (a)                                  |
| Merchant processing                  | 768                | 51                 | 99,579                                     |
| Tender option bond program guarantee | 2,424              |                    | 2,335                                      |
| Minimum revenue guarantees           |                    |                    | 6                                          |
| Other                                |                    | 17                 | 1,230                                      |

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

*loans.*

**Merchant Processing** The Company, through its subsidiaries, provides merchant processing services. Under the rules of credit card associations, a merchant processor retains a contingent liability for credit card transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In this situation, the transaction is charged-back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant, it bears the loss for the amount of the refund paid to the cardholder.

The Company currently processes card transactions in the United States, Canada, Europe and Mexico through wholly-owned subsidiaries and joint ventures with other financial institutions. In the event a merchant was unable to fulfill product or services subject to future delivery, such as airline tickets, the Company could become financially liable for refunding the purchase price of such products or services purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At March 31, 2018, the value of airline tickets purchased to be delivered at a future date through card transactions processed by the Company was \$10.7 billion. The Company held collateral of \$622 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets. In addition to specific collateral or other credit enhancements, the Company maintains a liability for its implied guarantees associated with future delivery. At March 31, 2018, the liability was \$47 million primarily related to these airline processing arrangements.

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**Asset Sales** The Company regularly sells loans to GSEs as part of its mortgage banking activities. The Company provides customary representations and warranties to GSEs in conjunction with these sales. These representations and warranties generally require the Company to repurchase assets if it is subsequently determined that a loan did not meet specified criteria, such as a documentation deficiency or rescission of mortgage insurance. If the Company is unable to cure or refute a repurchase request, the Company is generally obligated to repurchase the loan or otherwise reimburse the counterparty for losses. At March 31, 2018, the Company had reserved \$12 million for potential losses from representation and warranty obligations, compared with \$13 million at December 31, 2017. The Company's reserve reflects management's best estimate of losses for representation and warranty obligations. The Company's repurchase reserve is modeled at the loan level, taking into consideration the individual credit quality and borrower activity that has transpired since origination. The model applies credit quality and economic risk factors to derive a probability of default and potential repurchase that are based on the Company's historical loss experience, and estimates loss severity based on expected collateral value. The Company also considers qualitative factors that may result in anticipated losses differing from historical loss trends.

As of March 31, 2018 and December 31, 2017, the Company had \$10 million and \$9 million, respectively, of unresolved representation and warranty claims from GSEs. The Company does not have a significant amount of unresolved claims from investors other than GSEs.

**Litigation and Regulatory Matters**

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

**Litigation Matters** In the last several years, the Company and other large financial institutions have been sued in their capacity as trustee for residential mortgage-backed securities trusts. Among these lawsuits are actions originally brought in June 2014 by a group of institutional investors, including BlackRock and PIMCO funds, against six bank trustees, including the Company. The actions brought by these institutional investors against the Company currently are pending in the Supreme Court of the State of New York, New York County, and in the United States District Court for the Southern District of New York. In these lawsuits, the investors allege that the Company's banking subsidiary, U.S. Bank National Association (U.S. Bank), as trustee caused them to incur substantial losses by failing to enforce loan repurchase obligations and failing to abide by appropriate standards of care after events of default allegedly occurred. The plaintiffs seek monetary damages in an unspecified amount and also seek equitable relief.

**Regulatory Matters** The Company is continually subject to examinations, inquiries and investigations in areas of increasing regulatory scrutiny, such as compliance, risk management, third party risk management and consumer protection. In addition, the Company is currently subject to examinations, inquiries and investigations by government agencies and bank regulators concerning mortgage-related practices, including those related to lender-placed insurance, and notices and filings in bankruptcy cases.

The Company is cooperating fully with all pending examinations, inquiries and investigations, any of which could lead to administrative or legal proceedings or settlements. Remedies in these proceedings or settlements may include fines, penalties, restitution or alterations in the Company's business practices (which may increase the Company's

operating expenses and decrease its revenue).

On February 13, 2018, the Company entered into a deferred prosecution agreement (the "DPA") with the United States Attorney's Office in Manhattan that resolved its investigation of the Company concerning a legacy banking relationship between U.S. Bank and payday lending businesses associated with former customer Scott Tucker and U.S. Bank's legacy Bank Secrecy Act/anti-money laundering compliance program. Under the terms of the DPA, the Company settled all allegations with the United States Attorney's Office for a net payment of \$453 million and agreed to, among other things, continue its ongoing efforts to implement and maintain an adequate Bank Secrecy Act/anti-money laundering compliance program and to provide related reports to the U.S. Attorney's Office. The DPA defers prosecution for a period of two years, subject to the Company's compliance with its terms. If the Company violates the

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DPA, its term could be extended up to an additional one year, or the Company could be subject to a prosecution or civil action based on the matters that are the subject of the DPA.

In addition, the Company and certain of its affiliates entered into related regulatory settlements with the OCC, the Financial Crimes Enforcement Network ( FinCEN ) and the Board of Governors of the Federal Reserve System ( Federal Reserve ). The OCC assessed a civil money penalty of \$75 million against U.S. Bank, resulting from the OCC's 2015 Consent Order (described below) and related review of the Company's legacy Bank Secrecy Act/anti-money laundering compliance program. The FinCEN settlement with U.S. Bank provided for a net payment of \$70 million to FinCEN and requires, among other things, an ongoing commitment by U.S. Bank to provide resources to its Bank Secrecy Act/anti-money laundering compliance program and related reporting to FinCEN. The Federal Reserve settlement with the Company and USB Americas Holding Company, a subsidiary of U.S. Bank, provided for the payment of a civil money penalty of \$15 million to the Federal Reserve and requires, among other things, enhancements related to the Company's firm-wide Bank Secrecy Act/anti-money laundering compliance program and sanctions compliance program. If the Company and its affiliates fail to satisfy the ongoing obligations under these regulatory settlements, the Company and its affiliates may be required to enter into further orders and settlements, pay additional fines or penalties, or modify their business practices (which may increase operating expenses and decrease revenue).

The Company paid a total of \$613 million for the penalties described above during the quarter ended March 31, 2018, all of which had been previously accrued and reflected in the Company's Consolidated Balance Sheet at December 31, 2017.

In October 2015, the Company entered into a Consent Order with the OCC concerning deficiencies in the Company's Bank Secrecy Act/anti-money laundering compliance program, and requiring an ongoing review of that program. The OCC's 2015 Consent Order remains open and the Company continues to implement the compliance program enhancements and other actions required by the order.

**Outlook** Due to their complex nature, it can be years before litigation and regulatory matters are resolved. The Company may be unable to develop an estimate or range of loss where matters are in early stages, there are significant factual or legal issues to be resolved, damages are unspecified or uncertain, or there is uncertainty as to a litigation class being certified or the outcome of pending motions, appeals or proceedings. For those litigation and regulatory matters where the Company has information to develop an estimate or range of loss, the Company believes the upper end of the range of reasonably possible losses in aggregate, in excess of any reserves established for matters where a loss is considered probable, will not be material to its financial condition, results of operations or cash flows. The Company's estimates are subject to significant judgment and uncertainties, and the matters underlying the estimates will change from time to time. Actual results may vary significantly from the current estimates.

For additional information on the nature of the Company's guarantees and contingent liabilities, refer to Note 22 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### **Note 16** Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to March 31, 2018 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.

U.S. Bancorp

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Consolidated Daily Average Balance Sheet and Related

Yields and Rates (a)

| For the Three Months Ended March 31             |                  |          |                  |                  |          |                  |                           |
|-------------------------------------------------|------------------|----------|------------------|------------------|----------|------------------|---------------------------|
| 2018                                            |                  |          |                  | 2017             |          |                  |                           |
| (Dollars in Millions)                           |                  |          |                  |                  |          |                  |                           |
| (Unaudited)                                     | Average Balances | Interest | Yields and Rates | Average Balances | Interest | Yields and Rates | % Change Average Balances |
| <b>Assets</b>                                   |                  |          |                  |                  |          |                  |                           |
| Investment securities                           | \$ 113,493       | \$ 627   | 2.21%            | \$ 110,764       | \$ 554   | 2.00%            | 2.5%                      |
| Loans held for sale                             | 3,134            | 33       | 4.21             | 3,625            | 35       | 3.82             | (13.5)                    |
| Loans (b)                                       |                  |          |                  |                  |          |                  |                           |
| Commercial                                      | 97,465           | 860      | 3.58             | 93,739           | 706      | 3.05             | 4.0                       |
| Commercial real estate                          | 40,366           | 440      | 4.42             | 43,158           | 425      | 4.00             | (6.5)                     |
| Residential mortgages                           | 60,174           | 558      | 3.72             | 57,900           | 535      | 3.71             | 3.9                       |
| Credit card                                     | 21,284           | 616      | 11.74            | 20,845           | 572      | 11.12            | 2.1                       |
| Other retail                                    | 57,051           | 593      | 4.21             | 53,784           | 535      | 4.04             | 6.1                       |
| Total loans, excluding covered loans            | 276,340          | 3,067    | 4.49             | 269,426          | 2,773    | 4.16             | 2.6                       |
| Covered loans                                   | 3,048            | 45       | 5.85             | 3,732            | 44       | 4.71             | (18.3)                    |
| Total loans                                     | 279,388          | 3,112    | 4.51             | 273,158          | 2,817    | 4.17             | 2.3                       |
| Other earning assets                            | 15,834           | 50       | 1.28             | 11,734           | 38       | 1.32             | 34.9                      |
| Total earning assets                            | 411,849          | 3,822    | 3.75             | 399,281          | 3,444    | 3.48             | 3.1                       |
| Allowance for loan losses                       | (3,933)          |          |                  | (3,823)          |          |                  | (2.9)                     |
| Unrealized gain (loss) on investment securities | (1,244)          |          |                  | (626)            |          |                  | (98.7)                    |
| Other assets                                    | 47,616           |          |                  | 46,479           |          |                  | 2.4                       |
| Total assets                                    | \$ 454,288       |          |                  | \$ 441,311       |          |                  | 2.9                       |
| <b>Liabilities and Shareholders Equity</b>      |                  |          |                  |                  |          |                  |                           |
| Noninterest-bearing deposits                    | \$ 79,482        |          |                  | \$ 80,738        |          |                  | (1.6)%                    |

|                                                             |            |          |       |            |       |       |        |
|-------------------------------------------------------------|------------|----------|-------|------------|-------|-------|--------|
| Interest-bearing deposits                                   |            |          |       |            |       |       |        |
| Interest checking                                           | 70,358     | 26       | .15   | 65,681     | 13    | .08   | 7.1    |
| Money market savings                                        |            |          |       |            |       |       |        |
|                                                             | 103,367    | 205      | .81   | 108,759    | 129   | .48   | (5.0)  |
| Savings accounts                                            | 44,388     | 8        | .07   | 42,609     | 8     | .08   | 4.2    |
| Time deposits                                               | 36,985     | 106      | 1.16  | 30,646     | 49    | .65   | 20.7   |
| Total interest-bearing deposits                             |            |          |       |            |       |       |        |
|                                                             | 255,098    | 345      | .55   | 247,695    | 199   | .33   | 3.0    |
| Short-term borrowings                                       |            |          |       |            |       |       |        |
|                                                             | 22,862     | 77       | 1.37  | 13,201     | 25    | .78   | 73.2   |
| Long-term debt                                              | 33,655     | 203      | 2.43  | 35,274     | 190   | 2.18  | (4.6)  |
| Total interest-bearing liabilities                          |            |          |       |            |       |       |        |
|                                                             | 311,615    | 625      | .81   | 296,170    | 414   | .57   | 5.2    |
| Other liabilities                                           | 13,741     |          |       | 15,845     |       |       | (13.3) |
| Shareholders' equity                                        |            |          |       |            |       |       |        |
| Preferred equity                                            | 5,419      |          |       | 5,706      |       |       | (5.0)  |
| Common equity                                               | 43,406     |          |       | 42,217     |       |       | 2.8    |
| Total U.S. Bancorp shareholders' equity                     |            |          |       |            |       |       |        |
|                                                             | 48,825     |          |       | 47,923     |       |       | 1.9    |
| Noncontrolling interests                                    |            |          |       |            |       |       |        |
|                                                             | 625        |          |       | 635        |       |       | (1.6)  |
| Total equity                                                | 49,450     |          |       | 48,558     |       |       | 1.8    |
| Total liabilities and equity                                |            |          |       |            |       |       |        |
|                                                             | \$ 454,288 |          |       | \$ 441,311 |       |       | 2.9    |
| Net interest income                                         |            | \$ 3,197 |       | \$ 3,030   |       |       |        |
| Gross interest margin                                       |            |          |       |            |       |       |        |
|                                                             |            |          | 2.94% |            |       | 2.91% |        |
| Gross interest margin without taxable-equivalent increments |            |          |       |            |       |       |        |
|                                                             |            |          | 2.91% |            |       | 2.86% |        |
| Percent of Earning Assets                                   |            |          |       |            |       |       |        |
| Interest income                                             |            |          | 3.75% |            | 3.48% |       |        |
| Interest expense                                            |            |          | .62   |            | .42   |       |        |
| Net interest margin                                         |            |          | 3.13% |            | 3.06% |       |        |
| Net interest margin without taxable-equivalent increments   |            |          |       |            |       |       |        |
|                                                             |            |          | 3.10% |            |       | 3.01% |        |

(a) 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.

(b) Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

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### **Part II Other Information**

**Item 1. Legal Proceedings** See the information set forth in Note 15 in the Notes to Consolidated Financial Statements under Part I, Item 1 of this Report, which is incorporated herein by reference.

**Item 1A. Risk Factors** There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, for discussion of these risks.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** Refer to the Capital Management section within Management's Discussion and Analysis in Part I, Item 2 of this Report for information regarding shares repurchased by the Company during the first quarter of 2018.

### **Item 6. Exhibits**

- 10.1 Deferred Prosecution Agreement, dated February 13, 2018, between U.S. Bancorp and the United States Attorney's Office for the Southern District of New York. Filed as Exhibit 10.1 to Form 8-K filed on February 15, 2018.
- 10.2 Consent Order and Stipulation and Consent to the Issuance of an Order for a Civil Money Penalty, dated February 13, 2018, between U.S. Bank and the Office of the Comptroller of the Currency. Filed as Exhibit 10.2 to Form 8-K filed on February 15, 2018.
- 10.3 Stipulation and Order of Settlement and Dismissal, dated February 15, between U.S. Bank and the Financial Crimes Enforcement Network. Filed as Exhibit 10.3 to Form 8-K filed on February 15, 2018.
- 10.4 Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, Amended, dated February 14, among U.S. Bancorp, USB Americas Holding Company and the Board of Governors of the Federal Reserve System. Filed as Exhibit 10.4 to Form 8-K filed on February 15, 2018.
- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- 101 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Income, (iii) the Consolidated Statement of Comprehensive Income, (iv) the Consolidated Statement of Shareholders' Equity, (v) the Consolidated Statement of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

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**SIGNATURE**

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

U.S. BANCORP

By: /s/ CRAIG E. GIFFORD

Craig E. Gifford

Controller

Dated: May 3, 2018

(Principal Accounting Officer and Duly Authorized Officer)

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**Table of Contents****EXHIBIT 12****Computation of Ratio of Earnings to Fixed Charges**

| (Dollars in Millions)                                                               | Three Months Ended<br>March 31, 2018 |
|-------------------------------------------------------------------------------------|--------------------------------------|
| <b>Earnings</b>                                                                     |                                      |
| 1. Net income attributable to U.S. Bancorp                                          | \$ 1,675                             |
| 2. Applicable income taxes, including expense related to unrecognized tax positions | 362                                  |
| 3. Net income attributable to U.S. Bancorp before income taxes (1 + 2)              | \$ 2,037                             |
| 4. Fixed charges:                                                                   |                                      |
| a. Interest expense excluding interest on deposits*                                 | \$ 278                               |
| b. Portion of rents representative of interest and amortization of debt expense     | 29                                   |
| c. Fixed charges excluding interest on deposits (4a + 4b)                           | 307                                  |
| d. Interest on deposits                                                             | 345                                  |
| e. Fixed charges including interest on deposits (4c + 4d)                           | \$ 652                               |
| 5. Amortization of interest capitalized                                             | \$                                   |
| 6. Earnings excluding interest on deposits (3 + 4c + 5)                             | 2,344                                |
| 7. Earnings including interest on deposits (3 + 4e + 5)                             | 2,689                                |
| 8. Fixed charges excluding interest on deposits (4c)                                | 307                                  |
| 9. Fixed charges including interest on deposits (4e)                                | 652                                  |
| <b>Ratio of Earnings to Fixed Charges</b>                                           |                                      |
| 10. Excluding interest on deposits (line 6/line 8)                                  | 7.64                                 |
| 11. Including interest on deposits (line 7/line 9)                                  | 4.12                                 |

\* Excludes interest expense related to unrecognized tax positions.

**Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends**

| (Dollars in Millions)                                                               | Three Months Ended<br>March 31, 2018 |
|-------------------------------------------------------------------------------------|--------------------------------------|
| <b>Earnings</b>                                                                     |                                      |
| 1. Net income attributable to U.S. Bancorp                                          | \$ 1,675                             |
| 2. Applicable income taxes, including expense related to unrecognized tax positions | 362                                  |
| 3. Net income attributable to U.S. Bancorp before income taxes (1 + 2)              | \$ 2,037                             |
| 4. Fixed charges:                                                                   |                                      |
| a. Interest expense excluding interest on deposits*                                 | \$ 278                               |
| b. Portion of rents representative of interest and amortization of debt expense     | 29                                   |
| c. Fixed charges excluding interest on deposits (4a + 4b)                           | 307                                  |
| d. Interest on deposits                                                             | 345                                  |
| e. Fixed charges including interest on deposits (4c + 4d)                           | \$ 652                               |
| 5. Amortization of interest capitalized                                             | \$                                   |
| 6. Preferred stock dividends                                                        | 70                                   |
| 7. Earnings excluding interest on deposits (3 + 4c + 5)                             | 2,344                                |

|                                                                   |                                                                                    |       |
|-------------------------------------------------------------------|------------------------------------------------------------------------------------|-------|
| 8.                                                                | Earnings including interest on deposits (3 + 4e + 5)                               | 2,689 |
| 9.                                                                | Fixed charges excluding interest on deposits, and preferred stock dividends (4c+6) | 377   |
| 10.                                                               | Fixed charges including interest on deposits, and preferred stock dividends (4e+6) | 722   |
| <b>Ratio of Earnings to Fixed Charges and Preferred Dividends</b> |                                                                                    |       |
| 11.                                                               | Excluding interest on deposits (line 7/line 9)                                     | 6.22  |
| 12.                                                               | Including interest on deposits (line 8/line 10)                                    | 3.72  |

\* *Excludes interest expense related to unrecognized tax positions.*

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**EXHIBIT 31.1**

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

I, Andrew Cecere, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ANDREW CECERE  
Andrew Cecere

*Chief Executive Officer*

Dated: May 3, 2018

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**EXHIBIT 31.2**

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

I, Terrance R. Dolan, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ TERRANCE R. DOLAN  
Terrance R. Dolan

*Chief Financial Officer*

Dated: May 3, 2018

U.S. Bancorp

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**EXHIBIT 32**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the Form 10-Q ) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANDREW CECERE  
Andrew Cecere

*Chief Executive Officer*

/s/ TERRANCE R. DOLAN  
Terrance R. Dolan

*Chief Financial Officer*

Dated: May 3, 2018

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Corporate Information

### **Executive Offices**

U.S. Bancorp

800 Nicollet Mall

Minneapolis, MN 55402

### **Common Stock Transfer Agent and Registrar**

Computershare acts as our transfer agent and registrar, dividend paying agent and dividend reinvestment plan administrator, and maintains all shareholder records for the corporation. Inquiries related to shareholder records, stock transfers, changes of ownership, lost stock certificates, changes of address and dividend payment should be directed to the transfer agent at:

Computershare

P.O. Box 505000

Louisville, KY 40233

Phone: 888-778-1311 or 201-680-6578 (international calls)

Internet: [www.computershare.com/investor](http://www.computershare.com/investor)

Registered or Certified Mail:

Computershare

462 South 4<sup>th</sup> Street, Suite 1600

Louisville, KY 40202

Telephone representatives are available weekdays from 8:00 a.m. to 6:00 p.m., Central Time, and automated support is available 24 hours a day, 7 days a week. Specific information about your account is available on Computershare's Investor Center website.

### **Independent Auditor**

Ernst & Young LLP serves as the independent auditor for U.S. Bancorp's financial statements.

### **Common Stock Listing and Trading**

U.S. Bancorp common stock is listed and traded on the New York Stock Exchange under the ticker symbol USB.

### **Dividends and Reinvestment Plan**

U.S. Bancorp currently pays quarterly dividends on our common stock on or about the 15th day of January, April, July and October, subject to approval by our Board of Directors. U.S. Bancorp shareholders can choose to participate in a plan that provides automatic reinvestment of dividends and/or optional cash purchase of additional shares of U.S. Bancorp common stock. For more information, please contact our transfer agent, Computershare.

### **Investor Relations Contact**

Jennifer A. Thompson, CFA

Senior Vice President, Investor Relations

[jen.thompson@usbank.com](mailto:jen.thompson@usbank.com)

Phone: 612-303-0778 or 866-775-9668

### **Financial Information**

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

**Website** For information about U.S. Bancorp, including news, financial results, annual reports and other documents filed with the Securities and Exchange Commission, access our home page on the internet at [usbank.com](http://usbank.com) and click on *About U.S. Bank*.

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

U.S. Bancorp Investor Relations

800 Nicollet Mall

Minneapolis, MN 55402

[investorrelations@usbank.com](mailto:investorrelations@usbank.com)

Phone: 866-775-9668

### **Media Requests**

Stacey F. Wempen

Vice President, Head of Financial Communications

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Phone: 612-303-7620

### **Privacy**

U.S. Bancorp is committed to respecting the privacy of our customers and safeguarding the financial and personal information provided to us. To learn more about the U.S. Bancorp commitment to protecting privacy, visit [usbank.com](http://usbank.com) and click on *Privacy*.

## **Code of Ethics**

At U.S. Bancorp, our commitment to high ethical standards guides everything we do. Demonstrating this commitment through our words and actions is how each of us does the right thing every day for our customers, shareholders, communities and each other. Our style of ethical leadership is why we were named a World's Most Ethical Company in 2018 by the Ethisphere Institute.

For details about our Code of Ethics and Business Conduct, visit [usbank.com](http://usbank.com) and click on *About U.S. Bank* and then *Investor Relations* and then *Corporate Governance*.

## **Diversity and Inclusion**

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

Our employees bring their whole selves to work. We respect and value each other's differences, strengths and perspectives, and we strive to reflect the communities we serve. This makes us stronger, more innovative and more responsive to our diverse customers' needs.

## **Equal Opportunity and Affirmative Action**

U.S. Bancorp and our subsidiaries are committed to providing Equal Employment Opportunity to all employees and applicants for employment. In keeping with this commitment, employment decisions are made based on abilities, not race, color, religion, national origin or ancestry, gender, age, disability, veteran status, sexual orientation, marital status, gender identity or expression, genetic information or any other factors protected by law. The corporation complies with municipal, state and federal fair employment laws, including regulations applying to federal contractors.

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

## **Accessibility**

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

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