

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)

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

**800 Nicollet Mall**

**Minneapolis, Minnesota 55402**

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(Address of principal executive offices, including zip code)

**651-466-3000**

(Registrant's telephone number, including area code)

**(not applicable)**

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

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

YES NO

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

YES NO

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

Large accelerated filer  
Non-accelerated filer

Accelerated filer  
Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

YES NO

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

Class  
Common Stock, \$0.01 Par Value

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



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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

	Three Months Ended		
	March 31		Percent
(Dollars and Shares in Millions, Except Per Share Data)	2018	2017	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, 2018	December 31, 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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**Table of Contents****Table 2** Noninterest Income

	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 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Weighted- Average Maturity in Years	Weighted- Average Yield (e)	Amortized Cost	Fair Value	Weighted- Average Maturity in Years	Weighted- Average Yield (e)
<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 (Dollars in Millions)	Lines	Loans	Total	Percent of 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 Company Owned or Serviced		
(Dollars in Millions)	First Lien	Third Party First Lien	Total
Total	\$ 4,827	\$ 6,728	\$ 11,555
Percent 30-89 days past due	.30%	.44%	.38%
Percent 90 days or more past due	.11%	.10%	.10%
Weighted-average CLTV	73%	69%	71%
Weighted-average credit score	777	772	774

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

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

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

**Troubled Debt Restructurings** Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles, which is generally six months or greater. At March 31, 2018, performing TDRs were \$3.8 billion, compared with \$4.0 billion at December 31, 2017. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

The Company has also implemented certain residential mortgage loan restructuring programs that may result in TDRs. The Company modifies residential mortgage loans under Federal Housing Administration, United States Department of Veterans Affairs, and its

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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, 2018	December 31, 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 Commercial Real Estate	Residential Mortgages, Credit Card and Other	Covered 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 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 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