US BANCORP \DE\
Form 10-Q
November 03, 2017
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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 September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934
For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES NO

Indicate by check mark whether the registrant has submitted electronically 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	Accelerated filer
Non-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	Outstanding as of October 31, 2017
Common Stock, $0.01 Par Value	1,659,491,166 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 securities held in its investment securities portfolio;

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, 2016, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile 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 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Percent Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Percent Change
Condensed Income Statement						
Net interest income	$ 3,135	$ 2,893	8.4%	$ 9,097	$ 8,573	6.1%
Taxable-equivalent adjustment (a)	51	50	2.0	152	154	(1.3)
Net interest income (taxable-equivalent basis) (b)	3,186	2,943	8.3	9,249	8,727	6.0
Noninterest income	2,413	2,435	(.9)	7,123	7,130	(.1)
Securities gains (losses), net	9	10	(10.0)	47	16	*
Total net revenue	5,608	5,388	4.1	16,419	15,873	3.4
Noninterest expense	3,039	2,931	3.7	9,006	8,672	3.9
Provision for credit losses	360	325	10.8	1,055	982	7.4
Income before taxes	2,209	2,132	3.6	6,358	6,219	2.2
Income taxes and taxable-equivalent adjustment	640	616	3.9	1,791	1,766	1.4
Net income	1,569	1,516	3.5	4,567	4,453	2.6
Net (income) loss attributable to noncontrolling interests	(6)	(14)	57.1	(31)	(43)	27.9
Net income attributable to U.S. Bancorp	$ 1,563	$ 1,502	4.1	$ 4,536	$ 4,410	2.9
Net income applicable to U.S. Bancorp common shareholders	$ 1,485	$ 1,434	3.6	$ 4,302	$ 4,198	2.5
Per Common Share						
Earnings per share	$ .89	$ .84	6.0%	$ 2.56	$ 2.44	4.9%
Diluted earnings per share	.88	.84	4.8	2.55	2.43	4.9
Dividends declared per share	.30	.28	7.1	.86	.79	8.9
Book value per share	25.98	24.78	4.8			
Market value per share	53.59	42.89	24.9			
Average common shares outstanding	1,672	1,710	(2.2)	1,683	1,724	(2.4)
Average diluted common shares outstanding	1,678	1,716	(2.2)	1,689	1,730	(2.4)
Financial Ratios						
Return on average assets	1.38%	1.36%		1.36%	1.37%	
Return on average common equity	13.6	13.5		13.4	13.4	
Net interest margin (taxable-equivalent basis) (a)	3.10	2.98		3.06	3.02	
Efficiency ratio (b)	54.3	54.5		55.0	54.7	
Net charge-offs as a percent of average loans outstanding	.47	.46		.49	.48	
Average Balances						

Loans	$ 277,626	$ 269,637	3.0%	$ 275,454	$ 266,179	3.5%
Loans held for sale	3,935	4,691	(16.1)	3,457	3,888	(11.1)
Investment securities (c)	111,832	108,109	3.4	111,325	107,095	3.9
Earning assets	408,825	393,783	3.8	404,031	385,816	4.7
Assets	450,630	437,863	2.9	446,049	429,421	3.9
Noninterest-bearing deposits	81,964	82,021	(.1)	81,808	79,928	2.4
Deposits	335,151	318,548	5.2	331,610	307,312	7.9
Short-term borrowings	15,505	15,929	(2.7)	14,423	21,457	(32.8)
Long-term debt	35,544	37,875	(6.2)	35,697	36,392	(1.9)
Total U.S. Bancorp shareholders equity	48,819	47,791	2.2	48,342	47,240	2.3

	September 30, 2017	December 31, 2016	
Period End Balances			
Loans	$ 278,719	$ 273,207	2.0%
Investment securities	111,790	109,275	2.3
Assets	459,227	445,964	3.0
Deposits	342,589	334,590	2.4
Long-term debt	34,515	33,323	3.6
Total U.S. Bancorp shareholders equity	48,723	47,298	3.0
Asset Quality			
Nonperforming assets	$ 1,251	$ 1,603	(22.0)%
Allowance for credit losses	4,407	4,357	1.1
Allowance for credit losses as a percentage of period-end loans	1.58%	1.59%	
Capital Ratios			
Basel III transitional standardized approach:			
Common equity tier 1 capital	9.6%	9.4%	
Tier 1 capital	11.1	11.0	
Total risk-based capital	13.2	13.2	
Leverage	9.1	9.0	
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.1	12.2	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)	9.4	9.1	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)	11.8	11.7	
Tangible common equity to tangible assets (b)	7.7	7.5	
Tangible common equity to risk-weighted assets (b)	9.5	9.2	

* *Not meaningful*
(a) *Utilizes a tax rate of 35 percent for those assets and liabilities whose income or expense is not included for federal income tax purposes.*
(b) *See Non-GAAP Financial Measures beginning on page 31.*
(c) *Excludes unrealized gains and losses on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.*

Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.6 billion for the third quarter of 2017, or $0.88 per diluted common share, compared with $1.5 billion, or $0.84 per diluted common share, for the third quarter of 2016. Return on average assets and return on average common equity were 1.38 percent and 13.6 percent, respectively, for the third quarter of 2017, compared with 1.36 percent and 13.5 percent, respectively, for the third quarter of 2016.

Total net revenue for the third quarter of 2017 was $220 million (4.1 percent) higher than the third quarter of 2016, reflecting an 8.4 percent increase in net interest income (8.3 percent on a taxable-equivalent basis), partially offset by a 0.9 percent decrease in noninterest income. The increase in net interest income from the third quarter of 2016 was mainly a result of loan growth and the impact of rising interest rates. The noninterest income decrease was principally due to lower mortgage banking revenue, primarily the result of a higher level of refinancing activities in the third quarter of 2016, partially offset by increases in trust and investment management fees, payment services revenue, and treasury management fees as well as higher equity investment income.

Noninterest expense in the third quarter of 2017 was $108 million (3.7 percent) higher than the third quarter of 2016, primarily due to increased compensation expense related to hiring to support business growth and compliance programs, merit increases and higher variable compensation.

The provision for credit losses for the third quarter of 2017 of $360 million was $35 million (10.8 percent) higher than the third quarter of 2016. Net charge-offs in the third quarter of 2017 were $330 million, compared with $315 million in the third quarter of 2016. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first nine months of 2017 was $4.5 billion, or $2.55 per diluted common share, compared with $4.4 billion, or $2.43 per diluted common share, for the first nine months of 2016. Return on average assets and return on average common equity were 1.36 percent and 13.4 percent, respectively, for the first nine months of 2017, compared with 1.37 percent and 13.4 percent, respectively, for the first nine months of 2016.

Total net revenue for the first nine months of 2017 was $546 million (3.4 percent) higher than the first nine months of 2016, reflecting a 6.1 percent increase in net interest income (6.0 percent on a taxable-equivalent basis) and a 0.3 percent increase in noninterest income. The increase in net interest income from a year ago was mainly a result of loan growth and the impact of rising interest rates. The noninterest income increase was driven by higher payment services revenue, trust and investment management fees and treasury management fees, partially offset by lower mortgage banking revenue and lower equity investment income, reflecting the impact of the sale of the Company s membership in Visa Europe Limited (Visa Europe) to Visa Inc. in the second quarter of 2016.

Noninterest expense in the first nine months of 2017 was $334 million (3.9 percent) higher than the first nine months of 2016, the result of increased compensation expense related to hiring to support business growth and compliance programs, merit increases and higher variable compensation, as well as the impact of a Federal Deposit Insurance Corporation (FDIC) insurance surcharge which began in late 2016. The increase from the first nine months of 2016 was partially offset by an increase in reserves related to legal and regulatory matters and a charitable contribution, both recognized in the second quarter of 2016.

The provision for credit losses for the first nine months of 2017 of $1.1 billion was $73 million (7.4 percent) higher than the first nine months of 2016. Net charge-offs in the first nine months of 2017 were $1.0 billion, compared with $947 million in the first nine months of 2016. 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.

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STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $3.2 billion in the third quarter and $9.2 billion in the first nine months of 2017, representing increases of $243 million (8.3 percent) and $522 million (6.0 percent), respectively, over the same periods of 2016. The increases were principally driven by loan growth and the impact of rising interest rates. Average earning assets were $15.0 billion (3.8 percent) higher in the third quarter and $18.2 billion (4.7 percent) higher in the first nine months of 2017, compared with the same periods of 2016, reflecting increases in loans, other earning assets and investment securities. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2017 was 3.10 percent and 3.06 percent, respectively, compared with 2.98 percent and 3.02 percent in the third quarter and first nine months of 2016, respectively. The increases in the net interest margin from the same periods of the prior year were due to higher interest rates and changes in the loan portfolio mix, partially offset by higher funding costs and higher cash balances. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average investment securities in the third quarter and first nine months of 2017 were $3.7 billion (3.4 percent) and $4.2 billion (3.9 percent) higher, respectively, than the same periods of 2016, 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.

Average total loans in the third quarter and first nine months of 2017 were $8.0 billion (3.0 percent) and $9.3 billion (3.5 percent) higher, respectively, than the same periods of 2016, due to growth in commercial loans, residential mortgages, other retail loans and credit card loans. The increases were driven by higher demand for loans from new and existing customers. These increases were partially offset by a decrease in commercial real estate loans due to disciplined underwriting of construction and development loans and customers paying down balances, as well as a decrease in loans covered by loss sharing agreements with the FDIC, a run-off portfolio.

Average total deposits for the third quarter and first nine months of 2017 were $16.6 billion (5.2 percent) and $24.3 billion (7.9 percent) higher, respectively, than the same periods of 2016. Average noninterest-bearing deposit balances were essentially unchanged in the third quarter and increased $1.9 billion (2.4 percent) in the first nine months of 2017, compared with the same periods of 2016, reflecting increases in Wealth Management and Securities Services, and Consumer and Small Business Banking balances, offset by decreases in Wholesale Banking and Commercial Real Estate balances. Average total savings deposits for the third quarter and first nine months of 2017 increased $12.7 billion (6.2 percent) and $23.2 billion (12.0 percent), respectively, over the same periods of 2016, a result of growth across all business lines. Average time deposits were $3.9 billion (12.2 percent) higher and $787 million (2.4 percent) lower for the third quarter and first nine months of 2017, respectively, compared with the same periods of the prior year. Changes in time deposits are largely related to those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2017 increased $35 million (10.8 percent) and $73 million (7.4 percent), respectively, over the same periods of 2016. The provision for credit losses was $30 million higher than net charge-offs in the third quarter and $50 million higher than net-charge-offs in the first nine months of 2017. The provision for credit losses was $10 million higher than net charge-offs and $35 million higher than net charge-offs in the third quarter and first nine months of 2016, respectively. The increase in the allowance for credit losses during the third quarter and first nine months of 2017 reflected loan portfolio growth and exposures related to recent weather events, partially offset by improvements in the energy loan and residential mortgage portfolios. Net charge-offs increased $15 million (4.8 percent) and $58 million (6.1 percent) in the third quarter and first nine months of 2017, respectively, compared with the same periods of the prior year, primarily due to higher credit card net charge-offs, partially offset by lower net charge-offs related to residential mortgages and commercial and commercial real estate loans. 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.

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Table 2 Noninterest Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in Millions)	2017	2016	Percent Change	2017	2016	Percent Change
Credit and debit card revenue	$ 308	$ 299	3.0%	$ 919	$ 861	6.7%
Corporate payment products revenue	201	190	5.8	564	541	4.3
Merchant processing services	405	412	(1.7)	1,190	1,188	.2
ATM processing services	92	87	5.7	267	251	6.4
Trust and investment management fees	380	362	5.0	1,128	1,059	6.5
Deposit service charges	192	192		553	539	2.6
Treasury management fees	153	147	4.1	466	436	6.9
Commercial products revenue	221	219	.9	638	654	(2.4)
Mortgage banking revenue	213	314	(32.2)	632	739	(14.5)
Investment products fees	39	41	(4.9)	120	120	
Securities gains (losses), net	9	10	(10.0)	47	16	*
Other	209	172	21.5	646	742	(12.9)
Total noninterest income	$ 2,422	$ 2,445	(.9)%	$ 7,170	$ 7,146	.3%

**Not meaningful.*

Noninterest Income Noninterest income was $2.4 billion in the third quarter and $7.2 billion in the first nine months of 2017, representing a decrease of $23 million (0.9 percent) and an increase of $24 million (0.3 percent), respectively, compared with the same periods of 2016. The decrease in the third quarter of 2017, compared with the third quarter of 2016, was principally due to lower mortgage banking revenue, partially offset by increases in trust and investment management fees, payment services revenue, treasury management fees, and other noninterest income. The increase in the first nine months of 2017, compared with the same period of the prior year, was driven by increases in payment services revenue, trust and investment management fees, and treasury management fees, as well as higher gains on sales of investment securities, partially offset by decreases in mortgage banking revenue and other noninterest income. Mortgage banking revenue decreased due to lower origination and sales volumes from home refinancing, as refinancing activities were significantly higher in the second and third quarters of 2016 due to a decline in longer term interest rates during that period. Trust and investment management fees increased due to favorable market conditions, and net asset and account growth. Payment services revenue was higher due to increases in credit and debit card revenue and corporate payment products revenue, both driven by higher sales volumes. The increases in payment services revenue were partially offset by lower merchant processing services revenue in the third quarter of 2017 due to the Company exiting certain joint ventures in the second quarter of 2017 and the impacts of recent weather events. Treasury management fees increased in the third quarter and first nine months of 2017, compared with the same periods of the prior year, due to higher transaction volume. Other revenue increased in the third quarter of 2017, compared to the third quarter of 2016, primarily due to higher equity investment income. Other revenue was lower in the first nine months of 2017, compared with the first nine months of 2016, primarily due to lower equity investment income, reflecting the impact of the second quarter 2016 Visa Europe sale.

Noninterest Expense Noninterest expense was $3.0 billion in the third quarter and $9.0 billion in the first nine months of 2017, representing increases of $108 million (3.7 percent) and $334 million (3.9 percent), respectively, over the same periods of 2016. The increases from a year ago were primarily due to higher compensation expense, partially offset by lower professional services expense. Compensation expense increased principally due to the impact of hiring to support business growth and compliance programs, merit increases and higher variable compensation. Professional services expense decreased primarily due to fewer consulting services as compliance programs near maturity. The increase in noninterest expense in the first nine months of 2017, compared with the same period of the prior year, was further offset by decreases in marketing and business development expense and other expense. Marketing and business development expense was lower, primarily due to the impact of the charitable contribution recorded in the second quarter of 2016. Other expense decreased, primarily due to the impact of the increase in reserves related to legal and regulatory matters recorded in the second quarter of 2016, partially offset by the FDIC insurance surcharge which began in late 2016.

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Table 3 Noninterest Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in Millions)	2017	2016	Percent Change	2017	2016	Percent Change
Compensation	$ 1,440	$ 1,329	8.4%	$ 4,247	$ 3,855	10.2%
Employee benefits	281	280	.4	882	858	2.8
Net occupancy and equipment	258	250	3.2	760	741	2.6
Professional services	104	127	(18.1)	305	346	(11.8)
Marketing and business development	92	102	(9.8)	291	328	(11.3)
Technology and communications	246	243	1.2	723	717	.8
Postage, printing and supplies	82	80	2.5	244	236	3.4
Other intangibles	44	45	(2.2)	131	134	(2.2)
Other	492	475	3.6	1,423	1,457	(2.3)
Total noninterest expense	$ 3,039	$ 2,931	3.7%	$ 9,006	$ 8,672	3.9%
Efficiency ratio (a)	54.3%	54.5%		55.0%	54.7%	

(a) See Non-GAAP Financial Measures beginning on page 31.

Income Tax Expense The provision for income taxes was $589 million (an effective rate of 27.3 percent) for the third quarter and $1.6 billion (an effective rate of 26.4 percent) for the first nine months of 2017, compared with $566 million (an effective rate of 27.2 percent) and $1.6 billion (an effective rate of 26.6 percent) for the same periods of 2016. 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 $278.7 billion at September 30, 2017, compared with $273.2 billion at December 31, 2016, an increase of $5.5 billion (2.0 percent). The increase was driven primarily by higher commercial loans, residential mortgages and other retail loans, partially offset by lower commercial real estate loans, credit card loans and covered loans.

Commercial loans increased $3.5 billion (3.8 percent) at September 30, 2017, compared with December 31, 2016, reflecting higher demand from new and existing customers.

Residential mortgages held in the loan portfolio increased $2.0 billion (3.6 percent) at September 30, 2017, compared with December 31, 2016, as origination activity more than offset the effect of customers paying down balances in the first nine months of 2017. 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.

Other retail loans increased $3.0 billion (5.6 percent) at September 30, 2017, compared with December 31, 2016, primarily driven by higher installment and retail leasing loans, partially offset by decreases in student loans, home equity loans and revolving credit balances.

Commercial real estate loans decreased $1.7 billion (3.9 percent) at September 30, 2017, compared with December 31, 2016, primarily the result of disciplined underwriting of construction and development loans and customers paying down balances.

Credit card loans decreased $826 million (3.8 percent) at September 30, 2017, compared with December 31, 2016, primarily the result of customers paying down balances.

The Company generally retains portfolio loans through maturity; however, the Company s intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company s intent or ability to hold an existing portfolio loan changes, it is transferred to loans held for sale.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were $3.8 billion at September 30, 2017, compared with $4.8 billion at December 31, 2016. The decrease in loans held for sale was principally due to a lower level of mortgage loan closings in the third quarter of 2017. 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 $111.8 billion at September 30, 2017, compared with $109.3 billion at December 31, 2016. The $2.5 billion (2.3 percent) increase was primarily due to $2.2 billion of net investment purchases and a $432 million favorable change in net unrealized gains (losses) on available-for-sale investment securities.

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Table 4 Investment Securities

	Available-for-Sale				Held-to-Maturity			
At September 30, 2017 (Dollars in Millions)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 5,188	$ 5,177	.5	.82%	$	$		%
Maturing after one year through five years	13,124	13,066	3.1	1.51	1,546	1,548	3.5	1.80
Maturing after five years through ten years	3,851	3,825	5.5	1.86	3,647	3,590	6.2	1.81
Maturing after ten years								
Total	$ 22,163	$ 22,068	2.9	1.41%	$ 5,193	$ 5,138	5.4	1.81%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 99	$ 101	.6	4.27%	$ 129	$ 129	.5	3.08%
Maturing after one year through five years	17,946	17,889	4.4	2.03	23,627	23,525	3.8	2.07
Maturing after five years through ten years	19,291	19,149	5.9	2.11	14,745	14,635	5.7	2.21
Maturing after ten years	2,416	2,422	12.9	2.26	287	288	12.4	2.21
Total	$ 39,752	$ 39,561	5.6	2.09%	$ 38,788	$ 38,577	4.6	2.13%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$		%	$	$ 1	.5	1.88%
Maturing after one year through five years	333	338	3.8	.95	5	6	3.2	1.91
Maturing after five years through ten years	85	87	5.3	2.92	2	2	6.1	2.02
Maturing after ten years						3	16.6	1.85
Total	$ 418	$ 425	4.1	1.35%	$ 7	$ 12	3.9	1.94%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 367	$ 369	.2	7.37%	$	$		%
Maturing after one year through five years	580	608	3.2	6.04	1	1	3.3	8.15
Maturing after five years through ten years	3,519	3,548	8.7	5.41	5	6	8.3	2.77
Maturing after ten years	1,215	1,156	19.9	4.94				
Total	$ 5,681	$ 5,681	10.0	5.50%	$ 6	$ 7	7.8	3.32%
Other Debt Securities								
Maturing in one year or less	$	$		%	$ 2	$ 2		1.68%

Maturing after one year through five years					22	22	2.8	2.09
Maturing after five years through ten years								
Maturing after ten years								
Total	$	$		%	$ 24	$ 24	2.6	2.05%
Other Investments	$ 27	$ 37		.01%	$	$		%
Total investment securities (d)	$ 68,041	$ 67,772	5.1	2.15%	$ 44,018	$ 43,758	4.7	2.09%

(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, 2016, with a corresponding weighted-average yield of 2.06 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.6 years at December 31, 2016, with a corresponding weighted-average yield of 1.93 percent.

(e) Weighted-average yields for obligations of state and political subdivisions are presented on a fully-taxable equivalent basis under a federal income tax rate of 35 percent. 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. Weighted-average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

	September 30, 2017		December 31, 2016	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 27,356	24.4%	$ 22,560	20.5%
Mortgage-backed securities	78,540	70.1	81,698	74.3
Asset-backed securities	425	.4	483	.4
Obligations of state and political subdivisions	5,687	5.1	5,173	4.7
Other debt securities and investments	51		62	.1
Total investment securities	$ 112,059	100.0%	$ 109,976	100.0%

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The Company s available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At September 30, 2017, the Company s net unrealized losses on available-for-sale securities were $269 million, compared with $701 million at December 31, 2016. The favorable change in net unrealized gains (losses) was primarily due to increases 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 $596 million at September 30, 2017, compared with $1.0 billion at December 31, 2016. At September 30, 2017, 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 $342.6 billion at September 30, 2017, compared with $334.6 billion at December 31, 2016, the result of increases in total savings deposits and time deposits, partially offset by a decrease in noninterest-bearing deposits. Interest checking balances increased $3.7 billion (5.6 percent) primarily due to higher Wholesale Banking and Commercial Real Estate, and Consumer and Small Business Banking balances. Savings account balances increased $1.9 billion (4.6 percent), primarily due to higher Consumer and Small Business Banking balances. Money market deposit balances decreased $2.1 billion (1.9 percent) at September 30, 2017, compared with December 31, 2016, primarily due to lower Wholesale Banking and Commercial Real Estate balances, partially offset by higher Wealth Management and Securities Services balances. Time deposits increased $8.4 billion (27.5 percent) at September 30, 2017, compared with December 31, 2016, 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, partially offset by lower Consumer and Small Business Banking balances resulting from maturities. Noninterest-bearing deposits decreased $3.9 billion (4.6 percent) at September 30, 2017, compared with December 31, 2016, primarily due to lower Wholesale Banking and Commercial Real Estate, and Wealth Management and Securities Services balances, partially offset by higher Consumer and Small Business Banking balances.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $15.9 billion at September 30, 2017, compared with $14.0 billion at December 31, 2016. The $1.9 billion (13.6 percent) increase in short-term borrowings was primarily due to higher other short-term borrowings balances, partially offset by lower federal funds purchased balances. Long-term debt was $34.5 billion at September 30, 2017, compared with $33.3 billion at December 31, 2016. The $1.2 billion (3.6 percent) increase was primarily due to issuances of $3.9 billion of medium-term notes and $3.4 billion of bank notes, partially offset by $2.8 billion of bank note repayments, $1.3 billion of medium-term note maturities and a $2.1 billion decrease in Federal Home Loan Bank (FHLB) advances. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

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CORPORATE RISK PROFILE

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

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

The Company s most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale (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 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. Compliance risk also arises in situations where the laws or rules governing certain Company products or activities of the Company s customers may be ambiguous or untested. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. 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, 2016, 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 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, 2016, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and 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.

Included within the commercial lending segment are energy loans, which represented 0.9 percent of the Company s total loans outstanding at September 30, 2017. The effects of low energy prices beginning in late 2014, have resulted in higher than historical levels of criticized commitments and nonperforming assets at September 30, 2017 and December 31, 2016.

The following table provides a summary of the Company s energy loans:

(Dollars in Millions)	September 30, 2017	December 31, 2016
Loans outstanding	$ 2,498	$ 2,642
Total commitments	10,262	10,955
Total criticized commitments	1,282	2,847
Nonperforming assets	120	257
Allowance for credit losses as a percentage of loans outstanding	5.0%	7.8%

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The consumer lending segment represents loans and leases made to consumer customers, including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, home equity loans and lines, and student loans, a run-off portfolio. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10- or 15-year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines in the portfolio are variable rates benchmarked to the prime rate, with a 10- or 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 20- or 10-year amortization period, respectively. At September 30, 2017, substantially all of the Company s home equity lines were in the draw period. Approximately $1.3 billion, or 9 percent, of the outstanding home equity line balances at September 30, 2017, will enter the amortization period within the next 36 months. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and credit scores, and in some cases, updated loan-to-value (LTV) information reflecting current market conditions on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

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

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The following tables provide summary information of residential mortgages and home equity and second mortgages by LTV and borrower type at September 30, 2017:

Residential Mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$ 1,885	$ 49,598	$ 51,483	86.8%
Over 80% through 90%	7	3,254	3,261	5.5
Over 90% through 100%	11	560	571	1.0
Over 100%	5	537	542	.9
No LTV available	6	38	44	.1
Loans purchased from GNMA mortgage pools (a)		3,416	3,416	5.7
Total	$ 1,914	$ 57,403	$ 59,317	100.0%
Borrower Type				
Prime borrowers	$ 1,914	$ 52,753	$ 54,667	92.2%
Sub-prime borrowers		845	845	1.4
Other borrowers		389	389	.7
Loans purchased from GNMA mortgage pools (a)		3,416	3,416	5.7
Total	$ 1,914	$ 57,403	$ 59,317	100.0%

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

Home Equity and Second Mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$ 11,972	$ 605	$ 12,577	77.1%
Over 80% through 90%	2,129	711	2,840	17.4
Over 90% through 100%	390	117	507	3.1
Over 100%	261	25	286	1.8
No LTV/CLTV available	85	13	98	.6
Total	$ 14,837	$ 1,471	$ 16,308	100.0%
Borrower Type				
Prime borrowers	$ 14,548	$ 1,387	$ 15,935	97.7%
Sub-prime borrowers	53	75	128	.8
Other borrowers	236	9	245	1.5
Total	$ 14,837	$ 1,471	$ 16,308	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 September 30, 2017 and December 31, 2016. The Company considers sub-prime loans to be 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 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 $16.3 billion at September 30, 2017, compared with $16.4 billion at December 31, 2016, and included $4.8 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 September 30, 2017, included approximately $4.9 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $6.6 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company s junior lien positions at September 30, 2017:

	Junior Liens Behind		
(Dollars in Millions)	Company Owned or Serviced First Lien	Third Party First Lien	Total
Total	$ 4,882	$ 6,653	$ 11,535
Percent 30-89 days past due	.27%	.44%	.37%
Percent 90 days or more past due	.06%	.07%	.06%
Weighted-average CLTV	72%	68%	69%
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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Table 5 Delinquent Loan Ratios as a Percent of Ending Loan Balances

90 days or more past due **excluding** nonperforming loans	September 30, 2017	December 31, 2016
Commercial		
Commercial	.06%	.06%
Lease financing		
Total commercial	.05	.06
Commercial Real Estate		
Commercial mortgages		.01
Construction and development	.03	.05
Total commercial real estate	.01	.02
Residential Mortgages (a)	.18	.27
Credit Card	1.20	1.16
Other Retail		
Retail leasing	.03	.02
Home equity and second mortgages	.24	.25
Other	.13	.13
Total other retail (b)	.15	.15
Total loans, excluding covered loans	.18	.20
Covered Loans	4.66	5.53
Total loans	.23%	.28%

90 days or more past due **including** nonperforming loans	September 30, 2017	December 31, 2016
Commercial	.33%	.57%
Commercial real estate	.30	.31
Residential mortgages (a)	.98	1.31
Credit card	1.20	1.18
Other retail (b)	.43	.45
Total loans, excluding covered loans	.55	.71
Covered loans	4.84	5.68
Total loans	.60%	.78%

(a) Delinquent loan ratios exclude $1.8 billion at September 30, 2017, and $2.5 billion at December 31, 2016, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 4.09 percent at September 30, 2017, and 5.73 percent at December 31, 2016.

(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 ..54 percent at September 30, 2017, and .63 percent at December 31, 2016.

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 $649 million ($497 million excluding covered loans) at September 30, 2017, compared with $764 million ($552 million excluding covered loans) at December 31, 2016. 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 0.23 percent (0.18 percent excluding covered loans) at September 30, 2017, compared with 0.28 percent (0.20 percent excluding covered loans) at December 31, 2016.

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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:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Residential Mortgages (a)				
30-89 days	$ 155	$ 151	.26%	.26%
90 days or more	107	156	.18	.27
Nonperforming	474	595	.80	1.04
Total	$ 736	$ 902	1.24%	1.57%
Credit Card				
30-89 days	$ 296	$ 284	1.42%	1.31%
90 days or more	251	253	1.20	1.16
Nonperforming	1	3		.01
Total	$ 548	$ 540	2.62%	2.48%
Other Retail				
Retail Leasing				
30-89 days	$ 25	$ 18	.31%	.28%
90 days or more	2	1	.03	.02
Nonperforming	7	2	.09	.03
Total	$ 34	$ 21	.43%	.33%
Home Equity and Second Mortgages				
30-89 days	$ 62	$ 60	.38%	.37%
90 days or more	39	41	.24	.25
Nonperforming	123	128	.75	.78
Total	$ 224	$ 229	1.37%	1.40%
Other (b)				
30-89 days	$ 244	$ 206	.75%	.66%
90 days or more	42	41	.13	.13
Nonperforming	33	27	.10	.09
Total	$ 319	$ 274	.98%	.88%

(a) Excludes $297 million of loans 30-89 days past due and $1.8 billion of loans 90 days or more past due at September 30, 2017, purchased from GNMA mortgage pools that continue to accrue interest, compared with $273 million and $2.5 billion at December 31, 2016, 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)	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
30-89 days	$ 48	$ 55	1.48%	1.43%
90 days or more	152	212	4.66	5.53
Nonperforming	6	6	.18	.16
Total	$ 206	$ 273	6.32%	7.12%

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

Troubled Debt Restructurings Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles, which is generally six months or greater. At September 30, 2017, performing TDRs were $4.0 billion, compared with $4.2 billion at December 31, 2016. 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,

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United States Department of Veterans Affairs, and its own internal programs. Under these programs, the Company offers qualifying homeowners the opportunity to permanently modify their loan and achieve more affordable monthly payments by providing loan concessions. These concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extensions of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement, and the loan documents are not modified until that time. The Company reports loans in a trial period arrangement as TDRs and continues to report them as TDRs after the trial period.

Credit card and other retail loan TDRs are generally part of distinct restructuring programs providing customers modification solutions over a specified time period, generally up to 60 months.

In accordance with regulatory guidance, the Company considers secured consumer loans that have had debt discharged through bankruptcy where the borrower has not reaffirmed the debt to be TDRs. If the loan amount exceeds the collateral value, the loan is charged down to collateral value and the remaining amount is reported as nonperforming.

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

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

At September 30, 2017		As a Percent of Performing TDRs			
(Dollars in Millions)	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	Total TDRs
Commercial	$ 323	2.8%	1.1%	$ 136(a)	$ 459
Commercial real estate	141	1.6		24(b)	165
Residential mortgages	1,590	2.8	3.7	348	1,938(d)
Credit card	230	10.5	5.9	1(c)	231
Other retail	135	3.9	4.6	50(c)	185(e)
TDRs, excluding GNMA and covered loans	2,419	3.5	3.4	559	2,978
Loans purchased from GNMA mortgage pools (g)	1,571				1,571(f)
Covered loans	29	4.8	10.3	4	33
Total	$ 4,019	2.1%	2.1%	$ 563	$ 4,582

(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 $324 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $45 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(e) Includes $78 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $13 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(f) Includes $217 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 $351 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(g) Approximately 4.2 percent and 45.2 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 financial hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modified loans were not material at September 30, 2017.

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

At September 30, 2017, total nonperforming assets were $1.3 billion, compared with $1.6 billion at December 31, 2016. The $352 million (22.0 percent) decrease in nonperforming assets was driven by improvements in commercial loans, residential mortgages and OREO. Nonperforming covered assets were $32 million at September 30, 2017 and December 31, 2016. The ratio of total nonperforming assets to total loans and other real estate was 0.45 percent at September 30, 2017, compared with 0.59 percent at December 31, 2016.

OREO, excluding covered assets, was $164 million at September 30, 2017, compared with $186 million at December 31, 2016, and was related to foreclosed properties that previously secured loan balances. These balances exclude foreclosed GNMA loans whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Residential				
Illinois	$ 16	$ 15	.37%	.35%
Minnesota	12	12	.19	.19
Washington	10	8	.22	.19
Ohio	8	9	.28	.31
Wisconsin	8	11	.37	.50
All other states	102	120	.18	.22
Total residential	156	175	.21	.24

Commercial				
California	4	4	.02	.02
Tennessee	1	1	.04	.04
Idaho	1		.07	
Virginia		1		.05
New Mexico				
All other states	2	5		
Total commercial	8	11	.01	.01
Total	$ 164	$ 186	.06%	.07%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $330 million for the third quarter and $1.0 billion for the first nine months of 2017, compared with $315 million and $947 million for the same periods of 2016. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the third quarter and first nine months of 2017 was 0.47 percent and 0.49 percent, respectively, compared with 0.46 percent and 0.48 percent for the third quarter and first nine months of 2016, respectively. The year-over-year increases in total net charge-offs reflected higher credit card net charge-offs, partially offset by lower net charge-offs related to residential mortgages and commercial and commercial real estate loans.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	September 30, 2017	December 31, 2016
Commercial		
Commercial	$ 231	$ 443
Lease financing	38	40
Total commercial	269	483
Commercial Real Estate		
Commercial mortgages	89	87
Construction and development	33	37
Total commercial real estate	122	124
Residential Mortgages (b)	474	595
Credit Card	1	3
Other Retail		
Retail leasing	7	2
Home equity and second mortgages	123	128
Other	33	27
Total other retail	163	157
Total nonperforming loans, excluding covered loans	1,029	1,362
Covered Loans	6	6
Total nonperforming loans	1,035	1,368
Other Real Estate (c)(d)	164	186
Covered Other Real Estate (d)	26	26
Other Assets	26	23
Total nonperforming assets	$ 1,251	$ 1,603
Total nonperforming assets, excluding covered assets	$ 1,219	$ 1,571
Excluding covered assets		
Accruing loans 90 days or more past due (b)	$ 497	$ 552
Nonperforming loans to total loans	.37%	.51%
Nonperforming assets to total loans plus other real estate (c)	.44%	.58%
Including covered assets		
Accruing loans 90 days or more past due (b)	$ 649	$ 764
Nonperforming loans to total loans	.37%	.50%
Nonperforming assets to total loans plus other real estate (c)	.45%	.59%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Covered Assets	Total
Balance December 31, 2016	$ 623	$ 948	$ 32	$ 1,603
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	377	312	20	709
Advances on loans	23			23

Total additions		400		312		20		732
Reductions in nonperforming assets								
Paydowns, payoffs		(360)		(169)		(7)		(536)
Net sales		(38)		(126)		(13)		(177)
Return to performing status		(7)		(111)				(118)
Charge-offs (e)		(213)		(40)				(253)
Total reductions		(618)		(446)		(20)		(1,084)
Net additions to (reductions in) nonperforming assets		(218)		(134)				(352)
Balance September 30, 2017	$	405	$	814	$	32	$	1,251

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

(b) Excludes \$1.8 billion and \$2.5 billion at September 30, 2017, and December 31, 2016, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

(c) Foreclosed GNMA loans of \$300 million and \$373 million at September 30, 2017, and December 31, 2016, 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) Includes equity investments in entities whose principal assets are other real estate owned.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Commercial				
Commercial	.34%	.38%	.33%	.37%
Lease financing	.29	.23	.27	.33
Total commercial	.34	.37	.33	.36
Commercial Real Estate				
Commercial mortgages	(.03)	.06	(.04)	
Construction and development	(.17)	(.14)	(.09)	(.04)
Total commercial real estate	(.07)	.01	(.06)	(.01)
Residential Mortgages	.05	.08	.06	.12
Credit Card	3.55	3.11	3.73	3.25
Other Retail				
Retail leasing	.10	.07	.13	.10
Home equity and second mortgages	(.02)	.02	(.02)	.02
Other	.73	.68	.74	.68
Total other retail	.42	.41	.44	.41
Total loans, excluding covered loans	.48	.47	.49	.48
Covered Loans				
Total loans	.47%	.46%	.49%	.48%

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 an appropriate historical timeframe is selected 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, bankruptcy experience and historical losses, adjusted for current trends.

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

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At September 30, 2017, the Company serviced the first lien on 42 percent of the home equity loans and lines in a junior lien position. The Company also considers information received from its primary regulator on the status of the first liens that are serviced by other large servicers in the industry and the status of first lien mortgage accounts reported on customer credit bureau files. Regardless of whether or not the Company services the first lien, an assessment is made of economic conditions, problem loans, recent loss experience and other factors in determining the allowance for credit losses. Based on the available information, the Company estimated $296 million or 1.8 percent of the total home equity portfolio at September 30, 2017, 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 1.1 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 for 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, 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, 2016, for further discussion on the analysis and determination of the allowance for credit losses.

At September 30, 2017, the allowance for credit losses was $4.4 billion (1.58 percent of period-end loans), compared with an allowance of $4.4 billion (1.59 percent of period-end loans) at December 31, 2016. The ratio of the allowance for credit losses to nonperforming loans was 426 percent at September 30, 2017, compared with 318 percent at December 31, 2016. The ratio of the allowance for credit losses to annualized loan net charge-offs was 337 percent at September 30, 2017, compared with 343 percent of full year 2016 net charge-offs at December 31, 2016.

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Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Balance at beginning of period	$ 4,377	$ 4,329	$ 4,357	$ 4,306
Charge-Offs				
Commercial				
Commercial	109	98	296	301
Lease financing	6	6	19	21
Total commercial	115	104	315	322
Commercial real estate				
Commercial mortgages	1	7	5	10
Construction and development	1	2	2	9
Total commercial real estate	2	9	7	19
Residential mortgages	16	19	49	67
Credit card	214	182	653	559
Other retail				
Retail leasing	3	2	11	7
Home equity and second mortgages	8	12	25	31
Other	75	70	227	205
Total other retail	86	84	263	243
Covered loans (a)				
Total charge-offs	433	398	1,287	1,210
Recoveries				
Commercial				
Commercial	30	14	71	65
Lease financing	2	3	8	8
Total commercial	32	17	79	73
Commercial real estate				
Commercial mortgages	3	2	15	11
Construction and development	6	6	10	12
Total commercial real estate	9	8	25	23
Residential mortgages	9	7	22	19
Credit card	27	21	72	64
Other retail				
Retail leasing	1	1	4	3
Home equity and second mortgages	9	11	28	29
Other	16	18	52	52
Total other retail	26	30	84	84
Covered loans (a)				
Total recoveries	103	83	282	263
Net Charge-Offs				
Commercial				
Commercial	79	84	225	236
Lease financing	4	3	11	13
Total commercial	83	87	236	249

Commercial real estate				
Commercial mortgages	(2)	5	(10)	(1)
Construction and development	(5)	(4)	(8)	(3)
Total commercial real estate	(7)	1	(18)	(4)
Residential mortgages	7	12	27	48
Credit card	187	161	581	495
Other retail				
Retail leasing	2	1	7	4
Home equity and second mortgages	(1)	1	(3)	2
Other	59	52	175	153
Total other retail	60	54	179	159
Covered loans (a)				
Total net charge-offs	330	315	1,005	947
Provision for credit losses	360	325	1,055	982
Other changes (b)		(1)		(3)
Balance at end of period (c)	$ 4,407	$ 4,338	$ 4,407	$ 4,338
Components				
Allowance for loan losses	$ 3,908	$ 3,797		
Liability for unfunded credit commitments	499	541		
Total allowance for credit losses	$ 4,407	$ 4,338		
Allowance for Credit Losses as a Percentage of				
Period-end loans, excluding covered loans	1.59%	1.61%		
Nonperforming loans, excluding covered loans	425	309		
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	287	225		
Nonperforming assets, excluding covered assets	359	264		
Annualized net charge-offs, excluding covered loans	334	343		
Period-end loans	1.58%	1.60%		
Nonperforming loans	426	310		
Nonperforming and accruing loans 90 days or more past due	262	202		
Nonperforming assets	352	261		
Annualized net charge-offs	337	346		

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

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

(c) At September 30, 2017 and 2016, $1.7 billion and $1.5 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. Retail leasing residual values were $5.8 billion at September 30, 2017, compared with $4.9 billion at December 31, 2016, reflecting overall growth in the retail leasing portfolio during the first nine months of 2017, while commercial leasing residual values were essentially unchanged. As of September 30, 2017, no significant change in the concentration of the portfolios had occurred since December 31, 2016. 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, 2016, 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, 2016, 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 protections 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, 2016, 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 and Liability Management Committee (ALCO) and approved by the Board of Directors. The ALCO has the responsibility for approving and ensuring compliance with the ALCO management policies, including interest rate risk exposure. The Company uses net interest income simulation analysis and market value of equity modeling for measuring and analyzing consolidated interest rate risk. The Company has established policy limits within which it manages the overall interest rate risk profile, and at September 30, 2017 and December 31, 2016, 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 2.02 percent in the Up 50 basis point (bps) and 3.91

Table 9 Sensitivity of Net Interest Income

	September 30, 2017				December 31, 2016			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	(2.56)%	1.48%	*	1.99%	(2.82)%	1.52%	*	1.82%

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

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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, 2016, for further discussion on net interest income simulation analysis.

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 0.9 percent decrease in the market value of equity at September 30, 2017, compared with a 1.9 percent decrease at December 31, 2016. A 200 bps decrease, where possible given current rates, would have resulted in a 10.3 percent decrease in the market value of equity at September 30, 2017, compared with an 8.1 percent decrease at December 31, 2016. 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, 2016, for further discussion on market value of equity modeling.

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

- To convert fixed-rate debt from fixed-rate payments to floating-rate payments;
- To convert the cash flows associated with floating-rate debt from floating-rate payments to fixed-rate payments;
- To mitigate changes in value of the Company s unfunded mortgage loan commitments, funded MLHFS and MSRs;
- To mitigate remeasurement volatility of foreign currency denominated balances; and
- To mitigate the volatility of the Company s net investment in foreign operations driven by fluctuations in foreign currency exchange rates.

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

The Company does not designate all of the derivatives that it enters into for risk management purposes as accounting hedges because of the inefficiency of applying the accounting requirements and may instead elect fair value accounting for the related hedged items. In particular, the Company enters into interest rate swaps, swaptions, forward commitments to buy to-be-announced securities (TBAs), U.S. Treasury and Eurodollar futures and options on U.S. Treasury futures to mitigate fluctuations in the value of its MSRs, but does not designate those derivatives as accounting hedges.

Additionally, the Company uses forward commitments to sell TBAs and other commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At September 30, 2017, the Company had $5.8 billion of forward commitments to sell, hedging $2.5 billion of MLHFS and $3.5 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.

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

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

Nine Months Ended September 30,

(Dollars in Millions)	2017	2016
Average	$ 1	$ 1
High	1	1
Low	1	1
Period-end	1	1

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR during the nine months ended September 30, 2017 and 2016. The Company stress tests its market risk measurements to provide management with perspectives on market events that may not be captured by its VaR models, including worst case historical market movement combinations that have not necessarily occurred on the same date.

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

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

Nine Months Ended September 30,

(Dollars in Millions)	2017	2016

Average	$ 4	$ 4
High	6	7
Low	2	2
Period-end	6	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:

Nine Months Ended September 30,

(Dollars in Millions)	2017	2016
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$	$
High	1	2
Low		
Mortgage Servicing Rights and Related Hedges		
Average	$ 8	$ 8
High	10	11
Low	6	4

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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 September 30, 2017, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $104.9 billion, compared with $100.6 billion at December 31, 2016. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company s practice of pledging loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At September 30, 2017, the Company could have borrowed an additional $90.2 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 $342.6 billion at September 30, 2017, compared with $334.6 billion at December 31, 2016. 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 $34.5 billion at September 30, 2017, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $15.9 billion at September 30, 2017, and supplement the Company s other funding sources. Refer to Balance Sheet Analysis for further information on the Company s long-term debt and short-term borrowings.

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

At September 30, 2017, parent company long-term debt outstanding was $15.8 billion, compared with $13.0 billion at December 31, 2016. The increase was primarily due to the issuance of $3.9 billion of medium-term notes, partially offset by $1.3 billion of medium-term note maturities. As of September 30, 2017, there was no parent company debt scheduled to mature in the remainder of 2017.

The Company is subject to a regulatory Liquidity Coverage Ratio (LCR) requirement which requires banks to maintain an adequate level of unencumbered high quality liquid assets to meet estimated liquidity needs over a 30-day stressed period. At September 30, 2017, 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, 2016, 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 September 30, 2017, the Company had an aggregate amount on deposit with European banks of approximately $8.1 billion, predominately with the Central Bank of Ireland and Bank of England.

In addition, the Company provides financing to domestic multinational corporations that generate revenue from customers in European countries, transacts with various European banks as counterparties to certain derivative-related activities, and through a subsidiary, manages money market funds that hold certain investments in European sovereign debt. Any deterioration in economic conditions in Europe is unlikely to have a significant effect on the Company related to these activities.

Off-Balance Sheet Arrangements Off-balance sheet arrangements include any contractual arrangements to which an unconsolidated entity is a party, under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. Refer to Note 15 of the Notes to Consolidated Financial Statements for further information on these arrangements. The Company does not utilize private label asset securitizations as a source of funding. Off-balance sheet arrangements also include any obligation related to a variable interest held in an unconsolidated entity that provides financing, liquidity, credit enhancement or market risk support. Refer to Note 5 of the Notes to Consolidated Financial Statements for further information related to the Company s interests in variable interest entities.

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for banking organizations. Beginning January 1, 2014, the regulatory capital requirements effective for the Company follow Basel III, subject to certain transition provisions from Basel I over the following four years to full implementation by January 1, 2018. Basel III 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. Table 10 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2017 and December 31, 2016. All regulatory ratios exceeded regulatory well-capitalized requirements.

Effective January 1, 2018, the Company will be subject to a regulatory Supplementary Leverage Ratio (SLR) requirement for banks calculating capital adequacy using advanced approaches under Basel III. The SLR is defined as tier 1 capital divided by total leverage exposure, which includes both on- and off-balance sheet exposures. At September 30, 2017, the Company s SLR exceeded the applicable minimum SLR requirement.

Total U.S. Bancorp shareholders equity was $48.7 billion at September 30, 2017, compared with $47.3 billion at December 31, 2016. The increase was primarily the result of corporate earnings, a preferred stock issuance and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income (loss). This increase was partially offset by common share repurchases, dividends and the redemption of $1.1 billion of preferred stock.

Table 10 Regulatory Capital Ratios

(Dollars in Millions)	September 30, 2017	December 31, 2016
Basel III transitional standardized approach:		
Common equity tier 1 capital	$ 34,876	$ 33,720
Tier 1 capital	40,411	39,421
Total risk-based capital	48,104	47,355
Risk-weighted assets	363,957	358,237
Common equity tier 1 capital as a percent of risk-weighted assets	9.6%	9.4%
Tier 1 capital as a percent of risk-weighted assets	11.1	11.0
Total risk-based capital as a percent of risk-weighted assets	13.2	13.2
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.1	9.0
Basel III transitional advanced approaches:		
Common equity tier 1 capital	$ 34,876	$ 33,720
Tier 1 capital	40,411	39,421
Total risk-based capital	45,090	44,264
Risk-weighted assets	287,800	277,141
Common equity tier 1 capital as a percent of risk-weighted assets	12.1%	12.2%
Tier 1 capital as a percent of risk-weighted assets	14.0	14.2
Total risk-based capital as a percent of risk-weighted assets	15.7	16.0

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The Company believes certain capital ratios in addition to statutory regulatory 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 transitional standardized approach, was 7.7 percent and 9.5 percent, respectively, at September 30, 2017, compared with 7.5 percent and 9.2 percent, respectively, at December 31, 2016. The Company s common equity tier 1 capital to risk-weighted assets ratio using the Basel III standardized approach as if fully implemented was 9.4 percent at September 30, 2017, compared with 9.1 percent at December 31, 2016. The Company s common equity tier 1 capital to risk-weighted assets ratio using the Basel III advanced approaches as if fully implemented was 11.8 percent at September 30, 2017, compared with 11.7 percent at December 31, 2016.

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 third quarter of 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (In Millions)
July	6,313,893	$ 52.67	6,313,893	$ 2,267
August	3,802,949	52.38	3,802,949	2,068
September	2,549,596	52.26	2,549,596	1,935
Total	12,666,438	$ 52.50	12,666,438	$ 1,935

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

On September 19, 2017, the Company announced its Board of Directors had approved a 7.1 percent increase in the Company s dividend rate per common share from $0.28 per quarter to $0.30 per quarter.

Refer to Management s Discussion and Analysis Capital Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on capital management.

LINE OF BUSINESS FINANCIAL REVIEW

The Company s major lines of business are Wholesale Banking and Commercial Real Estate, Consumer and Small Business Banking, Wealth Management and Securities 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, 2016, 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 2017, certain organization and methodology changes were made and, accordingly, 2016 results were restated and presented on a comparable basis.

Wholesale Banking and Commercial Real Estate Wholesale Banking and Commercial Real Estate 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. Wholesale Banking and Commercial Real Estate contributed $282 million of the Company s net income in the third quarter and $827 million in the first nine months of 2017, or increases of $57 million (25.3 percent) and $253 million (44.1 percent), respectively, compared with the same periods of 2016.

Net revenue increased $48 million (6.1 percent) in the third quarter and $186 million (8.0 percent) in the first nine months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, increased $53 million (9.4 percent) in the third quarter and $168 million (10.3 percent) in the first nine months of 2017, compared with the same periods of 2016. The increases were primarily due to the impact of rising rates on the margin benefit from deposits and growth in average loan and deposit balances, partially offset by lower spread on loans reflecting a competitive marketplace. Noninterest income decreased $5 million (2.3 percent) in the third quarter of 2017, compared with the third quarter of 2016, primarily due to higher loan related charges, partially offset by higher treasury management fees. Noninterest income increased $18 million (2.7 percent) in the first nine months of 2017, compared with the same period of 2016, driven by increases in treasury management fees and capital markets volume, partially offset by higher loan related charges.

Noninterest expense increased $41 million (11.5 percent) in the third quarter and $122 million (11.4 percent) in the first nine months of 2017, compared with the same periods of 2016, primarily due to increases in variable costs allocated to manage the business and higher compensation expense, reflecting the impact of increased staffing, merit increases and variable compensation. In addition, the increase in the first nine months of 2017 included the impact of the FDIC insurance surcharge on deposit balances. The provision for credit losses decreased $82 million in the third quarter and $333 million (97.4 percent) in the first nine months of 2017, compared with the same periods of 2016, primarily due to favorable changes in the reserve allocation and continued stabilization of credit quality in the energy sector.

Consumer and Small Business Banking Consumer and Small 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 Small Business Banking contributed $363 million of the Company s net income in the third quarter and $974 million in the first nine months of 2017, or an increase of $4 million (1.1 percent) and a decrease of $62 million (6.0 percent), respectively, compared with the same periods of 2016.

Net revenue increased $30 million (1.6 percent) in the third quarter and $204 million (3.8 percent) in the first nine months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, increased $110 million (9.2 percent) in the third quarter and $266 million (7.6 percent) in the first nine months of 2017, compared with the same periods of 2016. The increases were 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 spread on loans. Noninterest income decreased $80 million (11.2 percent) in the third quarter and $62 million (3.3 percent) in the first nine months of 2017, compared with the same periods of 2016, principally driven by lower mortgage banking revenue due to lower origination and sales volume related to refinancing activities, as refinancing activities were significantly higher in the second and third quarters of 2016. Partially offsetting the impact of lower mortgage banking revenue was growth in retail leasing revenue due to stronger end-of-term gains on auto leases and higher ATM processing services and treasury management fees.

Noninterest expense decreased $27 million (2.1 percent) in the third quarter of 2017, compared with the third quarter of 2016, primarily due to lower mortgage related costs and professional services expense. Partially offsetting these decreases were higher compensation expense, reflecting the impact of increased staffing and merit increases, and higher net shared services expense. Noninterest expense increased $73 million (1.9 percent) in the first nine months of 2017, compared with the same period of 2016, principally due to higher compensation and employee benefits expenses, higher net shared services expense, and the impact of the FDIC insurance surcharge on deposit balances, partially offset by lower mortgage related costs and professional services expense. The provision for credit losses increased $52 million in the third quarter and $230 million in the first nine months of 2017, compared with the same periods of 2016, primarily due to growth in other retail loans, exposures as a result of recent weather events, and higher releases of reserves related to residential mortgages in the prior year as a result of improvements in the portfolio.

Wealth Management and Securities Services Wealth Management and Securities 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 Securities Services contributed $125 million of the Company s net income in the third quarter and $363 million in the first nine months of 2017, or increases of $30 million (31.6 percent) and $90 million (33.0 percent), respectively, compared with the same periods of 2016.

Net revenue increased $65 million (12.1 percent) in the third quarter and $223 million (14.3 percent) in the first nine months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, increased $57 million (42.2 percent) in the third quarter and $184 million (49.2 percent) in the first nine months of 2017, compared with the same periods of 2016. The increases were principally due to the impact of rising rates on the margin benefit from deposits along with higher average loan and deposit balances. Noninterest income increased $8 million (2.0 percent) in the third quarter and $39 million (3.3 percent) in the first nine months of 2017, compared with the same periods of 2016, principally due to favorable market conditions and net asset and account growth.

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Table 11 Line of Business Financial Performance

Three Months Ended September 30, (Dollars in Millions)	Wholesale Banking and Commercial Real Estate 2017	2016	Percent Change	Consumer and Small Business Banking 2017	2016	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 616	$ 563	9.4%	$ 1,309	$ 1,199	9.2%
Noninterest income	215	220	(2.3)	632	712	(11.2)
Securities gains (losses), net						
Total net revenue	831	783	6.1	1,941	1,911	1.6
Noninterest expense	396	355	11.5	1,266	1,293	(2.1)
Other intangibles	1	1		8	8	
Total noninterest expense	397	356	11.5	1,274	1,301	(2.1)
Income before provision and income taxes	434	427	1.6	667	610	9.3
Provision for credit losses	(9)	73	*	97	45	*
Income before income taxes	443	354	25.1	570	565	.9
Income taxes and taxable-equivalent adjustment	161	129	24.8	207	206	.5
Net income	282	225	25.3	363	359	1.1
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 282	$ 225	25.3	$ 363	$ 359	1.1
Average Balance Sheet						
Commercial	$ 73,882	$ 70,814	4.3%	$ 10,317	$ 10,546	(2.2)%
Commercial real estate	20,115	21,466	(6.3)	18,353	18,307	.3
Residential mortgages	6	8	(25.0)	56,131	53,933	4.1
Credit card						
Other retail		2	*	53,932	50,786	6.2
Total loans, excluding covered loans	94,003	92,290	1.9	138,733	133,572	3.9
Covered loans				3,347	4,107	(18.5)
Total loans	94,003	92,290	1.9	142,080	137,679	3.2
Goodwill	1,647	1,647		3,681	3,681	
Other intangible assets	13	16	(18.8)	2,701	2,270	19.0
Assets	102,327	100,864	1.5	156,737	153,501	2.1
Noninterest-bearing deposits	35,353	36,685	(3.6)	28,705	28,355	1.2
Interest checking	9,710	9,629	.8	47,401	43,834	8.1
Savings products	45,143	44,301	1.9	60,821	57,759	5.3
Time deposits	19,611	13,489	45.4	12,899	14,282	(9.7)
Total deposits	109,817	104,104	5.5	149,826	144,230	3.9
Total U.S. Bancorp shareholders equity	9,952	8,997	10.6	11,489	11,312	1.6

Wholesale Banking and Commercial Real Estate | Consumer and Small Business Banking

Nine Months Ended September 30,

(Dollars in Millions)	2017	2016	Percent Change	2017	2016	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 1,806	$ 1,638	10.3%	$ 3,789	$ 3,523	7.6%
Noninterest income	697	676	3.1	1,837	1,899	(3.3)
Securities gains (losses), net	(3)		*			
Total net revenue	2,500	2,314	8.0	5,626	5,422	3.8
Noninterest expense	1,188	1,066	11.4	3,821	3,746	2.0
Other intangibles	3	3		22	24	(8.3)
Total noninterest expense	1,191	1,069	11.4	3,843	3,770	1.9
Income before provision and income taxes	1,309	1,245	5.1	1,783	1,652	7.9
Provision for credit losses	9	342	(97.4)	252	22	*
Income before income taxes	1,300	903	44.0	1,531	1,630	(6.1)
Income taxes and taxable-equivalent adjustment	473	329	43.8	557	594	(6.2)
Net income	827	574	44.1	974	1,036	(6.0)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 827	$ 574	44.1	$ 974	$ 1,036	(6.0)
Average Balance Sheet						
Commercial	$ 73,236	$ 70,414	4.0%	$ 10,157	$ 10,367	(2.0)%
Commercial real estate	20,742	21,089	(1.6)	18,469	18,150	1.8
Residential mortgages	7	7		55,725	53,127	4.9
Credit card						
Other retail	1	2	(50.0)	52,710	49,738	6.0
Total loans, excluding covered loans	93,986	91,512	2.7	137,061	131,382	4.3
Covered loans				3,531	4,289	(17.7)
Total loans	93,986	91,512	2.7	140,592	135,671	3.6
Goodwill	1,647	1,647		3,682	3,681	
Other intangible assets	14	17	(17.6)	2,733	2,394	14.2
Assets	102,580	99,932	2.6	154,894	150,711	2.8
Noninterest-bearing deposits	36,217	36,543	(.9)	27,666	27,092	2.1
Interest checking	9,505	8,202	15.9	47,035	43,184	8.9
Savings products	46,563	40,043	16.3	60,452	57,035	6.0
Time deposits	15,238	12,999	17.2	12,975	14,394	(9.9)
Total deposits	107,523	97,787	10.0	148,128	141,705	4.5
Total U.S. Bancorp shareholders equity	9,852	8,927	10.4	11,482	11,138	3.1

* *Not meaningful*

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Wealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2017	2016	Percent Change	2017	2016	Percent Change	2017	2016	Percent Change	2017	2016	Per Ch
192	$ 135	42.2%	$ 563	$ 538	4.6%	$ 506	$ 508	(.4)%	$ 3,186	$ 2,943	
411	403	2.0	920	912	.9	235	188	25.0	2,413	2,435	
						9	10	(10.0)	9	10	(
603	538	12.1	1,483	1,450	2.3	750	706	6.2	5,608	5,388	
401	384	4.4	707	662	6.8	225	192	17.2	2,995	2,886	
5	6	(16.7)	30	30					44	45	
406	390	4.1	737	692	6.5	225	192	17.2	3,039	2,931	
197	148	33.1	746	758	(1.6)	525	514	2.1	2,569	2,457	
1	(1)	*	270	208	29.8	1		*	360	325	
196	149	31.5	476	550	(13.5)	524	514	1.9	2,209	2,132	
71	54	31.5	173	200	(13.5)	28	27	3.7	640	616	
125	95	31.6	303	350	(13.4)	496	487	1.8	1,569	1,516	
				(8)	*	(6)	(6)		(6)	(14)	
125	$ 95	31.6	$ 303	$ 342	(11.4)	$ 490	$ 481	1.9	$ 1,563	$ 1,502	
,504	$ 2,892	21.2%	$ 8,233	$ 7,766	6.0%	$ 697	$ 351	98.6%	$ 96,633	$ 92,369	
514	516	(.4)				2,639	3,085	(14.5)	41,621	43,374	
,893	2,343	23.5							59,030	56,284	
			20,926	20,628	1.4				20,926	20,628	
,684	1,548	8.8	453	515	(12.0)				56,069	52,851	
,595	7,299	17.8	29,612	28,909	2.4	3,336	3,436	(2.9)	274,279	265,506	
							24	*	3,347	4,131	(
,595	7,299	17.8	29,612	28,909	2.4	3,336	3,460	(3.6)	277,626	269,637	
,568	1,567	.1	2,469	2,463	.2				9,365	9,358	
79	99	(20.2)	385	494	(22.1)				3,178	2,879	
,495	10,383	10.7	35,035	34,715	.9	145,036	138,400	4.8	450,630	437,863	
,715	13,803	6.6	1,029	954	7.9	2,162	2,224	(2.8)	81,964	82,021	
,917	9,958	9.6				38	35	8.6	68,066	63,456	
,209	37,966	11.2	103	98	5.1	445	492	(9.6)	148,721	140,616	
,521	3,776	(6.8)				369	908	(59.4)	36,400	32,455	
,362	65,503	8.9	1,132	1,052	7.6	3,014	3,659	(17.6)	335,151	318,548	
,381	2,378	.1	6,206	6,385	(2.8)	18,791	18,719	.4	48,819	47,791	

Wealth Management and Securities Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2017	2016	Percent Change	2017	2016	Percent Change	2017	2016	Percent Change	2017	2016	Per Ch
558	$ 374	49.2%	$ 1,653	$ 1,579	4.7%	$ 1,443	$ 1,613	(10.5)%	$ 9,249	$ 8,727	

,222	1,183	3.3	2,686	2,651	1.3	681	721	(5.5)	7,123	7,130	
						50	16	*	47	16	
,780	1,557	14.3	4,339	4,230	2.6	2,174	2,350	(7.5)	16,419	15,873	
,194	1,113	7.3	2,069	1,941	6.6	603	672	(10.3)	8,875	8,538	
15	18	(16.7)	91	89	2.2				131	134	
,209	1,131	6.9	2,160	2,030	6.4	603	672	(10.3)	9,006	8,672	
571	426	34.0	2,179	2,200	(1.0)	1,571	1,678	(6.4)	7,413	7,201	
1	(2)	*	794	615	29.1	(1)	5	*	1,055	982	
570	428	33.2	1,385	1,585	(12.6)	1,572	1,673	(6.0)	6,358	6,219	
207	155	33.5	504	577	(12.7)	50	111	(55.0)	1,791	1,766	
363	273	33.0	881	1,008	(12.6)	1,522	1,562	(2.6)	4,567	4,453	
			(13)	(25)	48.0	(18)	(18)		(31)	(43)	
363	$ 273	33.0	$ 868	$ 983	(11.7)	$ 1,504	$ 1,544	(2.6)	$ 4,536	$ 4,410	
,356	$ 2,874	16.8%	$ 7,942	$ 7,438	6.8%	$ 656	$ 358	83.2%	$ 95,347	$ 91,451	
511	524	(2.5)				2,715	3,159	(14.1)	42,437	42,922	
,764	2,200	25.6							58,496	55,334	
			20,801	20,339	2.3				20,801	20,339	
,658	1,537	7.9	466	532	(12.4)				54,835	51,809	
,289	7,135	16.2	29,209	28,309	3.2	3,371	3,517	(4.2)	271,916	261,855	
						7	35	(80.0)	3,538	4,324	(
,289	7,135	16.2	29,209	28,309	3.2	3,378	3,552	(4.9)	275,454	266,179	
,567	1,567		2,459	2,466	(.3)				9,355	9,361	
83	104	(20.2)	409	502	(18.5)				3,239	3,017	
,454	10,251	11.7	34,794	34,226	1.7	142,327	134,301	6.0	446,049	429,421	
,836	13,249	12.0	1,023	947	8.0	2,066	2,097	(1.5)	81,808	79,928	
,438	9,319	12.0				43	41	4.9	67,021	60,746	
,559	35,520	19.8	101	97	4.1	446	496	(10.1)	150,121	133,191	
,182	3,742	11.8				265	2,312	(88.5)	32,660	33,447	
,015	61,830	16.5	1,124	1,044	7.7	2,820	4,946	(43.0)	331,610	307,312	
,383	2,379	.2	6,280	6,361	(1.3)	18,345	18,435	(.5)	48,342	47,240	

Noninterest expense increased $16 million (4.1 percent) in the third quarter and $78 million (6.9 percent) in the first nine months of 2017, compared with the same periods of 2016. The increases were primarily the result of higher compensation expense, reflecting the impact of higher staffing and merit increases, higher net shared services expense, and higher FDIC insurance surcharges.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate, government and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed $303 million of the Company s net income in the third quarter and $868 million in the first nine months of 2017, or decreases of $39 million (11.4 percent) and $115 million (11.7 percent), respectively, compared with the same periods of 2016.

Net revenue increased $33 million (2.3 percent) in the third quarter and $109 million (2.6 percent) in the first nine months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, increased $25 million (4.6 percent) in the third quarter and $74 million (4.7 percent) in the first nine months of 2017, compared with the same periods of 2016, primarily due to higher average loan volumes and rising interest rates, in addition to growth in loan fees. Noninterest income increased $8 million (0.9 percent) in the third quarter and $35 million (1.3 percent) in the first nine months of 2017, compared with the same periods of 2016, primarily due to higher credit and debit card revenue and corporate payment products revenue, both driven by higher sales. These increases were partially offset by lower merchant processing services revenue in the third quarter of 2017 due to the Company exiting certain joint ventures in the second quarter of 2017 and the impacts of recent weather events. The increase in noninterest income for the first nine months of 2017 was further offset by the impact of a gain on the sale of an equity investment in the prior year.

Noninterest expense increased $45 million (6.5 percent) in the third quarter and $130 million (6.4 percent) in the first nine months of 2017, compared with the same periods of 2016, principally due to higher net shared services expense, driven by implementation costs of capital investments to support business growth, and higher compensation and employee benefits expenses, reflecting higher staffing to support business investment and compliance programs and merit increases. The provision for credit losses increased $62 million (29.8 percent) in the third quarter and $179 million (29.1 percent) in the first nine months of 2017, compared with the same periods of 2016, due to unfavorable changes in the reserve allocation related to portfolio growth and higher loss rates, as well as 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 $490 million in the third quarter and $1.5 billion in the first nine months of 2017, compared with $481 million and $1.5 billion in the same periods of 2016, respectively.

Net revenue increased $44 million (6.2 percent) in the third quarter and decreased $176 million (7.5 percent) in the first nine months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, decreased $2 million (0.4 percent) in the third quarter and $170 million (10.5 percent) in the first nine months of 2017, compared with the same periods of 2016, principally due to the impact of rising rates on the margin benefit on deposits credited to the business lines, partially offset by growth in the investment portfolio. Total noninterest income increased $46 million (23.2 percent) in the third quarter of 2017, compared with the third quarter of 2016, principally due to higher equity investment income. Total noninterest income decreased $6 million (0.8 percent) in the first nine months of 2017, compared with the same period of 2016, primarily due to the impact of the 2016 Visa Europe sale, partially offset by higher income from other equity investments and higher gains on sales of investment securities in the current year.

Noninterest expense increased $33 million (17.2 percent) in the third quarter of 2017, compared with the third quarter of 2016, principally due to higher compensation expense, reflecting the impact of increased staffing and merit increases including variable compensation, and higher accruals for legal and regulatory matters, partially offset by lower net shared services expense. Noninterest expense decreased $69 million (10.3 percent) in the first nine months of 2017, compared with the same period of 2016, principally due to lower net shared services expense in the current year, and the impacts of an increase in reserves related to legal and regulatory matters and a charitable contribution, both recorded in the second quarter of 2016. These decreases were partially offset by increased compensation expense recorded in the current year. The provision for credit losses was $6 million lower in the first nine months of 2017, compared with the same period of 2016, primarily due to lower net charge-offs.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support.

NON-GAAP FINANCIAL MEASURES

In addition to capital ratios defined by banking regulators, the Company considers various other measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets,
- Tangible common equity to risk-weighted assets,
- Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach, and
- Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches.

These capital measures are viewed by management as useful additional methods of reflecting 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 measures differ from currently effective capital ratios defined by banking regulations principally in that the numerator of the currently effective ratios, which are subject to certain transitional provisions, temporarily excludes a portion of unrealized gains and losses related to available-for-sale securities and retirement plan obligations, and includes a portion of capital related to intangible assets, other than MSRs. These capital measures are not defined in generally accepted accounting principles (GAAP), or are not currently effective or defined in federal banking regulations. As a result, these capital measures disclosed by the Company may be considered non-GAAP financial measures.

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)	September 30, 2017	December 31, 2016
Total equity	$ 49,351	$ 47,933
Preferred stock	(5,419)	(5,501)
Noncontrolling interests	(628)	(635)
Goodwill (net of deferred tax liability) (1)	(8,141)	(8,203)
Intangible assets, other than mortgage servicing rights	(595)	(712)
Tangible common equity (a)	34,568	32,882
Tangible common equity (as calculated above)	34,568	32,882
Adjustments (2)	(52)	(55)
Common equity tier 1 capital estimated for the Basel III fully implemented standardized and advanced approaches (b)	34,516	32,827
Total assets	459,227	445,964
Goodwill (net of deferred tax liability) (1)	(8,141)	(8,203)
Intangible assets, other than mortgage servicing rights	(595)	(712)
Tangible assets (c)	450,491	437,049
Risk-weighted assets, determined in accordance with prescribed transitional standardized approach regulatory requirements (d)	363,957	358,237
Adjustments (3)	3,907	4,027
Risk-weighted assets estimated for the Basel III fully implemented standardized approach (e)	367,864	362,264
Risk-weighted assets, determined in accordance with prescribed transitional advanced approaches regulatory requirements	287,800	277,141
Adjustments (4)	4,164	4,295
Risk-weighted assets estimated for the Basel III fully implemented advanced approaches (f)	291,964	281,436
Ratios		
Tangible common equity to tangible assets (a)/(c)	7.7%	7.5%
Tangible common equity to risk-weighted assets (a)/(d)	9.5	9.2
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)/(e)	9.4	9.1
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)/(f)	11.8	11.7

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net interest income	$ 3,135	$ 2,893	$ 9,097	$ 8,573
Taxable-equivalent adjustment (5)	51	50	152	154

Net interest income, on a taxable-equivalent basis	3,186	2,943	9,249	8,727
Net interest income, on a taxable-equivalent basis (as calculated above)	3,186	2,943	9,249	8,727
Noninterest income	2,422	2,445	7,170	7,146
Less: Securities gains (losses), net	9	10	47	16
Total net revenue, excluding net securities gains (losses) (g)	5,599	5,378	16,372	15,857
Noninterest expense (h)	3,039	2,931	9,006	8,672
Efficiency ratio (h)/(g)	54.3%	54.5%	55.0%	54.7%

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

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

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

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

(5) Utilizes a tax rate of 35 percent for those assets and liabilities whose income or expense is not included for federal income tax purposes.

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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, 2016.

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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U.S. Bancorp

Consolidated Balance Sheet

(Dollars in Millions)	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Cash and due from banks	$ 20,540	$ 15,705
Investment securities		
Held-to-maturity (fair value $43,758 and $42,435, respectively)	44,018	42,991
Available-for-sale ($686 and $755 pledged as collateral, respectively) (a)	67,772	66,284
Loans held for sale (including $3,754 and $4,822 of mortgage loans carried at fair value, respectively)	3,757	4,826
Loans		
Commercial	96,928	93,386
Commercial real estate	41,430	43,098
Residential mortgages	59,317	57,274
Credit card	20,923	21,749
Other retail	56,859	53,864
Total loans, excluding covered loans	275,457	269,371
Covered loans	3,262	3,836
Total loans	278,719	273,207
Less allowance for loan losses	(3,908)	(3,813)
Net loans	274,811	269,394
Premises and equipment	2,402	2,443
Goodwill	9,370	9,344
Other intangible assets	3,193	3,303
Other assets (including $445 and $314 of trading securities at fair value pledged as collateral, respectively) (a)	33,364	31,674
Total assets	$ 459,227	$ 445,964
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	$ 82,152	$ 86,097
Interest-bearing (b)	260,437	248,493
Total deposits	342,589	334,590
Short-term borrowings	15,856	13,963
Long-term debt	34,515	33,323
Other liabilities	16,916	16,155
Total liabilities	409,876	398,031
Shareholders equity		
Preferred stock	5,419	5,501
Common stock, par value $0.01 a share authorized: 4,000,000,000 shares; issued: 9/30/17 and 12/31/16 2,125,725,742 shares	21	21
Capital surplus	8,457	8,440
Retained earnings	53,023	50,151

Less cost of common stock in treasury: 9/30/17 458,958,607 shares; 12/31/16 428,813,585 shares		(16,978)		(15,280)
Accumulated other comprehensive income (loss)		(1,219)		(1,535)
Total U.S. Bancorp shareholders equity		48,723		47,298
Noncontrolling interests		628		635
Total equity		49,351		47,933
Total liabilities and equity	$	459,227	$	445,964

(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 $7.4 billion and $3.0 billion at September 30, 2017 and December 31, 2016, respectively.

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2017	2016	2017	2016
Interest Income				
Loans	$ 3,059	$ 2,731	$ 8,757	$ 8,039
Loans held for sale	40	43	104	110
Investment securities	568	515	1,653	1,555
Other interest income	47	31	131	89
Total interest income	3,714	3,320	10,645	9,793
Interest Expense				
Deposits	293	161	730	452
Short-term borrowings	90	70	233	201
Long-term debt	196	196	585	567
Total interest expense	579	427	1,548	1,220
Net interest income	3,135	2,893	9,097	8,573
Provision for credit losses	360	325	1,055	982
Net interest income after provision for credit losses	2,775	2,568	8,042	7,591
Noninterest Income				
Credit and debit card revenue	308	299	919	861
Corporate payment products revenue	201	190	564	541
Merchant processing services	405	412	1,190	1,188
ATM processing services	92	87	267	251
Trust and investment management fees	380	362	1,128	1,059
Deposit service charges	192	192	553	539
Treasury management fees	153	147	466	436
Commercial products revenue	221	219	638	654
Mortgage banking revenue	213	314	632	739
Investment products fees	39	41	120	120
Securities gains (losses), net				
Realized gains (losses), net	9	12	47	19
Total other-than-temporary impairment		(2)		(4)
Portion of other-than-temporary impairment recognized in other comprehensive income (loss)				1
Total securities gains (losses), net	9	10	47	16
Other	209	172	646	742
Total noninterest income	2,422	2,445	7,170	7,146
Noninterest Expense				
Compensation	1,440	1,329	4,247	3,855
Employee benefits	281	280	882	858

Net occupancy and equipment	258	250	760	741
Professional services	104	127	305	346
Marketing and business development	92	102	291	328
Technology and communications	246	243	723	717
Postage, printing and supplies	82	80	244	236
Other intangibles	44	45	131	134
Other	492	475	1,423	1,457
Total noninterest expense	3,039	2,931	9,006	8,672
Income before income taxes	2,158	2,082	6,206	6,065
Applicable income taxes	589	566	1,639	1,612
Net income	1,569	1,516	4,567	4,453
Net (income) loss attributable to noncontrolling interests	(6)	(14)	(31)	(43)
Net income attributable to U.S. Bancorp	$ 1,563	$ 1,502	$ 4,536	$ 4,410
Net income applicable to U.S. Bancorp common shareholders	$ 1,485	$ 1,434	$ 4,302	$ 4,198
Earnings per common share	$ .89	$ .84	$ 2.56	$ 2.44
Diluted earnings per common share	$ .88	$ .84	$ 2.55	$ 2.43
Dividends declared per common share	$ .30	$ .28	$ .86	$ .79
Average common shares outstanding	1,672	1,710	1,683	1,724
Average diluted common shares outstanding	1,678	1,716	1,689	1,730

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Comprehensive Income

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2017	2016	2017	2016
Net income	$ 1,569	$ 1,516	$ 4,567	$ 4,453
Other Comprehensive Income (Loss)				
Changes in unrealized gains and losses on securities available-for-sale	24	(105)	479	716
Other-than-temporary impairment not recognized in earnings on securities available-for-sale				(1)
Changes in unrealized gains and losses on derivative hedges	(3)	31	(33)	(152)
Foreign currency translation	2	6	11	(30)
Reclassification to earnings of realized gains and losses	21	54	58	196
Income taxes related to other comprehensive income (loss)	(17)	(3)	(199)	(289)
Total other comprehensive income (loss)	27	(17)	316	440
Comprehensive income	1,596	1,499	4,883	4,893
Comprehensive (income) loss attributable to noncontrolling interests	(6)	(14)	(31)	(43)
Comprehensive income attributable to U.S. Bancorp	$ 1,590	$ 1,485	$ 4,852	$ 4,850

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Shareholders Equity

(Dollars and Shares in Millions) (Unaudited)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shareholders Equity	Noncontrolling Interests	Total Equity
	U.S. Bancorp Shareholders									
Balance December 31, 2015	1,745	$ 5,501	$ 21	$ 8,376	$ 46,377	$ (13,125)	$ (1,019)	$ 46,131	$ 686	$ 46,817
Net income (loss)					4,410			4,410	43	4,453
Other comprehensive income (loss)							440	440		440
Preferred stock dividends					(201)			(201)		(201)
Common stock dividends					(1,364)			(1,364)		(1,364)
Issuance of common and treasury stock	7			(59)		228		169		169
Purchase of treasury stock	(47)					(1,947)		(1,947)		(1,947)
Distributions to noncontrolling interests									(38)	(38)
Purchase of noncontrolling interests				1	9			10	(50)	(40)
Net other changes in noncontrolling interests									(1)	(1)
Stock option and restricted stock grants				111				111		111
Balance September 30, 2016	1,705	$ 5,501	$ 21	$ 8,429	$ 49,231	$ (14,844)	$ (579)	$ 47,759	$ 640	$ 48,399
Balance December 31, 2016	1,697	$ 5,501	$ 21	$ 8,440	$ 50,151	$ (15,280)	$ (1,535)	$ 47,298	$ 635	$ 47,933

Net income (loss)					4,536			4,536	31	4,567
Other comprehensive income (loss)							316	316		316
Preferred stock dividends					(204)			(204)		(204)
Common stock dividends					(1,450)			(1,450)		(1,450)
Issuance of preferred stock		993						993		993
Redemption of preferred stock		(1,075)			(10)			(1,085)		(1,085)
Issuance of common and treasury stock	7			(115)		257		142		142
Purchase of treasury stock	(37)					(1,955)		(1,955)		(1,955)
Distributions to noncontrolling interests									(41)	(41)
Net other changes in noncontrolling interests									3	3
Stock option and restricted stock grants				132				132		132
Balance September 30, 2017	1,667	$ 5,419	$ 21	$ 8,457	$ 53,023	$ (16,978)	$ (1,219)	$ 48,723	$ 628	$ 49,351

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Cash Flows

(Dollars in Millions)	Nine Months Ended September 30,	
(Unaudited)	2017	2016
Operating Activities		
Net income attributable to U.S. Bancorp	$ 4,536	$ 4,410
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,055	982
Depreciation and amortization of premises and equipment	219	219
Amortization of intangibles	131	134
(Gain) loss on sale of loans held for sale	(544)	(753)
(Gain) loss on sale of securities and other assets	(387)	(463)
Loans originated for sale in the secondary market, net of repayments	(26,080)	(31,975)
Proceeds from sales of loans held for sale	27,481	30,033
Other, net	230	651
Net cash provided by operating activities	6,641	3,238
Investing Activities		
Proceeds from sales of available-for-sale investment securities	3,063	8,171
Proceeds from maturities of held-to-maturity investment securities	6,348	7,116
Proceeds from maturities of available-for-sale investment securities	9,459	10,252
Purchases of held-to-maturity investment securities	(7,403)	(6,428)
Purchases of available-for-sale investment securities	(13,575)	(22,897)
Net increase in loans outstanding	(5,698)	(11,063)
Proceeds from sales of loans	1,348	1,782
Purchases of loans	(2,245)	(2,136)
Other, net	(617)	(38)
Net cash used in investing activities	(9,320)	(15,241)
Financing Activities		
Net increase in deposits	7,999	34,197
Net increase (decrease) in short-term borrowings	1,893	(12,182)
Proceeds from issuance of long-term debt	7,726	10,631
Principal payments or redemption of long-term debt	(6,561)	(4,806)
Proceeds from issuance of preferred stock	993	
Proceeds from issuance of common stock	138	159
Repurchase of preferred stock	(1,085)	
Repurchase of common stock	(1,950)	(1,902)
Cash dividends paid on preferred stock	(213)	(206)
Cash dividends paid on common stock	(1,426)	(1,331)
Purchase of noncontrolling interests		(40)
Net cash provided by financing activities	7,514	24,520
Change in cash and due from banks	4,835	12,517
Cash and due from banks at beginning of period	15,705	11,147
Cash and due from banks at end of period	$ 20,540	$ 23,664

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, 2016. 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

Stock-Based Compensation Effective January 1, 2017, the Company adopted accounting guidance, issued by the Financial Accounting Standards Board (FASB) in March 2016, simplifying the accounting for stock-based compensation awards issued to employees. The guidance requires all excess tax benefits and deficiencies that pertain to stock-based compensation awards to be recognized within income tax expense instead of within capital surplus. The adoption of this guidance did not have a material impact on the Company s financial statements.

Revenue Recognition In May 2014, the FASB issued accounting guidance, effective for the Company on January 1, 2018, 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 Company is currently evaluating the adoption of this guidance using either a fully retrospective approach, where the guidance would be applied to all periods presented in the financial statements, or a modified retrospective approach, where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. The Company expects the adoption of this guidance will not be material to its financial statements.

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.

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.

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Financial Instruments Hedge Accounting In August 2017, the FASB issued accounting guidance, effective for the Company no later than January 1, 2019, 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 measurement and reporting of ineffectiveness and changes certain presentation and disclosure requirements for hedge accounting activities. The Company expects the adoption of this guidance will not be material to its financial statements.

Note 3 Investment Securities

The amortized cost, other-than-temporary impairment recorded in other comprehensive income (loss), gross unrealized holding gains and losses, and fair value of held-to-maturity and available-for-sale investment securities were as follows:

	September 30, 2017					December 31, 2016				
			Unrealized Losses					Unrealized Losses		
(Dollars in Millions)	Amortized Cost	Unrealized Gains	Other-than-Temporary (e)	Other (f)	Fair Value	Amortized Cost	Unrealized Gains	Other-than-Temporary (e)	Other (f)	Fair Value
Held-to-maturity (a)										
U.S. Treasury and agencies	$ 5,193	$ 17	$	$ (72)	$ 5,138	$ 5,246	$ 12	$	$ (132)	$ 5,126
Mortgage-backed securities										
Residential										
Agency	38,787	101		(312)	38,576	37,706	85		(529)	37,262
Non-agency non-prime (d)	1				1	1				1
Asset-backed securities										
Collateralized debt obligations/Collateralized loan obligations		3			3		5			5
Other	7	2			9	8	3			11
Obligations of state and political subdivisions	6	1			7	6	1			7
Obligations of foreign governments	9				9	9				9
Other debt securities	15				15	15			(1)	14
Total held-to-maturity	$ 44,018	$ 124	$	$ (384)	$ 43,758	$ 42,991	$ 106	$	$ (662)	$ 42,435
Available-for-sale (b)										
U.S. Treasury and agencies	$ 22,163	$ 25	$	$ (120)	$ 22,068	$ 17,314	$ 11	$	$ (198)	$ 17,127
Mortgage-backed securities										
Residential										
Agency	39,744	197		(388)	39,553	43,558	225		(645)	43,138
Non-agency										
Prime (c)						240	6	(3)	(1)	242
Non-prime (d)						178	20	(3)		195

Commercial agency	8				8	15				15
Other asset-backed securities	418	7			425	475	8			483
Obligations of state and political subdivisions	5,681	88		(88)	5,681	5,167	55		(183)	5,039
Corporate debt securities						11			(2)	9
Other investments	27	10			37	27	9			36
Total available-for-sale	$ 68,041	$ 327	$	$ (596)	$ 67,772	$ 66,985	$ 334	$ (6)	$ (1,029)	$ 66,284

(a) Held-to-maturity investment securities are carried at historical cost or at fair value at the time of transfer from the available-for-sale to held-to-maturity category, adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment.

(b) 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.

(c) 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). When the Company determines the designation, prime securities typically have a weighted-average credit score of 725 or higher and a loan-to-value of 80 percent or lower; however, other pool characteristics may result in designations that deviate from these credit score and loan-to-value thresholds.

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

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

(f) 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 5.1 years at September 30, 2017 and December 31, 2016. The corresponding weighted-average yields were 2.15 percent and 2.06 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 4.7 years at September 30, 2017 and 4.6 years at December 31, 2016. The corresponding weighted-average yields were 2.09 percent and 1.93 percent, respectively.

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale investment securities outstanding at September 30, 2017, 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 $11.9 billion at September 30, 2017, and $11.3 billion at December 31, 2016, were pledged to secure public, private and trust deposits, repurchase agreements and for other purposes required by contractual obligation or law. Included in these amounts were securities where the Company and certain counterparties have agreements granting the counterparties the right to sell or pledge the securities. Investment securities securing these types of arrangements had a fair value of $686 million at September 30, 2017, and $755 million at December 31, 2016.

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

(Dollars in Millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Taxable	$ 523	$ 467	$ 1,513	$ 1,403
Non-taxable	45	48	140	152
Total interest income from investment securities	$ 568	$ 515	$ 1,653	$ 1,555

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

(Dollars in Millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Realized gains	$ 9	$ 12	$ 65	$ 31
Realized losses			(18)	(12)
Net realized gains (losses)	$ 9	$ 12	$ 47	$ 19
Income tax (benefit) on net realized gains (losses)	$ 3	$ 4	$ 18	$ 7

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 debt securities not intended to be sold by estimating the future cash flows of each individual investment security, using market information where available, and discounting the cash flows at the original effective rate of the investment security. Other-than-temporary impairment recorded in other comprehensive income (loss) is measured as the difference between that discounted amount and the fair value of each investment security. The total amount of other-than-temporary impairment recorded was immaterial for the three and nine months ended September 30, 2017 and 2016.

At September 30, 2017, certain investment securities had a fair value below amortized cost. The following table shows the gross unrealized losses and fair value of the Company s investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2017:

	Less Than 12 Months		12 Months or Greater		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity						
U.S. Treasury and agencies	$ 2,886	$ (62)	$ 241	$ (10)	$ 3,127	$ (72)
Residential agency mortgage-backed securities	19,913	(237)	3,989	(75)	23,902	(312)
Other asset-backed securities			5		5	
Other debt securities	15				15	
Total held-to-maturity	$ 22,814	$ (299)	$ 4,235	$ (85)	$ 27,049	$ (384)
Available-for-sale						
U.S. Treasury and agencies	$ 15,241	$ (98)	$ 1,389	$ (22)	$ 16,630	$ (120)
Residential agency mortgage-backed securities	19,025	(281)	7,914	(107)	26,939	(388)
Commercial agency mortgage-backed securities	6				6	
Obligations of state and political subdivisions	1,857	(35)	627	(53)	2,484	(88)
Other investments	1				1	
Total available-for-sale	$ 36,130	$ (414)	$ 9,930	$ (182)	$ 46,060	$ (596)

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The Company does not consider these unrealized losses to be credit-related. These unrealized losses primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either U.S. Treasury and agencies, agency mortgage-backed or state and political securities. In general, the issuers of the investment securities are contractually prohibited from prepayment at less than par, and the Company did not pay significant purchase premiums for these investment securities. At September 30, 2017, 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:

	September 30, 2017		December 31, 2016	
(Dollars in Millions)	Amount	Percent of Total	Amount	Percent of Total
Commercial				
Commercial	$ 91,449	32.8%	$ 87,928	32.2%
Lease financing	5,479	2.0	5,458	2.0
Total commercial	96,928	34.8	93,386	34.2
Commercial Real Estate				
Commercial mortgages	29,902	10.7	31,592	11.6
Construction and development	11,528	4.1	11,506	4.2
Total commercial real estate	41,430	14.8	43,098	15.8
Residential Mortgages				
Residential mortgages	46,107	16.6	43,632	16.0
Home equity loans, first liens	13,210	4.7	13,642	5.0
Total residential mortgages	59,317	21.3	57,274	21.0
Credit Card	20,923	7.5	21,749	7.9
Other Retail				
Retail leasing	7,923	2.8	6,316	2.3
Home equity and second mortgages	16,308	5.9	16,369	6.0
Revolving credit	3,225	1.2	3,282	1.2
Installment	8,900	3.2	8,087	3.0
Automobile	18,530	6.6	17,571	6.4
Student	1,973	.7	2,239	.8
Total other retail	56,859	20.4	53,864	19.7
Total loans, excluding covered loans	275,457	98.8	269,371	98.6
Covered Loans	3,262	1.2	3,836	1.4
Total loans	$ 278,719	100.0%	$ 273,207	100.0%

The Company had loans of $85.2 billion at September 30, 2017, and $84.5 billion at December 31, 2016, pledged at the Federal Home Loan Bank, and loans of $66.8 billion at September 30, 2017, and $66.5 billion at December 31, 2016, pledged at the Federal Reserve Bank.

Originated loans are reported at the principal amount outstanding, net of unearned interest and deferred fees and costs. Net unearned interest and deferred fees and costs amounted to $825 million at September 30, 2017, and $672 million at December 31, 2016. 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:

(Dollars in Millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Balance at beginning of period	$ 546	$ 891	$ 698	$ 957
Accretion	(107)	(102)	(286)	(297)
Disposals	(17)	(23)	(68)	(77)
Reclassifications from nonaccretable difference (a)	47	31	130	214
Other	(3)		(8)	
Balance at end of period	$ 466	$ 797	$ 466	$ 797

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

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

The allowance recorded for loans in the commercial lending segment is based on reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. For each loan type, this historical loss experience is adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions. The results of the analysis are evaluated quarterly to confirm an appropriate historical time frame is selected 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, 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.

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

Three Months Ended September 30, (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
2017								
Balance at beginning of period	$ 1,395	$ 856	$ 455	$ 990	$ 648	$ 4,344	$ 33	$ 4,377
Add								
Provision for credit losses	71	(12)	2	216	84	361	(1)	360
Deduct								
Loans charged-off	115	2	16	214	86	433		433
Less recoveries of loans charged-off	(32)	(9)	(9)	(27)	(26)	(103)		(103)
Net loans charged-off	83	(7)	7	187	60	330		330
Other changes (a)								
Balance at end of period	$ 1,383	$ 851	$ 450	$ 1,019	$ 672	$ 4,375	$ 32	$ 4,407
2016								
Balance at beginning of period	$ 1,473	$ 748	$ 544	$ 884	$ 643	$ 4,292	$ 37	$ 4,329
Add								
Provision for credit losses	90	34	(12)	178	37	327	(2)	325
Deduct								
Loans charged-off	104	9	19	182	84	398		398
Less recoveries of loans charged-off	(17)	(8)	(7)	(21)	(30)	(83)		(83)
Net loans charged-off	87	1	12	161	54	315		315
Other changes (a)							(1)	(1)
Balance at end of period	$ 1,476	$ 781	$ 520	$ 901	$ 626	$ 4,304	$ 34	$ 4,338

(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.

Nine Months Ended September 30, (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
2017								
Balance at beginning of period	$ 1,450	$ 812	$ 510	$ 934	$ 617	$ 4,323	$ 34	$ 4,357
Add								
Provision for credit losses	169	21	(33)	666	234	1,057	(2)	1,055

Deduct								
Loans charged-off	315	7	49	653	263	1,287		1,287
Less recoveries of loans charged-off	(79)	(25)	(22)	(72)	(84)	(282)		(282)
Net loans charged-off	236	(18)	27	581	179	1,005		1,005
Other changes (a)								
Balance at end of period	$ 1,383	$ 851	$ 450	$ 1,019	$ 672	$ 4,375	$ 32	$ 4,407
2016								
Balance at beginning of period	$ 1,287	$ 724	$ 631	$ 883	$ 743	$ 4,268	$ 38	$ 4,306
Add								
Provision for credit losses	438	53	(63)	514	42	984	(2)	982
Deduct								
Loans charged-off	322	19	67	559	243	1,210		1,210
Less recoveries of loans charged-off	(73)	(23)	(19)	(64)	(84)	(263)		(263)
Net loans charged-off	249	(4)	48	495	159	947		947
Other changes (a)				(1)		(1)	(2)	(3)
Balance at end of period	$ 1,476	$ 781	$ 520	$ 901	$ 626	$ 4,304	$ 34	$ 4,338

(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.*

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

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans	Total Loans
Allowance Balance at September 30, 2017 Related to								
Loans individually evaluated for impairment (a)	$ 25	$ 2	$	$	$	$ 27	$	$ 27
TDRs collectively evaluated for impairment	12	4	139	62	16	233	1	234
Other loans collectively evaluated for impairment	1,346	840	311	957	656	4,110		4,110
Loans acquired with deteriorated credit quality		5				5	31	36
Total allowance for credit losses	$ 1,383	$ 851	$ 450	$ 1,019	$ 672	$ 4,375	$ 32	$ 4,407
Allowance Balance at December 31, 2016 Related to								
Loans individually evaluated for impairment (a)	$ 50	$ 4	$	$	$	$ 54	$	$ 54
TDRs collectively evaluated for impairment	12	4	180	65	20	281	1	282
Other loans collectively evaluated for impairment	1,388	798	330	869	597	3,982		3,982
Loans acquired with deteriorated credit quality		6				6	33	39
Total allowance for credit losses	$ 1,450	$ 812	$ 510	$ 934	$ 617	$ 4,323	$ 34	$ 4,357

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

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

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans, Excluding Covered Loans	Covered Loans (b)	Total Loans
September 30, 2017								
Loans individually evaluated for impairment (a)	$ 386	$ 44	$	$	$	$ 430	$	$ 430
TDRs collectively evaluated for impairment	138	143	3,509	231	185	4,206	33	4,239
Other loans collectively evaluated for impairment	96,404	41,166	55,807	20,692	56,673	270,742	1,177	271,919

Loans acquired with deteriorated credit quality	77	1		1	79	2,052	2,131	
Total loans	$ 96,928	$ 41,430	$ 59,317	$ 20,923	$ 56,859	$ 275,457	$ 3,262	$ 278,719
December 31, 2016								
Loans individually evaluated for impairment (a)	$ 623	$ 70	$	$	$	$ 693	$	$ 693
TDRs collectively evaluated for impairment	145	146	3,678	222	173	4,364	35	4,399
Other loans collectively evaluated for impairment	92,611	42,751	53,595	21,527	53,691	264,175	1,553	265,728
Loans acquired with deteriorated credit quality	7	131	1			139	2,248	2,387
Total loans	$ 93,386	$ 43,098	$ 57,274	$ 21,749	$ 53,864	$ 269,371	$ 3,836	$ 273,207

(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 (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.

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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.

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

(Dollars in Millions)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or More Past Due	Nonperforming	Total
September 30, 2017					
Commercial	$ 96,389	$ 218	$ 52	$ 269	$ 96,928
Commercial real estate	41,242	62	4	122	41,430
Residential mortgages (a)	58,581	155	107	474	59,317
Credit card	20,375	296	251	1	20,923
Other retail	56,282	331	83	163	56,859
Total loans, excluding covered loans	272,869	1,062	497	1,029	275,457
Covered loans	3,056	48	152	6	3,262
Total loans	$ 275,925	$ 1,110	$ 649	$ 1,035	$ 278,719
December 31, 2016					
Commercial	$ 92,588	$ 263	$ 52	$ 483	$ 93,386
Commercial real estate	42,922	44	8	124	43,098
Residential mortgages (a)	56,372	151	156	595	57,274
Credit card	21,209	284	253	3	21,749
Other retail	53,340	284	83	157	53,864
Total loans, excluding covered loans	266,431	1,026	552	1,362	269,371
Covered loans	3,563	55	212	6	3,836
Total loans	$ 269,994	$ 1,081	$ 764	$ 1,368	$ 273,207

(a) At September 30, 2017, $297 million of loans 30 89 days past due and $1.8 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 $273 million and $2.5 billion at December 31, 2016,

respectively.

At September 30, 2017, the amount of foreclosed residential real estate held by the Company, and included in other real estate owned (OREO), was $182 million ($156 million excluding covered assets), compared with $201 million ($175 million excluding covered assets) at December 31, 2016. These amounts exclude $300 million and $373 million at September 30, 2017 and December 31, 2016, respectively, of foreclosed residential real estate related to mortgage loans whose payments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. In addition, the amount of residential mortgage loans secured by residential real estate in the process of foreclosure at September 30, 2017 and December 31, 2016, was $1.7 billion and $2.1 billion, respectively, of which $1.3 billion and $1.6 billion, respectively, related to loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

The Company classifies its loan portfolios using internal credit quality ratings on a quarterly basis. These ratings include pass, special mention and classified, and are an important part of the Company s overall credit risk management process and evaluation of the allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company s rating scale for problem credits, as minimal credit risk has been identified. Special mention loans are those that have a potential weakness deserving management s close attention. Classified loans are those where a well-defined weakness has been identified that may put full collection of contractual cash flows at risk. It is possible that others, given the same information, may reach different reasonable conclusions regarding the credit quality rating classification of specific loans.

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

(Dollars in Millions)	Pass	Criticized Special Mention	Classified (a)	Total Criticized	Total
September 30, 2017					
Commercial (b)	$ 94,127	$ 1,328	$ 1,473	$ 2,801	$ 96,928
Commercial real estate	39,998	640	792	1,432	41,430
Residential mortgages (c)	58,671	3	643	646	59,317
Credit card	20,671		252	252	20,923
Other retail	56,567	5	287	292	56,859
Total loans, excluding covered loans	270,034	1,976	3,447	5,423	275,457
Covered loans	3,209		53	53	3,262
Total loans	$ 273,243	$ 1,976	$ 3,500	$ 5,476	$ 278,719
Total outstanding commitments	$ 579,628	$ 3,232	$ 4,684	$ 7,916	$ 587,544
December 31, 2016					
Commercial (b)	$ 89,739	$ 1,721	$ 1,926	$ 3,647	$ 93,386
Commercial real estate	41,634	663	801	1,464	43,098
Residential mortgages (c)	56,457	10	807	817	57,274
Credit card	21,493		256	256	21,749
Other retail	53,576	6	282	288	53,864
Total loans, excluding covered loans	262,899	2,400	4,072	6,472	269,371
Covered loans	3,766		70	70	3,836
Total loans	$ 266,665	$ 2,400	$ 4,142	$ 6,542	$ 273,207
Total outstanding commitments	$ 562,704	$ 4,920	$ 5,629	$ 10,549	$ 573,253

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

(b) At September 30, 2017, $611 million of energy loans ($1.3 billion of total outstanding commitments) had a special mention or classified rating, compared with $1.2 billion of energy loans ($2.8 billion of total outstanding commitments) at December 31, 2016.

(c) At September 30, 2017, $1.8 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 $2.5 billion and $1.6 billion at December 31, 2016, 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.

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

(Dollars in Millions)	Period-end Recorded Investment (a)	Unpaid Principal Balance	Valuation Allowance	Commitments to Lend Additional Funds
September 30, 2017				
Commercial	$ 592	$ 1,040	$ 39	$ 168
Commercial real estate	263	545	11	
Residential mortgages	2,064	2,471	121	1
Credit card	231	231	62	
Other retail	298	508	19	4
Total loans, excluding GNMA and covered loans	3,448	4,795	252	173
Loans purchased from GNMA mortgage pools	1,571	1,571	20	
Covered loans	35	43	1	
Total	$ 5,054	$ 6,409	$ 273	$ 173
December 31, 2016				
Commercial	$ 849	$ 1,364	$ 68	$ 284
Commercial real estate	293	697	10	
Residential mortgages	2,274	2,847	153	
Credit card	222	222	64	
Other retail	281	456	22	4
Total loans, excluding GNMA and covered loans	3,919	5,586	317	288
Loans purchased from GNMA mortgage pools	1,574	1,574	28	
Covered loans	36	42	1	1
Total	$ 5,529	$ 7,202	$ 346	$ 289

(a) Substantially all loans classified as impaired at September 30, 2017 and December 31, 2016, had an associated allowance for credit losses.

Additional information on impaired loans follows:

	2017		2016	
(Dollars in Millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three Months Ended September 30				
Commercial	$ 624	$ 3	$ 845	$ 2
Commercial real estate	272	2	334	6
Residential mortgages	2,111	25	2,381	30
Credit card	231	1	214	1
Other retail	288	4	287	3
Total loans, excluding GNMA and covered loans	3,526	35	4,061	42
Loans purchased from GNMA mortgage pools	1,672	17	1,458	23

Covered loans	38		38	
Total	$ 5,236	$ 52	$ 5,557	$ 65
Nine Months Ended September 30				
Commercial	$ 720	$ 5	$ 786	$ 6
Commercial real estate	274	7	321	12
Residential mortgages	2,178	82	2,457	93
Credit card	229	3	212	3
Other retail	282	11	296	9
Total loans, excluding GNMA and covered loans	3,683	108	4,072	123
Loans purchased from GNMA mortgage pools	1,688	54	1,674	71
Covered loans	37		38	1
Total	$ 5,408	$ 162	$ 5,784	$ 195

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:

	2017			2016		
(Dollars in Millions)	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance	Number of Loans	Pre-Modification Outstanding Loan Balance	Post-Modification Outstanding Loan Balance
Three Months Ended September 30						
Commercial	616	$ 40	$ 27	638	$ 200	$ 169
Commercial real estate	29	18	16	26	225	223
Residential mortgages	141	15	16	700	81	87
Credit card	8,106	38	38	8,051	38	40
Other retail	1,949	39	32	593	9	9
Total loans, excluding GNMA and covered loans	10,841	150	129	10,008	553	528
Loans purchased from GNMA mortgage pools	1,340	169	171	2,609	317	308
Covered loans	3			15	3	3
Total loans	12,184	$ 319	$ 300	12,632	$ 873	$ 839
Nine Months Ended September 30						
Commercial	2,117	$ 239	$ 195	1,734	$ 692	$ 567
Commercial real estate	93	56	55	70	242	240
Residential mortgages	641	72	73	1,192	129	136
Credit card	25,657	123	124	22,693	109	111
Other retail	3,210	65	55	1,669	27	28
Total loans, excluding GNMA and covered loans	31,718	555	502	27,358	1,199	1,082
Loans purchased from GNMA mortgage pools	5,312	697	686	6,978	770	761
Covered loans	10	2	2	35	6	6
Total loans	37,040	$ 1,254	$ 1,190	34,371	$ 1,975	$ 1,849

Residential mortgages, home equity and second mortgages, and loans purchased from GNMA mortgage pools in the table above include trial period arrangements offered to customers during the periods presented. The post-modification balances for these loans reflect the current outstanding balance until a permanent modification is made. In addition, the post-modification balances typically include capitalization of unpaid accrued interest and/or fees under the various modification programs. For those loans modified as TDRs during the third quarter of 2017, at September 30, 2017, 61 residential mortgages, 46 home equity and second mortgage loans and 932 loans purchased from GNMA mortgage pools with outstanding balances of $8 million, $4 million and $122 million, respectively, were in a trial period and have estimated post-modification balances of $9 million, $4 million and $123 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.

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

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

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

	2017		2016	
(Dollars in Millions)	Number of Loans	Amount Defaulted	Number of Loans	Amount Defaulted
Three Months Ended September 30				
Commercial	200	$ 25	121	$ 4
Commercial real estate	10	3	6	3
Residential mortgages	84	7	43	4
Credit card	2,076	9	1,617	7
Other retail	89	1	103	1
Total loans, excluding GNMA and covered loans	2,459	45	1,890	19
Loans purchased from GNMA mortgage pools	354	46	39	5
Covered loans	1		2	1
Total loans	2,814	$ 91	1,931	$ 25
Nine Months Ended September 30				
Commercial	555	$ 49	374	$ 15
Commercial real estate	28	6	21	9
Residential mortgages	251	26	101	13
Credit card	6,107	26	4,822	21
Other retail	320	4		