

Form 10-Q/September 30, 2019

**usbancorp**

**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, 2019**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from (not applicable)**

Commission file number 1-6880

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**800 Nicollet Mall  
Minneapolis, Minnesota 55402**

(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, \$.01 par value per share	USB	New York Stock Exchange
Depository Shares (each representing 1/100th interest in a share of Series A Non-Cumulative Perpetual Preferred Stock, par value \$1.00)	USB PrA	New York Stock Exchange
Depository Shares (each representing 1/1,000th interest in a share of Series B Non-Cumulative Perpetual Preferred Stock, par value \$1.00)	USB PrH	New York Stock Exchange
Depository Shares (each representing 1/1,000th interest in a share of Series F Non-Cumulative Perpetual Preferred Stock, par value \$1.00)	USB PrM	New York Stock Exchange
Depository Shares (each representing 1/1,000th interest in a share of Series H Non-Cumulative Perpetual Preferred Stock, par value \$1.00)	USB PrO	New York Stock Exchange
Depository Shares (each representing 1/1,000th interest in a share of Series K Non-Cumulative Perpetual Preferred Stock, par value \$1.00)	USB PrP	New York Stock Exchange
0.850% Medium-Term Notes, Series X (Senior), due June 7, 2024	USB/24B	New York Stock Exchange

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES  NO

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

YES  NO

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

Class  
Common Stock, \$0.01 Par Value

Outstanding as of October 31, 2019  
1,561,859,164 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. Deterioration in general business and economic conditions or turbulence in domestic or global financial markets could adversely affect U.S. Bancorp’s revenues and the values of its assets and liabilities, reduce the availability of funding to certain financial institutions, lead to a tightening of credit, and increase stock price volatility. Stress in the commercial real estate markets, as well as a downturn in the residential real estate markets, could cause credit losses and deterioration in asset values. In addition, changes to statutes, regulations, or regulatory policies or practices could affect U.S. Bancorp in substantial and unpredictable ways. U.S. Bancorp’s results could also be adversely affected by changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of its investment securities; legal and regulatory developments; litigation; increased competition from both banks and non-banks; changes in the level of tariffs and other trade policies of the United States and its global trading partners; changes in customer behavior and preferences; breaches in data security; failures to safeguard personal information; 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, 2018, on file with the Securities and Exchange Commission, including the sections entitled “Corporate Risk Profile” and “Risk Factors” contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. In addition, factors other than these risks also could adversely affect U.S. Bancorp’s results, and the reader should not consider these risks to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

**Table 1 Selected Financial Data**

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Percent Change	2019	2018	Percent Change
(Dollars and Shares in Millions, Except Per Share Data)						
<b>Condensed Income Statement</b>						
Net interest income	\$ 3,281	\$ 3,251	.9%	\$ 9,845	\$ 9,616	2.4%
Taxable-equivalent adjustment (a)	25	30	(16.7)	79	88	(10.2)
Net interest income (taxable-equivalent basis) (b)	3,306	3,281	.8	9,924	9,704	2.3
Noninterest income	2,589	2,408	7.5	7,348	7,079	3.8
Securities gains (losses), net	25	10	*	47	25	88.0
Total net revenue	5,920	5,699	3.9	17,319	16,808	3.0
Noninterest expense	3,144	3,044	3.3	9,384	9,184	2.2
Provision for credit losses	367	343	7.0	1,109	1,011	9.7
Income before taxes	2,409	2,312	4.2	6,826	6,613	3.2
Income taxes and taxable-equivalent adjustment	492	490	.4	1,373	1,351	1.6
Net income	1,917	1,822	5.2	5,453	5,262	3.6
Net (income) loss attributable to noncontrolling interests	(9)	(7)	(28.6)	(25)	(22)	(13.6)
Net income attributable to U.S. Bancorp	\$ 1,908	\$ 1,815	5.1	\$ 5,428	\$ 5,240	3.6
Net income applicable to U.S. Bancorp common shareholders	\$ 1,821	\$ 1,732	5.1	\$ 5,175	\$ 5,007	3.4
<b>Per Common Share</b>						
Earnings per share	\$ 1.16	\$ 1.06	9.4%	\$ 3.26	\$ 3.05	6.9%
Diluted earnings per share	1.15	1.06	8.5	3.25	3.04	6.9
Dividends declared per share	.42	.37	13.5	1.16	.97	19.6
Book value per share (c)	30.26	27.35	10.6			
Market value per share	55.34	52.81	4.8			
Average common shares outstanding	1,575	1,629	(3.3)	1,589	1,641	(3.2)
Average diluted common shares outstanding	1,578	1,633	(3.4)	1,592	1,645	(3.2)
<b>Financial Ratios</b>						
Return on average assets	1.57%	1.58%		1.54%	1.54%	
Return on average common equity	15.3	15.5		14.9	15.2	
Net interest margin (taxable-equivalent basis) (a)	3.02	3.15		3.10	3.14	
Efficiency ratio (b)	53.3	53.5		54.3	54.7	
Net charge-offs as a percent of average loans outstanding	.48	.46		.49	.48	
<b>Average Balances</b>						
Loans	\$292,436	\$281,065	4.0%	\$289,278	\$279,699	3.4%
Loans held for sale	4,476	3,109	44.0	3,265	3,262	.1
Investment securities (d)	117,213	113,547	3.2	115,628	113,873	1.5
Earning assets	435,673	415,177	4.9	427,426	413,246	3.4
Assets	481,454	456,916	5.4	472,216	455,241	3.7
Noninterest-bearing deposits	74,594	77,192	(3.4)	73,711	78,546	(6.2)
Deposits	349,933	330,121	6.0	343,563	333,159	3.1
Short-term borrowings	18,597	22,186	(16.2)	18,046	21,881	(17.5)
Long-term debt	42,691	39,701	7.5	41,664	36,400	14.5
Total U.S. Bancorp shareholders' equity	53,292	50,138	6.3	52,446	49,433	6.1
	September 30, 2019	December 31, 2018				
<b>Period End Balances</b>						
Loans	\$294,638	\$286,810	2.7%			
Investment securities	121,079	112,165	7.9			
Assets	487,671	467,374	4.3			
Deposits	359,715	345,475	4.1			
Long-term debt	41,274	41,340	(.2)			
Total U.S. Bancorp shareholders' equity	53,517	51,029	4.9			
<b>Asset Quality</b>						
Nonperforming assets	\$ 979	\$ 989	(1.0)%			
Allowance for credit losses	4,481	4,441	.9			
Allowance for credit losses as a percentage of period-end loans	1.52%	1.55%				
<b>Capital Ratios</b>						
Basel III standardized approach:						
Common equity tier 1 capital	9.6%	9.1%				
Tier 1 capital	11.2	10.7				
Total risk-based capital	13.2	12.6				
Leverage	9.3	9.0				
Common equity tier 1 capital to risk-weighted assets for the Basel III advanced approaches						
Tangible common equity to tangible assets (b)	8.0	7.8				
Tangible common equity to risk-weighted assets (b)	9.7	9.4				

\* Not meaningful

(a) Based on a federal income tax rate of 21 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 30.

(c) Calculated as U.S. Bancorp common shareholders' equity divided by common shares outstanding at end of the period.

(d) Excludes unrealized gains and losses on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.

# 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 \$1.9 billion for the third quarter of 2019, or \$1.15 per diluted common share, compared with \$1.8 billion, or \$1.06 per diluted common share, for the third quarter of 2018. Return on average assets and return on average common equity were 1.57 percent and 15.3 percent, respectively, for the third quarter of 2019, compared with 1.58 percent and 15.5 percent, respectively, for the third quarter of 2018.

Total net revenue for the third quarter of 2019 was \$221 million (3.9 percent) higher than the third quarter of 2018, reflecting a 0.9 percent increase in net interest income (0.8 percent on a taxable-equivalent basis) and an 8.1 percent increase in noninterest income. The increase in net interest income from the third quarter of 2018 was mainly a result of loan growth and higher yields on reinvestment of securities, partially offset by the impact of a flatter yield curve and changes in deposit and funding mix. The noninterest income increase was driven by growth in mortgage banking revenue, payment services revenue, commercial products revenue and other noninterest income, partially offset by a decline in deposit service charges.

Noninterest expense in the third quarter of 2019 was \$100 million (3.3 percent) higher than the third quarter of 2018, primarily due to higher personnel expense, in part due to higher fee revenue production in mortgage and capital market activities, and higher technology and communications expense in support of business growth. Partially offsetting these increases was lower other noninterest expense driven by lower Federal Deposit Insurance Corporation (“FDIC”) assessment costs.

The provision for credit losses for the third quarter of 2019 of \$367 million was \$24 million (7.0 percent) higher than the third quarter of 2018. Net charge-offs in the third quarter of 2019 were \$352 million, compared with \$328 million in the third quarter of 2018. 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 2019 was \$5.4 billion, or \$3.25 per diluted common share, compared with \$5.2 billion, or \$3.04 per diluted common share, for the first nine months of 2018. Return on average assets and return on average common equity were 1.54 percent and 14.9 percent, respectively, for the first nine months of 2019, compared with 1.54 percent and 15.2 percent, respectively, for the first nine months of 2018.

Total net revenue for the first nine months of 2019 was \$511 million (3.0 percent) higher than the first nine months of 2018, reflecting a 2.4 percent increase in net interest income (2.3 percent on a taxable-equivalent basis) and a 4.1 percent increase in noninterest income. The increase in net interest income from a year ago was mainly a result of loan growth and higher yields on reinvestment of securities, partially offset by the impact of a flatter yield curve and changes in deposit and funding mix. The noninterest income increase was driven by growth in payment services revenue, mortgage banking revenue, commercial products revenue and other noninterest income, partially offset by a decline in deposit service charges.

Noninterest expense in the first nine months of 2019 was \$200 million (2.2 percent) higher than the first nine months of 2018, primarily due to higher personnel expense, reflecting higher fee revenue production in mortgage and capital market activities, and higher technology and communications expense in support of business growth. Partially offsetting these increases was lower other noninterest expense driven by lower FDIC assessment costs.

The provision for credit losses for the first nine months of 2019 of \$1.1 billion was \$98 million (9.7 percent) higher than the first nine months of 2018. Net charge-offs in the first nine months of 2019 were \$1.1 billion, compared with \$1.0 billion in the first nine months of 2018. Refer to “Corporate Risk Profile” for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

## STATEMENT OF INCOME ANALYSIS

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$3.3 billion in the third quarter and \$9.9 billion in the first nine months of 2019, representing increases of \$25 million (0.8 percent) and \$220 million (2.3 percent), respectively, over the same periods of 2018. The increases were principally driven by earning assets growth and higher yields on reinvestment of securities, partially offset by declining interest rates and a flatter yield curve, as well as changes in deposit and funding mix. Average earning assets were \$20.5 billion (4.9 percent) higher in the third quarter and \$14.2 billion (3.4 percent) higher in the first nine months of 2019, compared with the same periods of 2018, reflecting increases in loans, investment securities and other earning assets. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2019 was 3.02 percent and 3.10 percent, respectively, compared with 3.15 percent and 3.14 percent in the third quarter and first nine months of 2018, respectively. Net interest margin decreased year-over-year primarily due to the impacts of changes in the yield curve, changes in deposit and funding mix, and higher cash balances, in part related to a change in position on affiliate balances by the regulator of the Company's Irish subsidiary. Refer to the "Consolidated Daily Average Balance Sheet and Related Yields and Rates" tables for further information on net interest income.

Average total loans in the third quarter and first nine months of 2019 were \$11.4 billion (4.0 percent) and \$9.6 billion (3.4 percent) higher, respectively, than the same periods of 2018, due to growth in residential mortgages, commercial loans, credit card loans and other retail loans, all driven by higher demand for loans from new and existing customers. These increases were partially offset by decreases in commercial real estate loans due to new originations being more than offset by customers paying down balances, given the later stage of

the business cycle, and the fourth quarter of 2018 sale of the majority of the Company's loans covered by FDIC loss-sharing agreements. Subsequent to the fourth quarter of 2018 sale, any remaining covered loan balances were reclassified to their respective portfolio category.

Average investment securities in the third quarter and first nine months of 2019 were \$3.7 billion (3.2 percent) and \$1.8 billion (1.5 percent) higher, respectively, than in the same periods of 2018, primarily due to purchases of mortgage-backed securities, net of prepayments and maturities.

Average total deposits for the third quarter and first nine months of 2019 were \$19.8 billion (6.0 percent) and \$10.4 billion (3.1 percent) higher, respectively, than the same periods of 2018. Average total savings deposits for the third quarter and first nine months of 2019 were \$18.0 billion (8.4 percent) and \$7.9 billion (3.6 percent) higher, respectively, than the same periods of the prior year, driven by increases in Wealth Management and Investment Services, Corporate and Commercial Banking, and Consumer and Business Banking balances. Average time deposits for the third quarter and first nine months of 2019 were \$4.4 billion (11.7 percent) and \$7.4 billion (19.6 percent) higher, respectively, than the same periods of 2018. The increases were largely related to those deposits managed as an alternative to other funding sources, based largely on relative pricing and liquidity characteristics, in addition to the migration of consumer customer deposit balances to higher yielding products. Average noninterest-bearing deposits for the third quarter and first nine months of 2019 decreased \$2.6 billion (3.4 percent) and \$4.8 billion (6.2 percent), respectively, from the same periods of the prior year, primarily due to the migration of balances to interest-bearing deposits and the continued deployment by customers of business deposits within Corporate and Commercial Banking given higher earning credit rates from the prior year.

**Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Percent Change	2019	2018	Percent Change
Credit and debit card revenue . . . . .	\$ 366	\$ 344	6.4%	\$1,035	\$1,019	1.6%
Corporate payment products revenue . . . . .	177	169	4.7	506	481	5.2
Merchant processing services . . . . .	410	392	4.6	1,192	1,142	4.4
Trust and investment management fees . . . . .	421	411	2.4	1,235	1,210	2.1
Deposit service charges . . . . .	234	283	(17.3)	678	817	(17.0)
Treasury management fees . . . . .	139	146	(4.8)	438	451	(2.9)
Commercial products revenue . . . . .	240	216	11.1	708	670	5.7
Mortgage banking revenue . . . . .	272	174	56.3	630	549	14.8
Investment products fees . . . . .	46	47	(2.1)	138	140	(1.4)
Securities gains (losses), net . . . . .	25	10	*	47	25	88.0
Other . . . . .	284	226	25.7	788	600	31.3
Total noninterest income . . . . .	\$2,614	\$2,418	8.1%	\$7,395	\$7,104	4.1%

\* Not meaningful

**Provision for Credit Losses** The provision for credit losses for the third quarter and first nine months of 2019 increased \$24 million (7.0 percent) and \$98 million (9.7 percent), respectively, from the same periods of 2018, primarily as a result of loan growth. Net charge-offs increased \$24 million (7.3 percent) and \$68 million (6.8 percent) in the third quarter and first nine months of 2019, respectively, compared with the same periods of the prior year, primarily due to higher commercial, commercial real estate and credit card loan net charge-offs, partially offset by lower residential mortgage net charge-offs. Refer to “Corporate Risk Profile” for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income was \$2.6 billion in the third quarter and \$7.4 billion in the first nine months of 2019, representing increases of \$196 million (8.1 percent) and \$291 million (4.1 percent), respectively, compared with the same periods of 2018. The increases from a year ago were driven by growth in payment services revenue, mortgage banking revenue, commercial products revenue and other noninterest income, partially offset by a decline in deposit service charges. Payment services revenue increased due to higher credit and debit card revenue, merchant processing services revenue and corporate payment products revenue, all driven by higher sales volume. In addition, credit and debit card revenue further increased in the third quarter of 2019, compared with the third quarter of 2018, due to more processing days. Mortgage banking revenue increased due to higher origination and sales volumes related to home sales and

refinancing activities given changing interest rates relative to the prior year, partially offset by changes in mortgage servicing rights (“MSRs”) valuations, net of hedging activities. Commercial products revenue increased primarily due to higher corporate bond fees and trading revenue related to stronger capital markets activities. Other noninterest income also increased from a year ago primarily due to higher equity investment income and transition services agreement revenue associated with the sale of the Company’s ATM third-party servicing business in 2018. Deposit service charges decreased primarily due to the ATM third-party servicing sale.

**Noninterest Expense** Noninterest expense was \$3.1 billion in the third quarter and \$9.4 billion in the first nine months of 2019, representing increases of \$100 million (3.3 percent) and \$200 million (2.2 percent), respectively, over the same periods of 2018. The increases from a year ago were primarily due to higher personnel costs, technology and communications expense, and professional services expense, partially offset by lower other noninterest expense. Compensation expense increased principally due to the impact of merit increases and higher variable compensation related to business production within mortgage banking and the capital markets business lines, while employee benefits expense increased primarily due to increased medical costs. Technology and communications expense increased, primarily driven by capital expenditures to support business growth. Professional services expense increased primarily due to business investments and enhancements to risk management programs. Other noninterest expense decreased due to lower FDIC assessment costs, driven by the elimination of the surcharge in the fourth quarter of 2018, and lower costs related to tax-advantaged projects.

**Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Percent Change	2019	2018	Percent Change
Compensation . . . . .	\$1,595	\$1,529	4.3%	\$4,728	\$4,594	2.9%
Employee benefits . . . . .	324	294	10.2	971	923	5.2
Net occupancy and equipment . . . . .	279	270	3.3	837	797	5.0
Professional services . . . . .	114	96	18.8	315	274	15.0
Marketing and business development . . . . .	109	106	2.8	309	314	(1.6)
Technology and communications . . . . .	277	247	12.1	804	724	11.0
Postage, printing and supplies . . . . .	74	84	(11.9)	219	244	(10.2)
Other intangibles . . . . .	42	41	2.4	124	120	3.3
Other . . . . .	330	377	(12.5)	1,077	1,194	(9.8)
Total noninterest expense . . . . .	\$3,144	\$3,044	3.3%	\$9,384	\$9,184	2.2%
Efficiency ratio (a) . . . . .	53.3%	53.5%		54.3%	54.7%	

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

**Income Tax Expense** The provision for income taxes was \$467 million (an effective rate of 19.6 percent) for the third quarter and \$1.3 billion (an effective rate of 19.2 percent) for the first nine months of 2019, compared with \$460 million (an effective rate of 20.2 percent) and \$1.3 billion (an effective rate of 19.4 percent) for the same periods of 2018. For further information on income taxes, refer to Note 12 of the Notes to Consolidated Financial Statements.

## BALANCE SHEET ANALYSIS

**Loans** The Company's loan portfolio was \$294.6 billion at September 30, 2019, compared with \$286.8 billion at December 31, 2018, an increase of \$7.8 billion (2.7 percent). The increase was driven by higher residential mortgages, commercial loans, other retail loans and credit card loans, partially offset by lower commercial real estate loans.

Residential mortgages held in the loan portfolio increased \$4.3 billion (6.7 percent) at September 30, 2019, compared with December 31, 2018, as origination activity more than offset the effect of customers paying down balances in the first nine months of 2019. Residential mortgages originated and placed in the Company's loan portfolio include well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality.

Commercial loans increased \$2.2 billion (2.2 percent) at September 30, 2019, compared with December 31, 2018, reflecting higher demand from new and existing customers.

Other retail loans increased \$1.0 billion (1.8 percent) at September 30, 2019, compared with December 31,

2018, the result of increases in installment loans and auto loans, partially offset by decreases in home equity loans, revolving credit balances and retail leasing loans.

Credit card loans increased \$527 million (2.3 percent) at September 30, 2019, compared with December 31, 2018, reflecting new and existing customer growth in the first nine months of 2019.

Commercial real estate loans decreased \$271 million (0.7 percent) at September 30, 2019, compared with December 31, 2018, primarily the result of new originations being more than offset by customers paying down balances, given the later stage of the business cycle.

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 \$4.5 billion at September 30, 2019, compared with \$2.1 billion at December 31, 2018. The increase in loans held for sale was principally due to a higher level of mortgage loan closings in the third quarter of 2019, reflecting the impact of declining interest rates. 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").



**Table 4 Investment Securities**

At September 30, 2019 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
<b>U.S. Treasury and Agencies</b>								
Maturing in one year or less . . . . .	\$ 2,544	\$ 2,540	.6	1.54%	\$ —	\$ —	—	—%
Maturing after one year through five years . . . . .	11,608	11,628	2.1	1.68	3,897	3,913	3.6	1.70
Maturing after five years through ten years . . . . .	1,391	1,385	8.4	1.82	505	517	6.2	2.43
Maturing after ten years . . . . .	—	—	—	—	—	—	—	—
Total . . . . .	\$15,543	\$15,553	2.4	1.67%	\$ 4,402	\$ 4,430	3.9	1.79%
<b>Mortgage-Backed Securities (a)</b>								
Maturing in one year or less . . . . .	\$ 26	\$ 26	.5	3.01%	\$ 228	\$ 228	.7	2.19%
Maturing after one year through five years . . . . .	41,747	41,856	3.5	2.59	36,288	36,406	3.5	2.48
Maturing after five years through ten years . . . . .	9,120	9,128	6.3	2.58	5,428	5,437	5.5	2.54
Maturing after ten years . . . . .	913	917	11.3	3.06	110	110	12.7	2.95
Total . . . . .	\$51,806	\$51,927	4.1	2.60%	\$42,054	\$42,181	3.8	2.49%
<b>Asset-Backed Securities (a)</b>								
Maturing in one year or less . . . . .	\$ —	\$ —	—	—%	\$ —	\$ —	—	—%
Maturing after one year through five years . . . . .	377	382	3.2	3.37	4	6	3.3	2.74
Maturing after five years through ten years . . . . .	—	—	—	—	1	—	6.3	2.85
Maturing after ten years . . . . .	—	—	—	—	—	1	15.5	2.67
Total . . . . .	\$ 377	\$ 382	3.2	3.37%	\$ 5	\$ 7	3.7	2.75%
<b>Obligations of State and Political Subdivisions (b) (c)</b>								
Maturing in one year or less . . . . .	\$ 97	\$ 98	.2	5.71%	\$ —	\$ —	.3	7.33%
Maturing after one year through five years . . . . .	697	726	3.3	4.50	—	—	2.8	6.38
Maturing after five years through ten years . . . . .	5,555	5,861	7.3	4.27	4	4	6.4	1.95
Maturing after ten years . . . . .	46	50	11.3	4.52	—	—	—	—
Total . . . . .	\$ 6,395	\$ 6,735	6.8	4.32%	\$ 4	\$ 4	6.0	2.45%
<b>Other</b>								
Maturing in one year or less . . . . .	\$ 1	\$ 1	.1	2.55%	\$ 16	\$ 16	.4	3.12%
Maturing after one year through five years . . . . .	—	—	—	—	—	—	—	—
Maturing after five years through ten years . . . . .	—	—	—	—	—	—	—	—
Maturing after ten years . . . . .	—	—	—	—	—	—	—	—
Total . . . . .	\$ 1	\$ 1	.1	2.55%	\$ 16	\$ 16	.4	3.12%
Total investment securities (d) . . . . .	\$74,122	\$74,598	4.0	2.56%	\$46,481	\$46,638	3.8	2.42%

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities that take into account anticipated future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, and yield to maturity if the security is purchased at par or a discount.
- (c) Maturity calculations for obligations of state and political subdivisions are based on the first optional call date for securities with a fair value above par and the contractual maturity date for securities with a fair value equal to or below par.
- (d) The weighted-average maturity of the available-for-sale investment securities was 5.4 years at December 31, 2018, with a corresponding weighted-average yield of 2.57 percent. The weighted-average maturity of the held-to-maturity investment securities was 5.2 years at December 31, 2018, with a corresponding weighted-average yield of 2.46 percent.
- (e) Weighted-average yields for obligations of state and political subdivisions are presented on a fully-taxable equivalent basis based on a federal income tax rate of 21 percent. Yields on available-for-sale and held-to-maturity investment securities are computed based on amortized cost balances, excluding any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.

(Dollars in Millions)	September 30, 2019		December 31, 2018	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies . . . . .	\$ 19,945	16.6%	\$ 24,706	21.8%
Mortgage-backed securities . . . . .	93,860	77.8	81,464	71.8
Asset-backed securities . . . . .	382	.3	402	.4
Obligations of state and political subdivisions . . . . .	6,399	5.3	6,842	6.0
Other . . . . .	17	—	17	—
Total investment securities . . . . .	\$120,603	100.0%	\$113,431	100.0%

**Investment Securities** Investment securities totaled \$121.1 billion at September 30, 2019, compared with \$112.2 billion at December 31, 2018. The \$8.9 billion (7.9 percent) increase was primarily due to \$7.2 billion of net investment purchases and a \$1.7 billion favorable change in net unrealized gains (losses) on available-for-sale investment securities.

The Company's available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At September 30, 2019, the Company's net unrealized gains on available-for-sale securities were \$476 million, compared with \$1.3 billion of net unrealized losses at December 31, 2018. The favorable change in net unrealized gains (losses) was primarily due to increases in the fair value of U.S. Treasury, mortgage-backed and state and political securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale securities totaled \$256 million at September 30, 2019, compared with \$1.4 billion at December 31, 2018. At September 30, 2019, 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 15 in the Notes to Consolidated Financial Statements for further information on investment securities.

**Deposits** Total deposits were \$359.7 billion at September 30, 2019, compared with \$345.5 billion at December 31, 2018, the result of increases in total savings deposits and noninterest-bearing deposits, partially offset by a decrease in time deposits. Money market deposit balances increased \$17.7 billion (17.7 percent) at September 30, 2019, compared with December 31, 2018, primarily due to higher Wealth Management and Investment Services, and Corporate and Commercial Banking balances. Savings account balances increased \$1.7 billion (3.9 percent), primarily due to higher Consumer and Business Banking balances. Interest checking balances decreased \$1.3 billion (1.8 percent), primarily due to lower Wealth Management and Investment Services, and Consumer and Business Banking balances, partially offset by higher Corporate and Commercial Banking balances. Noninterest-bearing deposits increased \$421 million (0.5 percent) at September 30, 2019, compared with December 31, 2018, primarily due to higher Consumer and Business Banking balances, partially offset by lower Corporate and Commercial Banking, and Wealth Management and Investment Services balances. Time

deposits decreased \$4.3 billion (9.7 percent) at September 30, 2019, compared with December 31, 2018, driven by a decrease in those deposits managed as an alternative to other funding sources, based largely on relative pricing and liquidity characteristics, partially offset by the migration of consumer customer deposit balances to higher yielding products.

**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 \$14.6 billion at September 30, 2019, compared with \$14.1 billion at December 31, 2018. The \$440 million (3.1 percent) increase in short-term borrowings was primarily due to higher commercial paper, federal funds purchased and other short-term borrowings balances, partially offset by lower repurchase agreement balances. Long-term debt was \$41.3 billion at September 30, 2019 and December 31, 2018, reflecting \$3.3 billion of bank note, \$2.6 billion of medium-term note and \$1.0 billion of subordinated note issuances, offset by \$1.5 billion of medium-term note repayments and \$5.3 billion of bank note repayments and maturities during the first nine months of 2019. Refer to the "Liquidity Risk Management" section for discussion of liquidity management of the Company.

## CORPORATE RISK PROFILE

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

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

The Company's most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale ("MLHFS"), 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 arising from inadequate or failed internal processes or systems, people, or adverse external events, including the risk of loss resulting from breaches in data security. Operational risk can also include the risk of loss due to failures by third parties with which the Company does business. Compliance risk is the risk that the Company may suffer legal or regulatory sanctions, material financial loss, or loss to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct. Strategic risk is the risk to current or projected financial condition arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. Reputational risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company's competitiveness by affecting its ability to establish new customer relationships, offer new services or continue serving existing customer 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, 2018, 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:

- Macroeconomic environment and other qualitative considerations, such as regulatory and compliance changes, litigation developments, and technology and cybersecurity;
- 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;
- Capital ratios and projections, including regulatory measures and stressed scenarios; and
- Strategic and reputational risk considerations, impacts and responses.

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

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

In addition, credit quality ratings as defined by the Company, are an important part of the Company's overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company's rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including loans that are 90 days or more past due and still accruing, nonaccrual loans, those loans considered troubled debt restructurings ("TDRs"), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company's internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. Refer to Note 4 in the Notes to Consolidated Financial Statements for further discussion of the Company's loan portfolios including internal credit quality ratings. In addition, refer to "Management's Discussion and Analysis — Credit Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio which is achieved through limit setting by product type criteria, such as industry, and identification of credit concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into two segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company's two loan portfolio segments are commercial lending and consumer lending.

The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution,

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

The consumer lending segment represents loans and leases made to consumer customers, including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, home equity loans and lines, and student loans, a run-off portfolio. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10- or 15-year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines in the portfolio are variable rates benchmarked to the prime rate, with a 10- or 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 20- or 10-year amortization period, respectively. At September 30, 2019, substantially all of the Company's home equity lines were in the draw period. Approximately \$1.1 billion, or 8 percent, of the outstanding home equity line balances at September 30, 2019, 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 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 Company's consumer lending segment utilizes several distinct business processes and channels to originate consumer credit, including traditional branch lending, mobile and on-line banking, indirect lending, correspondent banks and loan brokers. Each distinct underwriting and origination activity manages unique credit risk characteristics and prices its loan production commensurate with the differing risk profiles.

Residential mortgage originations are generally limited to prime borrowers and are performed through the Company's branches, loan production offices, mobile and on-line services and a wholesale network of originators. The Company may retain residential mortgage loans it originates on its balance sheet or sell the loans into the secondary market while retaining the servicing rights and customer relationships. Utilizing the secondary markets enables the Company to effectively reduce its credit and other asset/liability risks. For residential mortgages that are retained in the Company's portfolio and for home equity and second mortgages, credit risk is also diversified by geography and managed by adherence to LTV and borrower credit criteria during the underwriting process.

The Company estimates updated LTV information on its outstanding residential mortgages quarterly, based on a method that combines automated valuation model updates and relevant home price indices. LTV is the ratio of the loan's outstanding principal balance to the current estimate of property value. For home equity and second mortgages, combined loan-to-value ("CLTV") is the combination of the first mortgage original principal balance and the second lien outstanding principal balance, relative to the current estimate of property value. Certain loans do not have a LTV or CLTV, primarily due to lack of availability of relevant automated valuation model and/or home price indices values, or lack of necessary valuation data on acquired loans.

The following tables provide summary information of residential mortgages and home equity and second mortgages by LTV and borrower type at September 30, 2019:

Residential Mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
<b>Loan-to-Value</b>				
Less than or equal to 80% . . . .	\$2,314	\$57,346	\$59,660	86.0%
Over 80% through 90% . . . . .	14	5,614	5,628	8.1
Over 90% through 100% . . . . .	1	483	484	.7
Over 100% . . . . .	—	165	165	.3
No LTV available . . . . .	—	28	28	—
Loans purchased from GNMA mortgage pools (a) . . . . .	—	3,413	3,413	4.9
Total . . . . .	\$2,329	\$67,049	\$69,378	100.0%
<b>Borrower Type</b>				
Prime borrowers . . . . .	\$2,329	\$63,010	\$65,339	94.2%
Sub-prime borrowers . . . . .	—	626	626	.9
Loans purchased from GNMA mortgage pools (a) . . . . .	—	3,413	3,413	4.9
Total . . . . .	\$2,329	\$67,049	\$69,378	100.0%

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

Home Equity and Second Mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
<b>Loan-to-Value</b>				
Less than or equal to 80% . . . .	\$11,480	\$ 958	\$12,438	80.5%
Over 80% through 90% . . . . .	1,738	724	2,462	15.9
Over 90% through 100% . . . . .	226	65	291	1.9
Over 100% . . . . .	113	11	124	.8
No LTV/CLTV available . . . . .	131	7	138	.9
Total . . . . .	\$13,688	\$1,765	\$15,453	100.0%
<b>Borrower Type</b>				
Prime borrowers . . . . .	\$13,654	\$1,722	\$15,376	99.5%
Sub-prime borrowers . . . . .	34	43	77	.5
Total . . . . .	\$13,688	\$1,765	\$15,453	100.0%

Home equity and second mortgages were \$15.5 billion at September 30, 2019, compared with \$16.1 billion at December 31, 2018, and included \$3.9 billion of home equity lines in a first lien position and \$11.6 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, 2019, included approximately \$4.7 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately \$6.9 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, 2019:

(Dollars in Millions)	Junior Liens Behind		Total
	Company Owned or Serviced First Lien	Third Party First Lien	
Total	\$4,666	\$6,882	\$11,548
Percent 30-89 days past due	.39%	.49%	.45%
Percent 90 days or more past due	.06%	.08%	.07%
Weighted-average CLTV	69%	66%	67%
Weighted-average credit score	780	776	777

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

**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 \$600 million at September 30, 2019, compared with \$584 million at December 31, 2018. These balances exclude loans purchased from Government National Mortgage Association ("GNMA") mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 0.20 percent at September 30, 2019 and December 31, 2018.

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

	September 30, 2019	December 31, 2018
90 days or more past due <b>excluding</b> nonperforming loans		
<b>Commercial</b>		
Commercial	.10%	.07%
Lease financing	—	—
Total commercial	.10	.07
<b>Commercial Real Estate</b>		
Commercial mortgages	—	—
Construction and development	.02	—
Total commercial real estate	.01	—
<b>Residential Mortgages (a)</b>	.17	.18
<b>Credit Card</b>	1.16	1.25
<b>Other Retail</b>		
Retail leasing	.05	.04
Home equity and second mortgages	.34	.35
Other	.14	.15
Total other retail	.18	.19
Total loans	.20%	.20%
90 days or more past due <b>including</b> nonperforming loans		
Commercial	.40%	.27%
Commercial real estate	.23	.29
Residential mortgages (a)	.53	.63
Credit card	1.16	1.25
Other retail	.47	.54
Total loans	.49%	.49%

(a) Delinquent loan ratios exclude \$1.7 billion at September 30, 2019, and at December 31, 2018, 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 2.91 percent at September 30, 2019, and 3.21 percent at December 31, 2018.

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

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
<b>Residential Mortgages (a)</b>				
30-89 days	\$167	\$181	.24%	.27%
90 days or more	115	114	.17	.18
Nonperforming	251	296	.36	.46
Total	\$533	\$591	.77%	.91%
<b>Credit Card</b>				
30-89 days	\$316	\$324	1.33%	1.39%
90 days or more	278	293	1.16	1.25
Nonperforming	—	—	—	—
Total	\$594	\$617	2.49%	2.64%
<b>Other Retail</b>				
<b>Retail Leasing</b>				
30-89 days	\$ 41	\$ 37	.48%	.43%
90 days or more	4	3	.05	.04
Nonperforming	12	12	.14	.14
Total	\$ 57	\$ 52	.67%	.61%
<b>Home Equity and Second Mortgages</b>				
30-89 days	\$ 85	\$ 90	.55%	.56%
90 days or more	52	57	.34	.35
Nonperforming	116	145	.75	.90
Total	\$253	\$292	1.64%	1.81%
<b>Other (b)</b>				
30-89 days	\$265	\$276	.78%	.87%
90 days or more	46	48	.14	.15
Nonperforming	42	40	.13	.13
Total	\$353	\$364	1.05%	1.15%

(a) Excludes \$391 million of loans 30-89 days past due and \$1.7 billion of loans 90 days or more past due at September 30, 2019, purchased from GNMA mortgage pools that continue to accrue interest, compared with \$430 million and \$1.7 billion at December 31, 2018, respectively.

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

**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, 2019, performing TDRs were \$3.8 billion, compared with \$3.9 billion at December 31, 2018. 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. Many of the Company's TDRs are

determined on a case-by-case basis in connection with ongoing loan collection processes. The modifications vary within each of the Company's loan classes. Commercial lending segment TDRs generally include extensions of the maturity date and may be accompanied by an increase or decrease to the interest rate. The Company may also work with the borrower to make other changes to the loan to mitigate losses, such as obtaining additional collateral and/or guarantees to support the loan.

The Company has also implemented certain residential mortgage loan restructuring programs that may result in TDRs. The Company modifies residential mortgage loans under Federal Housing Administration, United States Department of Veterans Affairs, and its own internal programs. Under these programs, the Company offers qualifying homeowners the opportunity to permanently modify their loan and achieve more affordable monthly payments by providing loan concessions. These concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extensions of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances,

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

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

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

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.

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, 2019 (Dollars in Millions)	As a Percent of Performing TDRs			Nonperforming TDRs	Total TDRs
	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due		
Commercial	\$ 264	4.8%	2.1%	\$145(a)	\$ 409
Commercial real estate	145	.9	—	37(b)	182
Residential mortgages	1,322	2.9	4.3	156	1,478(d)
Credit card	262	10.6	5.9	—	262
Other retail	152	8.4	7.2	38(c)	190(e)
TDRs, excluding loans purchased from GNMA mortgage pools	2,145	4.3	4.1	376	2,521
Loans purchased from GNMA mortgage pools (g)	1,690	—	—	—	1,690(f)
Total	\$3,835	2.4%	2.3%	\$376	\$4,211

(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 \$314 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and \$37 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(e) Includes \$92 million of other retail loans to borrowers that have had debt discharged through bankruptcy and \$18 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(f) Includes \$144 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 \$416 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.

(g) Approximately 5.9 percent and 44.6 percent of the total TDR loans purchased from GNMA mortgage pools are 30-89 days past due and 90 days or more past due, respectively, but are not classified as delinquent as their repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.



**Short-term Modifications** The Company makes short-term modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modifications were not material at September 30, 2019.

**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. 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, 2019, total nonperforming assets were \$979 million, compared to \$989 million at December 31, 2018. The \$10 million (1.0 percent) decrease in nonperforming assets was driven by improvements in nonperforming residential mortgages, other retail loans, commercial real estate loans, and OREO, partially offset by an increase in nonperforming commercial loans. The ratio of total nonperforming assets to total loans and other real estate was 0.33 percent at September 30, 2019, compared with 0.34 percent at December 31, 2018.

OREO was \$84 million at September 30, 2019, compared with \$111 million at December 31, 2018, 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 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	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
(Dollars in Millions)				
<b>Residential</b>				
Illinois . . . . .	\$10	\$ 11	.22%	.25%
California . . . . .	8	11	.03	.04
New York . . . . .	6	8	.69	.97
Minnesota . . . . .	5	5	.08	.08
Oregon . . . . .	4	5	.12	.15
All other states . . . . .	47	66	.11	.16
Total residential . . . . .	80	106	.09	.13
<b>Commercial</b>				
California . . . . .	3	3	.01	.01
Idaho . . . . .	–	1	–	.09
All other states . . . . .	1	1	–	–
Total commercial . . . . .	4	5	–	–
Total . . . . .	\$84	\$111	.03%	.04%

**Table 6 Nonperforming Assets (a)**

(Dollars in Millions)	September 30, 2019	December 31, 2018
<b>Commercial</b>		
Commercial . . . . .	\$290	\$186
Lease financing . . . . .	29	23
Total commercial . . . . .	319	209
<b>Commercial Real Estate</b>		
Commercial mortgages . . . . .	82	76
Construction and development . . . . .	7	39
Total commercial real estate . . . . .	89	115
<b>Residential Mortgages (b)</b>	251	296
<b>Credit Card</b>	-	-
<b>Other Retail</b>		
Retail leasing . . . . .	12	12
Home equity and second mortgages . . . . .	116	145
Other . . . . .	42	40
Total other retail . . . . .	170	197
Total nonperforming loans . . . . .	829	817
<b>Other Real Estate (c)</b>	84	111
<b>Other Assets</b>	66	61
Total nonperforming assets . . . . .	\$979	\$989
Accruing loans 90 days or more past due (b) . . . . .	\$600	\$584
Nonperforming loans to total loans . . . . .	.28%	.28%
Nonperforming assets to total loans plus other real estate (c) . . . . .	.33%	.34%

**Changes in Nonperforming Assets**

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Total
<b>Balance December 31, 2018</b> . . . . .	\$ 338	\$ 651	\$ 989
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties . . . . .	578	225	803
Advances on loans . . . . .	6	1	7
Total additions . . . . .	584	226	810
Reductions in nonperforming assets			
Paydowns, payoffs . . . . .	(136)	(109)	(245)
Net sales . . . . .	(170)	(64)	(234)
Return to performing status . . . . .	(10)	(153)	(163)
Charge-offs (d) . . . . .	(162)	(16)	(178)
Total reductions . . . . .	(478)	(342)	(820)
Net additions to (reductions in) nonperforming assets . . . . .	106	(116)	(10)
<b>Balance September 30, 2019</b> . . . . .	\$ 444	\$ 535	\$ 979

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

(b) Excludes \$1.7 billion at September 30, 2019, and at December 31, 2018, 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 \$177 million and \$235 million at September 30, 2019, and December 31, 2018, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<b>Commercial</b>				
Commercial . . . . .	.29%	.27%	.27%	.25%
Lease financing . . . . .	.22	.22	.20	.27
Total commercial . . . . .	.29	.26	.27	.25
<b>Commercial Real Estate</b>				
Commercial mortgages . . . . .	.04	(.07)	.02	(.04)
Construction and development . . . . .	.11	(.14)	.02	(.04)
Total commercial real estate . . . . .	.06	(.09)	.02	(.04)
<b>Residential Mortgages</b> . . . . .	(.02)	.03	.01	.03
<b>Credit Card</b> . . . . .	3.53	3.75	3.85	3.91
<b>Other Retail</b>				
Retail leasing . . . . .	.14	.14	.14	.15
Home equity and second mortgages . . . . .	(.03)	(.02)	(.03)	(.03)
Other . . . . .	.72	.74	.75	.76
Total other retail . . . . .	.43	.43	.44	.45
Total loans . . . . .	.48%	.46%	.49%	.48%

**Analysis of Loan Net Charge-Offs** Total loan net charge-offs were \$352 million for the third quarter and \$1.1 billion for the first nine months of 2019, compared with \$328 million and \$1.0 billion, respectively, for the same periods of 2018. 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 2019 was 0.48 percent and 0.49 percent, respectively, compared with 0.46 percent and 0.48 percent, respectively, for the same periods of 2018. The year-over-year increases in net charge-offs reflected higher commercial, commercial real estate and credit card loan net charge-offs, partially offset by lower residential mortgage net charge-offs.

**Analysis and Determination of the Allowance for Credit Losses** The allowance for credit losses reserves for probable and estimable losses incurred in the Company's loan and lease portfolio, including unfunded credit commitments. The allowance for credit losses is increased through provisions charged to earnings and reduced by net charge-offs. Management evaluates the appropriateness of the allowance for incurred losses on a quarterly basis.

The allowance recorded for loans in the commercial lending segment is based on reviews of individual credit relationships and considers the migration analysis of commercial lending segment loans and actual loss experience. For each loan type, this historical loss experience is adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions. The results of the analysis are evaluated quarterly to confirm the selected loss experience is appropriate for each commercial loan type. The allowance recorded for impaired loans greater than \$5 million in the commercial lending segment is

based on an individual loan analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or the fair value of the collateral, less selling costs, for collateral-dependent loans, rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, delinquency status, bankruptcy experience, portfolio growth and historical losses, adjusted for current trends.

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

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the

delinquency and modification status of the first lien. At September 30, 2019, the Company serviced the first lien on 40 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 \$268 million or 1.7 percent of its total home equity portfolio at September 30, 2019, represented non-delinquent junior liens where the first lien was delinquent or modified.

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

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

required allowance 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. 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. 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.

The Company's methodology for determining the appropriate allowance for credit losses for both loan segments also considers the imprecision inherent in the methodologies used. As a result, in addition to the amounts determined under the methodologies described above, management also considers the potential impact of other qualitative factors which include, but are not limited to, the following: economic factors; geographic and other concentration risks; delinquency and nonaccrual trends; current business conditions; changes in lending policy, underwriting standards and other relevant business practices; results of internal review; and the regulatory environment. The consideration of these items results in adjustments to allowance amounts included in the Company's allowance for credit losses for both 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, 2018, for further discussion on the analysis and determination of the allowance for credit losses.

At September 30, 2019, the allowance for credit losses was \$4.5 billion (1.52 percent of period-end loans), compared with an allowance of \$4.4 billion (1.55 percent of period-end loans) at December 31, 2018. The ratio of the allowance for credit losses to nonperforming loans was 541 percent at September 30, 2019, compared with 544 percent at December 31, 2018. The ratio of the allowance for credit losses to annualized loan net charge-offs was 321 percent at September 30, 2019, compared with 328 percent of full year 2018 net charge-offs at December 31, 2018.

**Table 8** Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Balance at beginning of period . . . . .	\$4,466	\$4,411	\$4,441	\$4,417
<b>Charge-Offs</b>				
Commercial				
Commercial . . . . .	86	83	286	248
Lease financing . . . . .	5	5	14	17
Total commercial . . . . .	91	88	300	265
Commercial real estate				
Commercial mortgages . . . . .	3	1	7	4
Construction and development . . . . .	4	–	4	2
Total commercial real estate . . . . .	7	1	11	6
Residential mortgages . . . . .	8	12	27	37
Credit card . . . . .	248	231	767	727
Other retail				
Retail leasing . . . . .	6	6	17	16
Home equity and second mortgages . . . . .	5	6	14	18
Other . . . . .	86	84	252	249
Total other retail . . . . .	97	96	283	283
Total charge-offs . . . . .	451	428	1,388	1,318
<b>Recoveries</b>				
Commercial				
Commercial . . . . .	14	20	87	75
Lease financing . . . . .	2	2	6	6
Total commercial . . . . .	16	22	93	81
Commercial real estate				
Commercial mortgages . . . . .	–	6	2	13
Construction and development . . . . .	1	4	2	5
Total commercial real estate . . . . .	1	10	4	18
Residential mortgages . . . . .	11	8	23	22
Credit card . . . . .	37	25	104	100
Other retail				
Retail leasing . . . . .	3	3	8	7
Home equity and second mortgages . . . . .	6	7	17	22
Other . . . . .	25	25	70	67
Total other retail . . . . .	34	35	95	96
Total recoveries . . . . .	99	100	319	317
<b>Net Charge-Offs</b>				
Commercial				
Commercial . . . . .	72	63	199	173
Lease financing . . . . .	3	3	8	11
Total commercial . . . . .	75	66	207	184
Commercial real estate				
Commercial mortgages . . . . .	3	(5)	5	(9)
Construction and development . . . . .	3	(4)	2	(3)
Total commercial real estate . . . . .	6	(9)	7	(12)
Residential mortgages . . . . .	(3)	4	4	15
Credit card . . . . .	211	206	663	627
Other retail				
Retail leasing . . . . .	3	3	9	9
Home equity and second mortgages . . . . .	(1)	(1)	(3)	(4)
Other . . . . .	61	59	182	182
Total other retail . . . . .	63	61	188	187
Total net charge-offs . . . . .	352	328	1,069	1,001
Provision for credit losses . . . . .	367	343	1,109	1,011
Other changes . . . . .	–	–	–	(1)
Balance at end of period (a) . . . . .	\$4,481	\$4,426	\$4,481	\$4,426
<b>Components</b>				
Allowance for loan losses . . . . .	\$4,007	\$3,954		
Liability for unfunded credit commitments . . . . .	474	472		
Total allowance for credit losses . . . . .	\$4,481	\$4,426		
<b>Allowance for Credit Losses as a Percentage of</b>				
Period-end loans . . . . .	1.52%	1.57%		
Nonperforming loans . . . . .	541	544		
Nonperforming and accruing loans 90 days or more past due . . . . .	314	324		
Nonperforming assets . . . . .	458	441		
Annualized net charge-offs . . . . .	321	340		

(a) At September 30, 2019 and 2018, \$1.8 billion and \$1.7 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

**Residual Value Risk Management** The Company manages its risk to changes in the residual value of leased vehicles, office and business equipment, and other assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of September 30, 2019, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2018. 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, 2018, 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, 2018, for further discussion on operational risk management.

**Compliance Risk Management** The Company may suffer legal or regulatory sanctions, material financial loss, or damage to its reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct, including those related to compliance with Bank Secrecy Act/anti-money laundering requirements, sanctions compliance requirements as administered by the Office of Foreign Assets Control, consumer protection and other requirements. The Company has controls and processes in place for the assessment, identification, monitoring, management and reporting of compliance risks and issues. Refer to “Management’s Discussion and Analysis — Compliance Risk Management” in the Company’s Annual Report on

Form 10-K for the year ended December 31, 2018, for further discussion on compliance risk management.

**Interest Rate Risk Management** In the banking industry, changes in interest rates are a significant risk that can impact earnings, market valuations and the safety and soundness of an entity. To manage the impact on net interest income and the market value of assets and liabilities, the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability Management Committee (“ALCO”) and approved by the Board of Directors. The ALCO has the responsibility for approving and ensuring compliance with the ALCO management policies, including interest rate risk exposure. The Company uses net interest income simulation analysis and market value of equity modeling for measuring and analyzing consolidated interest rate risk. The Company has established policy limits within which it manages the overall interest rate risk profile, and at September 30, 2019 and December 31, 2018, 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 be an increase of 0.68 percent in the “Up 50 basis point (“bps”)” and 0.98 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, 2018, for further discussion on net interest income simulation analysis.

**Table 9** Sensitivity of Net Interest Income

	September 30, 2019				December 31, 2018			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income . . . . .	(1.31)%	.36%	(2.50)%	(.38)%	(1.43)%	1.02%	(3.90)%	1.45%

**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 2.2 percent decrease in the market value of equity at September 30, 2019, compared with a 2.3 percent decrease at December 31, 2018. A 200 bps decrease would have resulted in a 13.9 percent decrease in the market value of equity at September 30, 2019, compared with a 7.3 percent decrease at December 31, 2018. 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, 2018, 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.

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 may enter into derivative contracts that are either exchange-traded, centrally cleared through clearinghouses or over-the-counter. 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, 2019, the Company had \$5.8 billion of forward commitments to sell, hedging \$2.9 billion of MLHFS and \$3.9 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 13 and 14 in the Notes to Consolidated Financial Statements.

**LIBOR Transition** In July 2017, the United Kingdom's Financial Conduct Authority announced that it would no longer require banks to submit rates for the London InterBank Offered Rate ("LIBOR") after 2021. The Company holds financial instruments that will be impacted by the discontinuance of LIBOR, including certain loans, investment securities, derivatives, borrowings and other financial instruments that use LIBOR as the benchmark rate. The Company anticipates these financial instruments will require transition to a

new reference rate. This transition will occur over the next several years as many of these arrangements do not have an alternative rate referenced in their contracts. The Company has commenced an enterprise-wide project to address the needed operational changes, and identify, assess and monitor risks associated with the transition. Refer to “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, for further discussion on potential risks that could adversely affect the Company’s financial results as a result of the LIBOR transition.

**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, as well as the remeasurement volatility of foreign currency denominated balances included on its Consolidated Balance Sheet (collectively, “Covered Positions”), 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 Covered 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 Covered Positions 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, as well as those inherent in the Company’s foreign denominated balances and the derivatives used to mitigate the related measurement volatility. On average, the Company expects the one-day VaR to be exceeded by actual losses two to three times per year related to these positions. The Company monitors the accuracy of internal VaR models and modeling processes by back-testing model performance, regularly updating the historical data used by the VaR models and regular model validations to assess the accuracy of the models’

input, processing, and reporting components. All models are required to be independently reviewed and approved prior to being placed in use. 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 Covered Positions were as follows:

Nine Months Ended September 30 (Dollars in Millions)		
	2019	2018
Average . . . . .	\$1	\$1
High . . . . .	2	1
Low . . . . .	1	1
Period-end . . . . .	1	1

The Company did not experience any actual losses for its combined Covered Positions that exceeded VaR during the nine months ended September 30, 2019 and 2018. 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 Covered Positions. 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 Covered Positions were as follows:

Nine Months Ended September 30 (Dollars in Millions)		
	2019	2018
Average . . . . .	\$6	\$5
High . . . . .	9	8
Low . . . . .	4	2
Period-end . . . . .	7	6

Valuations of positions in client derivatives and foreign currency activities 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 senior management in the Company’s corporate functions. 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 senior management in the Company’s corporate functions.



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. A one-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)		2019	2018
<b>Residential Mortgage Loans Held For Sale and Related Hedges</b>			
Average		\$ 3	\$1
High		8	2
Low		-	-
<b>Mortgage Servicing Rights and Related Hedges</b>			
Average		\$ 6	\$6
High		11	7
Low		4	4

**Liquidity Risk Management** The Company's liquidity risk management process is designed to identify, measure, and manage the Company's funding and liquidity risk to meet its daily funding needs and to address expected and unexpected changes in its funding requirements. The Company engages in various activities to manage its liquidity risk. These activities include diversifying its funding sources, stress testing, and holding readily-marketable assets which can be used as a source of liquidity if needed. In addition, the Company's profitable operations, sound credit quality and strong capital position have enabled it to develop a large and reliable base of core deposit funding within its market areas and in domestic and global capital markets.

The Company's Board of Directors approves the Company's liquidity policy. The Risk Management Committee of the Company's Board of Directors oversees the Company's liquidity risk management process and approves a contingency funding plan. The ALCO reviews the Company's liquidity policy and limits, and regularly assesses the Company's ability to meet funding requirements arising from adverse company-specific or market events.

The Company regularly projects its funding needs under various stress scenarios and maintains a contingency funding plan consistent with the Company's access to diversified sources of contingent funding. The Company maintains a substantial level of total available liquidity in the form of on-balance sheet and off-balance sheet funding sources. These liquidity sources include cash at the Federal Reserve Bank and certain European central banks, unencumbered liquid assets, and capacity to borrow from the FHLB and at Federal Reserve Bank's Discount Window. At September 30, 2019, the fair value

of unencumbered available-for-sale and held-to-maturity investment securities totaled \$110.2 billion, compared with \$100.2 billion at December 31, 2018. 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, 2019, the Company could have borrowed an additional \$101.7 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 \$359.7 billion at September 30, 2019, compared with \$345.5 billion at December 31, 2018. 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 \$41.3 billion at September 30, 2019, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were \$14.6 billion at September 30, 2019, 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, 2019, parent company long-term debt outstanding was \$18.5 billion, compared with \$16.3 billion at December 31, 2018. The increase was primarily due to \$2.6 billion of medium-term note and \$1.0 billion of subordinated note issuances, partially offset by \$1.5 billion of medium-term note repayments. As of September 30, 2019, there was no parent company debt scheduled to mature in the remainder of 2019.

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, 2019, 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, 2018, 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. Revenue generated from sources in Europe represented approximately 2 percent of the Company’s total net revenue for both the three and nine months ended September 30, 2019. 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, 2019, the Company had an aggregate amount on deposit with European banks of approximately \$7.5 billion, predominately with the Central Bank of Ireland and Bank of England.

In addition, the Company provides financing to domestic multinational corporations that generate revenue from customers in European countries, transacts with various European banks as counterparties to certain derivative-related activities, and through a subsidiary, manages money market funds that hold certain investments in European sovereign debt. Any deterioration in economic conditions in Europe, including the potential negative impact of the United Kingdom’s upcoming withdrawal from the European Union (“Brexit”), is not expected to have a significant effect on the Company related to these activities. The Company is focused on providing continuity of services, with minimal disruption resulting from Brexit, to customers with activities in European countries. The Company has been making certain structural changes to its legal entities and operations in the United Kingdom and European Union, where needed, and migrating certain business activities to the appropriate jurisdictions to continue to provide such services and generate revenue.

**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 16 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 6 of the Notes to Consolidated Financial Statements for further information related to the Company’s interests in variable interest entities.

**Capital Management** The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for banking organizations. The regulatory capital requirements effective for the Company follow Basel III, which includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches, with the Company’s capital adequacy being evaluated against the methodology that is most restrictive. Currently, the standardized approach is most restrictive. The Company’s regulators recently issued final rules which tailor regulations to reduce compliance requirements for banking organizations with less risk, while maintaining existing stringent capital requirements for the largest and most complex banks. These rules are expected to reduce the Company’s capital and liquidity requirements and no longer subject the Company to calculating its capital adequacy under advanced approaches. As a result of the rule changes, the Company has made a request to the Board of Governors of the Federal Reserve System to increase the authorization amount of its common stock repurchase program currently in effect, which if approved would enable it to begin reducing its common equity tier 1 capital ratio from the current level of 9.6 percent to approximately 9.0 percent. Table 10 provides a summary of statutory regulatory capital ratios in effect for the Company at September 30, 2019 and December 31, 2018. All regulatory ratios exceeded regulatory “well-capitalized” requirements.

The Company believes certain other capital ratios are useful in evaluating its capital adequacy. The Company’s tangible common equity, as a percent of tangible assets and as a percent of risk-weighted assets calculated under the standardized approach, was 8.0 percent and 9.7 percent, respectively, at September 30, 2019, compared with 7.8 percent and 9.4 percent, respectively, at December 31, 2018. Refer to “Non-GAAP Financial Measures” beginning on page 30 for further information on these other capital ratios.

**Table 10** Regulatory Capital Ratios

(Dollars in Millions)	September 30, 2019	December 31, 2018
Basel III standardized approach:		
Common equity tier 1 capital	\$ 37,653	\$ 34,724
Tier 1 capital	43,667	40,741
Total risk-based capital	51,684	48,178
Risk-weighted assets	390,622	381,661
Common equity tier 1 capital as a percent of risk-weighted assets	9.6%	9.1%
Tier 1 capital as a percent of risk-weighted assets	11.2	10.7
Total risk-based capital as a percent of risk-weighted assets	13.2	12.6
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.3	9.0
Basel III advanced approaches:		
Common equity tier 1 capital	\$ 37,653	\$ 34,724
Tier 1 capital	43,667	40,741
Total risk-based capital	48,620	45,136
Risk-weighted assets	299,309	295,002
Common equity tier 1 capital as a percent of risk-weighted assets	12.6%	11.8%
Tier 1 capital as a percent of risk-weighted assets	14.6	13.8
Total risk-based capital as a percent of risk-weighted assets	16.2	15.3
Tier 1 capital as a percent of total on- and off-balance sheet leverage exposure (total leverage exposure ratio)	7.4	7.2

Total U.S. Bancorp shareholders' equity was \$53.5 billion at September 30, 2019, compared with \$51.0 billion at December 31, 2018. The increase was primarily the result of corporate earnings and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income (loss), partially offset by common share repurchases and dividends.

On June 27, 2019, the Company announced its Board of Directors had approved an authorization to repurchase up to \$3.0 billion of its common stock, from July 1, 2019 through June 30, 2020.

The following table provides a detailed analysis of all shares purchased by the Company during the third quarter of 2019:

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	10,442,260	\$56.40	10,442,260	\$2,411
August	3,751,874	53.98	3,751,874	2,209
September	63,199	55.46	63,199	2,205
Total	14,257,333	\$55.76	14,257,333	\$2,205

(a) All shares were purchased under the July 1, 2019 through June 30, 2020, \$3.0 billion common stock repurchase authorization program announced June 27, 2019.

On September 17, 2019, the Company announced its Board of Directors had approved a 13.5 percent increase in the Company's dividend rate per common share from \$0.37 per quarter to \$0.42 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, 2018, for further discussion on capital management.

## LINE OF BUSINESS FINANCIAL REVIEW

The Company's major lines of business are Corporate and Commercial Banking, Consumer and Business Banking, Wealth Management and Investment Services, Payment Services, and Treasury and Corporate Support. These operating segments are components of the Company about which financial information is prepared and is evaluated regularly by management in deciding how to allocate resources and assess performance.

**Basis for Financial Presentation** Business line results are derived from the Company's business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. The allowance for credit losses and related provision expense are allocated to the lines of business based on the related loan balances managed. Refer to "Management's Discussion and Analysis — Line of Business Financial Review" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, 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 2019, certain organization and methodology changes were made and, accordingly, 2018 results were restated and presented on a comparable basis.

**Table 11** Line of Business Financial Performance

Three Months Ended September 30 (Dollars in Millions)	Corporate and Commercial Banking			Consumer and Business Banking		
	2019	2018	Percent Change	2019	2018	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 709	\$ 741	(4.3)%	\$ 1,580	\$ 1,554	1.7%
Noninterest income	213	200	6.5	668	583	14.6
Securities gains (losses), net	—	—	—	—	—	—
Total net revenue	922	941	(2.0)	2,248	2,137	5.2
Noninterest expense	394	383	2.9	1,321	1,302	1.5
Other intangibles	1	1	—	5	7	(28.6)
Total noninterest expense	395	384	2.9	1,326	1,309	1.3
Income before provision and income taxes	527	557	(5.4)	922	828	11.4
Provision for credit losses	40	35	14.3	69	54	27.8
Income before income taxes	487	522	(6.7)	853	774	10.2
Income taxes and taxable-equivalent adjustment	122	131	(6.9)	213	194	9.8
Net income	365	391	(6.6)	640	580	10.3
Net (income) loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to U.S. Bancorp	\$ 365	\$ 391	(6.6)	\$ 640	\$ 580	10.3
<b>Average Balance Sheet</b>						
Commercial	\$ 78,241	\$ 74,828	4.6%	\$ 9,711	\$ 9,985	(2.7)%
Commercial real estate	18,014	18,527	(2.8)	16,055	16,234	(1.1)
Residential mortgages	4	6	(33.3)	64,632	58,624	10.2
Credit card	—	—	—	—	—	—
Other retail	1	1	—	55,495	53,750	3.2
Covered loans	—	—	—	—	2,756	*
Total loans	96,260	93,362	3.1	145,893	141,349	3.2
Goodwill	1,647	1,647	—	3,475	3,631	(4.3)
Other intangible assets	8	10	(20.0)	2,442	2,974	(17.9)
Assets	107,156	102,143	4.9	160,814	155,537	3.4
Noninterest-bearing deposits	28,863	32,376	(10.9)	28,630	28,196	1.5
Interest checking	11,641	9,623	21.0	51,054	50,327	1.4
Savings products	43,825	40,375	8.5	62,672	61,588	1.8
Time deposits	16,595	18,571	(10.6)	15,942	13,634	16.9
Total deposits	100,924	100,945	—	158,298	153,745	3.0
Total U.S. Bancorp shareholders' equity	10,381	10,426	(.4)	11,666	11,841	(1.5)

Nine Months Ended September 30 (Dollars in Millions)	Corporate and Commercial Banking			Consumer and Business Banking		
	2019	2018	Percent Change	2019	2018	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 2,153	\$ 2,189	(1.6)%	\$ 4,720	\$ 4,581	3.0%
Noninterest income	667	630	5.9	1,770	1,754	.9
Securities gains (losses), net	—	—	—	—	—	—
Total net revenue	2,820	2,819	—	6,490	6,335	2.4
Noninterest expense	1,214	1,190	2.0	3,927	3,930	(.1)
Other intangibles	3	3	—	15	21	(28.6)
Total noninterest expense	1,217	1,193	2.0	3,942	3,951	(.2)
Income before provision and income taxes	1,603	1,626	(1.4)	2,548	2,384	6.9
Provision for credit losses	27	37	(27.0)	218	164	32.9
Income before income taxes	1,576	1,589	(.8)	2,330	2,220	5.0
Income taxes and taxable-equivalent adjustment	395	398	(.8)	583	555	5.0
Net income	1,181	1,191	(.8)	1,747	1,665	4.9
Net (income) loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to U.S. Bancorp	\$ 1,181	\$ 1,191	(.8)	\$ 1,747	\$ 1,665	4.9
<b>Average Balance Sheet</b>						
Commercial	\$ 78,025	\$ 74,781	4.3%	\$ 9,625	\$ 9,811	(1.9)%
Commercial real estate	18,389	18,780	(2.1)	16,035	16,320	(1.7)
Residential mortgages	5	6	(16.7)	63,214	57,756	9.5
Credit card	—	—	—	—	—	—
Other retail	1	1	—	54,935	54,001	1.7
Covered loans	—	—	—	—	2,900	*
Total loans	96,420	93,568	3.0	143,809	140,788	2.1
Goodwill	1,647	1,647	—	3,475	3,631	(4.3)
Other intangible assets	9	11	(18.2)	2,679	2,926	(8.4)
Assets	106,335	102,414	3.8	157,655	155,184	1.6
Noninterest-bearing deposits	29,242	33,305	(12.2)	27,433	27,607	(.6)
Interest checking	11,314	9,552	18.4	51,190	50,055	2.3
Savings products	42,451	42,241	.5	62,035	61,616	.7
Time deposits	17,528	17,829	(1.7)	15,409	12,997	18.6
Total deposits	100,535	102,927	(2.3)	156,067	152,275	2.5
Total U.S. Bancorp shareholders' equity	10,391	10,447	(.5)	11,714	11,843	(1.1)

\* Not meaningful

(a) Presented net of related rewards and rebate costs and certain partner payments of \$572 million and \$539 million for the three months ended September 30, 2019 and 2018, respectively, and \$1.7 billion and \$1.6 billion for the nine months ended September 30, 2019 and 2018, respectively.

(b) Includes revenue generated from certain contracts with customers of \$1.9 billion and \$1.8 billion for the three months ended September 30, 2019 and 2018, respectively, and \$5.5 billion for both the nine months ended September 30, 2019 and 2018, respectively.

Wealth Management and Investment Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2019	2018	Percent Change	2019	2018	Percent Change	2019	2018	Percent Change	2019	2018	Percent Change
\$ 294	\$ 284	3.5%	\$ 634	\$ 619	2.4%	\$ 89	\$ 83	7.2%	\$ 3,306	\$ 3,281	.8%
452	444	1.8	957(a)	910(a)	5.2	299	271	10.3	2,589(b)	2,408(b)	7.5
-	-	-	-	-	-	25	10	*	25	10	*
746	728	2.5	1,591	1,529	4.1	413	364	13.5	5,920	5,699	3.9
430	429	.2	743	713	4.2	214	176	21.6	3,102	3,003	3.3
3	4	(25.0)	33	29	13.8	-	-	-	42	41	2.4
433	433	-	776	742	4.6	214	176	21.6	3,144	3,044	3.3
313	295	6.1	815	787	3.6	199	188	5.9	2,776	2,655	4.6
1	(3)	*	260	264	(1.5)	(3)	(7)	57.1	367	343	7.0
312	298	4.7	555	523	6.1	202	195	3.6	2,409	2,312	4.2
78	75	4.0	139	131	6.1	(60)	(41)	(46.3)	492	490	.4
234	223	4.9	416	392	6.1	262	236	11.0	1,917	1,822	5.2
-	-	-	-	-	-	(9)	(7)	(28.6)	(9)	(7)	(28.6)
\$ 234	\$ 223	4.9	\$ 416	\$ 392	6.1	\$ 253	\$ 229	10.5	\$ 1,908	\$ 1,815	5.1
\$ 4,110	\$ 3,783	8.6%	\$10,017	\$ 9,272	8.0%	\$ 1,581	\$ 1,180	34.0%	\$103,660	\$ 99,048	4.7%
523	529	(1.1)	-	-	-	4,398	4,252	3.4	38,990	39,542	(1.4)
3,972	3,408	16.5	-	-	-	-	4	*	68,608	62,042	10.6
-	-	-	23,681	21,774	8.8	-	-	-	23,681	21,774	8.8
1,655	1,755	(5.7)	346	397	(12.8)	-	-	-	57,497	55,903	2.9
-	-	-	-	-	-	-	-	-	-	2,756	*
10,260	9,475	8.3	34,044	31,443	8.3	5,979	5,436	10.0	292,436	281,065	4.0
1,617	1,618	(.1)	2,825	2,563	10.2	-	-	-	9,564	9,459	1.1
47	61	(23.0)	550	400	37.5	-	-	-	3,047	3,445	(11.6)
13,543	12,655	7.0	40,171	37,125	8.2	159,770	149,456	6.9	481,454	456,916	5.4
13,575	13,184	3.0	1,200	1,064	12.8	2,326	2,372	(1.9)	74,594	77,192	(3.4)
9,080	9,345	(2.8)	-	-	-	232	35	*	72,007	69,330	3.9
53,360	42,694	25.0	115	108	6.5	851	771	10.4	160,823	145,536	10.5
3,418	3,882	(12.0)	2	3	(33.3)	6,552	1,973	*	42,509	38,063	11.7
79,433	69,105	14.9	1,317	1,175	12.1	9,961	5,151	93.4	349,933	330,121	6.0
2,530	2,486	1.8	7,058	6,583	7.2	21,657	18,802	15.2	53,292	50,138	6.3

Wealth Management and Investment Services			Payment Services			Treasury and Corporate Support			Consolidated Company		
2019	2018	Percent Change	2019	2018	Percent Change	2019	2018	Percent Change	2019	2018	Percent Change
\$ 888	\$ 844	5.2%	\$ 1,848	\$ 1,821	1.5%	\$ 315	\$ 269	17.1%	\$ 9,924	\$ 9,704	2.3%
1,327	1,305	1.7	2,758(a)	2,660(a)	3.7	826	730	13.2	7,348(b)	7,079(b)	3.8
-	-	-	-	-	-	47	25	88.0	47	25	88.0
2,215	2,149	3.1	4,606	4,481	2.8	1,188	1,024	16.0	17,319	16,808	3.0
1,297	1,304	(.5)	2,190	2,116	3.5	632	524	20.6	9,260	9,064	2.2
9	12	(25.0)	97	84	15.5	-	-	-	124	120	3.3
1,306	1,316	(.8)	2,287	2,200	4.0	632	524	20.6	9,384	9,184	2.2
909	833	9.1	2,319	2,281	1.7	556	500	11.2	7,935	7,624	4.1
-	(2)	*	841	817	2.9	23	(5)	*	1,109	1,011	9.7
909	835	8.9	1,478	1,464	1.0	533	505	5.5	6,826	6,613	3.2
227	210	8.1	370	367	.8	(202)	(179)	(12.8)	1,373	1,351	1.6
682	625	9.1	1,108	1,097	1.0	735	684	7.5	5,453	5,262	3.6
-	-	-	-	-	-	(25)	(22)	(13.6)	(25)	(22)	(13.6)
\$ 682	\$ 625	9.1	\$ 1,108	\$ 1,097	1.0	\$ 710	\$ 662	7.3	\$ 5,428	\$ 5,240	3.6
\$ 3,995	\$ 3,727	7.2%	\$ 9,850	\$ 8,866	11.1%	\$ 1,462	\$ 1,110	31.7%	\$102,957	\$ 98,295	4.7%
507	520	(2.5)	-	-	-	4,343	4,298	1.0	39,274	39,918	(1.6)
3,800	3,256	16.7	-	-	-	-	5	*	67,019	61,023	9.8
-	-	-	23,040	21,428	7.5	-	-	-	23,040	21,428	7.5
1,691	1,721	(1.7)	361	410	(12.0)	-	2	*	56,988	56,135	1.5
-	-	-	-	-	-	-	-	-	-	2,900	*
9,993	9,224	8.3	33,251	30,704	8.3	5,805	5,415	7.2	289,278	279,699	3.4
1,617	1,619	(.1)	2,815	2,547	10.5	-	-	-	9,554	9,444	1.2
50	66	(24.2)	532	396	34.3	-	-	-	3,270	3,399	(3.8)
13,302	12,306	8.1	39,432	36,610	7.7	155,492	148,727	4.5	472,216	455,241	3.7
13,478	14,101	(4.4)	1,168	1,092	7.0	2,390	2,441	(2.1)	73,711	78,546	(6.2)
8,862	10,219	(13.3)	-	-	-	173	39	*	71,539	69,865	2.4
47,992	42,519	12.9	112	106	5.7	833	741	12.4	153,423	147,223	4.2
3,654	3,824	(4.4)	2	3	(33.3)	8,297	2,872	*	44,890	37,525	19.6
73,986	70,663	4.7	1,282	1,201	6.7	11,693	6,093	91.9	343,563	333,159	3.1
2,525	2,472	2.1	7,046	6,602	6.7	20,770	18,069	14.9	52,446	49,433	6.1

**Corporate and Commercial Banking** Corporate and Commercial Banking offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets services, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution, non-profit and public sector clients. Corporate and Commercial Banking contributed \$365 million of the Company's net income in the third quarter and \$1.2 billion in the first nine months of 2019, or decreases of \$26 million (6.6 percent) and \$10 million (0.8 percent), respectively, compared with the same periods of 2018.

Net revenue decreased \$19 million (2.0 percent) in the third quarter and was essentially flat in the first nine months of 2019, compared with the same periods of 2018. Net interest income, on a taxable-equivalent basis, decreased \$32 million (4.3 percent) in the third quarter and \$36 million (1.6 percent) in the first nine months of 2019, compared with the same periods of 2018. The decreases were primarily due to lower noninterest-bearing deposit balances from the prior year and lower rates on loans, reflecting a competitive marketplace, partially offset by the impact of higher rates on the margin benefit from deposits and loan growth. Noninterest-bearing deposits are declining as customers deploy balances to support business growth. Noninterest income increased \$13 million (6.5 percent) in the third quarter and \$37 million (5.9 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to higher trading revenue and corporate bond underwriting fees.

Noninterest expense increased \$11 million (2.9 percent) in the third quarter and \$24 million (2.0 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to increases in net shared services expense driven by technology development and investment in infrastructure, higher salary expense driven by merit increases, and increases in production incentives within capital markets. These increases were partially offset by lower FDIC assessment costs. The provision for credit losses increased \$5 million (14.3 percent) in the third quarter of 2019, compared with the third quarter of 2018, reflecting an unfavorable change in the reserve allocation and higher net charge-offs. The provision for credit losses decreased \$10 million (27.0 percent) in the first nine months of 2019, compared with the same period of 2018, due to a favorable change in the reserve allocation, partially offset by higher net charge-offs.

**Consumer and Business Banking** Consumer and Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices. It encompasses community banking, metropolitan banking and indirect lending, as well as mortgage banking. Consumer and Business Banking contributed \$640 million of the Company's net income in the third quarter and \$1.7 billion in the first nine months of 2019, or increases of \$60 million (10.3 percent) and \$82 million (4.9 percent), respectively, compared with the same periods of 2018.

Net revenue increased \$111 million (5.2 percent) in the third quarter and \$155 million (2.4 percent) in the first nine months of 2019, compared with the same periods of 2018. Net interest income, on a taxable-equivalent basis, increased \$26 million (1.7 percent) in the third quarter and \$139 million (3.0 percent) in the first nine months of 2019, compared with the same periods of 2018. The increases were primarily due to the impact of higher rates on the margin benefit from deposits, as well as growth in both interest-bearing deposit balances and loan balances, partially offset by lower rates on loans. Noninterest income increased \$85 million (14.6 percent) in the third quarter and \$16 million (0.9 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to higher mortgage banking revenue driven by higher origination and sales volumes, as well as transition services agreement revenue associated with the sale of the Company's ATM third-party servicing business during 2018, partially offset by reductions in ATM processing services revenue due to the sale.

Noninterest expense increased \$17 million (1.3 percent) in the third quarter and decreased \$9 million (0.2 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to higher net shared services expense and higher production incentives, offset by lower FDIC assessment costs and lower mortgage banking costs. The increases in net shared services expense reflected the impact of technology development and investment in infrastructure supporting business growth, as well as higher costs to manage the business, while production incentives were higher in support of business growth. The provision for credit losses increased \$15 million (27.8 percent) in the third quarter and \$54 million (32.9 percent) in the first nine months of 2019, compared with the same periods of 2018, due to unfavorable changes in the reserve allocation and higher net charge-offs.

**Wealth Management and Investment Services** Wealth Management and Investment Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through four businesses: Wealth Management, Global Corporate Trust & Custody, U.S. Bancorp Asset Management and Fund Services. Wealth Management and Investment Services contributed \$234 million of the Company's net income in the third quarter and \$682 million in the first nine months of 2019, or increases of \$11 million (4.9 percent) and \$57 million (9.1 percent), respectively, compared with the same periods of 2018.

Net revenue increased \$18 million (2.5 percent) in the third quarter and \$66 million (3.1 percent) in the first nine months of 2019, compared with the same periods of 2018. Net interest income, on a taxable-equivalent basis, increased \$10 million (3.5 percent) in the third quarter and \$44 million (5.2 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to the impact of higher deposit balances. Net interest income further increased in the first nine months of 2019, compared with the same period of 2018, due to the impact of higher rates on the margin benefit from deposits. Noninterest income increased \$8 million (1.8 percent) in the third quarter and \$22 million (1.7 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to favorable market conditions and business growth.

Noninterest expense was essentially flat in the third quarter and decreased \$10 million (0.8 percent) in the first nine months of 2019, compared with the same periods of 2018, reflecting lower costs related to FDIC assessment and litigation settlements. These decreases were offset by increased net shared services expense due to technology development and higher compensation expense, reflecting the impact of merit increases, increased staffing, and increases in medical costs.

**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 \$416 million of the Company's net income in the third quarter and \$1.1 billion in the first nine months of 2019, or increases of \$24 million (6.1 percent) and \$11 million (1.0 percent), respectively, compared with the same periods of 2018.

Net revenue increased \$62 million (4.1 percent) in the third quarter and \$125 million (2.8 percent) in the first nine months of 2019, compared with the same periods of 2018. Net interest income, on a taxable-equivalent basis, increased \$15 million (2.4 percent) in the third quarter and \$27 million (1.5 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to growth in average loans as well as loan fees, offset by compression on loan rates. Noninterest income increased \$47 million (5.2 percent) in the third quarter and \$98 million (3.7 percent) in the first nine months of 2019, compared with the same periods of 2018, due to higher credit and debit card revenue, merchant processing services revenue and corporate payment products revenue, all driven by higher sales volumes. In addition, credit and debit card revenue further increased in the third quarter of 2019, compared with the third quarter of 2018, due to more processing days.

Noninterest expense increased \$34 million (4.6 percent) in the third quarter and \$87 million (4.0 percent) in the first nine months of 2019, compared with the same periods of 2018, principally due to higher net shared services expense to support business growth, technology development and investment in infrastructure, in addition to increases in personnel expense in support of business development and merit increases. The provision for credit losses decreased \$4 million (1.5 percent) in the third quarter and increased \$24 million (2.9 percent) in the first nine months of 2019, compared with the same periods of 2018, reflecting higher net charge-offs, offset by favorable changes in the reserve allocation.

**Treasury and Corporate Support** Treasury and Corporate Support includes the Company's investment portfolios, funding, capital management, interest rate risk management, income taxes not allocated to the business lines, including most investments in tax-advantaged projects, and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of \$253 million in the third quarter and \$710 million in the first nine months of 2019, compared with \$229 million and \$662 million, respectively, in the same periods of 2018.

Net revenue increased \$49 million (13.5 percent) in the third quarter and \$164 million (16.0 percent) in the first nine months of 2019, compared with the same periods of 2018. Net interest income, on a taxable-equivalent basis, increased \$6 million (7.2 percent) in the third quarter and \$46 million (17.1 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily due to growth in the investment portfolio. Noninterest income increased \$43 million (15.3 percent) in the third quarter and \$118 million (15.6 percent) in the first nine months of 2019, compared with the same periods of 2018, primarily reflecting higher income from equity investments and gains on the sale of securities. The increase in noninterest income in the first nine months of 2019, compared with the same period of the prior year, was partially offset by the impact of a gain on the sale of student loans in 2018.

Noninterest expense increased \$38 million (21.6 percent) in the third quarter and \$108 million (20.6 percent) in the first nine months of 2019, compared with the same periods of 2018, due to higher compensation expense, reflecting the impact of increased staffing and merit increases, and higher implementation costs of capital investments to support business growth. These increases were partially offset by lower net shared services expense and lower costs related to tax-advantaged projects. The provision for credit losses was \$4 million (57.1 percent) higher in the third quarter of 2019, compared with the third quarter of 2018, reflecting higher net charge-offs. The provision for credit losses was \$28 million higher in the first nine months of 2019, compared with the same period of the prior year, due to an unfavorable change in the reserve allocation and higher net charge-offs.

Income taxes are assessed to each line of business at a managerial tax rate of 25.0 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, and
- Tangible common equity to risk-weighted assets.

These capital measures are viewed by management as useful additional methods of evaluating the Company's utilization of its capital held and the level of capital available to withstand unexpected negative market or economic conditions. Additionally, presentation of these measures allows investors, analysts and banking regulators to assess the Company's capital position relative to other financial services companies. These capital measures are not defined in generally accepted accounting principles ("GAAP"), or are not defined in banking regulations. As a result, these capital measures disclosed by the Company may be considered non-GAAP financial measures. Management believes this information helps investors assess trends in the Company's capital adequacy.

The Company also discloses net interest income and related ratios and analysis on a taxable-equivalent basis, which may also be considered non-GAAP financial measures. The Company believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison of net interest income arising from taxable and tax-exempt sources. In addition, certain performance measures, including the efficiency ratio and net interest margin utilize net interest income on a taxable-equivalent basis.

There may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider the consolidated financial statements and other financial information contained in this report in their entirety, and not to rely on any single financial measure.



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

(Dollars in Millions)	September 30, 2019	December 31, 2018		
Total equity . . . . .	\$ 54,147	\$ 51,657		
Preferred stock . . . . .	(5,984)	(5,984)		
Noncontrolling interests . . . . .	(630)	(628)		
Goodwill (net of deferred tax liability) (1) . . . . .	(8,781)	(8,549)		
Intangible assets, other than mortgage servicing rights . . . . .	(687)	(601)		
Tangible common equity (a) . . . . .	38,065	35,895		
Total assets . . . . .	487,671	467,374		
Goodwill (net of deferred tax liability) (1) . . . . .	(8,781)	(8,549)		
Intangible assets, other than mortgage servicing rights . . . . .	(687)	(601)		
Tangible assets (b) . . . . .	478,203	458,224		
Risk-weighted assets, determined in accordance with the Basel III standardized approach (c) . . . . .	390,622	381,661		
<b>Ratios</b>				
Tangible common equity to tangible assets (a)/(b) . . . . .	8.0%	7.8%		
Tangible common equity to risk-weighted assets (a)/(c) . . . . .	9.7	9.4		
	Three Months Ended September 30	Nine Months Ended September 30		
	2019	2018	2019	2018
Net interest income . . . . .	\$3,281	\$3,251	\$ 9,845	\$ 9,616
Taxable-equivalent adjustment (2) . . . . .	25	30	79	88
Net interest income, on a taxable-equivalent basis . . . . .	3,306	3,281	9,924	9,704
Net interest income, on a taxable-equivalent basis (as calculated above) . . . . .	3,306	3,281	9,924	9,704
Noninterest income . . . . .	2,614	2,418	7,395	7,104
Less: Securities gains (losses), net . . . . .	25	10	47	25
Total net revenue, excluding net securities gains (losses) (d) . . . . .	5,895	5,689	17,272	16,783
Noninterest expense (e) . . . . .	3,144	3,044	9,384	9,184
Efficiency ratio (e)/(d) . . . . .	53.3%	53.5%	54.3%	54.7%

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

(2) Based on a federal income tax rate of 21 percent for those assets and liabilities whose income or expense is not included for federal income tax purposes.

## 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, MSRs, 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, 2018.

## 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.

# U.S. Bancorp

## Consolidated Balance Sheet

(Dollars in Millions)	September 30, 2019	December 31, 2018
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 15,272	\$ 21,453
Investment securities		
Held-to-maturity (fair value \$46,638 and \$44,964, respectively)	46,481	46,050
Available-for-sale (\$272 and \$2,057 pledged as collateral, respectively) (a)	74,598	66,115
Loans held for sale (including \$3,852 and \$2,035 of mortgage loans carried at fair value, respectively)	4,528	2,056
Loans		
Commercial	104,654	102,444
Commercial real estate	39,268	39,539
Residential mortgages	69,378	65,034
Credit card	23,890	23,363
Other retail	57,448	56,430
Total loans	294,638	286,810
Less allowance for loan losses	(4,007)	(3,973)
Net loans	290,631	282,837
Premises and equipment	3,673	2,457
Goodwill	9,632	9,369
Other intangible assets	2,983	3,392
Other assets (including \$1,068 and \$843 of trading securities at fair value pledged as collateral, respectively) (a)	39,873	33,645
Total assets	\$487,671	\$467,374
<b>Liabilities and Shareholders' Equity</b>		
Deposits		
Noninterest-bearing	\$ 82,232	\$ 81,811
Interest-bearing (b)	277,483	263,664
Total deposits	359,715	345,475
Short-term borrowings	14,579	14,139
Long-term debt	41,274	41,340
Other liabilities	17,956	14,763
Total liabilities	433,524	415,717
Shareholders' equity		
Preferred stock	5,984	5,984
Common stock, par value \$0.01 a share—authorized: 4,000,000,000 shares; issued: 9/30/19 and 12/31/18— 2,125,725,742 shares	21	21
Capital surplus	8,490	8,469
Retained earnings	62,419	59,065
Less cost of common stock in treasury: 9/30/19 - 554,582,927 shares; 12/31/18—517,391,021 shares	(22,224)	(20,188)
Accumulated other comprehensive income (loss)	(1,173)	(2,322)
Total U.S. Bancorp shareholders' equity	53,517	51,029
Noncontrolling interests	630	628
Total equity	54,147	51,657
Total liabilities and equity	\$487,671	\$467,374

(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 \$8.4 billion and \$15.3 billion at September 30, 2019 and December 31, 2018, respectively.

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<b>Interest Income</b>				
Loans . . . . .	\$3,555	\$3,353	\$10,677	\$ 9,645
Loans held for sale . . . . .	48	36	107	108
Investment securities . . . . .	734	661	2,184	1,927
Other interest income . . . . .	100	73	271	182
Total interest income . . . . .	4,437	4,123	13,239	11,862
<b>Interest Expense</b>				
Deposits . . . . .	744	491	2,201	1,263
Short-term borrowings . . . . .	97	104	281	265
Long-term debt . . . . .	315	277	912	718
Total interest expense . . . . .	1,156	872	3,394	2,246
Net interest income . . . . .	3,281	3,251	9,845	9,616
Provision for credit losses . . . . .	367	343	1,109	1,011
Net interest income after provision for credit losses . . . . .	2,914	2,908	8,736	8,605
<b>Noninterest Income</b>				
Credit and debit card revenue . . . . .	366	344	1,035	1,019
Corporate payment products revenue . . . . .	177	169	506	481
Merchant processing services . . . . .	410	392	1,192	1,142
Trust and investment management fees . . . . .	421	411	1,235	1,210
Deposit service charges . . . . .	234	283	678	817
Treasury management fees . . . . .	139	146	438	451
Commercial products revenue . . . . .	240	216	708	670
Mortgage banking revenue . . . . .	272	174	630	549
Investment products fees . . . . .	46	47	138	140
Realized securities gains (losses), net . . . . .	25	10	47	25
Other . . . . .	284	226	788	600
Total noninterest income . . . . .	2,614	2,418	7,395	7,104
<b>Noninterest Expense</b>				
Compensation . . . . .	1,595	1,529	4,728	4,594
Employee benefits . . . . .	324	294	971	923
Net occupancy and equipment . . . . .	279	270	837	797
Professional services . . . . .	114	96	315	274
Marketing and business development . . . . .	109	106	309	314
Technology and communications . . . . .	277	247	804	724
Postage, printing and supplies . . . . .	74	84	219	244
Other intangibles . . . . .	42	41	124	120
Other . . . . .	330	377	1,077	1,194
Total noninterest expense . . . . .	3,144	3,044	9,384	9,184
Income before income taxes . . . . .	2,384	2,282	6,747	6,525
Applicable income taxes . . . . .	467	460	1,294	1,263
Net income . . . . .	1,917	1,822	5,453	5,262
Net (income) loss attributable to noncontrolling interests . . . . .	(9)	(7)	(25)	(22)
Net income attributable to U.S. Bancorp . . . . .	\$1,908	\$1,815	\$ 5,428	\$ 5,240
Net income applicable to U.S. Bancorp common shareholders . . . . .	\$1,821	\$1,732	\$ 5,175	\$ 5,007
Earnings per common share . . . . .	\$ 1.16	\$ 1.06	\$ 3.26	\$ 3.05
Diluted earnings per common share . . . . .	\$ 1.15	\$ 1.06	\$ 3.25	\$ 3.04
Average common shares outstanding . . . . .	1,575	1,629	1,589	1,641
Average diluted common shares outstanding . . . . .	1,578	1,633	1,592	1,645

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Comprehensive Income

(Dollars in Millions) (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net income . . . . .	\$1,917	\$1,822	\$5,453	\$ 5,262
<b>Other Comprehensive Income (Loss)</b>				
Changes in unrealized gains and losses on investment securities available-for-sale . . . . .	284	(411)	1,790	(1,399)
Changes in unrealized gains and losses on derivative hedges . . . . .	(59)	40	(268)	159
Foreign currency translation . . . . .	2	7	10	12
Changes in unrealized gains and losses on retirement plans . . . . .	—	—	—	(1)
Reclassification to earnings of realized gains and losses . . . . .	2	20	6	70
Income taxes related to other comprehensive income (loss) . . . . .	(58)	86	(389)	290
Total other comprehensive income (loss) . . . . .	171	(258)	1,149	(869)
Comprehensive income . . . . .	2,088	1,564	6,602	4,393
Comprehensive (income) loss attributable to noncontrolling interests . . . . .	(9)	(7)	(25)	(22)
Comprehensive income attributable to U.S. Bancorp . . . . .	\$2,079	\$1,557	\$6,577	\$ 4,371

See Notes to Consolidated Financial Statements.

## Consolidated Statement of Shareholders' Equity

U.S. Bancorp Shareholders										
(Dollars and Shares in Millions, Except Per Share Data) (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
<b>Balance June 30, 2018</b>	1,636	\$5,419	\$21	\$8,468	\$56,742	\$(18,707)	\$(2,315)	\$49,628	\$629	\$50,257
Net income (loss)					1,815			1,815	7	1,822
Other comprehensive income (loss)							(258)	(258)		(258)
Preferred stock dividends (a)					(76)			(76)		(76)
Common stock dividends (\$.37 per share)					(603)			(603)		(603)
Issuance of preferred stock		565						565		565
Issuance of common and treasury stock	1			(17)		46		29		29
Purchase of treasury stock	(14)					(753)		(753)		(753)
Distributions to noncontrolling interests									(7)	(7)
Net other changes in noncontrolling interests										
Stock option and restricted stock grants				28				28	3	3
<b>Balance September 30, 2018</b>	1,623	\$5,984	\$21	\$8,479	\$57,878	\$(19,414)	\$(2,573)	\$50,375	\$632	\$51,007
<b>Balance June 30, 2019</b>	1,584	\$5,984	\$21	\$8,465	\$61,252	\$(21,465)	\$(1,344)	\$52,913	\$627	\$53,540
Net income (loss)					1,908			1,908	9	1,917
Other comprehensive income (loss)							171	171		171
Preferred stock dividends (b)					(79)			(79)		(79)
Common stock dividends (\$.42 per share)					(662)			(662)		(662)
Issuance of common and treasury stock	1			(8)		36		28		28
Purchase of treasury stock	(14)					(795)		(795)		(795)
Net other changes in noncontrolling interests										
Stock option and restricted stock grants				33				33	(6)	(6)
<b>Balance September 30, 2019</b>	1,571	\$5,984	\$21	\$8,490	\$62,419	\$(22,224)	\$(1,173)	\$53,517	\$630	\$54,147
<b>Balance December 31, 2017</b>	1,656	\$5,419	\$21	\$8,464	\$54,142	\$(17,602)	\$(1,404)	\$49,040	\$626	\$49,666
Change in accounting principle (c)					299		(300)	(1)		(1)
Net income (loss)					5,240			5,240	22	5,262
Other comprehensive income (loss)							(869)	(869)		(869)
Preferred stock dividends (d)					(210)			(210)		(210)
Common stock dividends (\$.97 per share)					(1,593)			(1,593)		(1,593)
Issuance of preferred stock		565						565		565
Issuance of common and treasury stock	5			(130)		207		77		77
Purchase of treasury stock	(38)					(2,019)		(2,019)		(2,019)
Distributions to noncontrolling interests									(22)	(22)
Net other changes in noncontrolling interests										
Stock option and restricted stock grants				145				145	6	6
<b>Balance September 30, 2018</b>	1,623	\$5,984	\$21	\$8,479	\$57,878	\$(19,414)	\$(2,573)	\$50,375	\$632	\$51,007
<b>Balance December 31, 2018</b>	1,608	\$5,984	\$21	\$8,469	\$59,065	\$(20,188)	\$(2,322)	\$51,029	\$628	\$51,657
Change in accounting principle					2			2		2
Net income (loss)					5,428			5,428	25	5,453
Other comprehensive income (loss)							1,149	1,149		1,149
Preferred stock dividends (e)					(230)			(230)		(230)
Common stock dividends (\$1.16 per share)					(1,846)			(1,846)		(1,846)
Issuance of common and treasury stock	4			(127)		179		52		52
Purchase of treasury stock	(41)					(2,215)		(2,215)		(2,215)
Distributions to noncontrolling interests									(16)	(16)
Net other changes in noncontrolling interests										
Stock option and restricted stock grants				148				148	(7)	(7)
<b>Balance September 30, 2019</b>	1,571	\$5,984	\$21	\$8,490	\$62,419	\$(22,224)	\$(1,173)	\$53,517	\$630	\$54,147

(a) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series H, Series J and Series K Non-Cumulative Perpetual Preferred Stock of \$894,444, \$223.61, \$406.25, \$321.88, \$662.50 and \$232.99, respectively.

(b) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series H, Series J and Series K Non-Cumulative Perpetual Preferred Stock of \$894,444, \$223.61, \$406.25, \$321.88, \$662.50 and \$343.75, respectively.

(c) Reflects the adoption of new accounting guidance on January 1, 2018 to reclassify the impact of the reduced federal statutory rate for corporations included in 2017 tax reform legislation from accumulated other comprehensive income to retained earnings.

(d) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series H, Series I, Series J and Series K Non-Cumulative Perpetual Preferred Stock of \$2,654.166, \$663.54, \$1,218.75, \$965.64, \$640.625, \$1,325.00 and \$232.99, respectively.

(e) Reflects dividends declared per share on the Company's Series A, Series B, Series F, Series H, Series I, Series J and Series K Non-Cumulative Perpetual Preferred Stock of \$2,760.506, \$663.54, \$1,218.75, \$965.64, \$640.625, \$1,325.00 and \$1,031.25, respectively.

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Cash Flows

(Dollars in Millions) (Unaudited)	Nine Months Ended September 30	
	2019	2018
<b>Operating Activities</b>		
Net income attributable to U.S. Bancorp . . . . .	\$ 5,428	\$ 5,240
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses . . . . .	1,109	1,011
Depreciation and amortization of premises and equipment . . . . .	248	226
Amortization of intangibles . . . . .	124	120
(Gain) loss on sale of loans held for sale . . . . .	(504)	(330)
(Gain) loss on sale of securities and other assets . . . . .	(351)	(309)
Loans originated for sale in the secondary market, net of repayments . . . . .	(24,795)	(23,418)
Proceeds from sales of loans held for sale . . . . .	23,146	23,747
Other, net . . . . .	546	1,627
Net cash provided by operating activities . . . . .	4,951	7,914
<b>Investing Activities</b>		
Proceeds from sales of available-for-sale investment securities . . . . .	5,776	1,304
Proceeds from maturities of held-to-maturity investment securities . . . . .	6,256	5,072
Proceeds from maturities of available-for-sale investment securities . . . . .	7,885	8,757
Purchases of held-to-maturity investment securities . . . . .	(6,701)	(8,229)
Purchases of available-for-sale investment securities . . . . .	(20,383)	(6,848)
Net increase in loans outstanding . . . . .	(8,411)	(3,241)
Proceeds from sales of loans . . . . .	1,604	2,608
Purchases of loans . . . . .	(2,818)	(2,748)
Net increase in securities purchased under agreements to resell . . . . .	(3,687)	(223)
Other, net . . . . .	(892)	(672)
Net cash used in investing activities . . . . .	(21,371)	(4,220)
<b>Financing Activities</b>		
Net increase (decrease) in deposits . . . . .	14,240	(16,037)
Net increase in short-term borrowings . . . . .	440	7,217
Proceeds from issuance of long-term debt . . . . .	7,968	10,082
Principal payments or redemption of long-term debt . . . . .	(8,225)	(1,326)
Proceeds from issuance of preferred stock . . . . .	—	565
Proceeds from issuance of common stock . . . . .	51	73
Repurchase of common stock . . . . .	(2,232)	(2,004)
Cash dividends paid on preferred stock . . . . .	(223)	(198)
Cash dividends paid on common stock . . . . .	(1,780)	(1,489)
Net cash provided by (used in) financing activities . . . . .	10,239	(3,117)
Change in cash and due from banks . . . . .	(6,181)	577
Cash and due from banks at beginning of period . . . . .	21,453	19,505
Cash and due from banks at end of period . . . . .	\$ 15,272	\$ 20,082

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

(Unaudited)

## **Note 1** Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the “Company”), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. 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

**Accounting for Leases** Effective January 1, 2019, the Company adopted accounting guidance, issued by the Financial Accounting Standards Board (“FASB”) in February 2016, 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. The Company recognized approximately \$1.3 billion of lease assets and related liabilities on its Consolidated Balance Sheet at the adoption date. In addition, lessors are now required to consider lease residual exposures of sales-type and direct financing leases when determining the allowance for credit losses. The adoption of this guidance was not material to the Company’s Consolidated Statement of Income.

**Financial Instruments – Credit Losses** In June 2016, the FASB issued accounting guidance, related to the impairment of financial instruments which the Company will adopt effective January 1, 2020. 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 extent of the impact of this guidance will depend on economic conditions and the composition of the Company’s loan portfolio at the adoption date, as well as further refinements to the Company’s process, judgements and models to quantify credit impairment under the new standard. The Company expects the new standard to increase its allowance for credit losses by \$1.2 billion to \$1.6 billion upon adoption.

When determining expected losses, the Company uses multiple economic scenarios and a three-year reasonable and supportable forecast period. After the forecast period, the Company reverts to long-term historical loss experience, adjusted for prepayments, to estimate losses over the remaining life.

The estimated increase in the allowance is primarily related to the credit card, installment and other retail loan portfolios where the existing allowance for loan losses has been based primarily on a shorter loss period estimate.

The Company does not expect its held-to-maturity or available-for-sale securities to be materially impacted by the adoption of this standard as most of this portfolio consists of U.S. Treasury and residential agency mortgage-backed securities that inherently have an immaterial risk of loss.

### Note 3 Investment Securities

The Company's held-to-maturity investment securities are carried at historical cost, adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment. The Company's available-for-sale investment securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive income (loss) in shareholders' equity.

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

(Dollars in Millions)	September 30, 2019					December 31, 2018				
	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
			Other-than-Temporary (a)	Other (b)				Other-than-Temporary (a)	Other (b)	
<b>Held-to-maturity</b>										
U.S. Treasury and agencies	\$ 4,402	\$ 35	\$—	\$ (7)	\$ 4,430	\$ 5,102	\$ 2	\$—	\$ (143)	\$ 4,961
Residential agency mortgage-backed securities	42,054	289	—	(162)	42,181	40,920	45	—	(994)	39,971
Asset-backed securities										
Collateralized debt obligations/										
Collateralized loan obligations	—	1	—	—	1	—	1	—	—	1
Other	5	1	—	—	6	5	2	—	—	7
Obligations of state and political subdivisions	4	—	—	—	4	6	1	—	—	7
Obligations of foreign governments	8	—	—	—	8	9	—	—	—	9
Other	8	—	—	—	8	8	—	—	—	8
Total held-to-maturity	\$46,481	\$326	\$—	\$ (169)	\$46,638	\$46,050	\$ 51	\$—	\$ (1,137)	\$44,964
<b>Available-for-sale</b>										
U.S. Treasury and agencies	\$15,543	\$ 57	\$—	\$ (47)	\$15,553	\$19,604	\$ 11	\$—	\$ (358)	\$19,257
Mortgage-backed securities										
Residential agency	50,817	328	—	(202)	50,943	40,542	120	—	(910)	39,752
Commercial agency	989	—	—	(5)	984	2	—	—	—	2
Other asset-backed securities	377	5	—	—	382	397	6	—	—	403
Obligations of state and political subdivisions	6,395	342	—	(2)	6,735	6,836	37	—	(172)	6,701
Obligations of foreign governments	1	—	—	—	1	—	—	—	—	—
Total available-for-sale	\$74,122	\$732	\$—	\$ (256)	\$74,598	\$67,381	\$174	\$—	\$ (1,440)	\$66,115

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

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

The weighted-average maturity of the available-for-sale investment securities was 4.0 years at September 30, 2019, compared with 5.4 years at December 31, 2018. The corresponding weighted-average yields were 2.56 percent and 2.57 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 3.8 years at September 30, 2019, compared with 5.2 years at December 31, 2018. The corresponding weighted-average yields were 2.42 percent and 2.46 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, 2019, 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 \$11.0 billion at September 30, 2019, and \$10.9 billion at December 31, 2018, 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 \$272 million at September 30, 2019, and \$2.1 billion at December 31, 2018.

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		Nine Months Ended September 30	
	2019	2018	2019	2018
Taxable	\$683	\$605	\$2,023	\$1,763
Non-taxable	51	56	161	164
Total interest income from investment securities	\$734	\$661	\$2,184	\$1,927



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		Nine Months Ended September 30	
	2019	2018	2019	2018
Realized gains	\$ 25	\$ 10	\$ 66	\$ 25
Realized losses	—	—	(19)	—
Net realized gains (losses)	\$ 25	\$ 10	\$ 47	\$ 25
Income tax (benefit) on net realized gains (losses)	\$ 6	\$ 2	\$ 12	\$ 6

The Company conducts a regular assessment of its investment securities with unrealized losses to determine whether investment securities are other-than-temporarily impaired considering, among other factors, the nature of the investment securities, the credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, the existence of any government or agency guarantees, market conditions and whether the Company intends to sell or it is more likely than not the Company will be required to sell the investment securities. The Company determines other-than-temporary impairment recorded in earnings for investment securities not intended to be sold by estimating the future cash flows of each individual investment security, using market information where available, and discounting the cash flows at the original effective rate of the investment security. Other-than-temporary impairment recorded in other comprehensive income (loss) is measured as the difference between that discounted amount and the fair value of each investment security. The total amount of other-than-temporary impairment recorded was immaterial for the three and nine months ended September 30, 2019 and 2018.

At September 30, 2019, 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, 2019:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Held-to-maturity</b>						
U.S. Treasury and agencies	\$ 954	\$ (2)	\$ 642	\$ (5)	\$ 1,596	\$ (7)
Residential agency mortgage-backed securities	4,610	(12)	11,606	(150)	16,216	(162)
Other asset-backed securities	—	—	2	—	2	—
Other	8	—	—	—	8	—
Total held-to-maturity	\$5,572	\$(14)	\$12,250	\$(155)	\$17,822	\$(169)
<b>Available-for-sale</b>						
U.S. Treasury and agencies	\$2,313	\$(13)	\$ 7,362	\$ (34)	\$ 9,675	\$ (47)
Residential agency mortgage-backed securities	4,377	(12)	14,739	(190)	19,116	(202)
Commercial agency mortgage-backed securities	469	(5)	—	—	469	(5)
Obligations of state and political subdivisions	246	(2)	2	—	248	(2)
Total available-for-sale	\$7,405	\$(32)	\$22,103	\$(224)	\$29,508	\$(256)

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, 2019, the Company had no plans to sell investment securities with unrealized losses, and believes it is more likely than not it would not be required to sell such investment securities before recovery of their amortized cost.

## Note 4 Loans and Allowance for Credit Losses

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

(Dollars in Millions)	September 30, 2019		December 31, 2018	
	Amount	Percent of Total	Amount	Percent of Total
<b>Commercial</b>				
Commercial . . . . .	\$ 99,067	33.6%	\$ 96,849	33.8%
Lease financing . . . . .	5,587	1.9	5,595	1.9
Total commercial . . . . .	104,654	35.5	102,444	35.7
<b>Commercial Real Estate</b>				
Commercial mortgages . . . . .	28,664	9.7	28,596	10.0
Construction and development . . . . .	10,604	3.6	10,943	3.8
Total commercial real estate . . . . .	39,268	13.3	39,539	13.8
<b>Residential Mortgages</b>				
Residential mortgages . . . . .	58,465	19.9	53,034	18.5
Home equity loans, first liens . . . . .	10,913	3.7	12,000	4.2
Total residential mortgages . . . . .	69,378	23.6	65,034	22.7
<b>Credit Card</b>	23,890	8.1	23,363	8.1
<b>Other Retail</b>				
Retail leasing . . . . .	8,463	2.9	8,546	3.0
Home equity and second mortgages . . . . .	15,453	5.2	16,122	5.6
Revolving credit . . . . .	2,889	1.0	3,088	1.1
Installment . . . . .	10,827	3.7	9,676	3.4
Automobile . . . . .	19,583	6.6	18,719	6.5
Student . . . . .	233	.1	279	.1
Total other retail . . . . .	57,448	19.5	56,430	19.7
Total loans . . . . .	\$294,638	100.0%	\$286,810	100.0%

The Company had loans of \$94.5 billion at September 30, 2019, and \$88.7 billion at December 31, 2018, pledged at the Federal Home Loan Bank, and loans of \$74.6 billion at September 30, 2019, and \$70.1 billion at December 31, 2018, pledged at the Federal Reserve Bank.

Originated loans are reported at the principal amount outstanding, net of unearned interest and deferred fees and costs, and any partial charge-offs recorded. Net unearned interest and deferred fees and costs amounted to \$785 million at September 30, 2019 and \$872 million at December 31, 2018. All purchased loans 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.”

The Company offers a broad array of lending products and categorizes its loan portfolio into two segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company’s two loan portfolio segments are commercial lending and consumer lending. Previously, the Company categorized loans covered under loss sharing or similar credit protection agreements with the Federal Deposit Insurance Corporation (“FDIC”), along with the related indemnification asset, in a separate covered loans segment. During 2018 the majority of these loans were sold and the loss share coverage expired. Any remaining balances were reclassified to be included in their respective portfolio category.

**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. The allowance for credit losses is increased through provisions charged to earnings and reduced by net charge-offs. Management evaluates the appropriateness of the allowance for incurred losses on a quarterly basis.

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

rather than the migration analysis. The allowance recorded for all other commercial lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, delinquency status, bankruptcy experience, portfolio growth and historical losses, adjusted for current trends. The Company also considers the impacts of any loan modifications made to commercial lending segment loans and any subsequent payment defaults to its expectations of cash flows, principal balance, and current expectations about the borrower's ability to pay in determining the allowance for credit losses.

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

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	Covered Loans	Total Loans
<b>2019</b>							
Balance at beginning of period	\$1,464	\$794	\$438	\$1,132	\$638	\$ -	\$4,466
Add							
Provision for credit losses	101	3	(10)	212	61	-	367
Deduct							
Loans charged-off	91	7	8	248	97	-	451
Less recoveries of loans charged-off	(16)	(1)	(11)	(37)	(34)	-	(99)
Net loans charged-off	75	6	(3)	211	63	-	352
Balance at end of period	\$1,490	\$791	\$431	\$1,133	\$636	\$ -	\$4,481
<b>2018</b>							
Balance at beginning of period	\$1,391	\$812	\$436	\$1,082	\$667	\$23	\$4,411
Add							
Provision for credit losses	88	(12)	8	221	41	(3)	343
Deduct							
Loans charged-off	88	1	12	231	96	-	428
Less recoveries of loans charged-off	(22)	(10)	(8)	(25)	(35)	-	(100)
Net loans charged-off	66	(9)	4	206	61	-	328
Balance at end of period	\$1,413	\$809	\$440	\$1,097	\$647	\$20	\$4,426

Nine Months Ended September 30 (Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Covered Loans	Total Loans
<b>2019</b>							
Balance at beginning of period	\$1,454	\$800	\$455	\$1,102	\$630	\$ -	\$4,441
Add							
Provision for credit losses	243	(2)	(20)	694	194	-	1,109
Deduct							
Loans charged-off	300	11	27	767	283	-	1,388
Less recoveries of loans charged-off	(93)	(4)	(23)	(104)	(95)	-	(319)
Net loans charged-off	207	7	4	663	188	-	1,069
Balance at end of period	\$1,490	\$791	\$431	\$1,133	\$636	\$ -	\$4,481
<b>2018</b>							
Balance at beginning of period	\$1,372	\$831	\$449	\$1,056	\$678	\$31	\$4,417
Add							
Provision for credit losses	225	(34)	6	668	156	(10)	1,011
Deduct							
Loans charged-off	265	6	37	727	283	-	1,318
Less recoveries of loans charged-off	(81)	(18)	(22)	(100)	(96)	-	(317)
Net loans charged-off	184	(12)	15	627	187	-	1,001
Other changes (a)	-	-	-	-	-	(1)	(1)
Balance at end of period	\$1,413	\$809	\$440	\$1,097	\$647	\$20	\$4,426

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

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

(Dollars in Millions)	Commercial	Commercial Real Estate	Residential Mortgages	Credit Card	Other Retail	Total Loans
<b>Allowance Balance at September 30, 2019 Related to</b>						
Loans individually evaluated for impairment (a)	\$ 19	\$ 3	\$ -	\$ -	\$ -	\$ 22
TDRs collectively evaluated for impairment	20	4	107	80	12	223
Other loans collectively evaluated for impairment	1,451	784	309	1,053	624	4,221
Loans acquired with deteriorated credit quality	-	-	15	-	-	15
Total allowance for credit losses	\$1,490	\$791	\$431	\$1,133	\$636	\$4,481
<b>Allowance Balance at December 31, 2018 Related to</b>						
Loans individually evaluated for impairment (a)	\$ 16	\$ 8	\$ -	\$ -	\$ -	\$ 24
TDRs collectively evaluated for impairment	15	3	126	69	12	225
Other loans collectively evaluated for impairment	1,423	788	314	1,033	618	4,176
Loans acquired with deteriorated credit quality	-	1	15	-	-	16
Total allowance for credit losses	\$1,454	\$800	\$455	\$1,102	\$630	\$4,441

(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
<b>September 30, 2019</b>						
Loans individually evaluated for impairment (a) . . . . .	\$ 340	\$ 40	\$ –	\$ –	\$ –	\$ 380
TDRs collectively evaluated for impairment . . . . .	178	142	3,168	262	190	3,940
Other loans collectively evaluated for impairment . . . . .	104,136	39,052	65,950	23,628	57,258	290,024
Loans acquired with deteriorated credit quality . . . . .	–	34	260	–	–	294
Total loans . . . . .	\$104,654	\$39,268	\$69,378	\$23,890	\$57,448	\$294,638
<b>December 31, 2018</b>						
Loans individually evaluated for impairment (a) . . . . .	\$ 262	\$ 86	\$ –	\$ –	\$ –	\$ 348
TDRs collectively evaluated for impairment . . . . .	151	129	3,252	245	183	3,960
Other loans collectively evaluated for impairment . . . . .	102,031	39,297	61,465	23,118	56,247	282,158
Loans acquired with deteriorated credit quality . . . . .	–	27	317	–	–	344
Total loans . . . . .	\$102,444	\$39,539	\$65,034	\$23,363	\$56,430	\$286,810

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

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

For all loan classes, loans are considered past due based on the number of days delinquent except for monthly amortizing loans which are classified delinquent based upon the number of contractually required payments not made (for example, two missed payments is considered 30 days delinquent). When a loan is placed on nonaccrual status, unpaid accrued interest is reversed, reducing interest income in the current period.

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

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

For all loan classes, interest payments received on nonaccrual loans are generally recorded as a reduction to a loan’s carrying amount while a loan is on nonaccrual and are recognized as interest income upon payoff of the loan. However, interest income may be recognized for interest payments if the remaining carrying amount of the loan is believed to be collectible. In certain circumstances, loans in any class may be restored to accrual status, such as when a loan has demonstrated sustained repayment performance or no amounts are past due and prospects for future payment are no longer in doubt; or when the loan becomes well secured and is in the process of collection. Loans where there has been a partial charge-off may be returned to accrual status if all principal and interest (including amounts previously charged-off) is expected to be collected and the loan is current. 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)	Accruing			Nonperforming	Total
	Current	30-89 Days Past Due	90 Days or More Past Due		
<b>September 30, 2019</b>					
Commercial	\$103,782	\$ 450	\$103	\$319	\$104,654
Commercial real estate	39,126	51	2	89	39,268
Residential mortgages (a)	68,845	167	115	251	69,378
Credit card	23,296	316	278	—	23,890
Other retail	56,785	391	102	170	57,448
Total loans	\$291,834	\$1,375	\$600	\$829	\$294,638
<b>December 31, 2018</b>					
Commercial	\$101,844	\$ 322	\$ 69	\$209	\$102,444
Commercial real estate	39,354	70	—	115	39,539
Residential mortgages (a)	64,443	181	114	296	65,034
Credit card	22,746	324	293	—	23,363
Other retail	55,722	403	108	197	56,430
Total loans	\$284,109	\$1,300	\$584	\$817	\$286,810

(a) At September 30, 2019, \$391 million of loans 30–89 days past due and \$1.7 billion of loans 90 days or more past due purchased from Government National Mortgage Association (“GNMA”) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs, were classified as current, compared with \$430 million and \$1.7 billion at December 31, 2018, respectively.

At September 30, 2019, the amount of foreclosed residential real estate held by the Company, and included in other real estate owned (“OREO”), was \$80 million, compared with \$106 million at December 31, 2018. These amounts exclude \$177 million and \$235 million at September 30, 2019 and December 31, 2018, 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 was \$1.5 billion at September 30, 2019 and December 31, 2018, of which \$1.2 billion related to loans purchased from Government National Mortgage Association (“GNMA”) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

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

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

(Dollars in Millions)	Criticized				Total
	Pass	Special Mention	Classified (a)	Total Criticized	
<b>September 30, 2019</b>					
Commercial	\$102,543	\$1,022	\$1,089	\$2,111	\$104,654
Commercial real estate	38,287	625	356	981	39,268
Residential mortgages (b)	68,960	3	415	418	69,378
Credit card	23,612	—	278	278	23,890
Other retail	57,142	12	294	306	57,448
Total loans	\$290,544	\$1,662	\$2,432	\$4,094	\$294,638
Total outstanding commitments	\$614,479	\$2,297	\$3,076	\$5,373	\$619,852
<b>December 31, 2018</b>					
Commercial	\$100,014	\$1,149	\$1,281	\$2,430	\$102,444
Commercial real estate	38,473	584	482	1,066	39,539
Residential mortgages (b)	64,570	1	463	464	65,034
Credit card	23,070	—	293	293	23,363
Other retail	56,101	6	323	329	56,430
Total loans	\$282,228	\$1,740	\$2,842	\$4,582	\$286,810
Total outstanding commitments	\$600,407	\$2,801	\$3,448	\$6,249	\$606,656

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

(b) At September 30, 2019, \$1.7 billion of GNMA loans 90 days or more past due and \$1.7 billion of restructured GNMA loans whose repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs were classified with a pass rating, compared with \$1.7 billion and \$1.6 billion at December 31, 2018, 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.

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
<b>September 30, 2019</b>				
Commercial	\$ 583	\$1,183	\$ 41	\$197
Commercial real estate	234	587	8	—
Residential mortgages	1,573	1,891	74	—
Credit card	262	262	80	—
Other retail	322	412	14	2
Total loans, excluding loans purchased from GNMA mortgage pools	2,974	4,335	217	199
Loans purchased from GNMA mortgage pools	1,690	1,690	34	—
Total	\$4,664	\$6,025	\$251	\$199
<b>December 31, 2018</b>				
Commercial	\$ 467	\$1,006	\$ 32	\$106
Commercial real estate	279	511	12	2
Residential mortgages	1,709	1,879	86	—
Credit card	245	245	69	—
Other retail	335	418	14	5
Total loans, excluding loans purchased from GNMA mortgage pools	3,035	4,059	213	113
Loans purchased from GNMA mortgage pools	1,639	1,639	41	—
Total	\$4,674	\$5,698	\$254	\$113

(a) Substantially all loans classified as impaired at September 30, 2019 and December 31, 2018, had an associated allowance for credit losses.

Additional information on impaired loans follows:

(Dollars in Millions)	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Three Months Ended September 30</b>				
Commercial	\$ 552	\$ 4	\$ 470	\$ 3
Commercial real estate	232	3	279	4
Residential mortgages	1,597	23	1,779	18
Credit card	260	—	236	1
Other retail	319	3	309	4
Covered Loans	—	—	23	—
Total loans, excluding loans purchased from GNMA mortgage pools	2,960	33	3,096	30
Loans purchased from GNMA mortgage pools	1,644	18	1,666	12
Total	\$4,604	\$ 51	\$4,762	\$ 42
<b>Nine Months Ended September 30</b>				
Commercial	\$ 516	\$ 7	\$ 510	\$ 5
Commercial real estate	251	8	263	8
Residential mortgages	1,649	70	1,846	57
Credit card	255	—	234	3
Other retail	323	9	304	12
Covered Loans	—	—	33	1
Total loans, excluding loans purchased from GNMA mortgage pools	2,994	94	3,190	86
Loans purchased from GNMA mortgage pools	1,613	52	1,635	36
Total	\$4,607	\$146	\$4,825	\$122

**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.

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

(Dollars in Millions)	2019			2018		
	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
<b>Three Months Ended September 30</b>						
Commercial	886	\$ 116	\$ 100	700	\$ 42	\$ 33
Commercial real estate	32	23	23	38	123	125
Residential mortgages	117	17	15	144	19	17
Credit card	8,429	46	46	8,450	42	43
Other retail	814	20	19	763	17	16
Covered Loans	—	—	—	3	1	1
Total loans, excluding loans purchased from GNMA mortgage pools	10,278	222	203	10,098	244	235
Loans purchased from GNMA mortgage pools	1,524	211	203	1,649	216	211
Total loans	11,802	\$ 433	\$ 406	11,747	\$ 460	\$ 446
<b>Nine Months Ended September 30</b>						
Commercial	2,622	\$ 242	\$ 215	2,047	\$ 255	\$ 234
Commercial real estate	76	95	93	97	154	155
Residential mortgages	318	43	41	397	56	53
Credit card	26,018	140	141	24,457	122	124
Other retail	2,029	44	42	1,857	45	43
Covered Loans	—	—	—	3	1	1
Total loans, excluding loans purchased from GNMA mortgage pools	31,063	564	532	28,858	633	610
Loans purchased from GNMA mortgage pools	4,617	629	606	4,785	631	619
Total loans	35,680	\$1,193	\$1,138	33,643	\$1,264	\$1,229



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 2019, at September 30, 2019, 68 residential mortgages, 34 home equity and second mortgage loans and 1,046 loans purchased from GNMA mortgage pools with outstanding balances of \$11 million, \$3 million and \$144 million, respectively, were in a trial period and have estimated post-modification balances of \$10 million, \$3 million and \$141 million, respectively, assuming permanent modification occurs at the end of the trial period.

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

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

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

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

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

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.

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

(Dollars in Millions)	2019		2018	
	Number of Loans	Amount Defaulted	Number of Loans	Amount Defaulted
<b>Three Months Ended September 30</b>				
Commercial	263	\$ 9	207	\$ 51
Commercial real estate	8	7	10	2
Residential mortgages	13	1	34	4
Credit card	2,025	10	1,924	9
Other retail	72	1	93	1
Total loans, excluding loans purchased from GNMA mortgage pools	2,381	28	2,268	67
Loans purchased from GNMA mortgage pools	263	33	380	50
Total loans	2,644	\$ 61	2,648	\$117
<b>Nine Months Ended September 30</b>				
Commercial	749	\$ 18	623	\$ 63
Commercial real estate	23	17	26	8
Residential mortgages	124	14	148	15
Credit card	6,001	29	5,893	26
Other retail	299	9	240	3
Covered loans	–	–	1	–
Total loans, excluding loans purchased from GNMA mortgage pools	7,196	87	6,931	115
Loans purchased from GNMA mortgage pools	697	93	1,129	148
Total loans	7,893	\$180	8,060	\$263

In addition to the defaults in the table above, the Company had a total of 185 and 600 residential mortgage loans, home equity and second mortgage loans and loans purchased from GNMA mortgage pools for the three months and nine months ended September 30, 2019, respectively, where borrowers did not successfully complete the trial period arrangement and, therefore, are no longer eligible for a permanent modification under the applicable modification program. These loans had aggregate outstanding balances of \$25 million and \$81 million for the three months and nine months ended September 30, 2019, respectively.

## Note 5 Leases

The Company, as a lessor, originates retail and commercial leases either directly to the consumer or indirectly through dealer networks. Retail leases, primarily relating to automobiles, have 3 to 5 year terms. Commercial leases may include high dollar assets such as aircraft or lower cost items such as office equipment.

At lease inception, retail lease customers are provided with an end-of-term purchase option, which is based on the expected fair value of the automobile at the expiration of the lease. Automobile leases do not typically contain options to extend or terminate the lease. Equipment leases may contain various types of purchase options. Some option amounts are a stated value, while others are determined using the fair market value at the time of option exercise.

Residual values on leased assets are reviewed regularly for impairment. Residual valuations for retail leases are based on independent assessments of expected used automobile sale prices at the end of the lease term. Impairment tests are conducted based on these valuations considering the probability of the lessee returning the asset to the Company, re-marketing efforts, insurance coverage and ancillary fees and costs. Valuations for commercial leases are based upon external or internal management appraisals.

The Company manages its risk to changes in the residual value of leased vehicles, office and business equipment, and other 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 lease residual value risk is mitigated further by the purchase of residual value insurance coverage and effective end-of-term marketing of off-lease vehicles.

The components of the net investment in sales-type and direct financing leases were as follows:

(Dollars in Millions)	September 30, 2019	December 31, 2018
Lease receivables	\$12,150	\$12,207
Unguaranteed residual values accruing to the lessor's benefit	1,873	1,877
Total net investment in sales-type and direct financing leases	\$14,023	\$14,084

The Company, as a lessor, recorded \$257 million and \$742 million of revenue on its Consolidated Statement of Income for the three and nine months ended September 30, 2019, respectively, primarily consisting of interest income on sales-type and direct financing leases.

The contractual future lease payments to be received by the Company at September 30, 2019, were as follows:

(Dollars in Millions)	Sales-type and direct financing leases	Operating leases
One Year or Less . . . . .	\$ 4,623	\$181
Over One Through Two Years . . . . .	3,737	140
Over Two Through Three Years . . . . .	2,615	104
Over Three Through Four Years . . . . .	1,251	69
Over Four Through Five Years . . . . .	432	52
Thereafter . . . . .	501	59
Total lease payments . . . . .	13,159	\$605
Amounts representing interest . . . . .	(1,009)	
Lease receivables . . . . .	\$12,150	

The Company, as lessee, leases certain assets for use in its operations. Leased assets primarily include retail branches, operations centers and other corporate locations, and, to a lesser extent, office and computer equipment. For each lease with an original term greater than 12 months, the Company records a lease liability and a corresponding right of use (“ROU”) asset. The Company accounts for the lease and non-lease components in the majority of its lease contracts as a single lease component, with the determination of the lease liability at lease inception based on the present value of the consideration to be paid under the contract. The discount rate used by the Company is determined at commencement of the lease using a secured rate for a similar term as the period of the lease. The Company’s leases do not include significant variable lease payments. At September 30, 2019, the Company’s ROU assets included in premises and equipment, and lease liabilities included in long-term debt and other liabilities, were \$1.2 billion and \$1.3 billion, respectively.

Certain of the Company’s real estate leases include options to extend. Lease extension options are generally exercisable at market rates. Such option periods do not provide a significant incentive, and their exercise is not reasonably certain. Accordingly, the Company does not recognize payments occurring during option periods in the calculation of its ROU assets and lease liabilities. The Company’s leases do not impose significant covenants or other restrictions on the Company.

Total costs incurred by the Company, as a lessee, were \$99 million and \$294 million for the three and nine months ended September 30, 2019, respectively, and principally related to contractual lease payments on operating leases.

The following table presents amounts relevant to the Company’s assets leased for use in its operations:

(Dollars in Millions)	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities . . . . .		
Operating cash flows from operating leases . . . . .	\$75	\$226
Operating cash flows from finance leases . . . . .	1	5
Financing cash flows from finance leases . . . . .	3	8
Right of use assets obtained in exchange for new operating lease liabilities . . . . .	27	100
Right of use assets obtained in exchange for new finance lease liabilities . . . . .	5	7

The following table presents the weighted-average remaining lease terms and discount rates of the Company’s assets leased for use in its operations at September 30, 2019:

Weighted-average remaining lease term of operating leases (in years) . . . . .	7.5
Weighted-average remaining lease term of finance leases (in years) . . . . .	10.4
Weighted-average discount rate of operating leases . . . . .	3.2%
Weighted-average discount rate of finance leases . . . . .	15.3%

The contractual future lease obligations of the Company at September 30, 2019, were as follows:

(Dollars in Millions)	Operating leases	Finance leases
One Year or Less . . . . .	\$ 305	\$ 17
Over One Through Two Years . . . . .	255	15
Over Two Through Three Years . . . . .	230	13
Over Three Through Four Years . . . . .	186	11
Over Four Through Five Years . . . . .	138	10
Thereafter . . . . .	416	37
Total lease payments . . . . .	1,530	103
Amounts representing interest . . . . .	(186)	(32)
Lease liabilities . . . . .	\$1,344	\$ 71

**Note 6 Accounting for Transfers and Servicing of Financial Assets and Variable Interest Entities**

The Company transfers financial assets in the normal course of business. The majority of the Company’s financial asset transfers are residential mortgage loan sales primarily to government-sponsored enterprises (“GSEs”), transfers of tax-advantaged investments, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. Guarantees provided to certain third parties in connection with the transfer of assets are further discussed in Note 16.

For loans sold under participation agreements, the Company also considers whether the terms of the loan participation agreement meet the accounting definition of a participating interest. With the exception of servicing and certain performance-based guarantees, the Company’s continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses. Any gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests that continue to be held by the Company are initially recognized at fair value. For further information on mortgage servicing rights (“MSRs”), refer to Note 7. On a limited basis, the Company may acquire and package high-grade corporate bonds for select corporate customers, in which the Company generally has no continuing involvement with these transactions. Additionally, the Company is an authorized GNMA issuer and issues GNMA securities on a regular basis. The Company has no other asset securitizations or similar asset-backed financing arrangements that are off-balance sheet.

The Company also provides financial support primarily through the use of waivers of trust and investment management fees associated with various unconsolidated registered money market funds it manages. The Company provided \$8 million and \$6 million of support to the funds during the three months ended September 30, 2019 and 2018, respectively, and \$22 million and \$18 million during the nine months ended September 30, 2019 and 2018, respectively.

The Company is involved in various entities that are considered to be variable interest entities (“VIEs”). The Company’s investments in VIEs are primarily related to investments promoting affordable housing, community development and renewable energy sources. Some of these tax-advantaged investments support the Company’s regulatory compliance with the Community Reinvestment Act. The Company’s investments in these entities generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. These tax credits are recognized as a reduction of tax expense or, for investments qualifying as investment tax credits, as a reduction to the related investment asset. The Company recognized federal and state income tax credits related to its affordable housing and other tax-advantaged investments in tax expense of \$132 million and \$150 million for the three months ended September 30, 2019 and 2018, respectively, and \$423 million and \$486 million for the nine months ended September 30, 2019 and 2018, respectively. The Company also recognized \$80 million and \$90 million of investment tax credits for the three months ended September 30, 2019 and 2018, respectively, and \$326 million and \$368 million for the nine months ended September 30, 2019 and 2018, respectively. The Company recognized \$122 million and \$133 million of expenses related to all of these investments for the three months ended September 30, 2019 and 2018, respectively, of which \$80 million and \$67 million, respectively, were included in tax expense and the remaining amounts were included in noninterest expense. The Company recognized \$391 million and \$434 million of expenses related to all of these investments for the nine months ended September 30, 2019 and 2018, respectively, of which

\$237 million and \$202 million, respectively, were included in tax expense and the remaining amounts were included in noninterest expense.

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

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

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

(Dollars in Millions)	September 30, 2019	December 31, 2018
Investment carrying amount . . . . .	\$ 6,079	\$ 5,823
Unfunded capital and other commitments . . . . .	3,037	2,778
Maximum exposure to loss . . . . .	12,163	12,360

The Company also has noncontrolling financial investments in private investment funds and partnerships considered to be VIEs, which are not consolidated. The Company's recorded investment in these entities, carried in other assets on the Consolidated Balance Sheet, was approximately \$30 million at September 30, 2019 and \$27 million at December 31, 2018. The maximum exposure to loss related to these VIEs was \$55 million at September 30, 2019 and \$52 million at December 31, 2018, representing the Company's investment balance and its unfunded commitments to invest additional amounts.

The Company's individual net investments in unconsolidated VIEs, which exclude any unfunded capital commitments, ranged from less than \$1 million to \$89 million at September 30, 2019, compared with less than \$1 million to \$95 million at December 31, 2018.

The Company is required to consolidate VIEs in which it has concluded it has a controlling financial interest. The Company sponsors entities to which it transfers its interests in tax-advantaged investments to third parties. At September 30, 2019, approximately \$3.9 billion of the Company's assets and \$3.1 billion of its liabilities included on the Consolidated Balance Sheet were related to community development and tax-advantaged investment VIEs which the Company has consolidated, primarily related to these transfers. These amounts compared to \$3.9 billion and \$2.7 billion, respectively, at December 31, 2018. The majority of the assets of these consolidated VIEs are reported in other assets, and the liabilities are reported in long-term debt and other liabilities. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIEs is generally limited to the carrying value of its variable interests plus any related tax credits previously recognized or transferred to others with a guarantee.

The Company also sponsors a conduit to which it previously transferred high-grade investment securities. The Company consolidates the conduit because of its ability to manage the activities of the conduit. At September 30, 2019 and December 31, 2018, \$14 million of the held-to-maturity investment securities on the Company's Consolidated Balance Sheet were related to the conduit.

In addition, the Company sponsors a municipal bond securities tender option bond program. The Company controls the activities of the program's entities, is entitled to the residual returns and provides liquidity and remarketing arrangements to the program. As a result, the Company has consolidated the program's entities. At September 30, 2019, \$2.9 billion of available-for-sale investment securities and \$2.6 billion of short-term borrowings on the Consolidated Balance Sheet were related to the tender option bond program, compared with \$2.4 billion of available-for-sale investment securities and \$2.3 billion of short-term borrowings at December 31, 2018.

## Note 7 Mortgage Servicing Rights

The Company capitalizes MSR as separate assets when loans are sold and servicing is retained. MSR may also be purchased from others. The Company carries MSR at fair value, with changes in the fair value recorded in earnings during the period in which they occur. The Company serviced \$227.8 billion of residential mortgage loans for others at September 30, 2019, and \$231.5 billion at December 31, 2018, including subserviced mortgages with no corresponding MSR asset. Included in mortgage banking revenue are the MSR fair value changes arising from market rate and model assumption changes, net of the value change in derivatives used to economically hedge MSR. These changes resulted in net losses of \$2 million and a net gain of \$1 million for the three months ended September 30, 2019 and 2018, respectively, and net losses of \$5 million and net gains of \$44 million for the nine months ended September 30, 2019 and 2018, respectively. Loan servicing and ancillary fees, not including valuation changes, included in mortgage banking revenue were \$188 million and \$182 million for the three months ended September 30, 2019 and 2018, respectively, and \$547 million and \$557 million for the nine months ended September 30, 2019 and 2018, respectively.

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

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Balance at beginning of period . . . . .	\$2,458	\$2,844	\$2,791	\$2,645
Rights purchased . . . . .	6	2	13	6
Rights capitalized . . . . .	168	109	373	306
Rights sold (a) . . . . .	4	(15)	4	(15)
Changes in fair value of MSR				
Due to fluctuations in market interest rates (b) . . . . .	(243)	68	(573)	220
Due to revised assumptions or models (c) . . . . .	15	2	30	52
Other changes in fair value (d) . . . . .	(112)	(93)	(342)	(297)
Balance at end of period . . . . .	\$2,296	\$2,917	\$2,296	\$2,917

(a) MSR sold in 2019 include those having a negative fair value, resulting from the related loans being severely delinquent.

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

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

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

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

(Dollars in Millions)	September 30, 2019						December 31, 2018					
	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps
MSR portfolio . . . . .	\$(696)	\$(337)	\$(165)	\$ 153	\$ 294	\$ 537	\$(501)	\$(223)	\$(105)	\$ 92	\$ 171	\$ 295
Derivative instrument hedges . . . . .	691	340	167	(156)	(307)	(615)	455	215	104	(94)	(177)	(321)
Net sensitivity . . . . .	\$ (5)	\$ 3	\$ 2	\$ (3)	\$ (13)	\$ (78)	\$ (46)	\$ (8)	\$ (1)	\$ (2)	\$ (6)	\$ (26)

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

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

(Dollars in Millions)	September 30, 2019				December 31, 2018			
	HFA	Government	Conventional (d)	Total	HFA	Government	Conventional (d)	Total
Servicing portfolio (a)	\$44,968	\$35,634	\$144,797	\$225,399	\$44,384	\$35,990	\$148,910	\$229,284
Fair value	\$ 453	\$ 414	\$ 1,429	\$ 2,296	\$ 526	\$ 465	\$ 1,800	\$ 2,791
Value (bps) (b)	101	116	99	102	119	129	121	122
Weighted-average servicing fees (bps)	34	38	28	31	34	36	27	30
Multiple (value/servicing fees)	2.94	3.05	3.57	3.33	3.45	3.63	4.52	4.11
Weighted-average note rate	4.66%	4.01%	4.08%	4.18%	4.59%	3.97%	4.06%	4.15%
Weighted-average age (in years)	3.6	4.8	4.8	4.6	3.3	4.7	4.5	4.3
Weighted-average expected prepayment (constant prepayment rate)	13.6%	15.4%	14.7%	14.6%	9.8%	11.0%	9.1%	9.5%
Weighted-average expected life (in years)	6.0	5.2	5.2	5.4	7.7	6.7	7.1	7.2
Weighted-average option adjusted spread (c)	8.4%	8.0%	7.0%	7.4%	8.6%	8.3%	7.2%	7.6%

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

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

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

(d) Represents loans sold primarily to GSEs.

## Note 8 Preferred Stock

At September 30, 2019 and December 31, 2018, the Company had authority to issue 50 million shares of preferred stock. The number of shares issued and outstanding and the carrying amount of each outstanding series of the Company's preferred stock were as follows:

(Dollars in Millions)	September 30, 2019				December 31, 2018			
	Shares Issued and Outstanding	Liquidation Preference	Discount	Carrying Amount	Shares Issued and Outstanding	Liquidation Preference	Discount	Carrying Amount
Series A	12,510	\$1,251	\$145	\$1,106	12,510	\$1,251	\$145	\$1,106
Series B	40,000	1,000	—	1,000	40,000	1,000	—	1,000
Series F	44,000	1,100	12	1,088	44,000	1,100	12	1,088
Series H	20,000	500	13	487	20,000	500	13	487
Series I	30,000	750	5	745	30,000	750	5	745
Series J	40,000	1,000	7	993	40,000	1,000	7	993
Series K	23,000	575	10	565	23,000	575	10	565
Total preferred stock (a)	209,510	\$6,176	\$192	\$5,984	209,510	\$6,176	\$192	\$5,984

(a) The par value of all shares issued and outstanding at September 30, 2019 and December 31, 2018, was \$1.00 per share.

## Note 9 Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended September 30 (Dollars in Millions)	Unrealized Gains (Losses) on Investment Securities Available-For-Sale	Unrealized Gains (Losses) on Investment Securities Available-For-Sale to Held-To-Maturity	Unrealized Gains (Losses) on Derivative Hedges	Unrealized Gains (Losses) on Retirement Plans	Foreign Currency Translation	Total
<b>2019</b>						
Balance at beginning of period	\$ 163	\$11	\$ (55)	\$ (1,385)	\$ (78)	\$ (1,344)
Changes in unrealized gains and losses	284	—	(59)	—	—	225
Foreign currency translation adjustment (a)	—	—	—	—	2	2
Reclassification to earnings of realized gains and losses	(25)	(1)	6	22	—	2
Applicable income taxes	(66)	—	14	(6)	—	(58)
Balance at end of period	\$ 356	\$10	\$ (94)	\$ (1,369)	\$ (76)	\$ (1,173)
<b>2018</b>						
Balance at beginning of period	\$ (1,183)	\$17	\$176	\$ (1,244)	\$ (81)	\$ (2,315)
Changes in unrealized gains and losses	(411)	—	40	—	—	(371)
Foreign currency translation adjustment (a)	—	—	—	—	7	7
Reclassification to earnings of realized gains and losses	(10)	(2)	(2)	34	—	20
Applicable income taxes	107	—	(10)	(9)	(2)	86
Balance at end of period	\$ (1,497)	\$15	\$204	\$ (1,219)	\$ (76)	\$ (2,573)

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

Nine Months Ended September 30 (Dollars in Millions)	Unrealized Gains	Unrealized Gains	Unrealized Gains	Unrealized Gains	Foreign	Total
	(Losses) on Investment Securities Available-For- Sale	(Losses) on Investment Securities Transferred From Available-For-Sale to Held-To- Maturity	(Losses) on Derivative Hedges	(Losses) on Retirement Plans	Currency Translation	
<b>2019</b>						
Balance at beginning of period	\$ (946)	\$14	\$ 112	\$(1,418)	\$(84)	\$(2,322)
Changes in unrealized gains and losses	1,790	—	(268)	—	—	1,522
Foreign currency translation adjustment (a)	—	—	—	—	10	10
Reclassification to earnings of realized gains and losses	(47)	(5)	(8)	66	—	6
Applicable income taxes	(441)	1	70	(17)	(2)	(389)
Balance at end of period	\$ 356	\$10	\$ (94)	\$(1,369)	\$(76)	\$(1,173)
<b>2018</b>						
Balance at beginning of period	\$ (357)	\$17	\$ 71	\$(1,066)	\$(69)	\$(1,404)
Revaluation of tax related balances (b)	(77)	4	15	(229)	(13)	(300)
Changes in unrealized gains and losses	(1,399)	—	159	(1)	—	(1,241)
Foreign currency translation adjustment (a)	—	—	—	—	12	12
Reclassification to earnings of realized gains and losses	(25)	(7)	(1)	103	—	70
Applicable income taxes	361	1	(40)	(26)	(6)	290
Balance at end of period	\$(1,497)	\$15	\$ 204	\$(1,219)	\$(76)	\$(2,573)

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

(b) Reflects the adoption of new accounting guidance on January 1, 2018 to reclassify the impact of the reduced federal statutory rate for corporations included in 2017 tax reform legislation from accumulated other comprehensive income to retained earnings.

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

(Dollars in Millions)	Impact to Net Income				Affected Line Item in the Consolidated Statement of Income
	Three Months Ended September 30		Nine Months Ended September 30		
	2019	2018	2019	2018	
Unrealized gains (losses) on investment securities available-for-sale					
Realized gains (losses) on sale of investment securities	\$ 25	\$ 10	\$ 47	\$ 25	Total securities gains (losses), net
	(6)	(2)	(12)	(6)	Applicable income taxes
	19	8	35	19	Net-of-tax
Unrealized gains (losses) on investment securities transferred from available-for-sale to held-to-maturity					
Amortization of unrealized gains	1	2	5	7	Interest income
	—	—	(1)	(1)	Applicable income taxes
	1	2	4	6	Net-of-tax
Unrealized gains (losses) on derivative hedges					
Realized gains (losses) on derivative hedges	(6)	2	8	1	Interest expense
	1	(1)	(2)	(1)	Applicable income taxes
	(5)	1	6	—	Net-of-tax
Unrealized gains (losses) on retirement plans					
Actuarial gains (losses) and prior service cost (credit) amortization	(22)	(34)	(66)	(103)	Other noninterest expense
	6	8	17	26	Applicable income taxes
	(16)	(26)	(49)	(77)	Net-of-tax
Total impact to net income	\$ (1)	\$(15)	\$ (4)	\$ (52)	



## Note 10 Earnings Per Share

The components of earnings per share were:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(Dollars and Shares in Millions, Except Per Share Data)				
Net income attributable to U.S. Bancorp	\$1,908	\$1,815	\$5,428	\$5,240
Preferred dividends	(79)	(76)	(230)	(210)
Earnings allocated to participating stock awards	(8)	(7)	(23)	(23)
Net income applicable to U.S. Bancorp common shareholders	\$1,821	\$1,732	\$5,175	\$5,007
Average common shares outstanding	1,575	1,629	1,589	1,641
Net effect of the exercise and assumed purchase of stock awards	3	4	3	4
Average diluted common shares outstanding	1,578	1,633	1,592	1,645
Earnings per common share	\$ 1.16	\$ 1.06	\$ 3.26	\$ 3.05
Diluted earnings per common share	\$ 1.15	\$ 1.06	\$ 3.25	\$ 3.04

Options outstanding at September 30, 2019, to purchase 1 million common shares for the three months and nine months ended September 30, 2019, and outstanding at September 30, 2018, to purchase 1 million common shares for the three months and nine months ended September 30, 2018, were not included in the computation of diluted earnings per share because they were antidilutive.

## Note 11 Employee Benefits

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

	Three Months Ended September 30				Nine Months Ended September 30			
	Pension Plans		Postretirement Welfare Plan		Pension Plans		Postretirement Welfare Plan	
	2019	2018	2019	2018	2019	2018	2019	2018
(Dollars in Millions)								
Service cost	\$ 48	\$ 52	\$ –	\$ –	\$ 144	\$ 156	\$ –	\$ –
Interest cost	63	56	1	–	187	168	2	1
Expected return on plan assets	(96)	(95)	(1)	–	(287)	(284)	(2)	(2)
Prior service cost (credit) amortization	–	–	(1)	(1)	–	–	(3)	(2)
Actuarial loss (gain) amortization	24	36	(1)	(1)	73	109	(4)	(4)
Net periodic benefit cost (a)	\$ 39	\$ 49	\$(2)	\$(2)	\$ 117	\$ 149	\$(7)	\$(7)

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

## Note 12 Income Taxes

The components of income tax expense were:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(Dollars in Millions)				
<b>Federal</b>				
Current	\$414	\$385	\$1,002	\$ 931
Deferred	(59)	(53)	26	(17)
Federal income tax	355	332	1,028	914
<b>State</b>				
Current	140	141	280	295
Deferred	(28)	(13)	(14)	54
State income tax	112	128	266	349
Total income tax provision	\$467	\$460	\$1,294	\$1,263

A reconciliation of expected income tax expense at the federal statutory rate of 21 percent to the Company's applicable income tax expense follows:

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Tax at statutory rate . . . . .	\$501	\$ 479	\$1,417	\$1,370
State income tax, at statutory rates, net of federal tax benefit . . . . .	99	102	277	287
Tax effect of				
Tax credits and benefits, net of related expenses . . . . .	(97)	(122)	(307)	(369)
Exam resolutions . . . . .	—	—	(49)	(49)
Tax-exempt income . . . . .	(29)	(33)	(92)	(98)
Noncontrolling interests . . . . .	(1)	(2)	(5)	(5)
Other items . . . . .	(6)	36	53	127
Applicable income taxes . . . . .	\$467	\$ 460	\$1,294	\$1,263

The Company's income tax returns are subject to review and examination by federal, state, local and foreign government authorities. On an ongoing basis, numerous federal, state, local and foreign examinations are in progress and cover multiple tax years. As of September 30, 2019, federal tax examinations for all years ending through December 31, 2010, and years ending December 31, 2013, and December 31, 2014 are completed and resolved. The Company's tax returns for the years ended December 31, 2011, 2012, 2015, and 2016 are under examination by the Internal Revenue Service. The years open to examination by foreign, state and local government authorities vary by jurisdiction.

The Company's net deferred tax asset was \$409 million at September 30, 2019 and \$809 million at December 31, 2018.

### **Note 13** Derivative Instruments

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

**Fair Value Hedges** These derivatives are interest rate swaps the Company uses to hedge the change in fair value related to interest rate changes of its underlying fixed-rate debt. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings.

**Cash Flow Hedges** These derivatives are interest rate swaps the Company uses to hedge the forecasted cash flows from its underlying variable-rate debt. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until the cash flows of the hedged items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within other comprehensive income (loss). At September 30, 2019, the Company had \$94 million (net-of-tax) of realized and unrealized losses on derivatives classified as cash flow hedges recorded in other comprehensive income (loss), compared with \$112 million (net-of-tax) of realized and unrealized gains at December 31, 2018. The estimated amount to be reclassified from other comprehensive income (loss) into earnings during the remainder of 2019 and the next 12 months are losses of \$14 million (net-of-tax) and \$30 million (net-of-tax), respectively. All cash flow hedges were highly effective for the three and nine months ended September 30, 2019.

**Net Investment Hedges** The Company uses forward commitments to sell specified amounts of certain foreign currencies, and non-derivative debt instruments, to hedge the volatility of its net investment in foreign operations driven by fluctuations in foreign currency exchange rates. The carrying amount of non-derivative debt instruments designated as net investment hedges was \$1.1 billion at September 30, 2019 and December 31, 2018.

**Other Derivative Positions** The Company enters into free-standing derivatives to mitigate interest rate risk and for other risk management purposes. These derivatives include forward commitments to sell to-be-announced securities (“TBAs”) and other commitments to sell residential mortgage loans, which are used to economically hedge the interest rate risk related to mortgage loans held for sale (“MLHFS”) and unfunded mortgage loan commitments. The Company also enters into interest rate swaps, swaptions, forward commitments to buy TBAs, U.S. Treasury and Eurodollar futures and options on U.S. Treasury futures to economically hedge the change in the fair value of the Company’s MSRs. The Company also enters into foreign currency forwards to economically hedge remeasurement gains and losses the Company recognizes on foreign currency denominated assets and liabilities. In addition, the Company acts as a seller and buyer of interest rate derivatives and foreign exchange contracts for its customers. The Company mitigates the market and liquidity risk associated with these customer derivatives by entering into similar offsetting positions with broker-dealers, or on a portfolio basis by entering into other derivative or non-derivative financial instruments that partially or fully offset the exposure from these customer-related positions. The Company’s customer derivatives and related hedges are monitored and reviewed by the Company’s Market Risk Committee, which establishes policies for market risk management, including exposure limits for each portfolio. The Company also has derivative contracts that are created through its operations, including certain unfunded mortgage loan commitments and swap agreements related to the sale of a portion of its Class B common shares of Visa Inc. Refer to Note 15 for further information on these swap agreements.

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

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

(Dollars in Millions)	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
<b>September 30, 2019</b>						
Fair value hedges						
Interest rate contracts						
Receive fixed/pay floating swaps . . . . .	\$15,300	\$ -	4.91	\$ 1,900	\$ -	3.97
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps . . . . .	500	-	.21	9,202	4	2.90
Net investment hedges						
Foreign exchange forward contracts . . . . .	447	4	.05	-	-	-
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy . . . . .	7,373	21	.06	14,083	52	.09
Sell . . . . .	5,169	13	.03	22,883	20	.79
Options						
Purchased . . . . .	9,300	57	2.19	200	-	1.01
Written . . . . .	1,959	47	.10	4,010	76	1.81
Receive fixed/pay floating swaps . . . . .	5,762	-	8.54	5,202	-	10.35
Pay fixed/receive floating swaps . . . . .	964	-	6.94	5,220	-	5.93
Foreign exchange forward contracts . . . . .	242	1	.04	437	1	.05
Equity contracts . . . . .	18	1	.64	126	2	.64
Other (a) . . . . .	675	6	.01	2,394	58	.54
Total . . . . .	\$47,709	\$150		\$65,657	\$213	
<b>December 31, 2018</b>						
Cash flow hedges						
Interest rate contracts						
Pay fixed/receive floating swaps . . . . .	\$ 7,422	\$ 8	3.11	\$ 4,320	\$ -	1.77
Net investment hedges						
Foreign exchange forward contracts . . . . .	209	5	.05	223	1	.05
Other economic hedges						
Interest rate contracts						
Futures and forwards						
Buy . . . . .	2,839	27	.07	1,140	5	.05
Sell . . . . .	994	3	.06	13,968	30	.72
Options						
Purchased . . . . .	5,080	88	10.77	-	-	-
Written . . . . .	584	16	.09	3	-	.09
Receive fixed/pay floating swaps . . . . .	3,605	-	14.80	4,333	-	6.97
Pay fixed/receive floating swaps . . . . .	4,333	-	6.97	1,132	-	7.64
Foreign exchange forward contracts . . . . .	549	7	.03	75	1	.05
Equity contracts . . . . .	19	1	.82	104	2	.45
Other (a) . . . . .	1	-	.01	1,458	84	1.50
Total . . . . .	\$25,635	\$155		\$26,756	\$123	

(a) Includes derivative liability swap agreements related to the sale of a portion of the Company's Class B common shares of Visa Inc. The Visa swap agreements had a total notional value, fair value and weighted-average remaining maturity of \$1.7 billion, \$52 million and .75 years at September 30, 2019, respectively, compared to \$1.5 billion, \$84 million and 1.50 years at December 31, 2018, respectively. In addition, includes short-term underwriting purchase and sale commitments with total asset and liability notional values of \$675 million at September 30, 2019, and \$1 million at December 31, 2018.

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

(Dollars in Millions)	Asset Derivatives			Liability Derivatives		
	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Value	Fair Value	Weighted-Average Remaining Maturity In Years
<b>September 30, 2019</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	\$116,162	\$2,435	5.20	\$ 18,102	\$ 29	3.09
Pay fixed/receive floating swaps	17,918	22	3.04	111,998	932	4.98
Other (a)	6,156	2	3.10	7,345	3	3.26
Options						
Purchased	45,207	52	1.54	6,567	121	2.85
Written	5,600	124	3.42	43,346	47	1.41
Futures						
Buy	647	–	.21	525	–	.62
Sell	–	–	–	3,723	2	1.49
Foreign exchange rate contracts						
Forwards, spots and swaps	29,935	811	1.09	30,808	786	1.25
Options						
Purchased	1,364	28	.60	–	–	–
Written	–	–	–	1,364	28	.60
Credit contracts						
	2,670	1	3.40	6,926	6	4.07
Total	\$225,659	\$3,475		\$230,704	\$1,954	
<b>December 31, 2018</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 42,054	\$ 754	6.73	\$ 60,731	\$ 456	4.32
Pay fixed/receive floating swaps	60,970	288	3.90	40,499	420	6.57
Other (a)	5,777	2	3.77	6,496	2	2.72
Options						
Purchased	41,711	51	1.54	1,940	30	1.98
Written	2,060	32	2.07	39,538	51	1.44
Futures						
Buy	460	–	1.58	–	–	–
Sell	–	–	–	6,190	1	.59
Foreign exchange rate contracts						
Forwards, spots and swaps	26,210	681	.91	25,571	663	.88
Options						
Purchased	2,779	47	.75	–	–	–
Written	–	–	–	2,779	47	.75
Credit contracts						
	2,318	–	3.50	4,923	2	4.04
Total	\$184,339	\$1,855		\$188,667	\$1,672	

(a) Primarily represents floating rate interest rate swaps that pay based on differentials between specified interest rate indexes.

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

(Dollars in Millions)	Three Months Ended September 30				Nine Months Ended September 30			
	Gains (Losses) Recognized in Other Comprehensive Income (Loss)		Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings		Gains (Losses) Recognized in Other Comprehensive Income (Loss)		Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Asset and Liability Management Positions</b>								
Cash flow hedges								
Interest rate contracts	\$(44)	\$29	\$(5)	\$1	\$(200)	\$118	\$6	\$–
Net investment hedges								
Foreign exchange forward contracts	10	–	–	–	8	28	–	–
Non-derivative debt instruments	37	6	–	–	42	22	–	–

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

The table below shows the effect of fair value and cash flow hedge accounting included in interest expense on the Consolidated Statement of Income:

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Total amount of interest expense presented in the Consolidated Statement of Income . . . . .	\$1,156	\$872	\$3,394	\$2,246
<b>Asset and Liability Management Positions</b>				
Fair value hedges				
Interest rate contract derivatives . . . . .	(183)	–	(234)	5
Hedged items . . . . .	181	–	232	(5)
Cash Flow hedges				
Interest rate contract derivatives . . . . .	6	(2)	(8)	(1)

Note: The Company does not exclude components from effectiveness testing for fair value and cash flow hedges. The Company did not reclassify gains or losses into earnings as a result of the discontinuance of cash flow hedges during the three and nine months ended September 30, 2019 and 2018.

The table below shows cumulative hedging adjustments and the carrying amount of assets (liabilities) designated in fair value hedges:

(Dollars in Millions)	Carrying Amount of the Hedged Assets (Liabilities)		Cumulative Hedging Adjustment (a)	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
<b>Line Item in the Consolidated Balance Sheet</b>				
Long-term Debt . . . . .	\$16,639	\$–	\$221	\$(27)

(a) The cumulative hedging adjustment related to discontinued hedging relationships at September 30, 2019 and December 31, 2018 was \$(11) million and \$(27) million, respectively.

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

(Dollars in Millions)	Location of Gains (Losses) Recognized in Earnings	Three Months Ended September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
<b>Asset and Liability Management Positions</b>					
Other economic hedges					
Interest rate contracts					
Futures and forwards . . . . .	Mortgage banking revenue	\$ 20	\$ 23	\$ (20)	\$ 96
Purchased and written options . . . . .	Mortgage banking revenue	154	46	347	144
Swaps . . . . .	Mortgage banking revenue	215	(68)	513	(224)
Foreign exchange forward contracts . . . . .	Other noninterest income	(3)	(9)	(18)	18
Equity contracts . . . . .	Compensation expense	–	–	(2)	(1)
Other . . . . .	Other noninterest income	–	–	–	1
<b>Customer-Related Positions</b>					
Interest rate contracts					
Swaps . . . . .	Commercial products revenue	26	16	61	33
Purchased and written options . . . . .	Commercial products revenue	2	(1)	11	1
Futures . . . . .	Commercial products revenue	(3)	3	(7)	14
Foreign exchange rate contracts					
Forwards, spots and swaps . . . . .	Commercial products revenue	20	20	59	65
Purchased and written options . . . . .	Commercial products revenue	1	–	1	–
Credit contracts . . . . .	Commercial products revenue	(4)	1	(12)	3

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

The Company's collateral arrangements are predominately bilateral and, therefore, contain provisions that require collateralization of the Company's net liability derivative positions. Required collateral coverage is based on net liability thresholds and may be contingent upon the Company's credit rating from two of the nationally recognized statistical rating organizations. If the Company's credit rating were to fall below credit ratings thresholds established in the collateral arrangements, the counterparties to the derivatives could request immediate additional collateral coverage up to and including full collateral coverage for derivatives in a net liability position. The aggregate fair value of all derivatives under collateral arrangements that were in a net liability position at September 30, 2019, was \$770 million. At September 30, 2019, the Company had \$529 million of cash posted as collateral against this net liability position.

#### **Note 14** Netting Arrangements for Certain Financial Instruments and Securities Financing Activities

The Company's derivative portfolio consists of bilateral over-the-counter trades, certain interest rate derivatives and credit contracts required to be centrally cleared through clearinghouses per current regulations, and exchange-traded positions which may include U.S. Treasury and Eurodollar futures or options on U.S. Treasury futures. Of the Company's \$569.7 billion total notional amount of derivative positions at September 30, 2019, \$269.3 billion related to bilateral over-the-counter trades, \$276.3 billion related to those centrally cleared through clearinghouses and \$24.1 billion related to those that were exchange-traded. The Company's derivative contracts typically include offsetting rights (referred to as netting arrangements), and depending on expected volume, credit risk, and counterparty preference, collateral maintenance may be required. For all derivatives under collateral support arrangements, fair value is determined daily and, depending on the collateral maintenance requirements, the Company and a counterparty may receive or deliver collateral, based upon the net fair value of all derivative positions between the Company and the counterparty. Collateral is typically cash, but securities may be allowed under collateral arrangements with certain counterparties. Receivables and payables related to cash collateral are included in other assets and other liabilities on the Consolidated Balance Sheet, along with the related derivative asset and liability fair values. Any securities pledged to counterparties as collateral remain on the Consolidated Balance Sheet. Securities received from counterparties as collateral are not recognized on the Consolidated Balance Sheet, unless the counterparty defaults. In general, securities used as collateral can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Refer to Note 13 for further discussion of the Company's derivatives, including collateral arrangements.

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

Securities transferred to counterparties under repurchase agreements and securities loaned transactions continue to be recognized on the Consolidated Balance Sheet, are measured at fair value, and are included in investment securities or other assets. Securities received from counterparties under reverse repurchase agreements and securities borrowed transactions are not recognized on the Consolidated Balance Sheet unless the counterparty defaults. The securities transferred under repurchase and reverse repurchase transactions typically are U.S. Treasury and agency securities, residential agency mortgage-backed securities or corporate debt securities. The securities loaned or borrowed typically are corporate debt securities traded by the Company's broker-dealer subsidiary. In general, the securities transferred can be sold, repledged or otherwise used by the party in possession. No restrictions exist on the use of cash collateral by either party. Repurchase/reverse repurchase and securities loaned/borrowed transactions expose the Company to counterparty risk. The Company manages this risk by performing assessments, independent of business line managers, and establishing concentration limits on each counterparty. Additionally, these transactions include collateral arrangements that require the fair values of the underlying securities to be determined daily, resulting in cash being obtained or refunded to counterparties to maintain specified collateral levels.

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

(Dollars in Millions)	Overnight and Continuous	Less Than 30 Days	30-89 Days	Greater Than 90 Days	Total
<b>September 30, 2019</b>					
Repurchase agreements					
U.S. Treasury and agencies	\$ 278	\$-	\$ -	\$ -	\$ 278
Residential agency mortgage-backed securities	270	-	-	-	270
Corporate debt securities	676	-	-	-	676
Total repurchase agreements	1,224	-	-	-	1,224
Securities loaned					
Corporate debt securities	107	-	-	-	107
Total securities loaned	107	-	-	-	107
Gross amount of recognized liabilities	\$1,331	\$-	\$ -	\$ -	\$1,331
<b>December 31, 2018</b>					
Repurchase agreements					
U.S. Treasury and agencies	\$ 134	\$-	\$ -	\$ -	\$ 134
Residential agency mortgage-backed securities	565	-	945	470	1,980
Corporate debt securities	480	-	-	-	480
Total repurchase agreements	1,179	-	945	470	2,594
Securities loaned					
Corporate debt securities	227	-	-	-	227
Total securities loaned	227	-	-	-	227
Gross amount of recognized liabilities	\$1,406	\$-	\$945	\$470	\$2,821

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

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

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

(Dollars in Millions)	Gross Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet (a)	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		
				Financial Instruments (b)	Collateral Received (c)	Net Amount
<b>September 30, 2019</b>						
Derivative assets (d)	\$3,563	\$(1,324)	\$2,239	\$ (61)	\$ (156)	\$2,022
Reverse repurchase agreements	3,893	-	3,893	(169)	(3,724)	-
Securities borrowed	1,499	-	1,499	-	(1,452)	47
Total	\$8,955	\$(1,324)	\$7,631	\$(230)	\$(5,332)	\$2,069
<b>December 31, 2018</b>						
Derivative assets (d)	\$1,987	\$ (942)	\$1,045	\$(106)	\$ (16)	\$ 923
Reverse repurchase agreements	205	-	205	(114)	(91)	-
Securities borrowed	1,069	-	1,069	-	(1,039)	30
Total	\$3,261	\$ (942)	\$2,319	\$(220)	\$(1,146)	\$ 953

(a) Includes \$760 million and \$236 million of cash collateral related payables that were netted against derivative assets at September 30, 2019 and December 31, 2018, respectively.

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

(c) Includes the fair value of securities received by the Company from the counterparty. These securities are not included on the Consolidated Balance Sheet unless the counterparty defaults.

(d) Excludes \$62 million and \$23 million at September 30, 2019 and December 31, 2018, respectively, of derivative assets not subject to netting arrangements.



(Dollars in Millions)	Gross Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet (a)	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		
				Financial Instruments (b)	Collateral Pledged (c)	Net Amount
<b>September 30, 2019</b>						
Derivative liabilities (d)	\$2,105	\$(1,093)	\$1,012	\$ (61)	\$ -	\$951
Repurchase agreements	1,224	-	1,224	(169)	(1,055)	-
Securities loaned	107	-	107	-	(106)	1
Total	\$3,436	\$(1,093)	\$2,343	\$(230)	\$(1,161)	\$952
<b>December 31, 2018</b>						
Derivative liabilities (d)	\$1,710	\$ (946)	\$ 764	\$(106)	\$ -	\$658
Repurchase agreements	2,594	-	2,594	(114)	(2,480)	-
Securities loaned	227	-	227	-	(224)	3
Total	\$4,531	\$ (946)	\$3,585	\$(220)	\$(2,704)	\$661

(a) Includes \$529 million and \$240 million of cash collateral related receivables that were netted against derivative liabilities at September 30, 2019 and December 31, 2018, respectively.

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

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

(d) Excludes \$62 million and \$85 million at September 30, 2019 and December 31, 2018, respectively, of derivative liabilities not subject to netting arrangements.

## Note 15 Fair Values of Assets and Liabilities

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

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

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities. Level 1 includes U.S. Treasury securities, as well as exchange-traded instruments.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 includes debt securities that are traded less frequently than exchange-traded instruments and which are typically valued using third party pricing services; derivative contracts and other assets and liabilities, including securities, whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data; and MLHFS whose values are determined using quoted prices for similar assets or pricing models with inputs that are observable in the market or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes MSRs and certain derivative contracts.

## Valuation Methodologies

The valuation methodologies used by the Company to measure financial assets and liabilities at fair value are described below. In addition, the following section includes an indication of the level of the fair value hierarchy in which the

assets or liabilities are classified. Where appropriate, the descriptions include information about the valuation models and key inputs to those models. During the nine months ended September 30, 2019 and 2018, there were no significant changes to the valuation techniques used by the Company to measure fair value.

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

For other securities, quoted market prices may not be readily available for the specific securities. When possible, the Company determines fair value based on market observable information, including quoted market prices for similar securities, inactive transaction prices, and broker quotes. These securities are classified within Level 2 of the fair value hierarchy. Level 2 valuations are generally provided by a third party pricing service. Level 2 investment securities are predominantly agency mortgage-backed securities, certain other asset-backed securities, obligations of state and political subdivisions and agency debt securities.

**Mortgage Loans Held For Sale** MLHFS measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by comparison to instruments with similar collateral and risk profiles. MLHFS are classified within Level 2. Included in mortgage banking revenue was a \$10 million net gain and a \$4 million net loss for the three months ended September 30, 2019 and 2018, respectively, and a \$53 million net gain and a \$61 million net loss for the nine months ended September 30, 2019 and 2018, respectively, from the changes to fair value of these MLHFS under fair value option accounting guidance. Changes in fair value due to instrument specific credit risk were immaterial. Interest income for MLHFS is measured based on contractual interest rates and reported as interest income on the Consolidated Statement of Income. Electing to measure MLHFS at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

**Mortgage Servicing Rights** MSR are valued using a discounted cash flow methodology, and are classified within Level 3. The Company determines fair value of the MSR by projecting future cash flows for different interest rate scenarios using prepayment rates and other assumptions, and discounts these cash flows using a risk adjusted rate based on option adjusted spread levels. There is minimal observable market activity for MSR on comparable portfolios and, therefore, the determination of fair value requires significant management judgment. Refer to Note 7 for further information on MSR valuation assumptions.

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

The Company also has other derivative contracts that are created through its operations, including commitments to purchase and originate mortgage loans and swap agreements executed in conjunction with the sale of a portion of its Class B common shares of Visa Inc. (the "Visa swaps"). The mortgage loan commitments are valued by pricing models that include market observable and unobservable inputs, which result in the commitments being classified within Level 3 of the fair value hierarchy. The unobservable inputs include assumptions about the percentage of commitments that actually become a closed loan and the MSR value that is inherent in the underlying loan value. The Visa swaps require payments by either the Company or the purchaser of the Visa Inc. Class B common shares when there are changes in the conversion rate of the Visa Inc. Class B common shares to Visa Inc. Class A common shares, as well as quarterly payments to the purchaser based on specified terms of the agreements. Management reviews and updates the Visa swaps fair value in conjunction with its review of Visa Inc. related litigation contingencies, and the associated

escrow funding. The expected litigation resolution impacts the Visa Inc. Class B common share to Visa Inc. Class A common share conversion rate, as well as the ultimate termination date for the Visa swaps. Accordingly, the Visa swaps are classified within Level 3. Refer to Note 16 for further information on the Visa Inc. restructuring and related card association litigation.

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

The following section provides information to facilitate an understanding of the uncertainty in the fair value measurements for the Company's Level 3 assets and liabilities recorded at fair value on the Consolidated Balance Sheet. This section includes a description of the significant inputs used by the Company and a description of any interrelationships between these inputs. The discussion below excludes nonrecurring fair value measurements of collateral value used for impairment measures for loans and OREO. These valuations utilize third party appraisal or broker price opinions, and are classified as Level 3 due to the significant judgment involved.

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

The following table shows the significant valuation assumption ranges for MSRs at September 30, 2019:

	Minimum	Maximum	Weighted-Average (a)
Expected prepayment . . . . .	10%	21%	15%
Option adjusted spread . . . . .	7	10	7

(a) Determined based on the relative fair value of the related mortgage loans serviced.

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

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

The following table shows the significant valuation assumption ranges for the Company's derivative commitments to purchase and originate mortgage loans at September 30, 2019:

	Minimum	Maximum	Weighted-Average (a)
Expected loan close rate . . . . .	13%	100%	78%
Inherent MSR value (basis points per loan) . . . . .	50	199	118

(a) Determined based on the relative fair value of the related mortgage loans.

The significant unobservable input used in the fair value measurement of certain of the Company's asset/liability and customer-related derivatives is the credit valuation adjustment related to the risk of counterparty nonperformance. A significant increase in the credit valuation adjustment would have resulted in a lower fair value measurement. A significant decrease in the credit valuation adjustment would have resulted in a higher fair value measurement. The credit valuation adjustment is impacted by changes in market rates, volatility, market implied credit spreads, and loss recovery rates, as well as the Company's assessment of the counterparty's credit position. At September 30, 2019, the minimum, maximum and weighted-average credit valuation adjustment as a percentage of the derivative contract fair value prior to adjustment was 0 percent, 905 percent and 1 percent, respectively.

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

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

(Dollars in Millions)	Level 1	Level 2	Level 3	Netting	Total
<b>September 30, 2019</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$15,141	\$ 412	\$ -	\$ -	\$15,553
Mortgage-backed securities					
Residential agency	-	50,943	-	-	50,943
Commercial agency	-	984	-	-	984
Other asset-backed securities	-	382	-	-	382
Obligations of state and political subdivisions	-	6,735	-	-	6,735
Obligations of foreign governments	-	1	-	-	1
Total available-for-sale	15,141	59,457	-	-	74,598
Mortgage loans held for sale	-	3,852	-	-	3,852
Mortgage servicing rights	-	-	2,296	-	2,296
Derivative assets	7	1,998	1,620	(1,324)	2,301
Other assets	322	2,065	-	-	2,387
Total	\$15,470	\$67,372	\$3,916	\$(1,324)	\$85,434
Derivative liabilities	\$ 2	\$ 1,831	\$ 334	\$(1,093)	\$ 1,074
Short-term borrowings and other liabilities (a)	144	1,460	-	-	1,604
Total	\$ 146	\$ 3,291	\$ 334	\$(1,093)	\$ 2,678
<b>December 31, 2018</b>					
Available-for-sale securities					
U.S. Treasury and agencies	\$18,585	\$ 672	\$ -	\$ -	\$19,257
Mortgage-backed securities					
Residential agency	-	39,752	-	-	39,752
Commercial agency	-	2	-	-	2
Other asset-backed securities	-	403	-	-	403
Obligations of state and political subdivisions	-	6,701	-	-	6,701
Total available-for-sale	18,585	47,530	-	-	66,115
Mortgage loans held for sale	-	2,035	-	-	2,035
Mortgage servicing rights	-	-	2,791	-	2,791
Derivative assets	-	1,427	583	(942)	1,068
Other assets	392	1,273	-	-	1,665
Total	\$18,977	\$52,265	\$3,374	\$ (942)	\$73,674
Derivative liabilities	\$ 1	\$ 1,291	\$ 503	\$(946)	\$ 849
Short-term borrowings and other liabilities (a)	199	1,019	-	-	1,218
Total	\$ 200	\$ 2,310	\$ 503	\$(946)	\$ 2,067

Note: Excluded from the table above are equity investments without readily determinable fair values. The Company has elected to carry these investments at historical cost, adjusted for impairment and any changes resulting from observable price changes for identical or similar investments of the issuer. The aggregate carrying amount of these equity investments was \$88 million and \$86 million at September 30, 2019 and December 31, 2018, respectively. The Company has not recorded impairments or adjustments for observable price changes on these equity investments during the first nine months of 2019 and 2018, or on a cumulative basis.

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

The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30:

(Dollars in Millions)	Beginning of Period Balance	Net Gains (Losses) Included in Net Income	Purchases	Sales	Issuances	Settlements	End of Period Balance	Net Change in Unrealized Gains (Losses) Relating to Assets and Liabilities Held at End of Period
<b>2019</b>								
Mortgage servicing rights . . . . .	\$2,458	\$(340) (a)	\$6	\$ 4	\$168 (c)	\$ –	\$2,296	\$(340) (a)
Net derivative assets and liabilities . . . . .	1,045	313 (b)	1	(1)	–	(72)	1,286	322 (d)
<b>2018</b>								
Mortgage servicing rights . . . . .	\$2,844	\$ (23) (a)	\$2	\$(15)	\$109 (c)	\$ –	\$2,917	\$ (23) (a)
Net derivative assets and liabilities . . . . .	(256)	(81) (e)	2	(13)	–	(10)	(358)	(81) (f)

- (a) Included in mortgage banking revenue.  
(b) Approximately \$169 million included in other noninterest income and \$144 million included in mortgage banking revenue.  
(c) Represents MSR's capitalized during the period.  
(d) Approximately \$273 million included in other noninterest income and \$49 million included in mortgage banking revenue.  
(e) Approximately \$(122) million included in other noninterest income and \$41 million included in mortgage banking revenue.  
(f) Approximately \$(97) million included in other noninterest income and \$16 million included in mortgage banking revenue.

The following table presents the changes in fair value for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30:

(Dollars in Millions)	Beginning of Period Balance	Net Gains (Losses) Included in Net Income	Purchases	Sales	Issuances	Settlements	End of Period Balance	Net Change in Unrealized Gains (Losses) Relating to Assets and Liabilities Held at End of Period
<b>2019</b>								
Mortgage servicing rights . . . . .	\$2,791	\$ (885) (a)	\$13	\$ 4	\$373 (c)	\$ –	\$2,296	\$ (885) (a)
Net derivative assets and liabilities . . . . .	80	1,244 (b)	55	(9)	–	(84)	1,286	1,256 (d)
<b>2018</b>								
Mortgage servicing rights . . . . .	\$2,645	\$ (25) (a)	\$ 6	\$(15)	\$306 (c)	\$ –	\$2,917	\$ (25) (a)
Net derivative assets and liabilities . . . . .	107	(426) (e)	3	(35)	–	(7)	(358)	(402) (f)

- (a) Included in mortgage banking revenue.  
(b) Approximately \$881 million included in other noninterest income and \$363 million included in mortgage banking revenue.  
(c) Represents MSR's capitalized during the period.  
(d) Approximately \$1.2 billion included in other noninterest income and \$49 million included in mortgage banking revenue.  
(e) Approximately \$(537) million included in other noninterest income and \$111 million included in mortgage banking revenue.  
(f) Approximately \$(418) million included in other noninterest income and \$16 million included in mortgage banking revenue.

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

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

(Dollars in Millions)	September 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans (a) . . . . .	\$–	\$–	\$270	\$270	\$–	\$–	\$40	\$40
Other assets (b) . . . . .	–	–	42	42	–	–	57	57

- (a) Represents the carrying value of loans for which adjustments were based on the fair value of the collateral, excluding loans fully charged-off.  
(b) Primarily represents the fair value of foreclosed properties that were measured at fair value based on an appraisal or broker price opinion of the collateral subsequent to their initial acquisition.

The following table summarizes losses recognized related to nonrecurring fair value measurements of individual assets or portfolios:

(Dollars in Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Loans (a) . . . . .	\$20	\$25	\$93	\$66
Other assets (b) . . . . .	6	5	12	18

- (a) Represents write-downs of loans which were based on the fair value of the collateral, excluding loans fully charged-off.  
(b) Primarily represents related losses of foreclosed properties that were measured at fair value subsequent to their initial acquisition.

## Fair Value Option

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

(Dollars in Millions)	September 30, 2019			December 31, 2018		
	Fair Value Carrying Amount	Aggregate Unpaid Principal	Carrying Amount Over (Under) Unpaid Principal	Fair Value Carrying Amount	Aggregate Unpaid Principal	Carrying Amount Over (Under) Unpaid Principal
Total loans	\$3,852	\$3,729	\$123	\$2,035	\$1,972	\$63
Nonaccrual loans	1	1	—	2	2	—
Loans 90 days or more past due	—	—	—	—	—	—

## Fair Value of Financial Instruments

The following section summarizes the estimated fair value for financial instruments accounted for at amortized cost as of September 30, 2019 and December 31, 2018. In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as the value of goodwill, long-term relationships with deposit, credit card, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other liabilities. Additionally, in accordance with the disclosure guidance, receivables and payables due in one year or less, insurance contracts, equity investments not accounted for at fair value, and deposits with no defined or contractual maturities are excluded.

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

(Dollars in Millions)	September 30, 2019					December 31, 2018				
	Carrying Amount	Fair Value				Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>										
Cash and due from banks	\$ 15,272	\$15,272	\$ —	\$ —	\$ 15,272	\$ 21,453	\$21,453	\$ —	\$ —	\$ 21,453
Federal funds sold and securities purchased under resale agreements	3,907	—	3,907	—	3,907	306	—	306	—	306
Investment securities held-to-maturity	46,481	4,106	42,523	9	46,638	46,050	4,594	40,359	11	44,964
Loans held for sale (a)	676	—	—	676	676	21	—	—	21	21
Loans	290,631	—	—	294,850	294,850	282,837	—	—	284,790	284,790
Other	1,873	—	941	932	1,873	2,412	—	1,241	1,171	2,412
<b>Financial Liabilities</b>										
Time deposits	40,219	—	40,147	—	40,147	44,554	—	44,140	—	44,140
Short-term borrowings (b)	12,975	—	12,813	—	12,813	12,921	—	12,678	—	12,678
Long-term debt	41,274	—	41,902	—	41,902	41,340	—	41,003	—	41,003
Other	3,636	—	1,344	2,292	3,636	1,726	—	—	1,726	1,726

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

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

The fair value of unfunded commitments, deferred non-yield related loan fees, standby letters of credit and other guarantees is approximately equal to their carrying value. The carrying value of unfunded commitments, deferred non-yield related loan fees and standby letters of credit was \$533 million and \$532 million at September 30, 2019 and December 31, 2018, respectively. The carrying value of other guarantees was \$206 million and \$263 million at September 30, 2019 and December 31, 2018, respectively.

## Note 16 Guarantees and Contingent Liabilities

**Visa Restructuring and Card Association Litigation** The Company's payment services business issues credit and debit cards and acquires credit and debit card transactions through the Visa U.S.A. Inc. card association or its affiliates (collectively "Visa"). In 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members in contemplation of its initial public offering ("IPO") completed in the first quarter of 2008 (the "Visa Reorganization"). As a part of the Visa Reorganization, the Company received its proportionate number of shares of Visa Inc. common stock, which were subsequently converted to Class B shares of Visa Inc. ("Class B shares").

Visa U.S.A. Inc. (“Visa U.S.A.”) and MasterCard International (collectively, the “Card Associations”) are defendants in antitrust lawsuits challenging the practices of the Card Associations (the “Visa Litigation”). Visa U.S.A. member banks have a contingent obligation to indemnify Visa Inc. under the Visa U.S.A. bylaws (which were modified at the time of the restructuring in October 2007) for potential losses arising from the Visa Litigation. The indemnification by the Visa U.S.A. member banks has no specific maximum amount. Using proceeds from its IPO and through reductions to the conversion ratio applicable to the Class B shares held by Visa U.S.A. member banks, Visa Inc. has funded an escrow account for the benefit of member financial institutions to fund their indemnification obligations associated with the Visa Litigation. The receivable related to the escrow account is classified in other liabilities as a direct offset to the related Visa Litigation contingent liability.

In October 2012, Visa signed a settlement agreement to resolve class action claims associated with the multi-district interchange litigation pending in the United States District Court for the Eastern District of New York (the “Multi-District Litigation”). The U.S. Court of Appeals for the Second Circuit reversed the approval of that settlement and remanded the matter to the district court. In September 2018, Visa signed a new settlement agreement, superseding the original settlement agreement, to resolve class action claims associated with the Multi-District Litigation. The new settlement is still subject to court approval.

During the three and nine months ended September 30, 2019, the Company sold 0.3 million and 1.0 million, respectively, of its Class B shares. Upon final settlement of the Visa Litigation, the remaining 0.3 million Class B shares held by the Company will be eligible for conversion to Class A shares of Visa Inc., which are publicly traded. The Class B shares are excluded from the Company’s financial instruments disclosures included in Note 15.

### Other Guarantees and Contingent Liabilities

The following table is a summary of other guarantees and contingent liabilities of the Company at September 30, 2019:

(Dollars in Millions)	Collateral Held	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit . . . . .	\$ —	\$50	\$ 10,608
Third party borrowing arrangements . . . . .	—	—	13
Securities lending indemnifications . . . . .	6,383	—	6,263
Asset sales . . . . .	—	75	7,361 (a)
Merchant processing . . . . .	666	60	112,766
Tender option bond program guarantee . . . . .	2,868	—	2,595
Minimum revenue guarantees . . . . .	—	—	3
Other . . . . .	—	71	1,481

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

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

The Company currently processes card transactions in the United States, Canada, Europe and Mexico through wholly-owned subsidiaries and a network of other financial institutions. In the event a merchant was unable to fulfill product or services subject to future delivery, such as airline tickets, the Company could become financially liable for refunding the purchase price of such products or services purchased through the credit card associations under the charge-back provisions. Charge-back risk related to these merchants is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts contain various provisions to protect the Company in the event of default. At September 30, 2019, the value of airline tickets purchased to be delivered at a future date through card transactions processed by the Company was \$9.0 billion. The Company held collateral of \$581 million in escrow deposits, letters of credit and indemnities from financial institutions, and liens on various assets. In addition to specific collateral or other credit enhancements, the Company maintains a liability for its implied guarantees associated with future delivery. At September 30, 2019, the liability was \$44 million primarily related to these airline processing arrangements.

**Asset Sales** The Company regularly sells loans to GSEs as part of its mortgage banking activities. The Company provides customary representations and warranties to GSEs in conjunction with these sales. These representations and warranties generally require the Company to repurchase assets if it is subsequently determined that a loan did not meet specified criteria, such as a documentation deficiency or rescission of mortgage insurance. If the Company is unable to cure or refute a repurchase request, the Company is generally obligated to repurchase the loan or otherwise reimburse the GSE for losses. At September 30, 2019 and December 31, 2018, the Company had reserved \$10 million for potential losses from representation and warranty obligations. The Company's reserve reflects management's best estimate of losses for representation and warranty obligations. The Company's repurchase reserve is modeled at the loan level, taking into consideration the individual credit quality and borrower activity that has transpired since origination. The model applies credit quality and economic risk factors to derive a probability of default and potential repurchase that are based on the Company's historical loss experience, and estimates loss severity based on expected collateral value. The Company also considers qualitative factors that may result in anticipated losses differing from historical loss trends.

As of September 30, 2019 and December 31, 2018, the Company had \$11 million and \$15 million, respectively, of unresolved representation and warranty claims from GSEs. The Company does not have a significant amount of unresolved claims from investors other than GSEs.

### **Litigation and Regulatory Matters**

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

**Residential Mortgage-Backed Securities Litigation** In the last several years, the Company and other large financial institutions have been sued in their capacity as trustee for residential mortgage-backed securities trusts. In the lawsuits brought against the Company, the investors allege that the Company's banking subsidiary, U.S. Bank National Association ("U.S. Bank"), as trustee caused them to incur substantial losses by failing to enforce loan repurchase obligations and failing to abide by appropriate standards of care after events of default allegedly occurred. The plaintiffs in these matters seek monetary damages in unspecified amounts and most also seek equitable relief.

**Regulatory Matters** The Company is continually subject to examinations, inquiries and investigations in areas of heightened regulatory scrutiny, such as compliance, risk management, third party risk management and consumer protection. For example, the Company is currently subject to examinations, inquiries and investigations by government agencies and bank regulators concerning mortgage-related practices, including those related to lender-placed insurance, and notices and filings in bankruptcy cases. The Company is cooperating fully with all pending examinations, inquiries and investigations, any of which could lead to administrative or legal proceedings or settlements. Remedies in these proceedings or settlements may include fines, penalties, restitution or alterations in the Company's business practices (which may increase the Company's operating expenses and decrease its revenue).

In February 2018, the Company entered into a deferred prosecution agreement (the "DPA") with the United States Attorney's Office in Manhattan that resolved its investigation of the Company concerning a legacy banking relationship between U.S. Bank and payday lending businesses associated with a former customer and U.S. Bank's legacy Bank Secrecy Act/anti-money laundering compliance program. The DPA defers prosecution for a period of two years, subject to the Company's compliance with its terms, which include ongoing efforts to implement and maintain an adequate Bank Secrecy Act/anti-money laundering compliance program. If the Company violates the DPA, its term could be extended up to an additional one year, or the Company could be subject to a prosecution or civil action based on the matters that are the subject of the DPA. In addition, the Company and certain of its affiliates entered into related regulatory settlements with the Financial Crimes Enforcement Network and the Board of Governors of the Federal Reserve System. If the Company and its affiliates fail to satisfy ongoing obligations under these regulatory settlements, which include ongoing commitments to provide resources to, and enhance, the Company's firm wide Bank Secrecy



Act/anti-money laundering compliance program, the Company and its affiliates may be required to enter into further orders and settlements, pay additional fines or penalties, or modify their business practices (which may increase operating expenses and decrease revenue).

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

#### **Note 17** Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2019 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.

# U.S. Bancorp

## Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)

(Dollars in Millions) (Unaudited)	2019			2018			% Change Average Balances
	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	
<b>Assets</b>							
Investment securities . . . . .	\$117,213	\$ 748	2.55%	\$113,547	\$ 677	2.38%	3.2%
Loans held for sale . . . . .	4,476	48	4.24	3,109	36	4.64	44.0
Loans (b)							
Commercial . . . . .	103,660	1,063	4.07	99,048	986	3.95	4.7
Commercial real estate . . . . .	38,990	473	4.81	39,542	480	4.82	(1.4)
Residential mortgages . . . . .	68,608	665	3.87	62,042	588	3.79	10.6
Credit card . . . . .	23,681	686	11.50	21,774	650	11.84	8.8
Other retail . . . . .	57,497	682	4.70	55,903	622	4.42	2.9
Covered loans . . . . .	—	—	—	2,756	44	6.35	*
Total loans . . . . .	292,436	3,569	4.85	281,065	3,370	4.76	4.0
Other earning assets . . . . .	21,548	100	1.85	17,456	72	1.64	23.4
Total earning assets . . . . .	435,673	4,465	4.08	415,177	4,155	3.98	4.9
Allowance for loan losses . . . . .	(4,021)			(3,930)			(2.3)
Unrealized gain (loss) on investment securities . . . . .	426			(1,686)			*
Other assets . . . . .	49,376			47,355			4.3
Total assets . . . . .	\$481,454			\$456,916			5.4
<b>Liabilities and Shareholders' Equity</b>							
Noninterest-bearing deposits . . . . .	\$ 74,594			\$ 77,192			(3.4)%
Interest-bearing deposits							
Interest checking . . . . .	72,007	56	.31	69,330	37	.21	3.9
Money market savings . . . . .	114,475	447	1.55	100,688	286	1.13	13.7
Savings accounts . . . . .	46,348	30	.25	44,848	17	.14	3.3
Time deposits . . . . .	42,509	211	1.97	38,063	151	1.58	11.7
Total interest-bearing deposits . . . . .	275,339	744	1.07	252,929	491	.77	8.9
Short-term borrowings . . . . .	18,597	100	2.13	22,186	106	1.90	(16.2)
Long-term debt . . . . .	42,691	315	2.93	39,701	277	2.77	7.5
Total interest-bearing liabilities . . . . .	336,627	1,159	1.37	314,816	874	1.10	6.9
Other liabilities . . . . .	16,312			14,140			15.4
Shareholders' equity							
Preferred equity . . . . .	5,984			5,714			4.7
Common equity . . . . .	47,308			44,424			6.5
Total U.S. Bancorp shareholders' equity . . . . .	53,292			50,138			6.3
Noncontrolling interests . . . . .	629			630			(.2)
Total equity . . . . .	53,921			50,768			6.2
Total liabilities and equity . . . . .	\$481,454			\$456,916			5.4
Net interest income . . . . .		\$3,306			\$3,281		
Gross interest margin . . . . .			2.71%			2.88%	
Gross interest margin without taxable-equivalent increments . . . . .			2.69%			2.85%	
<b>Percent of Earning Assets</b>							
Interest income . . . . .			4.08%			3.98%	
Interest expense . . . . .			1.06			.83	
Net interest margin . . . . .			3.02%			3.15%	
Net interest margin without taxable-equivalent increments . . . . .			3.00%			3.12%	

\* Not meaningful

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

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

# U.S. Bancorp

## Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)

(Dollars in Millions) (Unaudited)	2019			2018			% Change Average Balances
	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	
<b>Assets</b>							
Investment securities . . . . .	\$115,628	\$ 2,227	2.57%	\$113,873	\$ 1,971	2.31%	1.5%
Loans held for sale . . . . .	3,265	107	4.36	3,262	108	4.41	.1
Loans (b)							
Commercial . . . . .	102,957	3,238	4.20	98,295	2,785	3.79	4.7
Commercial real estate . . . . .	39,274	1,474	5.02	39,918	1,379	4.62	(1.6)
Residential mortgages . . . . .	67,019	1,980	3.94	61,023	1,714	3.75	9.8
Credit card . . . . .	23,040	2,003	11.63	21,428	1,876	11.70	7.5
Other retail . . . . .	56,988	2,025	4.75	56,135	1,808	4.31	1.5
Covered loans . . . . .	—	—	—	2,900	134	6.14	*
Total loans . . . . .	289,278	10,720	4.95	279,699	9,696	4.63	3.4
Other earning assets . . . . .	19,255	272	1.89	16,412	182	1.48	17.3
Total earning assets . . . . .	427,426	13,326	4.16	413,246	11,957	3.86	3.4
Allowance for loan losses . . . . .	(4,005)			(3,930)			(1.9)
Unrealized gain (loss) on investment securities . . . . .	(297)			(1,530)			80.6
Other assets . . . . .	49,092			47,455			3.4
Total assets . . . . .	\$472,216			\$455,241			3.7
<b>Liabilities and Shareholders' Equity</b>							
Noninterest-bearing deposits . . . . .	\$ 73,711			\$ 78,546			(6.2)%
Interest-bearing deposits							
Interest checking . . . . .	71,539	171	.32	69,865	95	.18	2.4
Money market savings . . . . .	107,568	1,257	1.56	102,453	744	.97	5.0
Savings accounts . . . . .	45,855	80	.23	44,770	37	.11	2.4
Time deposits . . . . .	44,890	693	2.06	37,525	387	1.38	19.6
Total interest-bearing deposits . . . . .	269,852	2,201	1.09	254,613	1,263	.66	6.0
Short-term borrowings . . . . .	18,046	289	2.14	21,881	272	1.66	(17.5)
Long-term debt . . . . .	41,664	912	2.93	36,400	718	2.64	14.5
Total interest-bearing liabilities . . . . .	329,562	3,402	1.38	312,894	2,253	.96	5.3
Other liabilities . . . . .	15,869			13,740			15.5
Shareholders' equity							
Preferred equity . . . . .	5,984			5,518			8.4
Common equity . . . . .	46,462			43,915			5.8
Total U.S. Bancorp shareholders' equity . . . . .	52,446			49,433			6.1
Noncontrolling interests . . . . .	628			628			—
Total equity . . . . .	53,074			50,061			6.0
Total liabilities and equity . . . . .	\$472,216			\$455,241			3.7
Net interest income . . . . .		\$ 9,924			\$ 9,704		
Gross interest margin . . . . .			2.78%			2.90%	
Gross interest margin without taxable-equivalent increments . . . . .			2.76%			2.87%	
<b>Percent of Earning Assets</b>							
Interest income . . . . .			4.16%			3.86%	
Interest expense . . . . .			1.06			.72	
Net interest margin . . . . .			3.10%			3.14%	
Net interest margin without taxable-equivalent increments . . . . .			3.08%			3.11%	

\* Not meaningful

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

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

## Part II — Other Information

**Item 1. Legal Proceedings** — See the information set forth in Note 16 in the Notes to Consolidated Financial Statements under Part I, Item 1 of this Report, which is incorporated herein by reference.

**Item 1A. Risk Factors** — There are a number of factors that may adversely affect the Company’s business, financial results or stock price. Refer to “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, for discussion of these risks.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** — Refer to the “Capital Management” section within Management’s Discussion and Analysis in Part I, Item 2 of this Report for information regarding shares repurchased by the Company during the third quarter of 2019.

### Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 104 The cover page of U.S. Bancorp’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included within the Exhibit 101 attachments).

**SIGNATURE**

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

U.S. BANCORP

By: /s/ CRAIG E. GIFFORD

\_\_\_\_\_  
Craig E. Gifford

Controller

(Principal Accounting Officer and Duly Authorized Officer)

Dated: November 7, 2019

EXHIBIT 31.1

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

I, Andrew Cecere, certify that:

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

/s/ ANDREW CECERE

Andrew Cecere  
*Chief Executive Officer*

Dated: November 7, 2019

EXHIBIT 31.2

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

I, Terrance R. Dolan, certify that:

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

/s/ TERRANCE R. DOLAN

Terrance R. Dolan  
*Chief Financial Officer*

Dated: November 7, 2019

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANDREW CECERE \_\_\_\_\_

Andrew Cecere  
*Chief Executive Officer*

Dated: November 7, 2019

/s/ TERRANCE R. DOLAN \_\_\_\_\_

Terrance R. Dolan  
*Chief Financial Officer*



# Corporate Information

## Executive Offices

U.S. Bancorp  
800 Nicollet Mall  
Minneapolis, MN 55402

## Common Stock Transfer Agent and Registrar

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

Computershare  
P.O. Box 505000  
Louisville, KY 40233  
Phone: 888-778-1311 or 201-680-6578 (international calls)  
Internet: [www.computershare.com/investor](http://www.computershare.com/investor)

Registered or Certified Mail:  
Computershare  
462 South 4<sup>th</sup> Street, Suite 1600  
Louisville, KY 40202

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

## Independent Auditor

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

## Common Stock Listing and Trading

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

## Dividends and Reinvestment Plan

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

## Investor Relations Contact

Jennifer A. Thompson, CFA  
Executive Vice President, Investor Relations  
[jen.thompson@usbancorp.com](mailto:jen.thompson@usbancorp.com)  
Phone: 612-303-0778 or 866-775-9668

## Financial Information

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

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

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

U.S. Bancorp Investor Relations  
800 Nicollet Mall  
Minneapolis, MN 55402  
[investorrelations@usbancorp.com](mailto:investorrelations@usbancorp.com)  
Phone: 866-775-9668

## Media Requests

Rebekah Fawcett  
Senior Vice President, Head of Enterprise Communications  
Public Affairs and Communications  
[rebekah.fawcett@usbancorp.com](mailto:rebekah.fawcett@usbancorp.com)  
Phone: 612-303-9986

## Privacy

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

## Code of Ethics

At U.S. Bancorp, our commitment to high ethical standards guides everything we do. Demonstrating this commitment through our words and actions is how each of us does the right thing every day for our customers, shareholders, communities and each other. Our ethical culture has been recognized by the Ethisphere Institute, which again this year named us to its World's Most Ethical Companies® list.

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

## Diversity and Inclusion

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

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

## Equal Opportunity and Affirmative Action

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

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

## Accessibility

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



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