US BANCORP \DE\
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

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

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

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES NO

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

YES NO

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

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

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

YES NO

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

Class	Outstanding as of July 31, 2017
Common Stock, $0.01 Par Value	1,672,770,119 shares

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

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

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

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2016, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. However, factors other than these also could adversely affect U.S. Bancorp s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Percent Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Percent Change
Condensed Income Statement						
Net interest income	$ 3,017	$ 2,845	6.0%	$ 5,962	$ 5,680	5.0%
Taxable-equivalent adjustment (a)	51	51		101	104	(2.9)
Net interest income (taxable-equivalent basis) (b)	3,068	2,896	5.9	6,063	5,784	4.8
Noninterest income	2,410	2,549	(5.5)	4,710	4,695	.3
Securities gains (losses), net	9	3	*	38	6	*
Total net revenue	5,487	5,448	.7	10,811	10,485	3.1
Noninterest expense	3,023	2,992	1.0	5,967	5,741	3.9
Provision for credit losses	350	327	7.0	695	657	5.8
Income before taxes	2,114	2,129	(.7)	4,149	4,087	1.5
Income taxes and taxable-equivalent adjustment	602	593	1.5	1,151	1,150	.1
Net income	1,512	1,536	(1.6)	2,998	2,937	2.1
Net (income) loss attributable to noncontrolling interests	(12)	(14)	14.3	(25)	(29)	13.8
Net income attributable to U.S. Bancorp	$ 1,500	$ 1,522	(1.4)	$ 2,973	$ 2,908	2.2
Net income applicable to U.S. Bancorp common shareholders	$ 1,430	$ 1,435	(.3)	$ 2,817	$ 2,764	1.9
Per Common Share						
Earnings per share	$ .85	$ .83	2.4%	$ 1.67	$ 1.60	4.4%
Diluted earnings per share	.85	.83	2.4	1.66	1.59	4.4
Dividends declared per share	.280	.255	9.8	.560	.510	9.8
Book value per share	25.55	24.37	4.8			
Market value per share	51.92	40.33	28.7			
Average common shares outstanding	1,684	1,725	(2.4)	1,689	1,731	(2.4)
Average diluted common shares outstanding	1,690	1,731	(2.4)	1,695	1,737	(2.4)
Financial Ratios						
Return on average assets	1.35%	1.43%		1.35%	1.38%	
Return on average common equity	13.4	13.8		13.4	13.4	
Net interest margin (taxable-equivalent basis) (a)	3.04	3.02		3.04	3.04	
Efficiency ratio (b)	55.2	54.9		55.4	54.8	
Net charge-offs as a percent of average loans outstanding	.49	.48		.50	.48	
Average Balances						
Loans	$ 275,528	$ 266,582	3.4%	$ 274,350	$ 264,432	3.8%

Loans held for sale	2,806	3,796	(26.1)	3,214	3,481	(7.7)
Investment securities (c)	111,368	107,132	4.0	111,067	106,581	4.2
Earning assets	403,883	385,368	4.8	401,595	381,788	5.2
Assets	446,105	428,750	4.0	443,721	425,153	4.4
Noninterest-bearing deposits	82,710	79,171	4.5	81,729	78,870	3.6
Deposits	331,172	307,386	7.7	329,810	301,632	9.3
Short-term borrowings	14,538	21,103	(31.1)	13,873	24,251	(42.8)
Long-term debt	36,271	36,478	(.6)	35,775	35,643	.4
Total U.S. Bancorp shareholders equity	48,273	47,184	2.3	48,099	46,961	2.4

	June 30, 2017	December 31, 2016	
Period End Balances			
Loans	$ 277,283	$ 273,207	1.5%
Investment securities	111,114	109,275	1.7
Assets	463,844	445,964	4.0
Deposits	347,262	334,590	3.8
Long-term debt	37,814	33,323	13.5
Total U.S. Bancorp shareholders equity	48,320	47,298	2.2
Asset Quality			
Nonperforming assets	$ 1,349	$ 1,603	(15.8)%
Allowance for credit losses	4,377	4,357	.5
Allowance for credit losses as a percentage of period-end loans	1.58%	1.59%	
Capital Ratios			
Basel III transitional standardized approach:			
Common equity tier 1 capital	9.5%	9.4%	
Tier 1 capital	11.1	11.0	
Total risk-based capital	13.2	13.2	
Leverage	9.1	9.0	
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.0	12.2	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)	9.3	9.1	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)	11.7	11.7	
Tangible common equity to tangible assets (b)	7.5	7.5	
Tangible common equity to risk-weighted assets (b)	9.4	9.2	

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

Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.5 billion for the second quarter of 2017, or $0.85 per diluted common share, compared with $1.5 billion, or $0.83 per diluted common share, for the second quarter of 2016. Return on average assets and return on average common equity were 1.35 percent and 13.4 percent, respectively, for the second quarter of 2017, compared with 1.43 percent and 13.8 percent, respectively, for the second quarter of 2016.

Total net revenue for the second quarter of 2017 was $39 million (0.7 percent) higher than the second quarter of 2016, reflecting a 6.0 percent increase in net interest income (5.9 percent on a taxable-equivalent basis), partially offset by a 5.2 percent decrease in noninterest income. The increase in net interest income from the second quarter of 2016 was mainly a result of loan growth and the impact of higher interest rates. The noninterest income decrease was primarily due to equity investment income recognized in the second quarter of 2016 related to the sale of the Company s membership in Visa Europe Limited (Visa Europe) to Visa Inc., partially offset by higher payment services revenue, trust and investment management fees and treasury management fees in the second quarter of 2017.

Noninterest expense in the second quarter of 2017 was $31 million (1.0 percent) higher than the second quarter of 2016, reflecting increased compensation expense related to hiring to support business growth and compliance programs, merit increases and higher variable compensation, as well as a Federal Deposit Insurance Corporation (FDIC) insurance surcharge which began in late 2016. The increase from the second quarter of 2016 was partially offset by an increase in reserves related to legal and regulatory matters and a charitable contribution both recognized in the second quarter of 2016.

The provision for credit losses for the second quarter of 2017 of $350 million was $23 million (7.0 percent) higher than the second quarter of 2016. Net charge-offs in the second quarter of 2017 were $340 million, compared with $317 million in the second quarter of 2016. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first six months of 2017 was $3.0 billion, or $1.66 per diluted common share, compared with $2.9 billion, or $1.59 per diluted common share, for the first six months of 2016. Return on average assets and return on average common equity were 1.35 percent and 13.4 percent, respectively, for the first six months of 2017, compared with 1.38 percent and 13.4 percent, respectively, for the first six months of 2016.

Total net revenue for the first six months of 2017 was $326 million (3.1 percent) higher than the first six months of 2016, reflecting a 5.0 percent increase in net interest income (4.8 percent on a taxable-equivalent basis) and a 1.0 percent increase in noninterest income. The increase in net interest income from a year ago was mainly a result of loan growth and the impact of higher interest rates. The noninterest income increase was driven by higher payment services revenue, trust and investment management fees and treasury management fees, partially offset by lower equity investment income, reflecting the impact of the second quarter 2016 Visa Europe sale.

Noninterest expense in the first six months of 2017 was $226 million (3.9 percent) higher than the first six months of 2016, the result of increased compensation expense related to hiring to support business growth and compliance programs, merit increases and higher variable compensation, as well as the FDIC insurance surcharge, partially offset by the increase in reserves related to legal and regulatory matters and charitable contribution recognized in the second quarter of 2016.

The provision for credit losses for the first six months of 2017 of $695 million was $38 million (5.8 percent) higher than the first six months of 2016. Net charge-offs in the first six months of 2017 were $675 million, compared with $632 million in the first six months of 2016. Refer to "Corporate Risk Profile" for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

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STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $3.1 billion in the second quarter and $6.1 billion in the first six months of 2017, representing increases of $172 million (5.9 percent) and $279 million (4.8 percent), respectively, over the same periods of 2016. The increases were principally driven by loan growth and the impact of higher interest rates. Average earning assets were $18.5 billion (4.8 percent) higher in the second quarter and $19.8 billion (5.2 percent) higher in the first six months of 2017, compared with the same periods of 2016, reflecting increases in loans and investment securities and higher average cash balances to meet certain regulatory liquidity expectations. The net interest margin, on a taxable-equivalent basis, in the second quarter of 2017 was 3.04 percent, compared with 3.02 percent in the second quarter of 2016. The increase in the net interest margin from the second quarter of 2016 was due to rising interest rates partially offset by loan portfolio mix, lower reinvestment rates on maturing securities through the first quarter of 2017 and higher cash balances. The net interest margin, on a taxable-equivalent basis, in the first six months of 2017 was 3.04 percent, unchanged from the same period of the prior year. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average investment securities in the second quarter and first six months of 2017 were $4.2 billion (4.0 percent) and $4.5 billion (4.2 percent) higher, respectively, than the same periods of 2016, primarily due to purchases of U.S. Treasury and U.S. government agency-backed securities, net of prepayments and maturities, in support of liquidity management.

Average total loans in the second quarter and first six months of 2017 were $8.9 billion (3.4 percent) and $9.9 billion (3.8 percent) higher, respectively, than the same periods of 2016, due to growth in commercial loans, residential mortgages, other retail loans and credit card loans. The increases were driven by higher demand for loans from new and existing customers. These increases were partially offset by a decline in loans covered by loss sharing agreements with the FDIC, a run-off portfolio. In addition, average commercial real estate loans decreased in the second quarter of 2017, compared with the same period of the prior year, primarily the result of customers paying down balances.

Average total deposits for the second quarter and first six months of 2017 were $23.8 billion (7.7 percent) and $28.2 billion (9.3 percent) higher, respectively, than the same periods of 2016. Average noninterest-bearing deposits for the second quarter and first six months of 2017 increased $3.5 billion (4.5 percent) and $2.9 billion (3.6 percent), respectively, over the same periods of 2016, while average total savings deposits for the second quarter and first six months of 2017 increased $23.6 billion (12.2 percent) and $28.5 billion (15.1 percent), respectively, over the same periods of 2016. The increases in noninterest-bearing and total savings deposit balances were the result of growth across all business lines. Average time deposits for the second quarter and first six months of 2017 were $3.3 billion (9.8 percent) and $3.2 billion (9.4 percent) lower, respectively, than the same periods of 2016. The decreases were largely related to those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2017 increased $23 million (7.0 percent) and $38 million (5.8 percent), respectively, over the same periods of 2016. The provision for credit losses was $10 million higher than net charge-offs in the second quarter and $20 million higher than net-charge-offs in the first six months of 2017. The provision for credit losses was higher than net charge-offs by $10 million and $25 million in the second quarter and first six months of 2016, respectively. The increase in the allowance for credit losses during the second quarter and first six months of 2017 was primarily driven by loan portfolio growth. Net charge-offs increased $23 million (7.3 percent) and $43 million (6.8 percent) in the second quarter and first six months of 2017, respectively, compared with the same periods of the prior year, primarily due to higher credit card and other retail loan net charge-offs, partially offset by lower net charge-offs related to residential mortgages and commercial and commercial real estate loans. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

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Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended June 30, 2017	2016	Percent Change	Six Months Ended June 30, 2017	2016	Percent Change
Credit and debit card revenue	$ 319	$ 296	7.8%	$ 611	$ 562	8.7%
Corporate payment products revenue	184	181	1.7	363	351	3.4
Merchant processing services	407	403	1.0	785	776	1.2
ATM processing services	90	84	7.1	175	164	6.7
Trust and investment management fees	380	358	6.1	748	697	7.3
Deposit service charges	184	179	2.8	361	347	4.0
Treasury management fees	160	147	8.8	313	289	8.3
Commercial products revenue	210	238	(11.8)	417	435	(4.1)
Mortgage banking revenue	212	238	(10.9)	419	425	(1.4)
Investment products fees	41	39	5.1	81	79	2.5
Securities gains (losses), net	9	3	*	38	6	*
Other	223	386	(42.2)	437	570	(23.3)
Total noninterest income	$ 2,419	$ 2,552	(5.2)%	$ 4,748	$ 4,701	1.0%

**Not meaningful.*

Noninterest Income Noninterest income was $2.4 billion in the second quarter and $4.7 billion in the first six months of 2017, representing a decrease of $133 million (5.2 percent) and an increase of $47 million (1.0 percent), respectively, compared with the same periods of 2016. The decrease in the second quarter of 2017, compared with the second quarter of 2016, was primarily due to decreases in other revenue, commercial products revenue and mortgage banking revenue, partially offset by increases in payment services revenue, trust and investment management fees, and treasury management fees. The increase in the first six months of 2017, compared with the same period of the prior year, was driven by increases in payment services revenue, trust and investment management fees and treasury management fees, as well as higher gains on sales of investment securities, partially offset by decreases in other revenue and commercial products revenue. Payment services revenue was higher principally due to an increase in credit and debit card revenue, driven by higher sales volumes. Merchant processing services revenue increased 1.0 percent in the second quarter and 1.2 percent in the first six months of 2017, compared with the same periods of 2016. Adjusted for the impact of foreign currency rate changes, the year-over-year increases would have both been approximately 2.7 percent. Trust and investment management fees were higher primarily due to favorable market conditions and account growth, and treasury management fees increased due to higher transaction volume. Commercial products revenue decreased primarily due to significant market activity in the second quarter of 2016, while mortgage banking revenue declined due to lower origination and sales volume from home refinancing. Refinancing activities were significantly higher in the second quarter of 2016 due to lower long-term interest rates. Other revenue decreased primarily due to lower equity investment income, reflecting the impact of the second quarter 2016 Visa Europe sale.

Noninterest Expense Noninterest expense was $3.0 billion in the second quarter and $6.0 billion in the first six months of 2017, representing increases of $31 million (1.0 percent) and $226 million (3.9 percent), respectively, over the same periods of 2016. The increases from a year ago were primarily due to higher compensation expense, partially offset by lower marketing and business development expense and other expense. Compensation expense increased principally due to the impact of hiring to support business growth and compliance programs, merit increases and higher variable compensation. Marketing and business development expense decreased primarily due to the impact of the charitable contribution in the second quarter of 2016. Other expense was lower, primarily due to the impact of the increase in reserves related to legal and regulatory matters recorded in the second quarter of 2016, partially offset by the FDIC insurance surcharge which began in late 2016.

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Table 3 Noninterest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in Millions)	2017	2016	Percent Change	2017	2016	Percent Change
Compensation	$ 1,416	$ 1,277	10.9%	$ 2,807	$ 2,526	11.1%
Employee benefits	287	278	3.2	601	578	4.0
Net occupancy and equipment	255	243	4.9	502	491	2.2
Professional services	105	121	(13.2)	201	219	(8.2)
Marketing and business development	109	149	(26.8)	199	226	(11.9)
Technology and communications	242	241	.4	477	474	.6
Postage, printing and supplies	81	77	5.2	162	156	3.8
Other intangibles	43	44	(2.3)	87	89	(2.2)
Other	485	562	(13.7)	931	982	(5.2)
Total noninterest expense	$ 3,023	$ 2,992	1.0%	$ 5,967	$ 5,741	3.9%
Efficiency ratio (a)	55.2%	54.9%		55.4%	54.8%	

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

Income Tax Expense The provision for income taxes was $551 million (an effective rate of 26.7 percent) for the second quarter and $1.1 billion (an effective rate of 25.9 percent) for the first six months of 2017, compared with $542 million (an effective rate of 26.1 percent) and $1.0 billion (an effective rate of 26.3 percent) for the same periods of 2016. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $277.3 billion at June 30, 2017, compared with $273.2 billion at December 31, 2016, an increase of $4.1 billion (1.5 percent). The increase was driven primarily by higher commercial loans, residential mortgages and other retail loans, partially offset by lower commercial real estate loans, credit card loans and covered loans.

Commercial loans increased $3.5 billion (3.7 percent) at June 30, 2017, compared with December 31, 2016, reflecting higher demand from new and existing customers.

Residential mortgages held in the loan portfolio increased $1.5 billion (2.7 percent) at June 30, 2017, compared with December 31, 2016, as origination activity more than offset the effect of customers paying down balances in the first six months of 2017. Residential mortgages originated and placed in the Company s loan portfolio include well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality.

Other retail loans increased $1.6 billion (2.9 percent) at June 30, 2017, compared with December 31, 2016, primarily driven by higher retail leasing and installment loans, partially offset by decreases in student loans, home equity loans and revolving credit balances.

Commercial real estate loans decreased $1.2 billion (2.8 percent) at June 30, 2017, compared with December 31, 2016, primarily the result of customers paying down balances.

Credit card loans decreased $888 million (4.1 percent) at June 30, 2017, compared with December 31, 2016, primarily the result of customers paying down balances.

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

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were $3.7 billion at June 30, 2017, compared with $4.8 billion at December 31, 2016. The decrease in loans held for sale was principally due to a lower level of mortgage loan closings in the second quarter of 2017. Almost all of the residential mortgage loans the Company originates or purchases for sale follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises (GSEs).

Investment Securities Investment securities totaled $111.1 billion at June 30, 2017, compared with $109.3 billion at December 31, 2016. The $1.8 billion (1.7 percent) increase was primarily due to $1.5 billion of net investment purchases and a $417 million favorable change in net unrealized gains (losses) on available-for-sale investment securities.

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Table 4 Investment Securities

At June 30, 2017 (Dollars in Millions)	Available-for-Sale Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Held-to-Maturity Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 4,257	$ 4,249	.5	.83%	$ 225	$ 225	.1	1.02%
Maturing after one year through five years	12,658	12,594	2.9	1.37	954	959	2.8	1.81
Maturing after five years through ten years	3,717	3,694	5.8	1.88	4,261	4,201	6.3	1.81
Maturing after ten years	1	2	10.2	4.15				
Total	$ 20,633	$ 20,539	2.9	1.35%	$ 5,440	$ 5,385	5.5	1.78%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 121	$ 124	.6	4.04%	$ 204	$ 205	.6	3.01%
Maturing after one year through five years	21,776	21,724	4.3	2.05	26,557	26,432	3.8	2.07
Maturing after five years through ten years	17,636	17,474	5.9	2.14	11,285	11,180	5.6	2.23
Maturing after ten years	1,650	1,654	12.1	2.17	136	136	11.7	2.08
Total	$ 41,183	$ 40,976	5.3	2.09%	$ 38,182	$ 37,953	4.3	2.12%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$		%	$	$ 2	.8	2.12%
Maturing after one year through five years	346	350	4.0	3.23	4	5	2.9	1.88
Maturing after five years through ten years	84	87	5.4	2.78	3	3	6.9	1.93
Maturing after ten years						5	16.8	1.76
Total	$ 430	$ 437	4.3	3.14%	$ 7	$ 15	4.5	1.91%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 824	$ 828	.2	7.39%	$	$		%
Maturing after one year through five years	555	583	3.1	6.12	1	1	3.5	8.18
Maturing after five years through ten years	2,787	2,809	8.6	5.46	5	6	8.5	2.78
Maturing after ten years	1,303	1,249	18.9	5.05				
Total	$ 5,469	$ 5,469	9.2	5.72%	$ 6	$ 7	8.0	3.37%
Other Debt Securities								
Maturing in one year or less	$	$		%	$ 2	$ 2	.3	1.68%

Maturing after one year through five years					22	22	3.1	2.00
Maturing after five years through ten years								
Maturing after ten years								
Total	$	$		%	$ 24	$ 24	2.8	1.97%
Other Investments	$ 24	$ 34		%	$	$		%
Total investment securities (d)	$ 67,739	$ 67,455	4.9	2.17%	$ 43,659	$ 43,384	4.5	2.08%

(a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.

(b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.

(c) Maturity calculations for obligations of state and political subdivisions are based on the first optional call date for securities with a fair value above par and contractual maturity for securities with a fair value equal to or below par.

(d) The weighted-average maturity of the available-for-sale investment securities was 5.1 years at December 31, 2016, with a corresponding weighted-average yield of 2.06 percent. The weighted-average maturity of the held-to-maturity investment securities was 4.6 years at December 31, 2016, with a corresponding weighted-average yield of 1.93 percent.

(e) Weighted-average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity investment securities are computed based on amortized cost balances, excluding any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity. Weighted-average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

	June 30, 2017		December 31, 2016	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 26,073	23.4%	$ 22,560	20.5%
Mortgage-backed securities	79,365	71.3	81,698	74.3
Asset-backed securities	437	.4	483	.4
Obligations of state and political subdivisions	5,475	4.9	5,173	4.7
Other debt securities and investments	48		62	.1
Total investment securities	$ 111,398	100.0%	$ 109,976	100.0%

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The Company s available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At June 30, 2017, the Company s net unrealized losses on available-for-sale securities were $284 million, compared with $701 million at December 31, 2016. The favorable change in net unrealized gains (losses) was primarily due to increases in the fair value of U.S. Treasury, U.S. government agency-backed and state and political securities as a result of changes in interest rates. Gross unrealized losses on available-for-sale securities totaled $625 million at June 30, 2017, compared with $1.0 billion at December 31, 2016. At June 30, 2017, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

Refer to Notes 3 and 14 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $347.3 billion at June 30, 2017, compared with $334.6 billion at December 31, 2016, the result of increases in noninterest-bearing deposits, total savings deposits and time deposits. Noninterest-bearing deposits increased $6.9 billion (8.1 percent) at June 30, 2017, compared with December 31, 2016, primarily due to higher corporate trust balances, partially offset by lower Wholesale Banking and Commercial Real Estate balances. Interest checking balances increased $2.4 billion (3.6 percent) primarily due to higher Consumer and Small Business Banking, and Wholesale Banking and Commercial Real Estate balances, partially offset by lower Wealth Management and Securities Services balances. Savings account balances increased $1.8 billion (4.3 percent), primarily due to higher Consumer and Small Business Banking balances. Money market deposit balances decreased $3.6 billion (3.3 percent) at June 30, 2017, compared with December 31, 2016, primarily due to lower Wholesale Banking and Commercial Real Estate balances, partially offset by higher Wealth Management and Securities Services balances. Time deposits increased $5.2 billion (17.0 percent) at June 30, 2017, compared with December 31, 2016, driven by an increase in those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics, partially offset by lower Consumer and Small Business Banking balances resulting from maturities.

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 $14.4 billion at June 30, 2017, compared with $14.0 billion at December 31, 2016. The $449 million (3.2 percent) increase in short-term borrowings was primarily due to higher other short-term borrowings balances, partially offset by lower commercial paper balances. Long-term debt was $37.8 billion at June 30, 2017, compared with $33.3 billion at December 31, 2016. The $4.5 billion (13.5 percent) increase was primarily due to issuances of $3.9 billion of medium-term notes and $2.6 billion of bank notes, partially offset by $1.3 billion of medium-term note maturities and a $781 million decrease in Federal Home Loan Bank (FHLB) advances. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

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CORPORATE RISK PROFILE

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

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

The Company s most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance, strategic, and reputational. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale (MLHFS), mortgage servicing rights (MSRs) and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations or new business at a reasonable cost and in a timely manner. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events, including the risk of loss resulting from breaches in data security. Operational risk can also include failures by third parties with which the Company does business. Compliance risk is the risk of loss arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards, potentially exposing the Company to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk also arises in situations where the laws or rules governing certain Company products or activities of the Company s customers may be ambiguous or untested. Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputational risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company s competitiveness by affecting its ability to establish new relationships, offer new services or continue serving existing relationships. In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for a detailed discussion of these factors.

The Company s Board and management-level governance committees are supported by a three lines of defense model for establishing effective checks and balances. The first line of defense, the business lines, manages risks in conformity with established limits and policy requirements. In turn, business line leaders and their risk officers establish programs to ensure conformity with these limits and policy requirements. The second line of defense, which includes the Chief Risk Officer s organization as well as policy and oversight activities of corporate support functions, translates risk appetite and strategy into actionable risk limits and policies. The second line of defense monitors first line of defense conformity with limits and policies, and provides reporting and escalation of emerging risks and other concerns to senior management and the Risk Management Committee of the Board of Directors. The third line of defense, internal audit, is responsible for providing the Audit Committee of the Board of Directors and senior management with independent assessment and assurance regarding the effectiveness of the Company s governance, risk management, and control processes.

Management regularly provides reports to the Risk Management Committee of the Board of Directors. The Risk Management Committee discusses with management the Company s risk management performance, and provides a summary of key risks to the entire Board of Directors, covering the status of existing matters, areas of potential future concern, and specific information on certain types of loss events. The Risk Management Committee considers quarterly reports by management assessing the Company s performance relative to the risk appetite statements and the associated risk limits, including:

Qualitative considerations, such as the macroeconomic environment, regulatory and compliance changes, litigation developments, and technology and cybersecurity;

Capital ratios and projections, including regulatory measures and stressed scenarios;
Credit measures, including adversely rated and nonperforming loans, leveraged transactions, credit concentrations and lending limits;
Interest rate and market risk, including market value and net income simulation, and trading-related Value at Risk;
Liquidity risk, including funding projections under various stressed scenarios;
Operational and compliance risk, including losses stemming from events such as fraud, processing errors, control breaches, breaches in data security, or adverse business decisions, as well as reporting on technology performance, and various legal and regulatory compliance measures; and
Reputational and strategic risk considerations, impacts and responses.

Credit Risk Management The Company s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), collateral values, trends in loan performance and macroeconomic factors, such as changes in unemployment rates, gross domestic product and consumer bankruptcy filings. The Risk Management Committee oversees the Company s credit risk management process.

In addition, credit quality ratings as defined by the Company are an important part of the Company s overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those loans not classified on the Company s rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including loans that are 90 days or more past due and still accruing, nonaccrual loans, those loans considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company s internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to compute estimated loan-to-value (LTV) ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not the primary source of repayment. Refer to Note 4 in the Notes to Consolidated Financial Statements for further discussion of the Company s loan portfolios including internal credit quality ratings. In addition, refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for a more detailed discussion on credit risk management processes.

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

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

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

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

(Dollars in Millions)	June 30, 2017	December 31, 2016
Loans outstanding	$ 2,452	$ 2,642
Total commitments	10,298	10,955
Total criticized commitments	1,679	2,847
Nonperforming assets	155	257
Allowance for credit losses as a percentage of loans outstanding	6.7%	7.8%

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 June 30, 2017, substantially all of the Company s home equity lines were in the draw period. Approximately $1.2 billion, or 8 percent, of the outstanding home equity line balances at June 30, 2017, will enter the amortization period within the next 36 months. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and credit scores, and in some cases, updated LTV information on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

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

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

The Company s consumer lending segment utilizes several distinct business processes and channels to originate consumer credit, including traditional branch lending, on-line banking, indirect lending, portfolio acquisitions, correspondent banks and loan brokers. Each distinct underwriting and origination activity manages unique credit risk characteristics and prices its loan production commensurate with the differing risk profiles.

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

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

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

Residential Mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$ 1,824	$ 48,272	$ 50,096	85.2%
Over 80% through 90%	30	3,607	3,637	6.2
Over 90% through 100%	5	806	811	1.4
Over 100%	6	676	682	1.1
No LTV available	1	59	60	.1
Loans purchased from GNMA mortgage pools (a)		3,510	3,510	6.0
Total	$ 1,866	$ 56,930	$ 58,796	100.0%
Borrower Type				
Prime borrowers	$ 1,865	$ 52,126	$ 53,991	91.8%
Sub-prime borrowers		879	879	1.5
Other borrowers	1	415	416	.7
Loans purchased from GNMA mortgage pools (a)		3,510	3,510	6.0
Total	$ 1,866	$ 56,930	$ 58,796	100.0%

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

Home Equity and Second Mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Loan-to-Value				
Less than or equal to 80%	$ 11,473	$ 576	$ 12,049	73.9%
Over 80% through 90%	2,307	700	3,007	18.4
Over 90% through 100%	607	130	737	4.5
Over 100%	377	31	408	2.5
No LTV/CLTV available	95	14	109	.7
Total	$ 14,859	$ 1,451	$ 16,310	100.0%
Borrower Type				
Prime borrowers	$ 14,553	$ 1,359	$ 15,912	97.6%
Sub-prime borrowers	54	82	136	.8
Other borrowers	252	10	262	1.6
Total	$ 14,859	$ 1,451	$ 16,310	100.0%

The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only 0.2 percent of the Company s total assets at June 30, 2017 and December 31, 2016. The Company considers sub-prime loans to be loans made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company s underwriting programs specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company s program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

Home equity and second mortgages were $16.3 billion at June 30, 2017, compared with $16.4 billion at December 31, 2016, and included $4.8 billion of home equity lines in a first lien position and $11.5 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at June 30, 2017, included approximately $4.8 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $6.7 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using information the Company has as the servicer of the first lien or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

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

	Junior Liens Behind		
(Dollars in Millions)	Company Owned or Serviced First Lien	Third Party First Lien	Total
Total	$ 4,802	$ 6,660	$ 11,462
Percent 30-89 days past due	.30%	.35%	.33%
Percent 90 days or more past due	.10%	.08%	.09%
Weighted-average CLTV	73%	70%	71%
Weighted-average credit score	776	770	773

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

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

90 days or more past due **excluding** nonperforming loans	June 30, 2017	December 31, 2016
Commercial		
Commercial	.06%	.06%
Lease financing		
Total commercial	.05	.06
Commercial Real Estate		
Commercial mortgages		.01
Construction and development	.02	.05
Total commercial real estate		.02
Residential Mortgages (a)	.20	.27
Credit Card	1.10	1.16
Other Retail		
Retail leasing	.01	.02
Home equity and second mortgages	.25	.25
Other	.11	.13
Total other retail (b)	.14	.15
Total loans, excluding covered loans	.17	.20
Covered Loans	4.71	5.53
Total loans	.23%	.28%

90 days or more past due **including** nonperforming loans	June 30, 2017	December 31, 2016
Commercial	.39%	.57%
Commercial real estate	.29	.31
Residential mortgages (a)	1.10	1.31
Credit card	1.10	1.18
Other retail (b)	.42	.45
Total loans, excluding covered loans	.59	.71
Covered loans	5.06	5.68
Total loans	.64%	.78%

(a) Delinquent loan ratios exclude $2.1 billion at June 30, 2017, and $2.5 billion at December 31, 2016, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 4.64 percent at June 30, 2017, and 5.73 percent at December 31, 2016.

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including these loans, the ratio of total other retail loans 90 days or more past due including all nonperforming loans was ..55 percent at June 30, 2017, and .63 percent at December 31, 2016.

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $639 million ($477 million excluding covered loans) at June 30, 2017, compared with $764 million ($552 million excluding covered loans) at December 31, 2016. These balances exclude loans purchased from Government National Mortgage Association (GNMA) mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs, as well as student loans guaranteed by the federal government. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 0.23 percent (0.17 percent excluding covered loans) at June 30, 2017, compared with 0.28 percent (0.20 percent excluding covered loans) at December 31, 2016.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Residential Mortgages (a)				
30-89 days	$ 126	$ 151	.22%	.26%
90 days or more	118	156	.20	.27
Nonperforming	530	595	.90	1.04
Total	$ 774	$ 902	1.32%	1.57%
Credit Card				
30-89 days	$ 254	$ 284	1.22%	1.31%
90 days or more	229	253	1.10	1.16
Nonperforming	1	3		.01
Total	$ 484	$ 540	2.32%	2.48%
Other Retail				
Retail Leasing				
30-89 days	$ 17	$ 18	.22%	.28%
90 days or more	1	1	.01	.02
Nonperforming	5	2	.07	.03
Total	$ 23	$ 21	.30%	.33%
Home Equity and Second Mortgages				
30-89 days	$ 56	$ 60	.33%	.37%
90 days or more	40	41	.25	.25
Nonperforming	120	128	.74	.78
Total	$ 216	$ 229	1.32%	1.40%
Other (b)				
30-89 days	$ 202	$ 206	.65%	.66%
90 days or more	36	41	.11	.13
Nonperforming	33	27	.10	.09
Total	$ 271	$ 274	.86%	.88%

(a) Excludes $240 million of loans 30-89 days past due and $2.1 billion of loans 90 days or more past due at June 30, 2017, purchased from GNMA mortgage pools that continue to accrue interest, compared with $273 million and $2.5 billion at December 31, 2016, respectively.

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

The following table provides summary delinquency information for covered loans:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
30-89 days	$ 49	$ 55	1.43%	1.43%
90 days or more	162	212	4.71	5.53
Nonperforming	12	6	.35	.16
Total	$ 223	$ 273	6.49%	7.12%

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

Troubled Debt Restructurings Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles, which is generally six months or greater. At June 30, 2017, performing TDRs were $4.3 billion, compared with $4.2 billion at December 31, 2016. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

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

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

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

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

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

At June 30, 2017		As a Percent of Performing TDRs			
(Dollars in Millions)	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	Total TDRs
Commercial	$ 334	3.5%	1.2%	$ 219(a)	$ 553
Commercial real estate	162	2.5		23(b)	185
Residential mortgages	1,628	2.1	3.7	378	2,006(d)
Credit card	229	10.0	6.2	1(c)	230
Other retail	120	4.2	4.7	48(c)	168(e)
TDRs, excluding GNMA and covered loans	2,473	3.1	3.4	669	3,142
Loans purchased from GNMA mortgage pools (g)	1,774				1,774(f)
Covered loans	29	3.8	7.4	4	33
Total	$ 4,276	1.8%	2.0%	$ 673	$ 4,949

(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 $333 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $55 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(e) Includes $81 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $9 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(f) Includes $242 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 $633 million in trial period arrangements or previously placed in trial period arrangements but not successfully completed.
(g) Approximately 2.5 percent and 59.5 percent of the total TDR loans purchased from GNMA mortgage pools are 30-89 days past due and 90 days or more past due, respectively, but are not classified as delinquent as their repayments are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2017	December 31, 2016
Commercial		
Commercial	$ 283	$ 443
Lease financing	39	40
Total commercial	322	483
Commercial Real Estate		
Commercial mortgages	84	87
Construction and development	35	37
Total commercial real estate	119	124
Residential Mortgages (b)	530	595
Credit Card	1	3
Other Retail		
Retail leasing	5	2
Home equity and second mortgages	120	128
Other	33	27
Total other retail	158	157
Total nonperforming loans, excluding covered loans	1,130	1,362
Covered Loans	12	6
Total nonperforming loans	1,142	1,368
Other Real Estate (c)(d)	157	186
Covered Other Real Estate (d)	25	26
Other Assets	25	23
Total nonperforming assets	$ 1,349	$ 1,603
Total nonperforming assets, excluding covered assets	$ 1,312	$ 1,571
Excluding covered assets		
Accruing loans 90 days or more past due (b)	$ 477	$ 552
Nonperforming loans to total loans	.41%	.51%
Nonperforming assets to total loans plus other real estate (c)	.48%	.58%
Including covered assets		
Accruing loans 90 days or more past due (b)	$ 639	$ 764
Nonperforming loans to total loans	.41%	.50%
Nonperforming assets to total loans plus other real estate (c)	.49%	.59%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages, Credit Card and Other Retail	Covered Assets	Total
Balance December 31, 2016	$ 623	$ 948	$ 32	$ 1,603
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	249	212	14	475
Advances on loans	7			7

Total additions	256	212	14	482
Reductions in nonperforming assets				
Paydowns, payoffs	(258)	(114)	(1)	(373)
Net sales	(25)	(92)	(8)	(125)
Return to performing status	(4)	(74)		(78)
Charge-offs (e)	(136)	(24)		(160)
Total reductions	(423)	(304)	(9)	(736)
Net additions to (reductions in) nonperforming assets	(167)	(92)	5	(254)
Balance June 30, 2017	$ 456	$ 856	$ 37	$ 1,349

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

(b) Excludes $2.1 billion and $2.5 billion at June 30, 2017, and December 31, 2016, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

(c) Foreclosed GNMA loans of $338 million and $373 million at June 30, 2017, and December 31, 2016, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

(d) Includes equity investments in entities whose principal assets are other real estate owned.

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

Short-term Modifications The Company makes short-term modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modified loans were not material at June 30, 2017.

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

At June 30, 2017, total nonperforming assets were $1.3 billion, compared with $1.6 billion at December 31, 2016. The $254 million (15.8 percent) decrease in nonperforming assets was driven by improvements in commercial loans, residential mortgages and OREO. Nonperforming covered assets were $37 million at June 30, 2017, compared with $32 million at December 31, 2016. The ratio of total nonperforming assets to total loans and other real estate was 0.49 percent at June 30, 2017, compared with 0.59 percent at December 31, 2016.

OREO, excluding covered assets, was $157 million at June 30, 2017, compared with $186 million at December 31, 2016, and was related to foreclosed properties that previously secured loan balances. These balances exclude foreclosed GNMA loans whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the United States Department of Veterans Affairs.

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Residential				
Illinios	$ 14	$ 15	.32%	.35%
Minnesota	12	12	.19	.19
Washington	10	8	.23	.19
Ohio	10	9	.35	.31
Florida	8	9	.52	.61
All other states	95	122	.17	.22
Total residential	149	175	.20	.24

Commercial				
California	4	4	.02	.02
Tennessee	1	1	.04	.04
Idaho	1		.06	
Virginia		1		.05
New Mexico				
All other states	2	5		
Total commercial	8	11	.01	.01
Total	$ 157	$ 186	.06%	.07%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $340 million for the second quarter and $675 million for the first six months of 2017, compared with $317 million and $632 million for the same periods of 2016. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the second quarter and first six months of 2017 was 0.49 percent and 0.50 percent, respectively, compared with 0.48 percent for both the second quarter and first six months of 2016. The year-over-year increases in total net charge-offs reflected higher credit card and other retail loan net charge-offs, partially offset by lower net charge-offs related to residential mortgages and commercial and commercial real estate loans.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Commercial				
Commercial	.33%	.34%	.33%	.36%
Lease financing	.22	.38	.26	.38
Total commercial	.33	.34	.33	.36
Commercial Real Estate				
Commercial mortgages	(.09)	(.05)	(.05)	(.04)
Construction and development	(.07)	.15	(.05)	.02
Total commercial real estate	(.08)		(.05)	(.02)
Residential Mortgages	.05	.12	.07	.13
Credit Card	3.97	3.39	3.83	3.33
Other Retail				
Retail leasing	.11	.15	.15	.11
Home equity and second mortgages	(.02)	(.02)	(.02)	.01
Other	.75	.68	.75	.69
Total other retail	.43	.40	.44	.41
Total loans, excluding covered loans	.50	.49	.50	.49
Covered Loans				
Total loans	.49%	.48%	.50%	.48%

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

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

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

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

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Company estimated $326 million or 2.0 percent of the total home equity portfolio at June 30, 2017, represented non-delinquent junior liens where the first lien was delinquent or modified.

The Company uses historical loss experience on the loans and lines in a junior lien position where the first lien is serviced by the Company, or can be identified in credit bureau data, to establish loss estimates for junior lien loans and lines the Company services that are current, but the first lien is delinquent or modified. Historically, the number of junior lien defaults has been a small percentage of the total portfolio (approximately 1.1 percent annually), while the long-term average loss rate on loans that default has been approximately 90 percent. In addition, the Company obtains updated credit scores on its home equity portfolio each quarter, and in some cases more frequently, and uses this information to qualitatively supplement its loss estimation methods. Credit score distributions for the portfolio are monitored monthly and any changes in the distribution are one of the factors considered in assessing the Company s loss estimates. In its evaluation of the allowance for credit losses, the Company also considers the increased risk of loss associated with home equity lines that are contractually scheduled to convert from a revolving status to a fully amortizing payment and with residential lines and loans that have a balloon payoff provision.

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

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

The evaluation of the appropriate allowance for credit losses for purchased impaired loans in the various loan segments considers the expected cash flows to be collected from the borrower. These loans are initially recorded at fair value and, therefore, no allowance for credit losses is recorded at the purchase date.

Subsequent to the purchase date, the expected cash flows of purchased loans are subject to evaluation. Decreases in expected cash flows are recognized by recording an allowance for credit losses with the related provision for credit losses reduced for the amount reimbursable by the FDIC, where applicable. If the expected cash flows on the purchased loans increase such that a previously recorded impairment allowance can be reversed, the Company records a reduction in the allowance with a related reduction in losses reimbursable by the FDIC, where applicable. Increases in expected cash flows of purchased loans, when there are no reversals of previous impairment allowances, are recognized over the remaining life of the loans and resulting decreases in expected cash flows of the FDIC indemnification assets are amortized over the shorter of the remaining contractual term of the indemnification agreements or the remaining life of the loans.

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

Refer to Management s Discussion and Analysis Analysis of the Allowance for Credit Losses in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on the analysis and determination of the allowance for credit losses.

At June 30, 2017, the allowance for credit losses was $4.4 billion (1.58 percent of period-end loans), compared with an allowance of $4.4 billion (1.59 percent of period-end loans) at December 31, 2016. The ratio of the allowance for credit losses to nonperforming loans was 383 percent at June 30, 2017, compared with 318 percent at December 31, 2016. The ratio of the allowance for credit losses to annualized loan net charge-offs was 321 percent at June 30, 2017, compared with 343 percent of full year 2016 net charge-offs at December 31, 2016.

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Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Balance at beginning of period	$ 4,366	$ 4,320	$ 4,357	$ 4,306
Charge-Offs				
Commercial				
Commercial	97	99	187	203
Lease financing	7	8	13	15
Total commercial	104	107	200	218
Commercial real estate				
Commercial mortgages	2	2	4	3
Construction and development		5	1	7
Total commercial real estate	2	7	5	10
Residential mortgages	16	25	33	48
Credit card	227	189	439	377
Other retail				
Retail leasing	4	3	8	5
Home equity and second mortgages	9	10	17	19
Other	75	66	152	135
Total other retail	88	79	177	159
Covered loans (a)				
Total charge-offs	437	407	854	812
Recoveries				
Commercial				
Commercial	22	25	41	51
Lease financing	4	3	6	5
Total commercial	26	28	47	56
Commercial real estate				
Commercial mortgages	9	6	12	9
Construction and development	2	1	4	6
Total commercial real estate	11	7	16	15
Residential mortgages	8	8	13	12
Credit card	23	19	45	43
Other retail				
Retail leasing	2	1	3	2
Home equity and second mortgages	10	11	19	18
Other	17	16	36	34
Total other retail	29	28	58	54
Covered loans (a)				
Total recoveries	97	90	179	180
Net Charge-Offs				
Commercial				
Commercial	75	74	146	152
Lease financing	3	5	7	10
Total commercial	78	79	153	162

Commercial real estate				
Commercial mortgages	(7)	(4)	(8)	(6)
Construction and development	(2)	4	(3)	1
Total commercial real estate	(9)		(11)	(5)
Residential mortgages	8	17	20	36
Credit card	204	170	394	334
Other retail				
Retail leasing	2	2	5	3
Home equity and second mortgages	(1)	(1)	(2)	1
Other	58	50	116	101
Total other retail	59	51	119	105
Covered loans (a)				
Total net charge-offs	340	317	675	632
Provision for credit losses	350	327	695	657
Other changes (b)	1	(1)		(2)
Balance at end of period (c)	$ 4,377	$ 4,329	$ 4,377	$ 4,329
Components				
Allowance for loan losses	$ 3,856	$ 3,806		
Liability for unfunded credit commitments	521	523		
Total allowance for credit losses	$ 4,377	$ 4,329		
Allowance for Credit Losses as a Percentage of				
Period-end loans, excluding covered loans	1.59%	1.62%		
Nonperforming loans, excluding covered loans	385	311		
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	270	231		
Nonperforming assets, excluding covered assets	331	263		
Annualized net charge-offs, excluding covered loans	319	337		
Period-end loans	1.58%	1.61%		
Nonperforming loans	383	312		
Nonperforming and accruing loans 90 days or more past due	246	205		
Nonperforming assets	324	259		
Annualized net charge-offs	321	340		

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

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

(c) At June 30, 2017 and 2016, $1.6 billion and $1.5 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

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Residual Value Risk Management The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of June 30, 2017, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2016. Refer to Management s Discussion and Analysis Residual Value Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on residual value risk management.

Operational Risk Management Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company s objectives. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. The Company maintains a system of controls with the objective of providing proper transaction authorization and execution, proper system operations, proper oversight of third parties with whom it does business, safeguarding of assets from misuse or theft, and ensuring the reliability and security of financial and other data. Refer to Management s Discussion and Analysis Operational Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on operational risk management.

Compliance Risk Management The Company may suffer legal or regulatory sanctions, material financial loss, or damage to reputation through failure to comply with laws, regulations, rules, standards of good practice, and codes of conduct, including those related to compliance with Bank Secrecy Act/anti-money laundering requirements, sanctions compliance requirements as administered by the Office of Foreign Assets Control, consumer protections and other requirements. The Company has controls and processes in place for the assessment, identification, monitoring, management and reporting of compliance risks and issues. Refer to Management s Discussion and Analysis Compliance Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on compliance risk management.

Interest Rate Risk Management In the banking industry, changes in interest rates are a significant risk that can impact earnings, market valuations and the safety and soundness of an entity. To manage the impact on net interest income and the market value of assets and liabilities, the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset and Liability Management Committee (ALCO) and approved by the Board of Directors. The ALCO has the responsibility for approving and ensuring compliance with the ALCO management policies, including interest rate risk exposure. The Company uses net interest income simulation analysis and market value of equity modeling for measuring and analyzing consolidated interest rate risk. The Company has established policy limits within which it manages the overall interest rate risk profile, and at June 30, 2017 and December 31, 2016, the Company was within those limits.

Net Interest Income Simulation Analysis Management estimates the impact on net interest income of changes in market interest rates under a number of scenarios, including gradual shifts, immediate and sustained parallel shifts, and flattening or steepening of the yield curve. Table 9 summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The sensitivity of the projected impact to net interest income over the next 12 months is dependent on balance sheet growth, product mix, deposit behavior, pricing and funding decisions. While the Company utilizes assumptions based on historical information and expected behaviors, actual outcomes could vary significantly. For example, if deposit outflows are more limited (stable) than the assumptions the Company used in preparing Table 9, the projected impact to net interest income would increase to 2.03 percent in the Up 50 basis point (bps) and 3.87 percent in the Up 200 bps scenarios. Refer to Management s Discussion and Analysis Net Interest Income Simulation Analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on net interest income simulation analysis.

Market Value of Equity Modeling The Company also manages interest rate sensitivity by utilizing market value of equity modeling, which measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. Management measures the impact of changes in market interest rates under a number of scenarios, including immediate and sustained parallel shifts, and flattening or steepening of the yield curve. A 200 bps increase would have resulted in a 1.3 percent decrease in the market value of equity at June 30, 2017, compared with a 1.9 percent decrease at December 31, 2016. A 200 bps decrease, where possible given current rates, would have resulted in a 10.0 percent decrease in the market value of equity at June 30, 2017, compared with an 8.1 percent decrease at December 31, 2016. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on market value of equity modeling.

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Table 9 Sensitivity of Net Interest Income

	June 30, 2017				December 31, 2016			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	(2.57)%	1.48%	*	1.94%	(2.82)%	1.52%	*	1.82%

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

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

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

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

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

Additionally, the Company uses forward commitments to sell TBAs and other commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan production activities. At June 30, 2017, the Company had $5.5 billion of forward commitments to sell, hedging $2.5 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 12 and 13 in the Notes to Consolidated Financial Statements.

Market Risk Management In addition to interest rate risk, the Company is exposed to other forms of market risk, principally related to trading activities which support customers strategies to manage their own foreign currency, interest rate risk and funding activities. For purposes of its internal capital adequacy assessment process, the Company considers risk arising from its trading activities employing methodologies consistent with the requirements of regulatory rules for market risk. The Company s Market Risk Committee (MRC), within the framework of the ALCO, oversees market risk management. The MRC monitors and reviews the Company s trading positions and establishes policies for

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market risk management, including exposure limits for each portfolio. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the statistical risk of loss the Company has to adverse market movements over a one-day time horizon. The Company uses the Historical Simulation method to calculate VaR for its trading businesses measured at the ninety-ninth percentile using a one-year look-back period for distributions derived from past market data. The market factors used in the calculations include those pertinent to market risks inherent in the underlying trading portfolios, principally those that affect the Company s corporate bond trading business, foreign currency transaction business, client derivatives business, loan trading business and municipal securities business. On average, the Company expects the one-day VaR to be exceeded by actual losses two to three times per year for its trading businesses. The Company monitors the effectiveness of its risk programs by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR models and stress testing. If the Company were to experience market losses in excess of the estimated VaR more often than expected, the VaR models and associated assumptions would be analyzed and adjusted.

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

Six Months Ended June 30,		
(Dollars in Millions)	2017	2016
Average	$ 1	$ 1
High	1	1
Low	1	1
Period-end	1	1

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

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

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

Six Months Ended June 30,		
(Dollars in Millions)	2017	2016
Average	$ 4	$ 4
High	5	5
Low	3	2
Period-end	3	5

Valuations of positions in the client derivatives and foreign currency transaction businesses are based on discounted cash flow or other valuation techniques using market-based assumptions. These valuations are compared to third party quotes or other market prices to determine if there are significant variances. Significant variances are approved by the Company s market risk management department. Valuation of positions in the corporate bond trading, loan trading and municipal securities businesses are based on trader marks. These trader marks are evaluated against third party prices, with significant variances approved by the Company s risk management department.

The Company also measures the market risk of its hedging activities related to residential MLHFS and MSRs using the Historical Simulation method. The VaRs are measured at the ninety-ninth percentile and employ factors pertinent to the market risks inherent in the valuation of the assets and hedges. The Company monitors the effectiveness of the models through back-testing, updating the data and regular validations. A three-year look-back period is used to obtain past market data for the models.

The average, high and low VaR amounts for the residential MLHFS and related hedges and the MSRs and related hedges were as follows:

Six Months Ended June 30,

(Dollars in Millions)	2017	2016
Residential Mortgage Loans Held For Sale and Related Hedges		
Average	$	$
High	1	2
Low		
Mortgage Servicing Rights and Related Hedges		
Average	$ 8	$ 8
High	10	9
Low	6	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 the contingency funding plan. The ALCO reviews the Company s liquidity policy and guidelines, and regularly assesses the Company s ability to meet funding requirements arising from adverse company-specific or market events.

The Company regularly projects its funding needs under various stress scenarios and maintains a contingency funding plan consistent with the Company s access to diversified sources of contingent funding. The Company maintains a substantial level of total available liquidity in the form of on-balance sheet and off-balance sheet funding sources. These liquidity sources include cash at the Federal Reserve Bank and certain European central banks, unencumbered liquid assets, and capacity to borrow at the FHLB and the Federal Reserve Bank s Discount Window. At June 30, 2017, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $99.9 billion, compared with $100.6 billion at December 31, 2016. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company s practice of pledging loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At June 30, 2017, the Company could have borrowed an additional $88.2 billion at 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 $347.3 billion at June 30, 2017, compared with $334.6 billion at December 31, 2016. Refer to Balance Sheet Analysis for further information on the Company s deposits.

Additional funding is provided by long-term debt and short-term borrowings. Long-term debt was $37.8 billion at June 30, 2017, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $14.4 billion at June 30, 2017, and supplement the Company s other funding sources. Refer to Balance Sheet Analysis for further information on the Company s long-term debt and short-term borrowings.

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

At June 30, 2017, parent company long-term debt outstanding was $15.7 billion, compared with $13.0 billion at December 31, 2016. The increase was primarily due to the issuance of $3.9 billion of medium-term notes, partially offset by $1.3 billion of medium-term note maturities. As of June 30, 2017, there was no parent company debt scheduled to mature in the remainder of 2017.

The Company is subject to a regulatory Liquidity Coverage Ratio (LCR) requirement which requires banks to maintain an adequate level of unencumbered high quality liquid assets to meet estimated liquidity needs over a 30-day stressed period. At June 30, 2017, the Company was compliant with this requirement.

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

European Exposures The Company provides merchant processing and corporate trust services in Europe either directly or through banking affiliations in Europe. Operating cash for these businesses is deposited on a short-term basis typically with certain European central banks. For deposits placed at other European banks, exposure is mitigated by the Company placing deposits at multiple banks and managing the amounts on deposit at any bank based on institution-specific deposit limits. At June 30, 2017, the Company had an aggregate amount on deposit with European banks of approximately $7.9 billion, predominately with the Central Bank of Ireland and Bank of England.

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

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

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for banking organizations. Beginning January 1, 2014, the regulatory capital requirements effective for the Company follow Basel III, subject to certain transition provisions from Basel I over the following four years to full implementation by January 1, 2018. Basel III includes two comprehensive methodologies for calculating risk-weighted assets: a general standardized approach and more risk-sensitive advanced approaches, with the Company s capital adequacy being evaluated against the methodology that is most restrictive. Table 10 provides a summary of statutory regulatory capital ratios in effect for the Company at June 30, 2017 and December 31, 2016. All regulatory ratios exceeded regulatory well-capitalized requirements.

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

Total U.S. Bancorp shareholders equity was $48.3 billion at June 30, 2017, compared with $47.3 billion at December 31, 2016. The increase was primarily the result of corporate earnings, a preferred stock issuance and changes in unrealized gains and losses on available-for-sale investment securities included in other comprehensive income (loss). This increase was partially offset by common share repurchases, dividends and the redemption of $1.1 billion of preferred stock.

Table 10 Regulatory Capital Ratios

(Dollars in Millions)	June 30, 2017	December 31, 2016
Basel III transitional standardized approach:		
Common equity tier 1 capital	$ 34,408	$ 33,720
Tier 1 capital	39,943	39,421

Total risk-based capital	47,824	47,355
Risk-weighted assets	361,164	358,237
Common equity tier 1 capital as a percent of risk-weighted assets	9.5%	9.4%
Tier 1 capital as a percent of risk-weighted assets	11.1	11.0
Total risk-based capital as a percent of risk-weighted assets	13.2	13.2
Tier 1 capital as a percent of adjusted quarterly average assets (leverage ratio)	9.1	9.0
Basel III transitional advanced approaches:		
Common equity tier 1 capital	$ 34,408	$ 33,720
Tier 1 capital	39,943	39,421
Total risk-based capital	44,836	44,264
Risk-weighted assets	287,124	277,141
Common equity tier 1 capital as a percent of risk-weighted assets	12.0%	12.2%
Tier 1 capital as a percent of risk-weighted assets	13.9	14.2
Total risk-based capital as a percent of risk-weighted assets	15.6	16.0

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The Company believes certain capital ratios in addition to statutory regulatory capital ratios are useful in evaluating its capital adequacy. The Company s tangible common equity, as a percent of tangible assets and as a percent of risk-weighted assets calculated under the transitional standardized approach, was 7.5 percent and 9.4 percent, respectively, at June 30, 2017, compared with 7.5 percent and 9.2 percent, respectively, at December 31, 2016. The Company s common equity tier 1 capital to risk-weighted assets ratio using the Basel III standardized approach as if fully implemented was 9.3 percent at June 30, 2017, compared with 9.1 percent at December 31, 2016. The Company s common equity tier 1 capital to risk-weighted assets ratio using the Basel III advanced approaches as if fully implemented was 11.7 percent at June 30, 2017 and December 31, 2016.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the second quarter of 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (b) (In Millions)
April	6,727,697 (c)	$ 51.57	6,677,697	$ 348
May	4,000,092	51.54	4,000,092	141
June	2,677,636	52.06	2,677,636	
Total	13,405,425 (c)	$ 51.66	13,355,425	$

(a) All shares were purchased under the July 1, 2016 through June 30, 2017, $2.6 billion common stock repurchase program announced on June 29, 2016.

(b) The dollar value of shares subject to the stock repurchase program announced on June 28, 2017 are not reflected in this column.

(c) Includes 50,000 shares of common stock purchased, at an average price per share of $50.12, in open-market transactions by U.S. Bank National Association, the Company s banking subsidiary, in its capacity as trustee of the Company s Employee Retirement Savings Plan.

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

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

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company s business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. The allowance for credit losses and related provision expense are allocated to the lines of business based on the related loan balances managed. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2017, certain organization and methodology changes were made and, accordingly, 2016 results were restated and presented on a comparable basis.

Wholesale Banking and Commercial Real Estate Wholesale Banking and Commercial Real Estate offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets services, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution, non-profit and public sector clients. Wholesale Banking and Commercial Real Estate contributed $291 million of the Company s net income in the second quarter and $546 million in the first six months of 2017, or increases of $59 million (25.4 percent) and $198 million (56.9 percent), respectively, compared with the same periods of 2016.

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Net revenue increased $44 million (5.5 percent) in the second quarter and $138 million (9.0 percent) in the first six months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, increased $56 million (10.3 percent) in the second quarter and $115 million (10.7 percent) in the first six months of 2017, compared with the same periods of 2016. The increases were primarily due to the impact of higher margin benefit on deposits and growth in average loan and deposit balances, partially offset by lower spread on loans reflecting a competitive marketplace. Noninterest income decreased $12 million (4.8 percent) in the second quarter of 2017, compared with the second quarter of 2016, primarily due to lower capital markets volume and higher loan related charges, partially offset by higher commercial leasing revenue. Noninterest income increased $23 million (5.0 percent) in the first six months of 2017, compared with the same period of 2016, driven by an increase in capital markets volume and treasury management fees, partially offset by higher loan related charges.

Noninterest expense increased $36 million (9.9 percent) in the second quarter and $76 million (10.6 percent) in the first six months of 2017, compared with the same periods of 2016, primarily due to increases in variable costs allocated to manage the business, including the impact of the FDIC insurance surcharge on deposit balances, and higher compensation expense, reflecting the impact of increased staffing and merit increases. The provision for credit losses decreased $86 million in the second quarter and $251 million (93.3 percent) in the first six months of 2017, compared with the same periods of 2016, primarily due to favorable changes in the credit quality within the energy sector compared with the prior year, along with lower net charge-offs in the current year.

Consumer and Small Business Banking Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and mobile devices. It encompasses community banking, metropolitan banking and indirect lending, as well as mortgage banking. Consumer and Small Business Banking contributed $319 million of the Company s net income in the second quarter and $621 million in the first six months of 2017, or decreases of $12 million (3.6 percent) and $65 million (9.5 percent), respectively, compared with the same periods of 2016.

Net revenue increased $75 million (4.2 percent) in the second quarter and $174 million (5.0 percent) in the first six months of 2017, compared with the same periods of 2016. Net interest income, on a taxable-equivalent basis, increased $91 million (7.8 percent) in the second quarter and $156 million (6.7 percent) in the first six months of 2017, compared with the same periods of 2016. The increases were primarily due to the impact of higher margin benefit from deposits along with growth in average loan and deposit balances, partially offset by lower spread on loans. Noninterest income decreased $16 million (2.5 percent) in the second quarter of 2017, compared with the second quarter of 2016, principally driven by lower mortgage banking revenue due to lower origination and sales volume related to refinancing activities, partially offset by the value of MSRs, net of hedging activities. Partially offsetting the impact of lower mortgage banking revenue was higher ATM processing services and treasury management fees. Noninterest income increased $18 million (1.5 percent) in the first six months of 2017, compared with the same period of 2016, reflecting higher ATM processing services fees, treasury management fees and deposit services charges. These increases were partially offset by lower mortgage banking revenue.

Noninterest expense increased $48 million (3.9 percent) in the second quarter and $99 million (4.0 percent) in the first six months of 2017, compared with the same periods of 2016, primarily due to higher compensation and employee benefits expenses, reflecting the impact of increased staffing and merit increases, higher net shared services expense, driven by implementation costs of capital investments to support business growth, and the impact of the FDIC insurance surcharge on deposit balances. The provision for credit losses increased $46 million in the second quarter and $178 million in the first six months of 2017, compared with the same periods of 2016, primarily due to growth in auto loans and leases, higher net charge-offs and higher releases of reserves related to residential mortgages in the prior year as a result of improvements in the portfolio.

Wealth Management and Securities Services Wealth Management and Securities Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Securities Services contributed $124 million of the Company s net income in the second quarter and $231 million in the first six months of 2017, or increases of $29 million (30.5 percent) and $61 million (35.9 percent), respectively, compared with the same periods of 2016.

Net revenue increased $77 million (14.7 percent) in the second quarter and $158 million (15.5 percent) in the

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Table 11 Line of Business Financial Performance

Three Months Ended June 30, (Dollars in Millions)	Wholesale Banking and Commercial Real Estate 2017	2016	Percent Change	Consumer and Small Business Banking 2017	2016	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 602	$ 546	10.3%	$ 1,258	$ 1,167	7.8%
Noninterest income	238	250	(4.8)	620	636	(2.5)
Securities gains (losses), net						
Total net revenue	840	796	5.5	1,878	1,803	4.2
Noninterest expense	399	363	9.9	1,280	1,231	4.0
Other intangibles	1	1		7	8	(12.5)
Total noninterest expense	400	364	9.9	1,287	1,239	3.9
Income before provision and income taxes	440	432	1.9	591	564	4.8
Provision for credit losses	(18)	68	*	90	44	*
Income before income taxes	458	364	25.8	501	520	(3.7)
Income taxes and taxable-equivalent adjustment	167	132	26.5	182	189	(3.7)
Net income	291	232	25.4	319	331	(3.6)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 291	$ 232	25.4	$ 319	$ 331	(3.6)
Average Balance Sheet						
Commercial	$ 73,394	$ 70,929	3.5%	$ 10,235	$ 10,504	(2.6)%
Commercial real estate	20,820	21,153	(1.6)	18,503	18,119	2.1
Residential mortgages	6	7	(14.3)	55,787	53,316	4.6
Credit card						
Other retail	1	2	(50.0)	52,486	49,413	6.2
Total loans, excluding covered loans	94,221	92,091	2.3	137,011	131,352	4.3
Covered loans				3,532	4,296	(17.8)
Total loans	94,221	92,091	2.3	140,543	135,648	3.6
Goodwill	1,647	1,647		3,681	3,681	
Other intangible assets	14	17	(17.6)	2,730	2,399	13.8
Assets	103,099	100,475	2.6	154,245	150,588	2.4
Noninterest-bearing deposits	36,362	36,183	.5	27,304	26,951	1.3