US BANCORP \DE\
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2013

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 þ 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 þ NO ¨

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

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

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

YES ¨ NO þ

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, 2013
Common Stock, $.01 Par Value	1,839,266,111 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. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which 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. Continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance is likely to be negatively impacted by recently enacted and future legislation and regulation. 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; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, and liquidity 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, 2012, 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, 2013	2012	Percent Change	Six Months Ended June 30, 2013	2012	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	$ 2,672	$ 2,713	(1.5)%	$ 5,381	$ 5,403	(.4)%
Noninterest income	2,270	2,374	(4.4)	4,430	4,613	(4.0)
Securities gains (losses), net	6	(19)	*	11	(19)	*
Total net revenue	4,948	5,068	(2.4)	9,822	9,997	(1.8)
Noninterest expense	2,557	2,601	(1.7)	5,027	5,161	(2.6)
Provision for credit losses	362	470	(23.0)	765	951	(19.6)
Income before taxes	2,029	1,997	1.6	4,030	3,885	3.7
Taxable-equivalent adjustment	56	55	1.8	112	111	.9
Applicable income taxes	529	564	(6.2)	1,087	1,091	(.4)
Net income	1,444	1,378	4.8	2,831	2,683	5.5
Net (income) loss attributable to noncontrolling interests	40	37	8.1	81	70	15.7
Net income attributable to U.S. Bancorp	$ 1,484	$ 1,415	4.9	$ 2,912	$ 2,753	5.8
Net income applicable to U.S. Bancorp common shareholders	$ 1,405	$ 1,345	4.5	$ 2,763	$ 2,630	5.1
Per Common Share						
Earnings per share	$ .76	$ .71	7.0%	$ 1.49	$ 1.39	7.2%
Diluted earnings per share	.76	.71	7.0	1.49	1.38	8.0
Dividends declared per share	.230	.195	17.9	.425	.390	9.0
Book value per share	18.94	17.45	8.5			
Market value per share	36.15	32.16	12.4			
Average common shares outstanding	1,843	1,888	(2.4)	1,851	1,895	(2.3)
Average diluted common shares outstanding	1,853	1,898	(2.4)	1,860	1,904	(2.3)
Financial Ratios						
Return on average assets	1.70%	1.67%		1.68%	1.64%	
Return on average common equity	16.1	16.5		16.1	16.3	
Net interest margin (taxable-equivalent basis) (a)	3.43	3.58		3.46	3.59	
Efficiency ratio (b)	51.7	51.1		51.2	51.5	
Net charge-offs as a percent of average loans outstanding	.70	.98		.74	1.03	
Average Balances						
Loans	$ 225,186	$ 214,069	5.2%	$ 223,811	$ 212,115	5.5%
Loans held for sale	6,292	7,352	(14.4)	7,521	7,115	5.7
Investment securities (c)	74,438	73,181	1.7	73,955	72,329	2.2
Earning assets	311,927	303,754	2.7	312,954	301,899	3.7
Assets	349,589	340,429	2.7	350,483	338,358	3.6
Noninterest-bearing deposits	66,866	64,531	3.6	66,634	64,057	4.0
Deposits	247,385	231,301	7.0	246,208	229,792	7.1
Short-term borrowings	27,557	29,935	(7.9)	27,859	29,498	(5.6)
Long-term debt	21,343	29,524	(27.7)	23,362	30,538	(23.5)
Total U.S. Bancorp shareholders equity	39,904	37,266	7.1	39,543	36,341	8.8

	June 30, 2013	December 31, 2012	
Period End Balances			
Loans	$ 227,975	$ 223,329	2.1%
Investment securities	74,975	74,528	.6
Assets	353,415	353,855	(.1)
Deposits	251,568	249,183	1.0
Long-term debt	19,724	25,516	(22.7)
Total U.S. Bancorp shareholders equity	39,683	38,998	1.8
Asset Quality			
Nonperforming assets	$ 2,276	$ 2,671	(14.8)
Allowance for credit losses	4,612	4,733	(2.6)
Allowance for credit losses as a percentage of period-end loans	2.02%	2.12%	
Capital Ratios			

Tier 1 capital	11.1%	10.8%
Total risk-based capital	13.3	13.1
Leverage	9.5	9.2
Tangible common equity to tangible assets (d)	7.5	7.2
Tangible common equity to risk-weighted assets using Basel I definition (d)	8.9	8.6
Tier 1 common equity to risk-weighted assets using Basel I definition (d)	9.2	9.0
Tier 1 common equity to risk-weighted assets estimated using final rules for the Basel III standardized approach released July 2013 (d)	8.6	
Tier 1 common equity to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (d)	8.3	8.1

* *Not meaningful.*

(a) *Presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.*

(b) *Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding net securities gains (losses).*

(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.*

(d) *See Non-GAAP Financial Measures beginning on page 33.*

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Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.5 billion for the second quarter of 2013, or $.76 per diluted common share, compared with $1.4 billion, or $.71 per diluted common share for the second quarter of 2012. Return on average assets and return on average common equity were 1.70 percent and 16.1 percent, respectively, for the second quarter of 2013, compared with 1.67 percent and 16.5 percent, respectively, for the second quarter of 2012. The provision for credit losses was $30 million lower than net charge-offs for the second quarter of 2013, compared with $50 million lower than net charge-offs for the second quarter of 2012.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2013 was $120 million (2.4 percent) lower than the second quarter of 2012, reflecting a 1.5 percent decrease in net interest income and a 3.4 percent decrease in noninterest income. The decrease in net interest income from a year ago was the result of lower rates on loans and investment securities, partially offset by higher average earning assets, continued growth in lower cost core deposit funding and the positive impact from maturities of higher rate long-term debt during 2012. Noninterest income decreased from a year ago, primarily due to lower mortgage banking revenue and other revenue, partially offset by an increase in trust and investment management fees and a favorable change in net securities gains (losses).

Noninterest expense in the second quarter of 2013 was $44 million (1.7 percent) lower than the second quarter of 2012, primarily the result of the impact of a second quarter 2012 accrual for the Company s portion of an indemnification obligation associated with Visa Inc. litigation matters (Visa accrual) and lower professional services expense in the second quarter of 2013, partially offset by higher compensation and employee benefits expense.

The provision for credit losses for the second quarter of 2013 of $362 million was $108 million (23.0 percent) lower than the second quarter of 2012. Net charge-offs in the second quarter of 2013 were $392 million, compared with $520 million in the second quarter of 2012. 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 2013 was $2.9 billion, or $1.49 per diluted common share, compared with $2.8 billion, or $1.38 per diluted common share for the first six months of 2012. Return on average assets and return on average common equity were 1.68 percent and 16.1 percent, respectively, for the first six months of 2013, compared with 1.64 percent and 16.3 percent, respectively, for the first six months of 2012. The provision for credit losses was $60 million lower than net charge-offs for the first six months of 2013, compared with $140 million lower than net charge-offs for the first six months of 2012.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2013 was $175 million (1.8 percent) lower than the first six months of 2012, reflecting a .4 percent decrease in net interest income and a 3.3 percent decrease in noninterest income. The decrease in net interest income from the prior year was the result of lower rates on loans and investment securities, partially offset by higher average earning assets, continued growth in lower cost core deposit funding and the positive impact from maturities of higher rate long-term debt. Noninterest income decreased from the prior year, primarily due to lower mortgage banking revenue and other revenue, partially offset by increases in trust and investment management fees and payments-related revenue, and a favorable change in net securities gains (losses).

Noninterest expense in the first six months of 2013 was $134 million (2.6 percent) lower than the first six months of 2012, reflecting the impact of the second quarter 2012 Visa accrual, lower insurance-related costs, and decreases in professional services and other expenses, partially offset by higher compensation and employee benefits expense.

The provision for credit losses of $765 million for the first six months of 2013 was $186 million (19.6 percent) lower than the first six months of 2012. Net charge-offs in the first six months of 2013 were $825 million, compared with $1.1 billion in the first six months of 2012. 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 $2.7 billion in the second quarter and $5.4 billion in the first six months of 2013, or decreases of $41 million (1.5 percent) and $22 million (.4 percent), respectively, compared with the same periods of 2012. The decreases were the result of a lower net interest margin percentage, partially offset by growth in average earning assets. Average earning assets increased $8.2 billion (2.7 percent) in the second quarter and $11.1 billion (3.7 percent) in the first six months of 2013, compared with the same periods of 2012, driven by increases in loans and investment securities, partially offset by decreases in other earning assets, primarily due to the deconsolidation of certain consolidated variable interest entities (VIEs) in the second quarter of 2013, as the Company transferred control over the most significant activities of the entities to a third party manager. Refer to Note 4 of the Notes to Consolidated Financial Statements for further information on the deconsolidation of certain VIEs. Further offsetting the increases in average earning assets in the second quarter of 2013 was a decrease in loans held for sale, principally due to lower residential mortgage loan originations in the second quarter of 2013, compared with the second quarter of 2012. The net interest margin in the second quarter and first six months of 2013 was 3.43 percent and 3.46 percent, respectively, compared with 3.58 percent and 3.59 percent in the second quarter and first six months of 2012, respectively. The decreases in the net interest margin primarily reflected lower rates on investment securities and loans, partially offset by lower rates on deposits and maturities of higher rate long-term debt during 2012. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average total loans for the second quarter and first six months of 2013 were $11.1 billion (5.2 percent) and $11.7 billion (5.5 percent) higher, respectively, than the same periods of 2012, driven by growth in residential mortgages, commercial loans and commercial real estate loans. These increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by declines in credit card loans,

other retail loans and loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC). Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) decreased $3.4 billion (24.4 percent) in the second quarter and $3.4 billion (24.2 percent) in the first six months of 2013, compared with the same periods of 2012, respectively.

Average investment securities in the second quarter and first six months of 2013 were $1.3 billion (1.7 percent) and $1.6 billion (2.2 percent) higher, respectively, than the same periods of 2012, primarily due to purchases of U.S. government agency-backed securities, net of prepayments and maturities.

Average total deposits for the second quarter and first six months of 2013 were $16.1 billion (7.0 percent) and $16.4 billion (7.1 percent) higher, respectively, than the same periods of 2012. Average noninterest-bearing deposits for the second quarter and first six months of 2013 were $2.3 billion (3.6 percent) and $2.6 billion (4.0 percent) higher, respectively, than the same periods of 2012, driven by growth in Consumer and Small Business Banking balances. Average total savings deposits for the second quarter and first six months of 2013 were $15.8 billion (13.1 percent) and $13.2 billion (10.9 percent) higher, respectively, than the same periods of 2012, the result of growth in Consumer and Small Business Banking balances primarily from continued strong participation in a consumer savings product offering. Additionally, the increases were due to higher corporate trust and broker-dealer balances. Average time certificates of deposit less than $100,000 for the second quarter and first six months of 2013 were $1.6 billion (10.9 percent) and $1.5 billion (10.0 percent) lower, respectively, than the same periods of 2012, due to maturities. Average time deposits greater than $100,000 were $.4 billion (1.2 percent) lower in the second quarter and $2.1 billion (7.0 percent) higher in the first six months of 2013, compared with the same periods of 2012, respectively. Time deposits greater than $100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing.

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Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended June 30, 2013	2012	Percent Change	Six Months Ended June 30, 2013	2012	Percent Change
Credit and debit card revenue	$ 244	$ 235	3.8%	$ 458	$ 437	4.8%
Corporate payment products revenue	176	190	(7.4)	348	365	(4.7)
Merchant processing services	373	359	3.9	720	696	3.4
ATM processing services	83	89	(6.7)	165	176	(6.3)
Trust and investment management fees	284	262	8.4	562	514	9.3
Deposit service charges	160	156	2.6	313	309	1.3
Treasury management fees	140	142	(1.4)	274	276	(.7)
Commercial products revenue	209	216	(3.2)	409	427	(4.2)
Mortgage banking revenue	396	490	(19.2)	797	942	(15.4)
Investment products fees	46	38	21.1	87	73	19.2
Securities gains (losses), net	6	(19)	*	11	(19)	*
Other	159	197	(19.3)	297	398	(25.4)
Total noninterest income	$ 2,276	$ 2,355	(3.4)%	$ 4,441	$ 4,594	(3.3)%

* *Not meaningful.*

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2013 decreased $108 million (23.0 percent) and $186 million (19.6 percent), respectively, from the same periods of 2012. Net charge-offs decreased $128 million (24.6 percent) and $266 million (24.4 percent) in the second quarter and first six months of 2013, respectively, compared with the same periods of 2012, principally due to improvement in the commercial, commercial real estate and residential mortgage portfolios. The provision for credit losses was lower than net charge-offs by $30 million in the second quarter and $60 million in the first six months of 2013, compared with $50 million in the second quarter and $140 million in the first six months of 2012. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was $2.3 billion in the second quarter and $4.4 billion in the first six months of 2013, or decreases of $79 million (3.4 percent) and $153 million (3.3 percent), respectively, compared with the same periods of 2012. The decreases from a year ago were principally due to lower mortgage banking revenue and other revenue, partially offset by higher trust and investment management fees and favorable changes in net securities gains (losses). The decreases in mortgage banking revenue were due to

lower origination and sales revenue, partially offset by a favorable change in the Company s mortgage representation and warranties reserve during the second quarter of 2013. The reductions in other income were driven by lower equity investment and retail lease revenue. In addition, corporate payment products revenue decreased due to lower government and transportation-related transactions, and ATM processing services revenue decreased due to lower volumes. Commercial products revenue was also lower, primarily driven by lower standby letters of credit fees, and capital markets revenue. Offsetting these negative variances were increases in trust and investment management fees due to improved market conditions and business expansion. Net securities gains (losses) reflected favorable variances as compared with the same periods of the prior year, as the Company recognized impairment on certain money center bank securities in the second quarter of 2012 following rating agency downgrades. Credit and debit card revenue also increased over the prior year, driven by higher volumes, including the impact of business expansion, partially offset by the impact of a credit recorded in the second quarter of 2012 related to the final expiration of debit card customer rewards. In addition, merchant processing services revenue increased due to higher volumes and product fees and investment products fees increased due to higher sales and fee volumes.

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Table 3 Noninterest Expense

(Dollars in Millions)	Three Months Ended June 30, 2013	2012	Percent Change	Six Months Ended June 30, 2013	2012	Percent Change
Compensation	$ 1,098	$ 1,076	2.0%	$ 2,180	$ 2,128	2.4%
Employee benefits	277	229	21.0	587	489	20.0
Net occupancy and equipment	234	230	1.7	469	450	4.2
Professional services	91	136	(33.1)	169	220	(23.2)
Marketing and business development	96	80	20.0	169	189	(10.6)
Technology and communications	214	201	6.5	425	402	5.7
Postage, printing and supplies	78	77	1.3	154	151	2.0
Other intangibles	55	70	(21.4)	112	141	(20.6)
Other	414	502	(17.5)	762	991	(23.1)
Total noninterest expense	$ 2,557	$ 2,601	(1.7)%	$ 5,027	$ 5,161	(2.6)%
Efficiency ratio (a)	51.7%	51.1%		51.2%	51.5%	

(a) Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.

Noninterest Expense Noninterest expense was $2.6 billion in the second quarter and $5.0 billion in the first six months of 2013, or decreases of $44 million (1.7 percent) and $134 million (2.6 percent), respectively, compared with the same periods of 2012. The decreases in noninterest expense from a year ago were primarily due to reductions in other expense and professional services expense, partially offset by higher compensation and employee benefits expense. Other expense decreased due to the second quarter 2012 Visa accrual and lower FDIC insurance expense and costs related to other real estate owned, partially offset by higher costs related to investments in affordable housing and other tax-advantaged projects. In addition, other expense for the first six months of 2013 was lower than the same period of the prior year due to lower insurance-related costs. Professional services expense was lower due to reductions in mortgage servicing review-related costs. Other intangibles expense decreased due to the reduction or completion of the amortization of certain intangibles. Compensation expense increased in the second quarter and first six months of 2013, compared with the same periods of the prior year, primarily attributable to the growth in staffing for business initiatives and business expansion, in addition to merit increases. Employee benefits expense increased, principally due to higher pension costs and staffing levels. In addition, net occupancy and equipment expense was higher due to business initiatives and expansion, and technology and communications expense increased due to business expansion and technology projects. Marketing and business development expense increased in the second quarter of 2013 compared with the same period of 2012, due to payments-related initiatives.

Income Tax Expense The provision for income taxes was $529 million (an effective rate of 26.8 percent) for the second quarter and $1.1 billion (an effective rate of 27.7 percent) for the first six months of 2013, compared with $564 million (an effective rate of 29.0 percent) and $1.1 billion (an effective rate of 28.9 percent) for the same periods of 2012. The decrease in the effective rates for the second quarter and first six months of 2013, compared with the same periods of 2012, reflected the impact of favorable developments on federal and state tax examinations. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $228.0 billion at June 30, 2013, compared with $223.3 billion at December 31, 2012, an increase of $4.6 billion (2.1 percent). The increase was driven primarily by increases in residential mortgages, commercial loans and commercial real estate loans, partially offset by lower credit card, other retail and covered loans.

Residential mortgages held in the loan portfolio increased $3.7 billion (8.5 percent) at June 30, 2013, compared with December 31, 2012, reflecting origination and refinancing activity due to the low interest rate environment. Residential mortgages originated and placed in the Company s loan portfolio are primarily well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality. 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.

Commercial loans and commercial real estate loans increased $2.0 billion (3.0 percent) and $1.3 billion (3.6 percent), respectively, at June 30, 2013, compared with December 31, 2012, reflecting higher demand from new and existing customers.

Credit card loans decreased $466 million (2.7 percent) at June 30, 2013, compared with December 31, 2012, the result of customers paying down their balances. Other retail loans, which include retail leasing, home equity and second mortgages and other retail loans, decreased $607 million (1.3 percent) at June 30, 2013, compared with December 31, 2012. The decrease was primarily driven by lower home equity and second mortgages and student loan balances.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were $4.8 billion at June 30, 2013, compared with $8.0 billion at December 31, 2012. The decrease in loans held for sale was principally due to lower residential mortgage loan originations during the first six months of 2013, as compared with the second half of 2012.

Most of the residential mortgage loans the Company originates or purchases 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.

Investment Securities Investment securities totaled $75.0 billion at June 30, 2013, compared with $74.5 billion at December 31, 2012. The $447 million (.6 percent) increase primarily reflected $1.3 billion of net investment purchases, partially offset by a $798 million unfavorable change in net unrealized gains (losses) on available-for-sale investment securities. Held-to-maturity securities were $34.7 billion at June 30, 2013, compared with $34.4 billion at December 31, 2012, primarily reflecting net purchases of U.S government agency-backed securities.

The Company s available-for-sale securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss) unless a security is deemed to be other-than-temporarily impaired. At June 30, 2013, the Company s net unrealized gains on available-for-sale securities were $301 million, compared with $1.1 billion at December 31, 2012. The unfavorable change in net unrealized gains was primarily due to decreases in the fair value of agency mortgage-backed and state and political securities due to increases in interest rates. Gross unrealized losses on available-for-sale securities totaled $486 million at June 30, 2013, compared with $147 million at December 31, 2012.

The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying assets and market conditions. At June 30, 2013, 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.

There is limited market activity for non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management s assessment of various other market factors, which are judgmental in nature. The Company recorded $3 million and $10 million of impairment charges in earnings during the second quarter and first six months of 2013, respectively, on non-agency mortgage-backed securities. These impairment charges were due to changes in expected cash flows primarily resulting from changes in voluntary prepayment and default assumptions in the underlying mortgage pools. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 2 and 13 in the Notes to Consolidated Financial

Statements for further information on investment securities.

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Table 4 Investment Securities

	Available-for-Sale				Held-to-Maturity			
At June 30, 2013 (Dollars in Millions)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 492	$ 493	.4	.93%	$ 2,213	$ 2,224	.6	.99%
Maturing after one year through five years	40	42	2.8	2.97	231	233	1.4	1.07
Maturing after five years through ten years	749	725	9.0	2.14	1,017	969	9.0	1.87
Maturing after ten years	301	291	14.1	1.69	60	60	11.7	1.78
Total	$ 1,582	$ 1,551	7.2	1.70%	$ 3,521	$ 3,486	3.3	1.26%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 587	$ 593	.7	1.98%	$ 37	$ 37	.7	1.94%
Maturing after one year through five years	17,500	17,692	3.8	2.31	22,413	22,385	3.6	2.11
Maturing after five years through ten years	10,639	10,616	5.9	1.78	7,889	7,785	5.6	1.62
Maturing after ten years	2,082	2,098	12.6	1.26	650	664	11.8	1.30
Total	$ 30,808	$ 30,999	5.0	2.05%	$ 30,989	$ 30,871	4.2	1.97%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$	.1	7.66%	$	$	.4	.42%
Maturing after one year through five years	54	62	3.0	2.66	9	11	3.4	.73
Maturing after five years through ten years	564	575	7.0	2.62	8	9	6.4	.83
Maturing after ten years			18.1	5.35	3	12	21.7	.78
Total	$ 618	$ 637	6.7	2.63%	$ 20	$ 32	7.6	.78%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 44	$ 44	.5	6.17%	$	$	.3	7.41%
Maturing after one year through five years	5,030	5,211	3.1	6.73	3	3	2.3	9.04
Maturing after five years through ten years	509	509	7.2	5.84	2	2	7.7	7.73
Maturing after ten years	196	181	22.1	5.56	12	12	14.3	5.31
Total	$ 5,779	$ 5,945	4.1	6.60%	$ 17	$ 17	11.3	6.25%
Other Debt Securities								
Maturing in one year or less	$ 61	$ 61	.1	5.94%	$ 5	$ 5	.7	1.37%
Maturing after one year through five years					90	90	2.8	1.16
Maturing after five years through ten years					26	13	7.3	1.01
Maturing after ten years	734	652	22.0	2.73				
Total	$ 795	$ 713	20.4	2.98%	$ 121	$ 108	3.7	1.14%
Other Investments	$ 424	$ 462	15.4	2.31%	$	$		%
Total investment securities (d)	$ 40,006	$ 40,307	5.4	2.72%	$ 34,668	$ 34,514	4.2	1.89%

(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 politcal 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 politicial 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 4.1 years at December 31, 2012, with a corresponding weighted-average yield of 2.93 percent. The weighted-average maturity of the held-to-maturity investment securities was 3.3 years at December 31, 2012, with a corresponding weighted-average yield of 1.94 percent.

(e) 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. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

	June 30, 2013		December 31, 2012	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 5,103	6.8%	$ 4,365	5.9%
Mortgage-backed securities	61,797	82.8	61,019	83.1

Asset-backed securities	638	.8	637	.9
Obligations of state and political subdivisions	5,796	7.8	6,079	8.3
Other debt securities and investments	1,340	1.8	1,329	1.8
Total investment securities	$ 74,674	100.0%	$ 73,429	100.0%

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Deposits Total deposits were $251.6 billion at June 30, 2013, compared with $249.2 billion December 31, 2012, the result of increases in time deposits greater than $100,000, money market deposits and savings deposits, partially offset by decreases in noninterest bearing deposits, interest checking balances and time certificates less than $100,000. Time deposits greater than $100,000 increased $4.2 billion (14.5 percent) at June 30, 2013, compared with December 31, 2012. Time deposits greater than $100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing. Money market balances increased $3.6 billion (7.0 percent) primarily due to higher Wholesale Banking and Commercial Real Estate and institutional trust and custody balances. Savings account balances increased $1.1 billion (3.6 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking. Noninterest-bearing deposits decreased $3.5 billion (4.8 percent), primarily due to a decrease in Wealth Management and Securities Services, and Wholesale Banking and Commercial Real Estate balances. Interest checking balances decreased $2.1 billion (4.1 percent) primarily due to lower broker-dealer balances, partially offset by

higher corporate trust balances. Time certificates less than $100,000 decreased $891 million (6.5 percent) at June 30, 2013, compared with December 31, 2012, primarily due to 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 $26.2 billion at June 30, 2013, compared with $26.3 billion at December 31, 2012. The $123 million (.5 percent) decrease in short-term borrowings was primarily due to lower repurchase agreement balances, partially offset by an increase in commercial paper and other short-term borrowings. Long-term debt was $19.7 billion at June 30, 2013, compared with $25.5 billion at December 31, 2012. The $5.8 billion (22.7 percent) decrease was primarily due to a $4.5 billion decrease in long-term debt related to the deconsolidation of certain consolidated VIEs and $1.4 billion of medium-term note maturities. 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 most prominent risk exposures are credit, residual value, operational, interest rate, market, liquidity and reputation risk. 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. Residual value risk is the potential reduction in the end-of-term value of leased assets. Operational risk includes risks related to fraud, processing errors, technology, breaches of internal controls and in data security, and business continuation and disaster recovery. Operational risk also includes legal and compliance risks, including risks arising from the failure to adhere to laws, rules, regulations and internal policies and procedures. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the repricing of assets and liabilities differently. 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, certain mortgage loans held for sale, mortgage servicing rights (MSRs) and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. Further, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company s stock value, customer base, funding sources or revenue. 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, 2012, for a detailed discussion of these factors.

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), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors, such as changes in unemployment rates, gross domestic product and

consumer bankruptcy filings. The Risk Management Committee of the Company s Board of Directors 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 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 all of the Company s loans that are 90 days or more past due and still accruing, nonaccrual loans, those 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 3 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, 2012, 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.

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, student loans, and home equity loans and lines. 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 are variable rates benchmarked to the prime rate, with a 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 10-year amortization period. At June 30, 2013, substantially all of the Company s home equity lines were in the draw period. 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 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, 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 mortgages represent an important financial product for consumer customers of the Company and are originated through the Company s branches, loan production offices 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 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 for the LTVs of residential mortgages and home equity and second mortgages by borrower type at June 30, 2013:

Residential mortgages

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	$ 1,984	$ 30,399	$ 32,383	81.2%
Over 80% through 90%	379	3,058	3,437	8.6
Over 90% through 100%	342	1,237	1,579	3.9
Over 100%	753	1,629	2,382	6.0
No LTV available		104	104	.3
Total	$ 3,458	$ 36,427	$ 39,885	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$ 1	$ 548	$ 549	37.1%
Over 80% through 90%	1	223	224	15.2
Over 90% through 100%	3	220	223	15.1
Over 100%	7	475	482	32.6
No LTV available				
Total	$ 12	$ 1,466	$ 1,478	100.0%
Other Borrowers				
Less than or equal to 80%	$ 10	$ 343	$ 353	39.8%
Over 80% through 90%	4	202	206	23.2
Over 90% through 100%	1	94	95	10.7
Over 100%	2	231	233	26.3
No LTV available				
Total	$ 17	$ 870	$ 887	100.0%
Loans Purchased From GNMA Mortgage Pools (a)	$	$ 5,503	$ 5,503	100.0%
Total				
Less than or equal to 80%	$ 1,995	$ 31,290	$ 33,285	69.7%
Over 80% through 90%	384	3,483	3,867	8.1
Over 90% through 100%	346	1,551	1,897	4.0
Over 100%	762	2,335	3,097	6.5
No LTV available		104	104	.2
Loans purchased from GNMA mortgage pools (a)		5,503	5,503	11.5
Total	$ 3,487	$ 44,266	$ 47,753	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 Department of Veterans Affairs.*

Home equity and second mortgages

(Dollars in Millions)	Lines	Loans	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80%	$ 7,868	$ 508	$ 8,376	55.7%
Over 80% through 90%	2,257	243	2,500	16.6
Over 90% through 100%	1,396	172	1,568	10.4
Over 100%	1,965	368	2,333	15.5
No LTV/CLTV available	249	24	273	1.8
Total	$ 13,735	$ 1,315	$ 15,050	100.0%
Sub-Prime Borrowers				
Less than or equal to 80%	$ 39	$ 26	$ 65	19.9%
Over 80% through 90%	16	21	37	11.3
Over 90% through 100%	15	35	50	15.3
Over 100%	37	138	175	53.5
No LTV/CLTV available				
Total	$ 107	$ 220	$ 327	100.0%
Other Borrowers				

Less than or equal to 80%	$ 308	$ 6	$ 314	71.5%
Over 80% through 90%	63	5	68	15.5
Over 90% through 100%	24	2	26	5.9
Over 100%	24	5	29	6.6
No LTV/CLTV available	2		2	.5
Total	$ 421	$ 18	$ 439	100.0%
Total				
Less than or equal to 80%	$ 8,215	$ 540	$ 8,755	55.4%
Over 80% through 90%	2,336	269	2,605	16.5
Over 90% through 100%	1,435	209	1,644	10.4
Over 100%	2,026	511	2,537	16.0
No LTV/CLTV available	251	24	275	1.7
Total	$ 14,263	$ 1,553	$ 15,816	100.0%

At June 30, 2013, approximately $1.5 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent agencies at loan origination, compared with $1.6 billion at December 31, 2012. In addition to residential mortgages, at June 30, 2013, $.3 billion of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, compared with $.4 billion at December 31, 2012. 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 .5 percent of total assets at June 30, 2013, compared with .6 percent at December 31, 2012. The Company considers sub-prime loans to be those 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 at loan origination 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.

Covered loans included $1.1 billion in loans with negative-amortization payment options at June 30, 2013, compared with $1.3 billion at December 31, 2012. Other than covered loans, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

Home equity and second mortgages were $15.8 billion at June 30, 2013, compared with $16.7 billion at December 31, 2012, and included $4.9 billion of home equity lines in a first lien position and $10.9 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, 2013, included approximately $3.6 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $7.3 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

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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, 2013	December 31, 2012
Commercial		
Commercial	.10%	.10%
Lease financing		
Total commercial	.09	.09
Commercial Real Estate		
Commercial mortgages	.02	.02
Construction and development	.04	.02
Total commercial real estate	.03	.02
Residential Mortgages (a)	.53	.64
Credit Card	1.10	1.27
Other Retail		
Retail leasing		.02
Other	.18	.22
Total other retail (b)	.16	.20
Total loans, excluding covered loans	.27	.31
Covered Loans	5.40	5.86
Total loans	.49%	.59%

90 days or more past due **including** nonperforming loans	June 30, 2013	December 31, 2012
Commercial	.24%	.27%
Commercial real estate	1.13	1.50
Residential mortgages (a)	1.96	2.14
Credit card	1.75	2.12
Other retail (b)	.63	.66
Total loans, excluding covered loans	.97	1.11
Covered loans	7.08	9.28
Total loans	1.24%	1.52%

(a) *Delinquent loan ratios exclude $3.4 billion at June 30, 2013, and $3.2 billion at December 31, 2012, of loans purchased from GNMA mortgage pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including these loans, the ratio of residential mortgages 90 days or more past due including all nonperforming loans was 9.08 percent at June 30, 2013, and 9.45 percent at December 31, 2012.*

(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 1.01 percent at June 30, 2013, and 1.08 percent at December 31, 2012.*

information the Company has as the servicer of the first lien, information it received from its primary regulator on loans serviced by other large servicers 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, 2013:

	Junior Liens Behind		
(Dollars in Millions)	Company Owned or Serviced	Third Party First Lien	Total

	First Lien		
Total	$ 3,583	$ 7,318	$ 10,901
Percent 30 89 days past due	.63%	.87%	.79%
Percent 90 days or more past due	.11%	.20%	.17%
Weighted-average CLTV	83%	81%	82%
Weighted-average credit score	750	746	747

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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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 $1.1 billion ($580 million excluding covered loans) at June 30, 2013, compared with $1.3 billion ($660 million excluding covered loans) at December 31, 2012. The $80 million (12.1 percent) decrease, excluding covered loans, reflected improvement in residential mortgages, credit card and other retail loan portfolios during the first six months of 2013. 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 Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was .49 percent (.27 percent excluding covered loans) at June 30, 2013, compared with .59 percent (.31 percent excluding covered loans) at December 31, 2012.

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, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Residential Mortgages (a)				
30-89 days	$ 371	$ 348	.78%	.79%
90 days or more	251	281	.53	.64
Nonperforming	685	661	1.43	1.50
Total	$ 1,307	$ 1,290	2.74%	2.93%
Credit Card				
30-89 days	$ 194	$ 227	1.17%	1.33%
90 days or more	183	217	1.10	1.27
Nonperforming	109	146	.65	.85
Total	$ 486	$ 590	2.92%	3.45%
Other Retail				
Retail Leasing				
30-89 days	$ 8	$ 12	.14%	.22%
90 days or more		1		.02
Nonperforming	1	1	.02	.02
Total	$ 9	$ 14	.16%	.26%
Home Equity and Second Mortgages				
30-89 days	$ 117	$ 126	.74%	.76%
90 days or more	40	51	.25	.30
Nonperforming	194	189	1.23	1.13
Total	$ 351	$ 366	2.22%	2.19%
Other (b)				
30-89 days	$ 118	$ 152	.46%	.59%
90 days or more	36	44	.14	.17
Nonperforming	27	27	.11	.11
Total	$ 181	$ 223	.71%	.87%

(a) Excludes $411 million of loans 30-89 days past due and $3.4 billion of loans 90 days or more past due at June 30, 2013, purchased from GNMA mortgage pools that continue to accrue interest, compared with $441 million and $3.2 billion at December 31, 2012, respectively.

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

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The following tables provide further information on residential mortgages and home equity and second mortgages as a percent of ending loan balances by borrower type:

Residential mortgages (a)	June 30, 2013	December 31, 2012
Prime Borrowers		
30-89 days	.62%	.65%
90 days or more	.47	.58
Nonperforming	1.30	1.36
Total	2.39%	2.59%
Sub-Prime Borrowers		
30-89 days	7.38%	6.41%
90 days or more	3.92	3.89
Nonperforming	10.15	9.60
Total	21.45%	19.90%
Other Borrowers		
30-89 days	1.69%	.97%
90 days or more	.79	.97
Nonperforming	1.58	1.83
Total	4.06%	3.77%

(a) Excludes delinquent and nonperforming information on loans purchased from GNMA mortgage pools as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Home equity and second mortgages	June 30, 2013	December 31, 2012
Prime Borrowers		
30-89 days	.64%	.64%
90 days or more	.24	.28
Nonperforming	1.09	1.03
Total	1.97%	1.95%
Sub-Prime Borrowers		
30-89 days	4.58%	4.92%
90 days or more	.92	1.36
Nonperforming	5.81	4.10
Total	11.31%	10.38%
Other Borrowers		
30-89 days	1.36%	1.41%
90 days or more	.23	.47
Nonperforming	2.28	2.35
Total	3.87%	4.23%

The following table provides summary delinquency information for covered loans:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
30-89 days	$ 181	$ 359	1.81%	3.18%
90 days or more	539	663	5.40	5.86
Nonperforming	168	386	1.68	3.41
Total	$ 888	$ 1,408	8.89%	12.45%

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. 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 participates in the

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U.S. Department of the Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to permanently modify their loan and achieve more affordable monthly payments, with the U.S. Department of the Treasury compensating the Company for a portion of the reduction in monthly amounts due from borrowers participating in this program. The Company also modifies residential mortgage loans under Federal Housing Administration, Department of Veterans Affairs, and other internal programs. Under these programs, the Company provides concessions to qualifying borrowers experiencing financial difficulties. The 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.

Credit card and other retail loan modifications are generally part of distinct restructuring programs. The Company offers a workout program providing customers modification solutions over a specified time period, generally up to 60 months. The Company also provides modification programs to qualifying customers experiencing a temporary financial hardship in which reductions are made to monthly required minimum payments for up to 12 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, 2013		As a Percent of Performing TDRs			Total
(Dollars in Millions)	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	TDRs
Commercial	$ 279	1.5%	1.1%	$ 52(a)	$ 331
Commercial real estate	494	4.1		215(b)	709
Residential mortgages	2,084	7.2	5.2	382	2,466(d)
Credit card	249	7.2	6.0	109(c)	358
Other retail	205	6.3	2.8	86(c)	291(e)
TDRs, excluding GNMA and covered loans	3,311	6.2	4.0	844	4,155
Loans purchased from GNMA mortgage pools	1,851	8.0	55.0		1,851(f)
Covered loans	366	7.0	11.0	71	437
Total	$ 5,528	6.9%	21.5%	$ 915	$ 6,443

(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 $270 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $77 million in trial period arrangements.
(e) Includes $151 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $2 million in trial period arrangements.
(f)

Includes $428 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $256 million in trial period arrangements.

Short-term Modifications The Company makes short-term modifications that it does not consider to be TDRs, in limited circumstances, to assist borrowers experiencing temporary hardships. Consumer lending programs include payment reductions, deferrals of up to three past due payments, and the ability to return to current status if the borrower makes required payments. The Company may also make short-term modifications

to commercial lending loans, with the most common modification being an extension of the maturity date of three months or less. Such extensions generally are used when the maturity date is imminent and the borrower is experiencing some level of financial stress, but the Company believes the borrower will pay all contractual amounts owed. Short-term modifications were not material at June 30, 2013.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2013	December 31, 2012
Commercial		
Commercial	$ 91	$ 107
Lease financing	14	16
Total commercial	105	123
Commercial Real Estate		
Commercial mortgages	263	308
Construction and development	161	238
Total commercial real estate	424	546
Residential Mortgages (b)	685	661
Credit Card	109	146
Other Retail		
Retail leasing	1	1
Other	221	216
Total other retail	222	217
Total nonperforming loans, excluding covered loans	1,545	1,693
Covered Loans	168	386
Total nonperforming loans	1,713	2,079
Other Real Estate (c)(d)	364	381
Covered Other Real Estate (d)	187	197
Other Assets	12	14
Total nonperforming assets	$ 2,276	$ 2,671
Total nonperforming assets, excluding covered assets	$ 1,921	$ 2,088
Excluding covered assets		
Accruing loans 90 days or more past due (b)	$ 580	$ 660
Nonperforming loans to total loans	.71%	.80%
Nonperforming assets to total loans plus other real estate (c)	.88%	.98%
Including covered assets		
Accruing loans 90 days or more past due (b)	$ 1,119	$ 1,323
Nonperforming loans to total loans	.75%	.93%
Nonperforming assets to total loans plus other real estate (c)	1.00%	1.19%

Changes in Nonperforming Assets

(Dollars in Millions)	Commercial and Commercial Real Estate	Credit Card, Other Retail and Residential Mortgages	Covered Assets	Total
Balance December 31, 2012	$ 780	$ 1,308	$ 583	$ 2,671
Additions to nonperforming assets				
New nonaccrual loans and foreclosed properties	186	535	94	815
Advances on loans	15			15
Total additions	201	535	94	830
Reductions in nonperforming assets				
Paydowns, payoffs	(91)	(150)	(178)	(419)
Net sales	(121)	(88)	(141)	(350)
Return to performing status	(14)	(83)	(3)	(100)
Charge-offs (e)	(132)	(224)		(356)
Total reductions	(358)	(545)	(322)	(1,225)
Net additions to (reductions in) nonperforming assets	(157)	(10)	(228)	(395)
Balance June 30, 2013	$ 623	$ 1,298	$ 355	$ 2,276

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

Excludes $3.4 billion and $3.2 billion at June 30, 2013, and December 31, 2012, 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 Department of Veterans Affairs.

(c) *Foreclosed GNMA loans of $508 million and $548 million at June 30, 2013, and December 31, 2012, 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 Department of Veterans Affairs.*

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

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

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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 and other nonperforming assets owned by the Company. Interest payments collected from assets on nonaccrual status are typically 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, 2013, total nonperforming assets were $2.3 billion, compared with $2.7 billion at December 31, 2012. Excluding covered assets, nonperforming assets were $1.9 billion at June 30, 2013, compared with $2.1 billion at December 31, 2012. The $167 million (8.0 percent) decrease in nonperforming assets, excluding covered assets, was primarily driven by reductions in the construction and development portfolio, as well as improvement in commercial mortgages, commercial and credit card loans. Nonperforming covered assets at June 30, 2013, were $355 million, compared with $583 million at December 31, 2012. These assets are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Company. The ratio of total nonperforming assets to total loans and other real estate was 1.00 percent (.88 percent excluding covered assets) at June 30, 2013, compared with 1.19 percent (.98 percent excluding covered assets) at December 31, 2012. The Company expects total nonperforming assets to remain relatively stable in the third quarter of 2013.

Other real estate owned, excluding covered assets, was $364 million at June 30, 2013, compared with $381 million at December 31, 2012, and was related to foreclosed properties that previously secured loan balances. Other real estate owned includes properties vacated by the borrower and maintained by the Company, regardless of whether title in the property has been transferred to the Company.

The following table provides an analysis of other real estate owned, 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, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Residential				
Minnesota	$ 19	$ 20	.30%	.34%
California	16	16	.15	.18
Washington	16	14	.41	.38
Florida	15	14	.93	1.55
Illinois	15	19	.39	.55
All other states	188	185	.50	.49
Total residential	269	268	.42	.44
Commercial				
Missouri	13	17	.28	.37
California	13	8	.08	.05
Wisconsin	11	3	.22	.06
Arizona	10	10	.65	.83
Oregon	9	5	.23	.13
All other states	39	70	.05	.10
Total commercial	95	113	.09	.11
Total	$ 364	$ 381	.17%	.18%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $392 million for the second quarter and $825 million for the first six months of 2013, compared with $520 million and $1.1 billion for the same periods of 2012. 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 2013 was .70 percent and .74 percent, respectively, compared with .98 percent and 1.03 percent for the same periods of 2012. The year-over-year decreases in total net charge-offs primarily reflected improvement in the commercial, commercial real estate and residential mortgages portfolios, as economic conditions continue to slowly improve. Given current economic conditions, the Company expects the level of net charge-offs to be relatively stable in the third quarter of 2013.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2013 were $21 million (.08 percent of average loans outstanding on an annualized basis), compared with $124 million (.52 percent of average loans outstanding on an annualized basis) for the second quarter of 2012. Commercial and commercial real estate loan net charge-offs for the first six months of 2013 were $75 million (.15 percent of average loans outstanding on an annualized basis), compared with $281 million (.60 percent of average loans outstanding on an annualized basis) for the first six months of 2012. The decreases reflected the impact of more stable economic conditions.

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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,	
	2013	2012	2013	2012
Commercial				
Commercial	.22%	.41%	.22%	.51%
Lease financing	.31	1.07	.27	.81
Total commercial	.23	.48	.22	.54
Commercial Real Estate				
Commercial mortgages	.10	.62	.15	.54
Construction and development	(1.54)	.41	(.67)	1.41
Total commercial real estate	(.18)	.58	.01	.69
Residential Mortgages	.63	1.12	.73	1.15
Credit Card (a)	4.23	4.10	4.08	4.07
Other Retail				
Retail leasing	(.07)			.04
Home equity and second mortgages	1.45	1.44	1.63	1.55
Other	.76	.86	.80	.89
Total other retail	.90	.98	.99	1.05
Total loans, excluding covered loans	.70	1.04	.76	1.11
Covered Loans	.73		.38	.01
Total loans	.70%	.98%	.74%	1.03%

(a) Net charge-off as a percent of average loans outstanding, excluding portfolio purchases where the acquired loans were recorded at fair value at the purchase date, were 4.23 percent and 4.25 percent for the three months ended June 30, 2013 and 2012, respectively, and 4.12 percent and 4.23 percent for the six months ended June 30, 2013 and 2012, respectively.

Residential mortgage loan net charge-offs for the second quarter of 2013 were $74 million (.63 percent of average loans outstanding on an annualized basis), compared with $109 million (1.12 percent of average loans outstanding on an annualized basis) for the second quarter of 2012. Residential mortgage loan net charge-offs for the first six months of 2013 were $166 million (.73 percent of average loans outstanding on an annualized basis), compared with $221 million (1.15 percent of average loans outstanding on an annualized basis) for the first six months of 2012. Credit card loan net charge-offs for the second quarter of 2013 were $173 million (4.23 percent of average loans outstanding on an annualized basis), compared with $170 million (4.10 percent of average loans outstanding on an annualized basis) for the second quarter of 2012. Credit card loan net charge-offs for the first six months of

2013 were $333 million (4.08 percent of average loans outstanding on an annualized basis), compared with $339 million (4.07 percent of average loans outstanding on an annualized basis) for the first six months of 2012. Other retail loan net charge-offs for the second quarter of 2013 were $105 million (.90 percent of average loans outstanding on an annualized basis), compared with $117 million (.98 percent of average loans outstanding on an annualized basis) for the second quarter of 2012. Other retail loan net charge-offs for the first six months of 2013 were $231 million (.99 percent of average loans outstanding on an annualized basis), compared with $249 million (1.05 percent of average loans outstanding on an annualized basis) for the first six months of 2012. The year-over-year decreases in total residential mortgage, credit card and other retail loan net charge-offs reflected the impact of more stable economic conditions.

The following table provides an analysis of net charge-offs as a percent of average loans outstanding for residential mortgages and home equity and second mortgages by borrower type:

Three Months Ended June 30,		Six Months Ended June 30,	
Average Loans	Percent of Average Loans	Average Loans	Percent of Average Loans

(Dollars in Millions)	2013	2012	2013	2012	2013	2012	2013	2012
Residential Mortgages								
Prime borrowers	$ 38,985	$ 31,749	.57%	.98%	$ 38,152	$ 31,081	.62%	1.04%
Sub-prime borrowers	1,497	1,758	4.55	6.63	1,525	1,787	5.68	6.19
Other borrowers	876	725	.92	1.66	861	704	1.17	1.72
Loans purchased from GNMA mortgage pools (a)	5,515	4,934			5,458	4,926		
Total	$							