US BANCORP \DE\
Form 10-Q
May 03, 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 March 31, 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 April 30, 2013
Common Stock, $.01 Par Value	1,849,642,233 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.

Table 1 Selected Financial Data

	Three Months Ended		
	March 31,		
(Dollars and Shares in Millions, Except Per Share Data)	2013	2012	Percent Change
Condensed Income Statement			
Net interest income (taxable-equivalent basis) (a)	$ 2,709	$ 2,690	.7%
Noninterest income	2,160	2,239	(3.5)
Securities gains (losses), net	5		*
Total net revenue	4,874	4,929	(1.1)
Noninterest expense	2,470	2,560	(3.5)
Provision for credit losses	403	481	(16.2)
Income before taxes	2,001	1,888	6.0
Taxable-equivalent adjustment	56	56	
Applicable income taxes	558	527	5.9
Net income	1,387	1,305	6.3
Net (income) loss attributable to noncontrolling interests	41	33	24.2
Net income attributable to U.S. Bancorp	$ 1,428	$ 1,338	6.7
Net income applicable to U.S. Bancorp common shareholders	$ 1,358	$ 1,285	5.7
Per Common Share			
Earnings per share	$ .73	$ .68	7.4%
Diluted earnings per share	.73	.67	9.0
Dividends declared per share	.195	.195	
Book value per share	18.71	16.94	10.4
Market value per share	33.93	31.68	7.1
Average common shares outstanding	1,858	1,901	(2.3)
Average diluted common shares outstanding	1,867	1,910	(2.3)
Financial Ratios			
Return on average assets	1.65%	1.60%	
Return on average common equity	16.0	16.2	
Net interest margin (taxable-equivalent basis) (a)	3.48	3.60	
Efficiency ratio (b)	50.7	51.9	
Net charge-offs as a percent of average loans outstanding	.79	1.09	
Average Balances			
Loans	$ 222,421	$ 210,161	5.8%
Loans held for sale	8,764	6,879	27.4
Investment securities (c)	73,467	71,476	2.8
Earning assets	313,992	300,044	4.6
Assets	351,387	336,287	4.5
Noninterest-bearing deposits	66,400	63,583	4.4
Deposits	245,018	228,284	7.3
Short-term borrowings	28,164	29,062	(3.1)
Long-term debt	25,404	31,551	(19.5)
Total U.S. Bancorp shareholders' equity	39,177	35,415	10.6
	March 31, 2013	December 31, 2012	
Period End Balances			
Loans	$ 223,351	$ 223,329	%
Investment securities	75,286	74,528	1.0
Assets	355,447	353,855	.4
Deposits	248,012	249,183	(.5)
Long-term debt	25,239	25,516	(1.1)
Total U.S. Bancorp shareholders' equity	39,531	38,998	1.4
Asset Quality			
Nonperforming assets	$ 2,406	$ 2,671	(9.9)
Allowance for credit losses	4,708	4,733	(.5)
Allowance for credit losses as a percentage of period-end loans	2.11%	2.12%	
Capital Ratios			
Tier 1 capital	11.0%	10.8%	
Total risk-based capital	13.2	13.1	

Leverage	9.3	9.2
Tangible common equity to tangible assets (d)	7.4	7.2
Tangible common equity to risk-weighted assets using Basel I definition (d)	8.8	8.6
Tier 1 common equity to risk-weighted assets using Basel I definition (d)	9.1	9.0
Tier 1 common equity to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (d)	8.2	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 on page 31.*

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 $1.4 billion for the first quarter of 2013, or $.73 per diluted common share, compared with $1.3 billion, or $.67 per diluted common share for the first quarter of 2012. Return on average assets and return on average common equity were 1.65 percent and 16.0 percent, respectively, for the first quarter of 2013, compared with 1.60 percent and 16.2 percent, respectively, for the first quarter of 2012. The provision for credit losses was $30 million lower than net charge-offs for the first quarter of 2013, compared with $90 million lower than net charge-offs for the first quarter of 2012.

Total net revenue, on a taxable-equivalent basis, for the first quarter of 2013 was $55 million (1.1 percent) lower than the first quarter of 2012, reflecting a 3.3 percent decrease in noninterest income, partially offset by a .7 percent increase in net interest income. The increase in net interest income over a year ago was the result of 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, partially offset by decreases in loan and investment securities yields. Noninterest income decreased over a year ago, primarily due to lower mortgage banking and other revenue, partially offset by an increase in payments-related revenue and trust and investment management fees.

Noninterest expense in the first quarter of 2013 was $90 million (3.5 percent) lower than the first quarter of 2012, primarily due to favorable variances in litigation, regulatory and insurance-related costs and lower marketing and business development expense, partially offset by higher compensation and employee benefits expense.

The provision for credit losses for the first quarter of 2013 of $403 million was $78 million (16.2 percent) lower than the first quarter of 2012. Net charge-offs in the first quarter of 2013 were $433 million, compared with $571 million in the first 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.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $2.7 billion in the first quarter of 2013, an increase of $19 million (.7 percent) over the first quarter of 2012. The increase was the result of growth in average earning assets and lower cost core deposit funding, partially offset by a lower net interest margin. Average earning assets were $13.9 billion (4.6 percent) higher in the first quarter of 2013, compared with the first quarter of 2012, driven by increases of $12.3 billion (5.8 percent) in loans, $2.0 billion (2.8 percent) in investment securities and $1.9 billion (27.4 percent) in loans held for sale, partially offset by a decrease in other earning assets of $2.2 billion (19.0 percent) primarily due to lower cash balances held at the Federal Reserve. The net interest margin in the first quarter of 2013 was 3.48 percent, compared with 3.60 percent in the first quarter of 2012. The decrease in the net interest margin from the first quarter of 2012 primarily reflected higher balances in lower-yielding investment securities and loans, partially offset by lower rates on deposits, maturities of higher rate long-term debt during 2012 and a reduction in the cash balances held at the Federal Reserve. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates table for further information on net interest income.

Average total loans for the first quarter of 2013 were $12.3 billion (5.8 percent) higher than the first quarter of 2012, driven by growth in residential mortgages (19.2 percent), commercial loans (14.3 percent) and commercial real estate loans (3.4 percent). 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 (1.5 percent), other retail loans (1.4 percent) and loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC) (24.0 percent). Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) were $11.0 billion in the first quarter of 2013, compared with $14.5 billion in the same period of 2012.

Table 2 Noninterest Income

	Three Months Ended March 31,		
(Dollars in Millions)	2013	2012	Percent Change
Credit and debit card revenue	$ 214	$ 202	5.9%
Corporate payment products revenue	172	175	(1.7)
Merchant processing services	347	337	3.0
ATM processing services	82	87	(5.7)
Trust and investment management fees	278	252	10.3
Deposit service charges	153	153	
Treasury management fees	134	134	
Commercial products revenue	200	211	(5.2)
Mortgage banking revenue	401	452	(11.3)
Investment products fees	41	35	17.1
Securities gains (losses), net	5		*
Other	138	201	(31.3)
Total noninterest income	$ 2,165	$ 2,239	(3.3)%

* *Not meaningful.*

Average investment securities in the first quarter of 2013 were $2.0 billion (2.8 percent) higher than the first quarter of 2012, primarily due to purchases of U.S. government agency-backed securities, net of prepayments and maturities.

Average total deposits for the first quarter of 2013 were $16.7 billion (7.3 percent) higher than the first quarter of 2012. Average noninterest-bearing deposits for the first quarter of 2013 were $2.8 billion (4.4 percent) higher than the same period of 2012, driven by growth in Consumer and Small Business Banking balances. Average total savings deposits were $10.7 billion (8.7 percent) higher in the first quarter of 2013, compared with the first quarter of 2012, the result of growth in Consumer and Small Business Banking balances primarily from continued strong participation in a consumer savings product offering, as well as higher corporate trust and broker-dealer balances. Average time certificates of deposit less than $100,000 were $1.3 billion (9.0 percent) lower in the first quarter of 2013, compared with the same period of 2012, due to maturities. Average time deposits greater than $100,000 were $4.6 billion (16.7 percent) higher in the first quarter of 2013, compared with the first quarter of 2012, principally due to growth in wholesale banking and corporate trust balances. Time deposits greater than $100,000 are managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing.

Provision for Credit Losses The provision for credit losses for the first quarter of 2013 decreased $78 million (16.2 percent) from the first quarter of 2012. Net charge-offs decreased $138 million (24.2 percent) in the first quarter of 2013, compared with the first quarter of 2012, principally due to improvement in the commercial and commercial real estate portfolios. The provision for credit losses was lower than net charge-offs by $30 million in the first quarter of 2013, compared with $90 million lower than net charge-offs in the first 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.

Noninterest Income Noninterest income in the first quarter of 2013 was $2.2 billion, a decrease of $74 million (3.3 percent), compared with the first quarter of 2012. The decrease from a year ago was principally due to a reduction in other income, driven by lower equity investment and retail leasing revenue, and a decrease in mortgage banking revenue due to lower origination and sales revenue, partially offset by an increase in servicing income and a favorable change in the fair value of mortgage servicing rights (MSRs). In addition, commercial products revenue was lower from a year ago due to lower syndication and standby letters of credit fees, partially offset by higher bond underwriting fees. Partially offsetting these variances was an increase in credit and debit card revenue over the prior year, driven by business expansion, and an increase in merchant processing services revenue due to higher product fees and business expansion. Trust and investment management fees also increased over the prior year, reflecting improved market conditions and business expansion. In addition, investment products fees increased compared with the prior year, due to higher sales and fee volumes.

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Table 3 Noninterest Expense

	Three Months Ended March 31,		
(Dollars in Millions)	2013	2012	Percent Change
Compensation	$ 1,082	$ 1,052	2.9%
Employee benefits	310	260	19.2
Net occupancy and equipment	235	220	6.8
Professional services	78	84	(7.1)
Marketing and business development	73	109	(33.0)
Technology and communications	211	201	5.0
Postage, printing and supplies	76	74	2.7
Other intangibles	57	71	(19.7)
Other	348	489	(28.8)
Total noninterest expense	$ 2,470	$ 2,560	(3.5)%
Efficiency ratio (a)	50.7%	51.9%	

(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 in the first quarter of 2013 was $2.5 billion, a decrease of $90 million (3.5 percent), compared with the first quarter of 2012. The decrease in noninterest expense from a year ago was primarily due to a reduction in other expense and marketing and business development costs, partially offset by higher compensation and employee benefits expenses. Other expense decreased due to lower litigation, regulatory and insurance-related costs and lower FDIC insurance expense, partially offset by higher costs related to investments in affordable housing and other tax-advantaged projects. Marketing and business development expense was lower, primarily reflecting the timing of charitable contributions in 2012. In addition, other intangibles expense decreased from the same period of the prior year due to the reduction or completion of the amortization of certain intangibles, and professional services expense was lower due to a reduction in mortgage servicing review-related costs. Compensation expense increased primarily as a result of growth in staffing for business initiatives and business expansion, in addition to merit increases. Employee benefits expense increased due to higher pension costs and staffing levels. In addition, net occupancy and equipment expense increased over the same period of the prior year due to business initiatives and expansion, along with higher maintenance costs. Technology and communications expense was higher due to business expansion and technology projects.

Income Tax Expense The provision for income taxes was $558 million (an effective rate of 28.7 percent) for the first quarter of 2013, compared with $527 million (an effective rate of 28.8 percent) for the first quarter of 2012. 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 $223.4 billion at March 31, 2013, essentially unchanged from December 31, 2012, the result of increases in residential mortgages, commercial real estate and commercial loans, partially offset by lower credit card, other retail and covered loans.

Residential mortgages held in the loan portfolio increased $2.0 billion (4.5 percent) at March 31, 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 real estate loans and commercial loans increased $447 million (1.2 percent) and $100 million (.2 percent), respectively, at March 31, 2013, compared with December 31, 2012, reflecting higher demand from new and existing customers.

Credit card loans decreased $886 million (5.2 percent) at March 31, 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 $1.0 billion (2.2 percent) at March 31, 2013, compared with December 31, 2012. The decrease was primarily driven by lower home equity and second mortgages and student loan balances.

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Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were $7.7 billion at March 31, 2013, compared with $8.0 billion at December 31, 2012. The decrease in loans held for sale was principally due to a lower amount of residential mortgage loan originations during the first quarter of 2013, as compared with the previous quarter.

Most of the residential mortgage loans the Company originates 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 $75.3 billion at March 31, 2013, compared with $74.5 billion at December 31, 2012. The $758 million (1.0 percent) increase primarily reflected $907 million of net investment purchases, partially offset by a $119 million unfavorable change in net unrealized gains (losses) on available-for-sale investment securities. Held-to-maturity securities were $34.7 billion at March 31, 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 March 31, 2013, the Company s net unrealized gains on available-for-sale securities were $1.0 billion, 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. Gross unrealized losses on available-for-sale securities totaled $156 million at March 31, 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 March 31, 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 $7 million of impairment charges in earnings during the first quarter of 2013 on non-agency mortgage-backed securities. These impairment charges were due to changes in expected cash flows primarily resulting from increases in defaults 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.

Table 4 Investment Securities

	Available-for-Sale				Held-to-Maturity			
At March 31, 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	$ 1,201	$ 1,202	.7	1.47%	$ 1,411	$ 1,420	.7	.97%
Maturing after one year through five years	139	141	1.6	2.34	1,034	1,043	1.2	1.03
Maturing after five years through ten years	152	161	7.3	3.13	968	971	9.3	1.86
Maturing after ten years	1	2	14.4	4.15	60	60	11.9	1.81
Total	$ 1,493	$ 1,506	1.4	1.72%	$ 3,473	$ 3,494	3.5	1.25%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 1,767	$ 1,776	.6	1.70%	$ 194	$ 194	.6	1.55%
Maturing after one year through five years	21,662	22,212	3.5	2.27	27,931	28,355	3.3	2.04
Maturing after five years through ten years	6,139	6,200	6.1	1.85	2,834	2,856	5.9	1.41
Maturing after ten years	403	409	12.2	1.62	122	125	11.0	1.29
Total	$ 29,971	$ 30,597	3.9	2.14%	$ 31,081	$ 31,530	3.6	1.98%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$	.1	7.66%	$	$	.3	.43%
Maturing after one year through five years	55	64	3.2	2.60	9	9	3.3	.74
Maturing after five years through ten years	565	575	7.2	2.26	8	11	6.8	.84
Maturing after ten years			18.3	5.39	5	13	22.0	.75
Total	$ 620	$ 639	6.9	2.29%	$ 22	$ 33	8.9	.78%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 38	$ 38	.5	7.14%	$ 1	$ 1	.6	6.88%
Maturing after one year through five years	5,225	5,552	3.4	6.73	4	5	2.9	7.47
Maturing after five years through ten years	614	640	7.8	5.76	2	2	8.0	7.72
Maturing after ten years	50	50	21.2	8.07	12	12	14.5	5.36
Total	$ 5,927	$ 6,280	3.9	6.65%	$ 19	$ 20	10.8	6.12%
Other Debt Securities								
Maturing in one year or less	$ 6	$ 6	.9	1.15%	$ 1	$ 1	.4	1.00%
Maturing after one year through five years					94	93	3.0	1.19
Maturing after five years through ten years					26	12	7.6	1.03
Maturing after ten years	814	740	24.2	3.12				
Total	$ 820	$ 746	24.0	3.11%	$ 121	$ 106	3.9	1.16%
Other Investments	$ 759	$ 802	8.7	1.29%	$	$		%
Total investment securities (d)	$ 39,590	$ 40,570	4.4	2.80%	$ 34,716	$ 35,183	3.6	1.91%

(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.

	March 31, 2013		December 31, 2012	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 4,966	6.7%	$ 4,365	5.9%
Mortgage-backed securities	61,052	82.1	61,019	83.1

Asset-backed securities	642	.9	637	.9
Obligations of state and political subdivisions	5,946	8.0	6,079	8.3
Other debt securities and investments	1,700	2.3	1,329	1.8
Total investment securities	$ 74,306	100.0%	$ 73,429	100.0%

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Deposits Total deposits were $248.0 billion at March 31, 2013, compared with $249.2 billion at December 31, 2012, the result of decreases in noninterest bearing deposits, interest checking balances and time certificates less than $100,000, partially offset by increases in money market deposits, time deposits greater than $100,000 and savings deposits. Money market balances increased $3.3 billion (6.5 percent) primarily due to higher corporate trust and institutional trust and custody balances. Time deposits greater than $100,000 increased $2.3 billion (7.8 percent) at March 31, 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. Savings account balances increased $1.3 billion (4.3 percent), primarily due to continued strong participation in a savings product offered by Consumer and Small Business Banking. Noninterest-bearing deposits decreased $6.4 billion (8.6 percent), primarily due to a decrease in Wealth Management and Securities Services, and Wholesale Banking and Commercial Real Estate balances. Interest checking balances decreased $1.4 billion

(2.7 percent) primarily due to lower broker-dealer balances, partially offset by higher Consumer and Small Business Banking balances. Time certificates less than $100,000 decreased $310 million (2.3 percent) at March 31, 2013, compared with December 31, 2012.

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 $27.1 billion at March 31, 2013, compared with $26.3 billion at December 31, 2012. The $824 million (3.1 percent) increase in short-term borrowings was primarily in commercial paper and federal funds purchased, partially offset by lower repurchase agreement balances. Long-term debt was $25.2 billion at March 31, 2013, compared with $25.5 billion at December 31, 2012. The $277 million (1.1 percent) decrease was primarily due to $350 million of medium-term note maturities, partially offset by a $74 million increase in long-term debt related to certain consolidated variable interest entities. 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, 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. The decline in housing prices over the past several years has deteriorated the collateral support of the residential mortgage, home equity and second mortgage portfolios. 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 March 31, 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.

The following tables provide summary information for the LTVs of residential mortgages and home equity and second mortgages by borrower type at March 31, 2013:

Residential mortgages

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Prime Borrowers				
Less than or equal to 80 %	$ 1,840	$ 27,296	$ 29,136	76.5%
Over 80 % through 90 %	429	3,675	4,104	10.8
Over 90 % through 100 %	372	1,519	1,891	5.0
Over 100 %	897	1,933	2,830	7.4
No LTV available		111	111	.3
Total	$ 3,538	$ 34,534	$ 38,072	100.0%
Sub-Prime Borrowers				
Less than or equal to 80 %	$ 1	$ 518	$ 519	33.9%
Over 80 % through 90 %	2	221	223	14.6
Over 90 % through 100 %	2	221	223	14.6
Over 100 %	7	557	564	36.9
No LTV available				
Total	$ 12	$ 1,517	$ 1,529	100.0%
Other Borrowers				
Less than or equal to 80 %	$ 10	$ 277	$ 287	33.5%
Over 80 % through 90 %	3	190	193	22.6
Over 90 % through 100 %	2	106	108	12.6
Over 100 %	2	266	268	31.3
No LTV available				
Total	$ 17	$ 839	$ 856	100.0%
Loans Purchased From GNMA Mortgage Pools (a)	$	$ 5,527	$ 5,527	100.0%
Total				
Less than or equal to 80 %	$ 1,851	$ 28,091	$ 29,942	65.1%
Over 80 % through 90 %	434	4,086	4,520	9.8
Over 90 % through 100 %	376	1,846	2,222	4.8
Over 100 %	906	2,756	3,662	8.0
No LTV available		111	111	.3
Loans purchased from GNMA mortgage pools (a)		5,527	5,527	12.0
Total	$ 3,567	$ 42,417	$ 45,984	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 %	$ 7,374	$ 492	$ 7,866	51.2%
Over 80 % through 90 %	2,335	243	2,578	16.8
Over 90 % through 100 %	1,594	187	1,781	11.6
Over 100 %	2,391	440	2,831	18.5
No LTV/CLTV available	270	26	296	1.9
Total	$ 13,964	$ 1,388	$ 15,352	100.0%
Sub-Prime Borrowers				
Less than or equal to 80 %	$ 36	$ 26	$ 62	17.9%
Over 80 % through 90 %	16	18	34	9.8
Over 90 % through 100 %	16	34	50	14.4
Over 100 %	42	159	201	57.9
No LTV/CLTV available				
Total	$ 110	$ 237	$ 347	100.0%
Other Borrowers				

Less than or equal to 80 %	$ 285	$ 4	$ 289	66.9%
Over 80 % through 90 %	66	5	71	16.4
Over 90 % through 100 %	29	2	31	7.2
Over 100 %	32	6	38	8.8
No LTV/CLTV available	3		3	.7
Total	$ 415	$ 17	$ 432	100.0%
Total				
Less than or equal to 80 %	$ 7,695	$ 522	$ 8,217	50.9%
Over 80 % through 90 %	2,417	266	2,683	16.6
Over 90 % through 100 %	1,639	223	1,862	11.6
Over 100 %	2,465	605	3,070	19.0
No LTV/CLTV available	273	26	299	1.9
Total	$ 14,489	$ 1,642	$ 16,131	100.0%

At March 31, 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 March 31, 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 March 31, 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 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 March 31, 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 $16.1 billion at March 31, 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 $11.2 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at March 31, 2013, included approximately $3.6 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $7.6 billion where the Company did not service the related first lien loan. The Company was able

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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	March 31, 2013	December 31, 2012
Commercial		
Commercial	.10%	.10%
Lease financing		
Total commercial	.09	.09
Commercial Real Estate		
Commercial mortgages	.02	.02
Construction and development	.02	.02
Total commercial real estate	.02	.02
Residential Mortgages (a)	.54	.64
Credit Card	1.26	1.27
Other Retail		
Retail leasing	.02	.02
Other	.20	.22
Total other retail (b)	.18	.20
Total loans, excluding covered loans	.29	.31
Covered Loans	5.18	5.86
Total loans	.52%	.59%

90 days or more past due **including** nonperforming loans	March 31, 2013	December 31, 2012
Commercial	.25%	.27%
Commercial real estate	1.38	1.50
Residential mortgages (a)	2.01	2.14
Credit card	2.04	2.12
Other retail (b)	.67	.66
Total loans, excluding covered loans	1.06	1.11
Covered loans	7.13	9.28
Total loans	1.35%	1.52%

(a) *Delinquent loan ratios exclude $3.4 billion at March 31, 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 9.32 percent at March 31, 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 1.07 percent at March 31, 2013, and 1.08 percent at December 31, 2012.*

to determine the status of the related first liens using 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 March 31, 2013:

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

Total	$ 3,606	$ 7,569	$ 11,175
Percent 30 89 days past due	.65%	.85%	.79%
Percent 90 days or more past due	.15%	.21%	.19%
Weighted-average CLTV	86%	86%	86%
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.

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 $1.2 billion ($609 million excluding covered loans) at March 31, 2013, compared with $1.3 billion ($660 million excluding covered loans) at December 31, 2012. 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. The $51 million (7.7 percent) decrease,

excluding covered loans, reflected improvement in residential mortgages, credit card and other retail loan portfolios during the first three months of 2013. These loans 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 .52 percent (.29 percent excluding covered loans) at March 31, 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)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Residential Mortgages (a)				
30-89 days	$ 322	$ 348	.71%	.79%
90 days or more	249	281	.54	.64
Nonperforming	673	661	1.46	1.50
Total	$ 1,244	$ 1,290	2.71%	2.93%
Credit Card				
30-89 days	$ 202	$ 227	1.24%	1.33%
90 days or more	204	217	1.26	1.27
Nonperforming	127	146	.78	.85
Total	$ 533	$ 590	3.28%	3.45%
Other Retail				
Retail Leasing				
30-89 days	$ 7	$ 12	.12%	.22%
90 days or more	1	1	.02	.02
Nonperforming	1	1	.02	.02
Total	$ 9	$ 14	.16%	.26%
Home Equity and Second Mortgages				
30-89 days	$ 113	$ 126	.70%	.76%
90 days or more	44	51	.27	.30
Nonperforming	201	189	1.25	1.13
Total	$ 358	$ 366	2.22%	2.19%
Other (b)				
30-89 days	$ 119	$ 152	.48%	.59%
90 days or more	40	44	.16	.17
Nonperforming	26	27	.10	.11
Total	$ 185	$ 223	.74%	.87%

(a) Excludes $3.4 billion and $3.2 billion at March 31, 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.

(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)	March 31, 2013	December 31, 2012
Prime Borrowers		
30-89 days	.60%	.65%
90 days or more	.49	.58
Nonperforming	1.35	1.36
Total	2.44%	2.59%
Sub-Prime Borrowers		
30-89 days	5.36%	6.41%
90 days or more	3.47	3.89
Nonperforming	9.61	9.60
Total	18.44%	19.90%
Other Borrowers		
30-89 days	1.40%	.97%
90 days or more	.82	.97
Nonperforming	1.52	1.83
Total	3.74%	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	March 31, 2013	December 31, 2012
Prime Borrowers		
30-89 days	.61%	.64%
90 days or more	.25	.28
Nonperforming	1.15	1.03
Total	2.01%	1.95%
Sub-Prime Borrowers		
30-89 days	4.04%	4.92%
90 days or more	1.15	1.36
Nonperforming	4.32	4.10
Total	9.51%	10.38%
Other Borrowers		
30-89 days	1.39%	1.41%
90 days or more	.23	.47
Nonperforming	2.32	2.35
Total	3.94%	4.23%

The following table provides summary delinquency information for covered loans:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
30-89 days	$ 194	$ 359	1.80%	3.18%
90 days or more	556	663	5.18	5.86
Nonperforming	209	386	1.95	3.41
Total	$ 959	$ 1,408	8.93%	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

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 March 31, 2013		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	$ 276	3.5%	1.5%	$ 42(a)	$ 318
Commercial real estate	526	2.9		229(b)	755
Residential mortgages	2,035	5.6	4.7	338	2,373(d)
Credit card	266	9.9	7.2	127(c)	393
Other retail	215	6.8	3.7	95(c)	310(e)
TDRs, excluding GNMA and covered loans	3,318	5.4	3.8	831	4,149
Loans purchased from GNMA mortgage pools	1,909	6.9	53.8		1,909(f)
Covered loans	385	4.7	10.8	68	453
Total	$ 5,612	5.9%	21.3%	$ 899	$ 6,511

(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 $237 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $58 million in trial period arrangements.

(e) Includes $130 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $3 million in trial period arrangements.

(f)

Includes $330 million of Federal Housing Administration and Department of Veterans Affairs residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $310 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 March 31, 2013.

Table 6 Nonperforming Assets (a)

(Dollars in Millions)	March 31, 2013	December 31, 2012
Commercial		
Commercial	$ 85	$ 107
Lease financing	16	16
Total commercial	101	123
Commercial Real Estate		
Commercial mortgages	289	308
Construction and development	218	238
Total commercial real estate	507	546
Residential Mortgages (b)	673	661
Credit Card	127	146
Other Retail		
Retail leasing	1	1
Other	227	216
Total other retail	228	217
Total nonperforming loans, excluding covered loans	1,636	1,693
Covered Loans	209	386
Total nonperforming loans	1,845	2,079
Other Real Estate (c)(d)	379	381
Covered Other Real Estate (d)	168	197
Other Assets	14	14
Total nonperforming assets	$ 2,406	$ 2,671
Total nonperforming assets, excluding covered assets	$ 2,029	$ 2,088
Excluding covered assets		
Accruing loans 90 days or more past due (b)	$ 609	$ 660
Nonperforming loans to total loans	.77%	.80%
Nonperforming assets to total loans plus other real estate (c)	.95%	.98%
Including covered assets		
Accruing loans 90 days or more past due (b)	$ 1,165	$ 1,323
Nonperforming loans to total loans	.83%	.93%
Nonperforming assets to total loans plus other real estate (c)	1.07%	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	105	305	35	445
Advances on loans	6			6
Total additions	111	305	35	451
Reductions in nonperforming assets				
Paydowns, payoffs	(73)	(74)	(125)	(272)
Net sales	(25)	(46)	(115)	(186)
Return to performing status	(11)	(43)	(1)	(55)
Charge-offs (e)	(76)	(127)		(203)
Total reductions	(185)	(290)	(241)	(716)
Net additions to (reductions in) nonperforming assets	(74)	15	(206)	(265)
Balance March 31, 2013	$ 706	$ 1,323	$ 377	$ 2,406

(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 March 31, 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 $513 million and $548 million at March 31, 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.*

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 March 31, 2013, total nonperforming assets were $2.4 billion, compared with $2.7 billion at December 31, 2012. Excluding covered assets, nonperforming assets were $2.0 billion at March 31, 2013, compared with $2.1 billion at December 31, 2012. The $59 million (2.8 percent) decrease in nonperforming assets, excluding covered assets, was primarily driven by reductions in commercial, commercial real estate and credit card nonperforming assets. Nonperforming covered assets at March 31, 2013, were $377 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 1.07 percent (.95 percent excluding covered assets) at March 31, 2013, compared with 1.19 percent (.98 percent excluding covered assets) at December 31, 2012. The Company expects total nonperforming assets to trend lower in the second quarter of 2013.

Other real estate owned, excluding covered assets, was $379 million at March 31, 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)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Residential				
Minnesota	$ 22	$ 20	.36%	.34%
Illinois	18	19	.48	.55
California	18	16	.19	.18
Florida	17	14	1.05	1.55
Washington	16	14	.42	.38
All other states	189	185	.51	.49
Total residential	280	268	.45	.44
Commercial				
Missouri	16	17	.35	.37
Oregon	12	5	.30	.13
Washington	11	7	.18	.11
Nevada	10	11	.81	.87
Arizona	9	10	.69	.83
All other states	41	63	.05	.07
Total commercial	99	113	.10	.11
Total	$ 379	$ 381	.18%	.18%

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $433 million for the first quarter of 2013, compared with $571 million for the first quarter of 2012. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the first quarter of 2013 was .79 percent, compared with 1.09 percent for the first quarter of 2012. The decrease in total net charge-offs for the first quarter 2013, compared with the first quarter of 2012, primarily reflected improvement in the commercial and commercial real estate loan 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 second quarter of 2013.

Commercial and commercial real estate loan net charge-offs for the first quarter of 2013 were $54 million (.21 percent of average loans outstanding on an annualized basis), compared with $157 million (.68 percent of average loans outstanding on an annualized basis) for the first quarter of 2012. The decrease reflected the impact of more stable economic conditions.

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

	Three Months Ended March 31,	
	2013	2012
Commercial		
Commercial	.22%	.61%
Lease financing	.23	.55
Total commercial	.22	.61
Commercial Real Estate		
Commercial mortgages	.20	.47
Construction and development	.26	2.38
Total commercial real estate	.21	.79
Residential Mortgages	.83	1.19
Credit Card (a)	3.93	4.05
Other Retail		
Retail leasing	.07	.08
Home equity and second mortgages	1.80	1.66
Other	.83	.92
Total other retail	1.08	1.11
Total loans, excluding covered loans	.83	1.17
Covered Loans	.04	.03
Total loans	.79%	1.09%

(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 4.00 percent and 4.21 percent for the three months ended March 31, 2013 and 2012, respectively.

Residential mortgage loan net charge-offs for the first quarter of 2013 were $92 million (.83 percent of average loans outstanding on an annualized basis), compared with $112 million (1.19 percent of average loans outstanding on an annualized basis) for the first quarter of 2012. Credit card loan net charge-offs for the first quarter of 2013 were $160 million (3.93 percent of average loans outstanding on an annualized basis), compared with $169 million (4.05 percent of average loans outstanding on an annualized basis) for the first quarter of 2012. Other retail loan net charge-offs for the first quarter of 2013 were $126 million (1.08 percent of average loans outstanding on an annualized basis), compared with $132 million (1.11 percent of average loans outstanding on an annualized basis) for the first quarter of 2012. The decrease in total residential mortgage, credit card and other retail loan net charge-offs for the first quarter of 2013, compared with the first quarter of 2012, 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 March 31	Average Loans		Percent of Average Loans	
(Dollars in Millions)	2013	2012	2013	2012
Residential Mortgages				
Prime borrowers	$ 37,309	$ 30,414	.68%	1.10%
Sub-prime borrowers	1,554	1,816	6.79	5.76
Other borrowers	845	682	1.44	1.77
Loans purchased from GNMA mortgage pools (a)	5,401	4,919		

Total	$ 45,109	$ 37,831	.83%	1.19%
Home Equity and Second Mortgages				
Prime borrowers	$ 15,650	$ 17,076	1.61%	1.44%
Sub-prime borrowers	354	437	8.02	8.28
Other borrowers	430	420	3.77	3.83
Total	$ 16,434	$ 17,933	1.80%	1.66%

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

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 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 operating earnings and reduced by net charge-offs. Management evaluates the allowance each quarter to ensure it appropriately reserves for incurred losses.

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. The Company currently uses a 12-year period of historical losses in considering actual loss experience, because it believes that period best reflects the losses incurred in the portfolio. This timeframe and the results of the analysis are evaluated quarterly to determine if they are appropriate. 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 for collateral-dependent loans. 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. The allowance recorded for all other consumer lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, delinquency status, refreshed LTV ratios when possible, portfolio growth and historical losses, adjusted for current trends. Credit card and other retail loans 90 days or more past due are generally not placed on nonaccrual status because of the relatively short period of time to charge-off and, therefore, are excluded from nonperforming loans and measures that include nonperforming loans as part of the calculation.

When evaluating the appropriateness of the allowance for credit losses for any loans and lines in a junior lien position, the Company considers the delinquency and modification status of the first lien. At March 31, 2013, the Company serviced the first lien on 32 percent of the home equity loans and lines in a junior lien position. The Company also considers information received from its primary regulator on the status of the first liens that are serviced by other large servicers in the industry and the status of first lien mortgage accounts reported on customer credit bureau files. Regardless of whether or not the Company services the first lien, an assessment is made of economic conditions, problem loans, recent loss experience and other factors in determining the allowance for credit losses. Based on the available information, the Company estimated $512 million or 3.2 percent of the total home equity portfolio at March 31, 2013, represented 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 when they are current, but the first lien is delinquent or modified. Historically, the number of junior lien defaults in any period has been a small percentage of the total portfolio (for example, only 1.6 percent for the twelve months ended March 31, 2013), and the long-term average loss rate on the small percentage of loans that default has been approximately 80 percent. In periods of economic stress such as the current environment, the Company has experienced loss severity rates in excess of 90 percent for junior liens that default. 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.

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 the present value of 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. Refer to Note 3 of the Notes to Consolidated Financial Statements, for more information.

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, internal review and other relevant business practices; 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 and Determination of the Allowance for Credit Losses in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for further discussion on the analysis and determination of the allowance for credit losses.

At March 31, 2013, the allowance for credit losses was $4.7 billion (2.11 percent of both total loans and loans excluding covered loans), compared with an allowance of $4.7 billion (2.12 percent of total loans and 2.15 percent of loans excluding covered loans) at December 31, 2012. The ratio of the allowance for credit losses to nonperforming loans was 255 percent (274 percent excluding covered loans) at March 31, 2013, compared with 228 percent (269 percent excluding covered loans) at December 31, 2012, due to the continued improvement in the commercial, commercial real estate and credit card portfolios. The ratio of the allowance for credit losses to annualized loan net charge-offs was 268 percent at March 31, 2013, compared with 226 percent of full year 2012 net charge-offs at December 31, 2012, as net charge-offs continue to decline due to stabilizing economic conditions.

Table 8 Summary of Allowance for Credit Losses

	Three Months Ended	
	March 31,	
(Dollars in Millions)	2013	2012
Balance at beginning of period	$ 4,733	$ 5,014
Charge-Offs		
Commercial		
Commercial	47	97
Lease financing	9	16
Total commercial	56	113
Commercial real estate		
Commercial mortgages	29	39
Construction and development	14	44
Total commercial real estate	43	83
Residential mortgages	100	116
Credit card	193	201
Other retail		
Retail leasing	2	3
Home equity and second mortgages	79	79
Other	75	85
Total other retail	156	167
Covered loans (a)	1	1
Total charge-offs	549	681
Recoveries		
Commercial		
Commercial	15	19
Lease financing	6	8
Total commercial	21	27
Commercial real estate		
Commercial mortgages	14	4
Construction and development	10	8
Total commercial real estate	24	12
Residential mortgages	8	4
Credit card	33	32
Other retail		
Retail leasing	1	2
Home equity and second mortgages	6	5
Other	23	28
Total other retail	30	35
Covered loans (a)		
Total recoveries	116	110
Net Charge-Offs		
Commercial		
Commercial	32	78
Lease financing	3	8
Total commercial	35	86
Commercial real estate		
Commercial mortgages	15	35
Construction and development	4	36
Total commercial real estate	19	71
Residential mortgages	92	112
Credit card	160	169
Other retail		
Retail leasing	1	1
Home equity and second mortgages	73	74
Other	52	57
Total other retail	126	132
Covered loans (a)	1	1
Total net charge-offs	433	571
Provision for credit losses	403	481
Net change for credit losses to be reimbursed by the FDIC	5	(5)

Balance at end of period	$ 4,708	$ 4,919
Components		
Allowance for loan losses, excluding losses to be reimbursed by the FDIC	$ 4,343	$ 4,575
Allowance for credit losses to be reimbursed by the FDIC	47	70
Liability for unfunded credit commitments	318	274
Total allowance for credit losses	$ 4,708	$ 4,919
Allowance for Credit Losses as a Percentage of		
Period-end loans, excluding covered loans	2.11%	2.44%
Nonperforming loans, excluding covered loans	274	238
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	200	173
Nonperforming assets, excluding covered assets	221	199
Annualized net charge-offs, excluding covered loans	256	210
Period-end loans	2.11%	2.32%
Nonperforming loans	255	174
Nonperforming and accruing loans 90 days or more past due	156	114
Nonperforming assets	196	142
Annualized net charge-offs	268	214

Note: At March 31, 2013 and 2012, $1.7 billion and $1.8 billion, respectively, of the total allowance for credit losses related to incurred losses on credit card and other retail loans.

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

Residual Value Risk Management The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of March 31, 2013, no significant change in the amount of residual values or concentration of the portfolios had occurred since December 31, 2012. 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, 2012, for further discussion on residual value risk management.

Operational Risk Management The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Risk Management Committee of the Company s Board of Directors provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Management Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operating risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and monitoring operational risks embedded in their business activities. In addition, enterprise risk management is responsible for establishing a culture of compliance and compliance program standards and policies, and performing risk assessments on the business lines adherence to laws, rules, regulations and internal policies and procedures. 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, 2012, for further discussion on operational 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 minimize the volatility of net interest income and the market value of assets and liabilities, the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability 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.

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. The table below summarizes the projected impact to net interest income over the next 12 months of various potential interest rate changes. The ALCO policy limits the estimated change in net interest income in a gradual 200 basis point (bps) rate change scenario to a 4.0 percent decline of forecasted net interest income over the next 12 months. At March 31, 2013, and December 31, 2012, the Company was within policy. 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, 2012, 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. The ALCO policy limits the change in market value of equity in a 200 bps parallel rate shock to a 15.0 percent decline. A 200 bps increase would have resulted in a 1.7 percent decrease in the market value of equity at March 31, 2013, compared with a 2.5 percent decrease at December 31, 2012. A 200 bps decrease, where possible given current rates, would have resulted in a 6.3 percent decrease in the market value of equity at March 31, 2013, compared with a 5.3 percent decrease at December 31, 2012. Refer to

Sensitivity of Net Interest Income

	March 31, 2013				December 31, 2012			
	Down 50 bps	Up 50 bps	Down 200 bps	Up 200 bps	Down 50 bps	Up 50 bps	Down 200 bps	Up 200 bps
	Immediate	Immediate	Gradual	Gradual	Immediate	Immediate	Gradual	Gradual
Net interest income	*	1.31%	*	1.63%	*	1.42%	*	1.90%

* *Given the current level of interest rates, a downward rate scenario can not be computed.*

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, 2012, for further discussion on market value of equity modeling.

Use of Derivatives to Manage Interest Rate and Other Risks To reduce the sensitivity of earnings 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 loans and debt from floating-rate payments to fixed-rate payments;
To mitigate changes in value of the Company s mortgage origination pipeline, funded mortgage loans held for sale and MSRs;
To mitigate remeasurement volatility of foreign currency denominated balances; and
To mitigate the volatility of the Company s investment in foreign operations driven by fluctuations in foreign currency exchange rates.

To manage these risks, the Company may enter into exchange-traded and over-the-counter derivative contracts, including interest rate swaps, swaptions, futures, forwards and options. 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 entering into similar offsetting positions with broker-dealers. 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, forward commitments to buy to-be-announced securities (TBAs), U.S. Treasury 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 March 31, 2013, the Company had $14.4 billion of forward commitments to sell, hedging $6.5 billion of mortgage loans held for sale and $10.1 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 mortgage loans held for sale.

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 agreements, and, where possible by requiring collateral agreements. The Company may also transfer counterparty credit risk related to interest rate swaps to third parties through the use of risk participation agreements.

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