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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES þ NO ¨

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

YES þ NO ¨

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

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

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

YES ¨ NO þ

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

Class	Outstanding as of July 31, 2013
Common Stock, $.01 Par Value	1,839,266,111 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance is likely to be negatively impacted by recently enacted and future legislation and regulation. U.S. Bancorp s results could also be adversely affected by deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, and liquidity risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2012, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. However, factors other than these also could adversely affect U.S. Bancorp s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended June 30, 2013	2012	Percent Change	Six Months Ended June 30, 2013	2012	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	$ 2,672	$ 2,713	(1.5)%	$ 5,381	$ 5,403	(.4)%
Noninterest income	2,270	2,374	(4.4)	4,430	4,613	(4.0)
Securities gains (losses), net	6	(19)	*	11	(19)	*
Total net revenue	4,948	5,068	(2.4)	9,822	9,997	(1.8)
Noninterest expense	2,557	2,601	(1.7)	5,027	5,161	(2.6)
Provision for credit losses	362	470	(23.0)	765	951	(19.6)
Income before taxes	2,029	1,997	1.6	4,030	3,885	3.7
Taxable-equivalent adjustment	56	55	1.8	112	111	.9
Applicable income taxes	529	564	(6.2)	1,087	1,091	(.4)
Net income	1,444	1,378	4.8	2,831	2,683	5.5
Net (income) loss attributable to noncontrolling interests	40	37	8.1	81	70	15.7
Net income attributable to U.S. Bancorp	$ 1,484	$ 1,415	4.9	$ 2,912	$ 2,753	5.8
Net income applicable to U.S. Bancorp common shareholders	$ 1,405	$ 1,345	4.5	$ 2,763	$ 2,630	5.1
Per Common Share						
Earnings per share	$ .76	$ .71	7.0%	$ 1.49	$ 1.39	7.2%
Diluted earnings per share	.76	.71	7.0	1.49	1.38	8.0
Dividends declared per share	.230	.195	17.9	.425	.390	9.0
Book value per share	18.94	17.45	8.5			
Market value per share	36.15	32.16	12.4			
Average common shares outstanding	1,843	1,888	(2.4)	1,851	1,895	(2.3)
Average diluted common shares outstanding	1,853	1,898	(2.4)	1,860	1,904	(2.3)
Financial Ratios						
Return on average assets	1.70%	1.67%		1.68%	1.64%	
Return on average common equity	16.1	16.5		16.1	16.3	
Net interest margin (taxable-equivalent basis) (a)	3.43	3.58		3.46	3.59	
Efficiency ratio (b)	51.7	51.1		51.2	51.5	
Net charge-offs as a percent of average loans outstanding	.70	.98		.74	1.03	
Average Balances						
Loans	$ 225,186	$ 214,069	5.2%	$ 223,811	$ 212,115	5.5%
Loans held for sale	6,292	7,352	(14.4)	7,521	7,115	5.7
Investment securities (c)	74,438	73,181	1.7	73,955	72,329	2.2
Earning assets	311,927	303,754	2.7	312,954	301,899	3.7
Assets	349,589	340,429	2.7	350,483	338,358	3.6
Noninterest-bearing deposits	66,866	64,531	3.6	66,634	64,057	4.0
Deposits	247,385	231,301	7.0	246,208	229,792	7.1
Short-term borrowings	27,557	29,935	(7.9)	27,859	29,498	(5.6)
Long-term debt	21,343	29,524	(27.7)	23,362	30,538	(23.5)
Total U.S. Bancorp shareholders equity	39,904	37,266	7.1	39,543	36,341	8.8

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

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

* *Not meaningful.*

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

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

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

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

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Management s Discussion and Analysis

OVERVIEW

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

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

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

The provision for credit losses for the second quarter of 2013 of $362 million was $108 million (23.0 percent) lower than the second quarter of 2012. Net charge-offs in the second quarter of 2013 were $392 million, compared with $520 million in the second quarter of 2012. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit

quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first six months of 2013 was $2.9 billion, or $1.49 per diluted common share, compared with $2.8 billion, or $1.38 per diluted common share for the first six months of 2012. Return on average assets and return on average common equity were 1.68 percent and 16.1 percent, respectively, for the first six months of 2013, compared with 1.64 percent and 16.3 percent, respectively, for the first six months of 2012. The provision for credit losses was $60 million lower than net charge-offs for the first six months of 2013, compared with $140 million lower than net charge-offs for the first six months of 2012.

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

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

The provision for credit losses of $765 million for the first six months of 2013 was $186 million (19.6 percent) lower than the first six months of 2012. Net charge-offs in the first six months of 2013 were $825 million, compared with $1.1 billion in the first six months of 2012. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

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STATEMENT OF INCOME ANALYSIS

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

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

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

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

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

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Table 2 Noninterest Income

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

* *Not meaningful.*

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

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

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

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Table 3 Noninterest Expense

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

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

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

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

BALANCE SHEET ANALYSIS

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

Residential mortgages held in the loan portfolio increased $3.7 billion (8.5 percent) at June 30, 2013, compared with December 31, 2012, reflecting origination and refinancing activity due to the low interest rate environment. Residential mortgages originated and placed in the Company s loan portfolio are primarily well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality. The Company generally retains portfolio loans through maturity; however, the Company s intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital

implications. If the Company s intent or ability to hold an existing portfolio loan changes, it is transferred to loans held for sale.

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

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

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

Most of the residential mortgage loans the Company originates or purchases follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises.

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

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

The Company conducts a regular assessment of its investment portfolio to determine whether any securities are other-than-temporarily impaired. When assessing unrealized losses for other-than-temporary impairment, the Company considers the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized loss, expected cash flows of underlying assets and market conditions. At June 30, 2013, the Company had no plans to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost.

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

Statements for further information on investment securities.

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Table 4 Investment Securities

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

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

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

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

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

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

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

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

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

higher corporate trust balances. Time certificates less than $100,000 decreased $891 million (6.5 percent) at June 30, 2013, compared with December 31, 2012, primarily due to maturities.

Borrowings The Company utilizes both short-term and long-term borrowings as part of its asset/liability management and funding strategies. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $26.2 billion at June 30, 2013, compared with $26.3 billion at December 31, 2012. The $123 million (.5 percent) decrease in short-term borrowings was primarily due to lower repurchase agreement balances, partially offset by an increase in commercial paper and other short-term borrowings. Long-term debt was $19.7 billion at June 30, 2013, compared with $25.5 billion at December 31, 2012. The $5.8 billion (22.7 percent) decrease was primarily due to a $4.5 billion decrease in long-term debt related to the deconsolidation of certain consolidated VIEs and $1.4 billion of medium-term note maturities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

Overview Managing risks is an essential part of successfully operating a financial services company. The Company s most prominent risk exposures are credit, residual value, operational, interest rate, market, liquidity and reputation risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment or derivative contract when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Operational risk includes risks related to fraud, processing errors, technology, breaches of internal controls and in data security, and business continuation and disaster recovery. Operational risk also includes legal and compliance risks, including risks arising from the failure to adhere to laws, rules, regulations and internal policies and procedures. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the repricing of assets and liabilities differently. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, certain mortgage loans held for sale, mortgage servicing rights (MSRs) and derivatives that are accounted for on a fair value basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. Further, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company s stock value, customer base, funding sources or revenue. In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for a detailed discussion of these factors.

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

consumer bankruptcy filings. The Risk Management Committee of the Company s Board of Directors oversees the Company s credit risk management process.

In addition, credit quality ratings, as defined by the Company, are an important part of the Company s overall credit risk management and evaluation of its allowance for credit losses. Loans with a pass rating represent those not classified on the Company s rating scale for problem credits, as minimal risk has been identified. Loans with a special mention or classified rating, including all of the Company s loans that are 90 days or more past due and still accruing, nonaccrual loans, those considered troubled debt restructurings (TDRs), and loans in a junior lien position that are current but are behind a modified or delinquent loan in a first lien position, encompass all loans held by the Company that it considers to have a potential or well-defined weakness that may put full collection of contractual cash flows at risk. The Company s internal credit quality ratings for consumer loans are primarily based on delinquency and nonperforming status, except for a limited population of larger loans within those portfolios that are individually evaluated. For this limited population, the determination of the internal credit quality rating may also consider collateral value and customer cash flows. The Company obtains recent collateral value estimates for the majority of its residential mortgage and home equity and second mortgage portfolios, which allows the Company to compute estimated loan-to-value (LTV) ratios reflecting current market conditions. These individual refreshed LTV ratios are considered in the determination of the appropriate allowance for credit losses. However, the underwriting criteria the Company employs consider the relevant income and credit characteristics of the borrower, such that the collateral is not the primary source of repayment. Refer to Note 3 in the Notes to Consolidated Financial Statements for further discussion of the Company s loan portfolios including internal credit quality ratings. In addition, refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for a more detailed discussion on credit risk management processes.

The Company manages its credit risk, in part, through diversification of its loan portfolio and limit setting by product type criteria and concentrations. As part of its normal business activities, the Company offers a broad array of lending products. The Company categorizes its loan portfolio into three segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company s three loan portfolio segments are commercial lending, consumer lending and covered loans. The commercial lending segment includes loans and leases made to small business, middle market, large corporate, commercial real estate, financial institution, non-profit and public sector customers. Key risk characteristics relevant to commercial lending segment loans include the industry and geography of the borrower s business, purpose of the loan, repayment source, borrower s debt capacity and financial flexibility, loan covenants, and nature of pledged collateral, if any. These risk characteristics, among others, are considered in determining estimates about the likelihood of default by the borrowers and the severity of loss in the event of default. The Company considers these risk characteristics in assigning internal risk ratings to, or forecasting losses on, these loans which are the significant factors in determining the allowance for credit losses for loans in the commercial lending segment.

The consumer lending segment represents loans and leases made to consumer customers including residential mortgages, credit card loans, and other retail loans such as revolving consumer lines, auto loans and leases, student loans, and home equity loans and lines. Home equity or second mortgage loans are junior lien closed-end accounts fully disbursed at origination. These loans typically are fixed rate loans, secured by residential real estate, with a 10 or 15 year fixed payment amortization schedule. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. These include accounts in either a first or junior lien position. Typical terms on home equity lines are variable rates benchmarked to the prime rate, with a 15-year draw period during which a minimum payment is equivalent to the monthly interest, followed by a 10-year amortization period. At June 30, 2013, substantially all of the Company s home equity lines were in the draw period. Key risk characteristics relevant to consumer lending segment loans primarily relate to the borrowers capacity and willingness to repay and include unemployment rates and other economic factors, customer payment history and in some cases, updated LTV information on real estate based loans. These risk characteristics, among others, are reflected in forecasts of delinquency levels, bankruptcies and losses which are the primary factors in determining the allowance for credit losses for the consumer lending segment.

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

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

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

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

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

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The following tables provide summary information for the LTVs of residential mortgages and home equity and second mortgages by borrower type at June 30, 2013:

Residential mortgages

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

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

Home equity and second mortgages

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

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

At June 30, 2013, approximately $1.5 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent agencies at loan origination, compared with $1.6 billion at December 31, 2012. In addition to residential mortgages, at June 30, 2013, $.3 billion of home equity and second mortgage loans were to customers that may be defined as sub-prime borrowers, compared with $.4 billion at December 31, 2012. The total amount of consumer lending segment residential mortgage, home equity and second mortgage loans to customers that may be defined as sub-prime borrowers represented only .5 percent of total assets at June 30, 2013, compared with .6 percent at December 31, 2012. The Company considers sub-prime loans to be those made to borrowers with a risk of default significantly higher than those approved for prime lending programs, as reflected in credit scores obtained from independent agencies at loan origination, in addition to other credit underwriting criteria. Sub-prime portfolios include only loans originated according to the Company s underwriting programs specifically designed to serve customers with weakened credit histories. The sub-prime designation indicators have been and will continue to be subject to re-evaluation over time as borrower characteristics, payment performance and economic conditions change. The sub-prime loans originated during periods from June 2009 and after are with borrowers who met the Company s program guidelines and have a credit score that generally is at or below a threshold of 620 to 650 at loan origination depending on the program. Sub-prime loans originated during periods prior to June 2009 were based upon program level guidelines without regard to credit score.

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

Home equity and second mortgages were $15.8 billion at June 30, 2013, compared with $16.7 billion at December 31, 2012, and included $4.9 billion of home equity lines in a first lien position and $10.9 billion of home equity and second mortgage loans and lines in a junior lien position. Loans and lines in a junior lien position at June 30, 2013, included approximately $3.6 billion of loans and lines for which the Company also serviced the related first lien loan, and approximately $7.3 billion where the Company did not service the related first lien loan. The Company was able to determine the status of the related first liens using

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

90 days or more past due **excluding** nonperforming loans	June 30, 2013	December 31, 2012
Commercial		
Commercial	.10%	.10%
Lease financing		
Total commercial	.09	.09
Commercial Real Estate		
Commercial mortgages	.02	.02
Construction and development	.04	.02
Total commercial real estate	.03	.02
Residential Mortgages (a)	.53	.64
Credit Card	1.10	1.27
Other Retail		
Retail leasing		.02
Other	.18	.22
Total other retail (b)	.16	.20
Total loans, excluding covered loans	.27	.31
Covered Loans	5.40	5.86
Total loans	.49%	.59%

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

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

(b) *Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including these loans, the ratio of total other retail loans 90 days or more past due including all nonperforming loans was 1.01 percent at June 30, 2013, and 1.08 percent at December 31, 2012.*

information the Company has as the servicer of the first lien, information it received from its primary regulator on loans serviced by other large servicers or information reported on customer credit bureau files. The Company also evaluates other indicators of credit risk for these junior lien loans and lines including delinquency, estimated average CLTV ratios and updated weighted-average credit scores in making its assessment of credit risk, related loss estimates and determining the allowance for credit losses.

The following table provides a summary of delinquency statistics and other credit quality indicators for the Company s junior lien positions at June 30, 2013:

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

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

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

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Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $1.1 billion ($580 million excluding covered loans) at June 30, 2013, compared with $1.3 billion ($660 million excluding covered loans) at December 31, 2012. The $80 million (12.1 percent) decrease, excluding covered loans, reflected improvement in residential mortgages, credit card and other retail loan portfolios during the first six months of 2013. These balances exclude loans purchased from Government National Mortgage Association (GNMA) mortgage

pools whose repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Accruing loans 90 days or more past due are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was .49 percent (.27 percent excluding covered loans) at June 30, 2013, compared with .59 percent (.31 percent excluding covered loans) at December 31, 2012.

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

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

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

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

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

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

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

The following table provides summary delinquency information for covered loans:

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

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

Troubled Debt Restructurings Concessionary modifications are classified as TDRs unless the modification results in only an insignificant delay in the payments to be received. TDRs accrue interest if the

borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

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

The Company has also implemented certain residential mortgage loan restructuring programs that may result in TDRs. The Company participates in the

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U.S. Department of the Treasury Home Affordable Modification Program (HAMP). HAMP gives qualifying homeowners an opportunity to permanently modify their loan and achieve more affordable monthly payments, with the U.S. Department of the Treasury compensating the Company for a portion of the reduction in monthly amounts due from borrowers participating in this program. The Company also modifies residential mortgage loans under Federal Housing Administration, Department of Veterans Affairs, and other internal programs. Under these programs, the Company provides concessions to qualifying borrowers experiencing financial difficulties. The concessions may include adjustments to interest rates, conversion of adjustable rates to fixed rates, extensions of maturity dates or deferrals of payments, capitalization of accrued interest and/or outstanding advances, or in limited situations, partial forgiveness of loan principal. In most instances, participation in residential mortgage loan restructuring programs requires the customer to complete a short-term trial period. A permanent loan modification is contingent on the customer successfully completing the trial period arrangement and the loan documents are not modified until that time. The Company reports loans in a trial period arrangement as TDRs.

Credit card and other retail loan modifications are generally part of distinct restructuring programs. The Company offers a workout program providing customers modification solutions over a specified time period, generally up to 60 months. The Company also provides modification programs to qualifying customers experiencing a temporary financial hardship in which reductions are made to monthly required minimum payments for up to 12 months.

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

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

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

At June 30, 2013		As a Percent of Performing TDRs			
(Dollars in Millions)	Performing TDRs	30-89 Days Past Due	90 Days or More Past Due	Nonperforming TDRs	Total TDRs
Commercial	$ 279	1.5%	1.1%	$ 52(a)	$ 331
Commercial real estate	494	4.1		215(b)	709
Residential mortgages	2,084	7.2	5.2	382	2,466(d)
Credit card	249	7.2	6.0	109(c)	358
Other retail	205	6.3	2.8	86(c)	291(e)
TDRs, excluding GNMA and covered loans	3,311	6.2	4.0	844	4,155
Loans purchased from GNMA mortgage pools	1,851	8.0	55.0		1,851(f)
Covered loans	366	7.0	11.0	71	437
Total	$ 5,528	6.9%	21.5%	$ 915	$ 6,443

(a) *Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months) and small business credit cards with a modified rate equal to 0 percent.*
(b) *Primarily represents loans less than six months from the modification date that have not met the performance period required to return to accrual status (generally six months).*
(c) *Primarily represents loans with a modified rate equal to 0 percent.*
(d) *Includes $270 million of residential mortgage loans to borrowers that have had debt discharged through bankruptcy and $77 million in trial period arrangements.*
(e) *Includes $151 million of other retail loans to borrowers that have had debt discharged through bankruptcy and $2 million in trial period arrangements.*
(f)

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

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

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

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Table 6 Nonperforming Assets (a)

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

Changes in Nonperforming Assets

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

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

Excludes $3.4 billion and $3.2 billion at June 30, 2013, and December 31, 2012, respectively, of loans purchased from GNMA mortgage pools that are 90 days or more past due that continue to accrue interest, as their repayments are primarily insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

(c) *Foreclosed GNMA loans of $508 million and $548 million at June 30, 2013, and December 31, 2012, respectively, continue to accrue interest and are recorded as other assets and excluded from nonperforming assets because they are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.*

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

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

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

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

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

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Residential				
Minnesota	$ 19	$ 20	.30%	.34%
California	16	16	.15	.18
Washington	16	14	.41	.38
Florida	15	14	.93	1.55
Illinois	15	19	.39	.55
All other states	188	185	.50	.49
Total residential	269	268	.42	.44
Commercial				
Missouri	13	17	.28	.37
California	13	8	.08	.05
Wisconsin	11	3	.22	.06
Arizona	10	10	.65	.83
Oregon	9	5	.23	.13
All other states	39	70	.05	.10
Total commercial	95	113	.09	.11
Total	$ 364	$ 381	.17%	.18%

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Commercial				
Commercial	.22%	.41%	.22%	.51%
Lease financing	.31	1.07	.27	.81
Total commercial	.23	.48	.22	.54
Commercial Real Estate				
Commercial mortgages	.10	.62	.15	.54
Construction and development	(1.54)	.41	(.67)	1.41
Total commercial real estate	(.18)	.58	.01	.69
Residential Mortgages	.63	1.12	.73	1.15
Credit Card (a)	4.23	4.10	4.08	4.07
Other Retail				
Retail leasing	(.07)			.04
Home equity and second mortgages	1.45	1.44	1.63	1.55
Other	.76	.86	.80	.89
Total other retail	.90	.98	.99	1.05
Total loans, excluding covered loans	.70	1.04	.76	1.11
Covered Loans	.73		.38	.01
Total loans	.70%	.98%	.74%	1.03%

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

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

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

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

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

(Dollars in Millions)	2013	2012	2013	2012	2013	2012	2013	2012
Residential Mortgages								
Prime borrowers	$ 38,985	$ 31,749	.57%	.98%	$ 38,152	$ 31,081	.62%	1.04%
Sub-prime borrowers	1,497	1,758	4.55	6.63	1,525	1,787	5.68	6.19
Other borrowers	876	725	.92	1.66	861	704	1.17	1.72
Loans purchased from GNMA mortgage pools (a)	5,515	4,934			5,458	4,926		
Total	$ 46,873	$ 39,166	.63%	1.12%	$ 45,996	$ 38,498	.73%	1.15%
Home Equity and Second Mortgages								
Prime borrowers	$ 15,218	$ 16,761	1.27%	1.30%	$ 15,433	$ 16,918	1.44%	1.37%
Sub-prime borrowers	333	417	9.64	6.75	343	427	8.81	7.54
Other borrowers	438	420	1.83	1.92	434	420	2.79	2.87
Total	$ 15,989	$ 17,598	1.45%	1.44%	$ 16,210	$ 17,765	1.63%	1.55%

(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 June 30, 2013, the Company serviced the first lien on 33 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 $477 million or 3.0 percent of the total home equity portfolio at June 30, 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 June 30, 2013), and the long-term average loss rate on the small percentage of loans that default has been approximately 80 percent. In addition, the Company obtains updated credit scores on its home equity portfolio each quarter and in some cases more frequently, and uses this information to qualitatively supplement its loss estimation methods. Credit score distributions for the portfolio are monitored monthly and any changes in the distribution are one of the factors considered in assessing the Company s loss estimates.

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

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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 June 30, 2013, the allowance for credit losses was $4.6 billion (2.02 percent of total loans and 2.03 percent of 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 269 percent (287 percent excluding covered loans) at June 30, 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 293 percent at June 30, 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.

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Table 8 Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Balance at beginning of period	$ 4,708	$ 4,919	$ 4,733	$ 5,014
Charge-Offs				
Commercial				
Commercial	53	71	100	168
Lease financing	10	22	19	38
Total commercial	63	93	119	206
Commercial real estate				
Commercial mortgages	14	51	43	90
Construction and development	2	25	16	69
Total commercial real estate	16	76	59	159
Residential mortgages	81	114	181	230
Credit card	191	198	384	399
Other retail				
Retail leasing	1	1	3	4
Home equity and second mortgages	65	70	144	149
Other	68	78	143	163
Total other retail	134	149	290	316
Covered loans (a)	21	1	22	2
Total charge-offs	506	631	1,055	1,312
Recoveries				
Commercial				
Commercial	19	15	34	34
Lease financing	6	7	12	15
Total commercial	25	22	46	49
Commercial real estate				
Commercial mortgages	6	4	20	8
Construction and development	27	19	37	27
Total commercial real estate	33	23	57	35
Residential mortgages	7	5	15	9
Credit card	18	28	51	60
Other retail				
Retail leasing	2	1	3	3
Home equity and second mortgages	7	7	13	12
Other	20	24	43	52
Total other retail	29	32	59	67
Covered loans (a)	2	1	2	1
Total recoveries	114	111	230	221
Net Charge-Offs				
Commercial				
Commercial	34	56	66	134
Lease financing	4	15	7	23
Total commercial	38	71	73	157
Commercial real estate				
Commercial mortgages	8	47	23	82
Construction and development	(25)	6	(21)	42
Total commercial real estate	(17)	53	2	124
Residential mortgages	74	109	166	221
Credit card	173	170	333	339
Other retail				
Retail leasing	(1)			1
Home equity and second mortgages	58	63	131	137
Other	48	54	100	111
Total other retail	105	117	231	249
Covered loans (a)	19		20	1
Total net charge-offs	392	520	825	1,091
Provision for credit losses	362	470	765	951
Other changes (b)	(66)	(5)	(61)	(10)
Balance at end of period (c)	$ 4,612	$ 4,864	$ 4,612	$ 4,864
Components				

Allowance for loan losses	$ 4,312	$ 4,572
Liability for unfunded credit commitments	300	292
Total allowance for credit losses	$ 4,612	$ 4,864
Allowance for Credit Losses as a Percentage of		
Period-end loans, excluding covered loans	2.03%	2.34%
Nonperforming loans, excluding covered loans	287	247
Nonperforming and accruing loans 90 days or more past due, excluding covered loans	209	184
Nonperforming assets, excluding covered assets	231	210
Annualized net charge-offs, excluding covered loans	296	227
Period-end loans	2.02%	2.25%
Nonperforming loans	269	196
Nonperforming and accruing loans 90 days or more past due	163	128
Nonperforming assets	203	161
Annualized net charge-offs	293	233

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

(b) *Represents net changes in credit losses to be reimbursed by the FDIC and for the three and six months ended June 30, 2013, reductions in the allowance for covered loans where the reversal of a previously recorded allowance was offset by an associated decrease in the indemnification asset.*

(c) *At June 30, 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.*

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Residual Value Risk Management The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of June 30, 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 June 30, 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 4.5 percent decrease in the market value of equity at June 30, 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 2.0 percent decrease in the market value of equity at June 30, 2013, compared with a 5.3 percent decrease at December 31, 2012. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for further discussion on market value of equity modeling.

Sensitivity of Net Interest Income

	June 30, 2013				December 31, 2012			
	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual	Down 50 bps Immediate	Up 50 bps Immediate	Down 200 bps Gradual	Up 200 bps Gradual
Net interest income	*	1.22%	*	1.53%	*	1.42%	*	1.90%

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

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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, centrally cleared 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 June 30, 2013, the Company had $12.1 billion of forward commitments to sell, hedging $4.1 billion of mortgage loans held for sale and $9.6 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 arrangements, and, where possible by requiring collateral arrangements. The Company may also transfer counterparty credit risk related to interest rate swaps to third parties through the use of risk participation agreements.

For additional information on derivatives and hedging activities, refer to Notes 11 and 12 in the Notes to Consolidated Financial Statements.

Market Risk Management In addition to interest rate risk, the Company is exposed to other forms of market risk, principally related to trading activities which support customers strategies to manage their own foreign currency, interest rate risk and funding activities. The Company s Market Risk Committee (MRC), within the framework of the ALCO, oversees market risk management. The MRC monitors and reviews the Company s trading positions and establishes policies for market risk management, including exposure limits for each portfolio. The Company uses a Value at Risk (VaR) approach to measure general market risk. Theoretically, VaR represents the statistical risk of loss the Company has to adverse market movements over a one-day time horizon. The Company uses the Historical Simulation method to calculate VaR for its trading businesses measured at the ninety-ninth percentile using a one-year look-back period for distributions derived from past market data. The market factors used in the calculations include those pertinent to market risks inherent in the underlying trading portfolios, principally those that affect its investment grade bond trading business, foreign currency transaction business, client derivatives business, loan trading business and municipal securities business. On average, the Company expects the one-day VaR to be exceeded by actual losses two to three times per year for its trading businesses. The Company monitors the effectiveness of its risk programs by back-testing the performance of its VaR models, regularly updating the historical data used by the VaR

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models and stress testing. If the Company were to experience market losses in excess of the estimated VaR more often than expected, the VaR models and associated assumptions would be analyzed and adjusted.

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

Six Months Ended June 30

(Dollars in Millions)	2013	2012
Average	$ 1	$ 2
High	2	3
Low	1	1
Period-end	2	1

The Company did not experience any actual trading losses for its combined trading businesses that exceeded VaR by more than a negligible amount during the first six months of 2013. The Company stress tests its market risk measurements to provide management with perspectives on market events that may not be captured by its VaR models, including worst case historical market movement combinations that have not necessarily occurred on the same date.

The Company calculates Stressed VaR using the same underlying methodology and model as VaR, except that a historical continuous one-year look-back period is utilized that reflects a period of significant financial stress appropriate to the Company s trading portfolio. The period selected by the Company includes the significant market volatility of the last four months of 2008. The average, high, low and period-end Stressed VaR amounts for the Company s trading positions for the six months ended June 30, 2013 were $4 million, $8 million, $2 million, and $4 million, respectively.

The Company also measures the market risk of its hedging activities related to MSRs and residential mortgage loans held for sale using the Historical Simulation method. The VaRs are measured at the ninety-ninth percentile and employ factors pertinent to the market risks inherent in the valuation of the assets and hedges. A three-year look-back period is used to obtain past market data. The Company monitors the effectiveness of the models through back-testing, updating the data and regular validations. The average, high and low VaR amounts for the MSRs and related hedges for the six months ended June 30, 2013, were $3 million, $6 million and $2 million, respectively, compared with $5 million, $8 million and $2 million, respectively, for the six months ended June 30, 2012. The average, high and low VaR amounts for residential mortgage loans held for sale and related hedges for the six months ended June 30, 2013, were $2 million, $4 million and less than $1 million, respectively, compared

with $3 million, $7 million and $1 million, respectively, for the six months ended June 30, 2012.

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

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

The Company regularly projects its funding needs under various stress scenarios and maintains contingency plans consistent with the Company s access to diversified sources of contingent funding. The Company maintains a substantial level of total available liquidity in the form of on-balance sheet and off-balance sheet funding sources. These include cash at the Federal Reserve Bank, unencumbered liquid assets, and capacity to borrow at the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank s Discount Window. At June 30, 2013, the fair value of unencumbered available-for-sale and held-to-maturity investment securities totaled $57.9 billion, compared with $54.1 billion at December 31, 2012. Refer to Table 4 and Balance Sheet Analysis for further information on investment securities maturities and trends. Asset liquidity is further enhanced by the Company s ability to pledge loans to access secured borrowing facilities through the FHLB and Federal Reserve Bank. At June 30, 2013, the Company could have borrowed an additional $65.5 billion at the FHLB and Federal Reserve Bank based on collateral available for additional borrowings.

The Company s diversified deposit base provides a sizeable source of relatively stable and low-cost funding, while reducing the Company s reliance on the wholesale markets. Total deposits were $251.6 billion at June 30, 2013, compared with $249.2 billion at December 31, 2012. Refer to Balance Sheet Analysis for further information on the Company s deposits.

Additional funding is provided by long-term debt and short-term borrowings. Long-term debt was $19.7 billion at June 30, 2013, and is an important funding source because of its multi-year borrowing structure. Short-term borrowings were $26.2 billion at June 30, 2013, and supplement the Company s other funding sources. Refer to Balance Sheet Analysis for further information on the Company s long-term debt and short-term borrowings.

In addition to assessing liquidity risk on a consolidated basis, the Company monitors the parent company s liquidity and maintains sufficient funding to meet expected parent company obligations, without access to the wholesale funding markets or dividends from subsidiaries, for 12 months when forecasted payments of common stock dividends are included and 24 months assuming dividends were reduced to zero. The parent company currently has available funds considerably greater than the amounts required to satisfy these conditions.

Refer to Management s Discussion and Analysis Liquidity Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for further discussion on liquidity risk management.

At June 30, 2013, parent company long-term debt outstanding was $11.4 billion, compared with $12.8 billion at December 31, 2012. The $1.4 billion decrease was due to medium-term note maturities during the first six months of 2013. As of June 30, 2013, there was $1.5 billion of parent company debt scheduled to mature in the remainder of 2013.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiary after meeting the regulatory capital requirements for well-capitalized banks was approximately $7.8 billion at June 30, 2013.

European Exposures Certain European countries have experienced severe credit deterioration. The Company does not hold sovereign debt of any European country, but may have indirect exposure to sovereign debt through its investments in, and transactions with, European banks. At June 30, 2013, the Company had investments in perpetual preferred stock issued by European banks with an amortized cost totaling $70 million and unrealized losses totaling $8 million, compared with an amortized cost totaling $70 million and unrealized losses totaling $10 million, at December 31, 2012. The Company also transacts with various European banks as counterparties to interest rate, mortgage-related and foreign currency derivative transactions for its hedging and customer-related activities; however, none of these banks are domiciled in the countries experiencing the most significant credit deterioration. These derivative transactions are subject to master netting arrangements. In addition, interest rate and foreign currency derivative transactions are subject to collateral arrangements which significantly limit the Company s exposure to loss as they generally require daily posting of collateral. At June 30, 2013, the Company was in a net receivable position with two banks in the United Kingdom and one bank in Germany, totaling $100 million. The Company was in a net payable position to each of the other European banks.

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Table 9 Regulatory Capital Ratios

(Dollars in Millions)	June 30, 2013	December 31, 2012
Tier 1 capital	$ 32,219	$ 31,203
As a percent of risk-weighted assets	11.1%	10.8%
As a percent of adjusted quarterly average assets (leverage ratio)	9.5%	9.2%
Total risk-based capital	$ 38,378	$ 37,780
As a percent of risk-weighted assets	13.3%	13.1%

The Company has not bought or sold credit protection on the debt of any European country or any company domiciled in Europe, nor does it provide retail lending services in Europe. While the Company does not offer commercial lending services in Europe, it does provide financing to domestic multinational corporations that generate revenue from customers in European countries and provides a limited number of corporate credit cards to their European subsidiaries. While an economic downturn in Europe could have a negative impact on these customers revenues, it is unlikely that any effect on the overall credit worthiness of these multinational corporations would be material to the Company.

The Company provides merchant processing and corporate trust services in Europe and through banking affiliations in Europe. Operating cash for these businesses is deposited on a short-term basis with certain European banks. However, exposure is mitigated by the Company placing deposits at multiple banks and managing the amounts on deposit at any bank based on institution-specific deposit limits. At June 30, 2013, the Company had an aggregate amount on deposit with European banks of approximately $475 million.

The money market funds managed by a subsidiary of the Company do not have any investments in European sovereign debt. Other than investments in banks in the countries of the Netherlands, France and Germany, those funds do not have any unsecured investments in banks domiciled in the Eurozone.

Off-Balance Sheet Arrangements Off-balance sheet arrangements include any contractual arrangements to which an unconsolidated entity is a party, under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. Refer to Note 14 of the Notes to Consolidated Financial Statements for further information on these arrangements. The Company has not utilized private label asset securitizations as a source of funding. Off-balance sheet arrangements also include

any obligation related to a variable interest held in an unconsolidated entity that provides financing, liquidity, credit enhancement or market risk support. Refer to Note 4 of the Notes to Consolidated Financial Statements for further information related to the Company s interests in VIEs.

Capital Management The Company is committed to managing capital to maintain strong protection for depositors and creditors and for maximum shareholder benefit. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. These requirements follow the Capital Accord of the Basel Committee on Banking Supervision (Basel I). Table 9 provides a summary of regulatory capital ratios defined by banking regulators under the FDIC Improvement Act prompt corrective action provisions applicable to all banks, in effect at June 30, 2013 and December 31, 2012. All regulatory ratios exceeded regulatory well-capitalized requirements. In 2010, the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, proposed to enhance international capital standards. In June 2012, U.S. banking regulators proposed regulatory enhancements to the regulatory capital requirements for U.S. banks, which implement aspects of Basel III and the Dodd-Frank Act, such as redefining the regulatory capital elements and minimum capital ratios, introducing regulatory capital buffers above those minimums, revising the rules for calculating risk-weighted assets and introducing a new Tier 1 common equity ratio. In July 2013, U.S. banking regulators approved final regulatory capital rule enhancements, effective for the Company beginning January 1, 2014, that are largely consistent with the June 2012 proposals. The Company continues to evaluate these final rules, but does not expect their impact to be material to the financial statements.

Total U.S. Bancorp shareholders equity was $39.7 billion at June 30, 2013, compared with $39.0 billion at December 31, 2012. The increase was primarily the result of corporate earnings, partially offset by dividends, common share repurchases and changes in unrealized gains and losses on available-for-sale

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investment securities included in other comprehensive income. Refer to Management s Discussion and Analysis Capital Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for further discussion on capital management.

The Company believes certain capital ratios in addition to regulatory capital ratios defined by banking regulators under the FDIC Improvement Act prompt corrective action provisions are useful in evaluating its capital adequacy. The Company s Tier 1 common equity (using Basel I definition) and tangible common equity, as a percent of risk-weighted assets, were 9.2 percent and 8.9 percent, respectively, at June 30, 2013, compared with 9.0 percent and 8.6 percent, respectively, at December 31, 2012. The Company s tangible common equity divided by tangible assets was 7.5 percent at June 30, 2013, compared with 7.2 percent at December 31, 2012. Additionally, the Company s approximate Tier 1 common equity to risk-weighted assets ratio using proposed rules for the Basel III standardized approach released June 2012, was 8.3 percent at June 30, 2013, compared with 8.1 percent at December 31, 2012. The Company s estimated Tier 1 common equity to risk-weighted assets ratio using final rules for the Basel III standardized approach released July 2013, was 8.6 percent at June 30, 2013. Refer to Non-GAAP Financial Measures for further information regarding the calculation of these ratios.

On March 14, 2013, the Company announced its Board of Directors had approved a one-year authorization to repurchase up to $2.25 billion of its common stock, from April 1, 2013 through March 31, 2014.

The following table provides a detailed analysis of all shares purchased by the Company or any affiliated purchaser during the second quarter of 2013:

Period (Dollars in Millions)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
April	9,676,616(b)	$ 33.60	9,576,616	$ 1,928
May	4,420,989	34.25	4,420,989	1,777
June	3,857,003	35.46	3,857,003	1,640
Total	17,954,608(b)	$ 34.16	17,854,608	$ 1,640

(a) All shares were purchased under the stock repurchase program announced on March 14, 2013.
(b) Includes 100,000 shares of common stock purchased, at an average price per share of $32.17, in open-market transactions by U.S. Bank National Association, the Company s banking subsidiary, in its capacity as trustee of the Company s Employee Retirement Savings Plan.

On June 18, 2013, the Company announced its Board of Directors had approved an 18 percent increase in the Company s dividend rate per common share, from $.195 per quarter to $.23 per quarter.

LINE OF BUSINESS FINANCIAL REVIEW

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

Basis for Financial Presentation Business line results are derived from the Company s business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to Management s Discussion and Analysis Line of Business Financial Review in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for further discussion on the business lines basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company s diverse customer base. During 2013, certain organization and methodology changes were made and, accordingly, 2012 results were restated and presented on a comparable basis.

Wholesale Banking and Commercial Real Estate Wholesale Banking and Commercial Real Estate offers lending, equipment finance and small-ticket leasing, depository services, treasury management, capital markets, international trade services and other financial services to middle market, large corporate, commercial real estate, financial institution, non-profit and public sector clients. Wholesale Banking and Commercial Real Estate contributed $323 million of the Company s net income in the second quarter and $651 million in the first six months of 2013, or decreases of $5 million (1.5 percent) and $8 million (1.2 percent), respectively, compared with the same periods of 2012. The decreases were driven by lower net revenue, partially offset by decreases in the provision for credit losses and noninterest expense.

Net revenue decreased $49 million (5.8 percent) in the second quarter and $105 million (6.2 percent) in the

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first six months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, decreased $2 million (.4 percent) in the second quarter and $26 million (2.5 percent) in the first six months of 2013, compared with the same periods of 2012. The decreases were primarily driven by lower rates on loans and the impact of lower rates on the margin benefit from deposits, partially offset by higher average loan and deposit balances and higher loan fees. Noninterest income decreased $47 million (14.7 percent) in the second quarter and $79 million (12.5 percent) in the first six months of 2013, compared with the same periods of 2012, driven by lower commercial products revenue, primarily due to lower standby letters of credit fees. In addition, there was a year-over-year decline in equity investment revenue.

Noninterest expense decreased $10 million (3.1 percent) in the second quarter and $14 million (2.2 percent) in the first six months of 2013, compared with the same periods of 2012, primarily due to lower costs related to other real estate owned and FDIC insurance expense. The provision for credit losses decreased $30 million in the second quarter and $78 million in the first six months of 2013, compared with the same periods of 2012, due to lower net charge-offs, partially offset by lower reserve releases. Nonperforming assets were $406 million at June 30, 2013, $466 million at March 31, 2013, and $728 million at June 30, 2012. Nonperforming assets as a percentage of period-end loans were .56 percent at June 30, 2013, .67 percent at March 31, 2013, and 1.10 percent at June 30, 2012. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Consumer and Small Business Banking Consumer and Small Business Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail, ATM processing and over mobile devices, such as mobile phones and tablet computers. It encompasses community banking,

metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, workplace banking, student banking and 24-hour banking. Consumer and Small Business Banking contributed $349 million of the Company s net income in the second quarter and $666 million in the first six months of 2013, or decreases of $25 million (6.7 percent) and $88 million (11.7 percent), respectively, compared with the same periods of 2012. The decreases were due to lower net revenue, partially offset by decreases in the provision for credit losses and noninterest expense.

Within Consumer and Small Business Banking, the retail banking division contributed $167 million of the total net income in the second quarter and $272 million in the first six months of 2013, or decreases of $3 million (1.8 percent) and $41 million (13.1 percent) from the same periods of 2012. Mortgage banking contributed $182 million and $394 million of Consumer and Small Business Banking s net income in the second quarter and first six months of 2013, respectively, or decreases of $22 million (10.8 percent) and $47 million (10.7 percent) from the same periods of 2012.

Net revenue decreased $177 million (8.5 percent) and $288 million (7.0 percent) in the second quarter and first six months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, decreased $48 million (4.1 percent) in the second quarter and $77 million (3.3 percent) in the first six months of 2013, compared with the same periods of 2012. The decreases in net interest income were primarily due to lower loan rates and the impact of lower rates on the margin benefit from deposits, partially offset by higher average loan and deposit balances. Noninterest income decreased $129 million (14.3 percent) in the second quarter and $211 million (11.9 percent) in the first six months of 2013, compared with the same periods of 2012, primarily the result of lower mortgage origination and sales revenue, as well as lower retail lease revenue.

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Table 10 Line of Business Financial Performance

Three Months Ended June 30 (Dollars in Millions)	Wholesale Banking and Commercial Real Estate 2013	2012	Percent Change	Consumer and Small Business Banking 2013	2012	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 519	$ 521	(.4)%	$ 1,132	$ 1,180	(4.1)%
Noninterest income	273	320	(14.7)	776	905	(14.3)
Securities gains (losses), net						
Total net revenue	792	841	(5.8)	1,908	2,085	(8.5)
Noninterest expense	313	321	(2.5)	1,182	1,210	(2.3)
Other intangibles	2	4	(50.0)	10	13	(23.1)
Total noninterest expense	315	325	(3.1)	1,192	1,223	(2.5)
Income before provision and income taxes	477	516	(7.6)	716	862	(16.9)
Provision for credit losses	(30)		*	168	274	(38.7)
Income before income taxes	507	516	(1.7)	548	588	(6.8)
Income taxes and taxable-equivalent adjustment	184	188	(2.1)	199	214	(7.0)
Net income	323	328	(1.5)	349	374	(6.7)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 323	$ 328	(1.5)	$ 349	$ 374	(6.7)
Average Balance Sheet						
Commercial	$ 50,332	$ 44,479	13.2%	$ 8,423	$ 8,084	4.2%
Commercial real estate	20,366	19,720	3.3	16,765	16,083	4.2
Residential mortgages	29	63	(54.0)	46,084	38,727	19.0
Credit card						
Other retail	7	4	75.0	44,570	45,570	(2.2)
Total loans, excluding covered loans	70,734	64,266	10.1	115,842	108,464	6.8
Covered loans	371	1,077	(65.6)	6,724	7,640	(12.0)
Total loans	71,105	65,343	8.8	122,566	116,104	5.6
Goodwill	1,604	1,604		3,515	3,515	
Other intangible assets	26	38	(31.6)	2,208	1,824	21.1
Assets	77,914	71,380	9.2	138,303	132,730	4.2
Noninterest-bearing deposits	30,202	30,557	(1.2)	21,889	19,366	13.0
Interest checking	10,202	10,824	(5.7)	33,080	29,934	10.5
Savings products	12,938	7,508	72.3	46,203	43,214	6.9
Time deposits	16,415	17,032	(3.6)	21,666	24,242	(10.6)
Total deposits	69,757	65,921	5.8	122,838	116,756	5.2
Total U.S. Bancorp shareholders equity	7,346	6,333	16.0	12,063	11,106	8.6

Six Months Ended June 30	Wholesale Banking and Commercial Real Estate 2013	2012	Percent Change	Consumer and Small Business Banking 2013	2012	Percent Change

(Dollars in Millions)

Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$ 1,030	$ 1,056	(2.5)%	$ 2,284	$ 2,361	(3.3)%
Noninterest income	552	631	(12.5)	1,559	1,770	(11.9)
Securities gains (losses), net						
Total net revenue	1,582	1,687	(6.2)	3,843	4,131	(7.0)
Noninterest expense	630	640	(1.6)	2,372	2,391	(.8)
Other intangibles	4	8	(50.0)	21	26	(19.2)
Total noninterest expense	634	648	(2.2)	2,393	2,417	(1.0)
Income before provision and income taxes	948	1,039	(8.8)	1,450	1,714	(15.4)
Provision for credit losses	(75)	3	*	404	529	(23.6)
Income before income taxes	1,023	1,036	(1.3)	1,046	1,185	(11.7)
Income taxes and taxable-equivalent adjustment	372	377	(1.3)	380	431	(11.8)
Net income	651	659	(1.2)	666	754	(11.7)
Net (income) loss attributable to noncontrolling interests						
Net income attributable to U.S. Bancorp	$ 651	$ 659	(1.2)	$ 666	$ 754	(11.7)
Average Balance Sheet						
Commercial	$ 49,781	$ 43,365	14.8%	$ 8,367	$ 7,991	4.7%
Commercial real estate	20,133	19,570	2.9	16,666	15,996	4.2
Residential mortgages	29	64	(54.7)	45,296	38,052	19.0
Credit card						
Other retail	10	4	*	44,743	45,576	(1.8)
Total loans, excluding covered loans	69,953	63,003	11.0	115,072	107,615	6.9
Covered loans	415	1,103	(62.4)	6,832	7,766	(12.0)
Total loans	70,368	64,106	9.8	121,904	115,381	5.7
Goodwill	1,604	1,604		3,514	3,515	
Other intangible assets	27	40	(32.5)	2,112	1,794	17.7
Assets	76,813	69,908	9.9	138,779	131,719	5.4
Noninterest-bearing deposits	30,052	30,470	(1.4)	21,631	19,048	13.6
Interest checking	10,524	11,950	(11.9)	32,754	29,470	11.1
Savings products	12,400	8,193	51.3	45,914	42,772	7.3
Time deposits	16,428	15,193	8.1	22,075	24,306	(9.2)
Total deposits	69,404	65,806	5.5	122,374	115,596	5.9
Total U.S. Bancorp shareholders equity	7,279	6,298	15.6	12,026	10,937	10.0

* *Not meaningful*

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Wealth Management and Securities Services 2013	2012	Percent Change	Payment Services 2013	2012	Percent Change	Treasury and Corporate Support 2013	2012	Percent Change	Consolidated Company 2013	2012	Percent Change
$ 91	$ 83	9.6%	$ 387	$ 376	2.9%	$ 543	$ 553	(1.8)%	$ 2,672	$ 2,713	(1.5)%
310	278	11.5	828	816	1.5	83	55	50.9	2,270	2,374	(4.4)
						6	(19)	*	6	(19)	*
401	361	11.1	1,215	1,192	1.9	632	589	7.3	4,948	5,068	(2.4)
319	285	11.9	491	445	10.3	197	270	(27.0)	2,502	2,531	(1.1)
9	10	(10.0)	34	43	(20.9)				55	70	(21.4)
328	295	11.2	525	488	7.6	197	270	(27.0)	2,557	2,601	(1.7)
73	66	10.6	690	704	(2.0)	435	319	36.4	2,391	2,467	(3.1)
1	2	(50.0)	183	197	(7.1)	40	(3)	*	362	470	(23.0)
72	64	12.5	507	507		395	322	22.7	2,029	1,997	1.6
26	23	13.0	184	184		(8)	10	*	585	619	(5.5)
46	41	12.2	323	323		403	312	29.2	1,444	1,378	4.8
			(10)	(10)		50	47	6.4	40	37	8.1
$ 46	$ 41	12.2	$ 313	$ 313		$ 453	$ 359	26.2	$ 1,484	$ 1,415	4.9
$ 1,794	$ 1,270	41.3%	$ 6,035	$ 6,001	.6%	$ 178	$ 186	(4.3)%	$ 66,762	$ 60,020	11.2%
651	604	7.8				102	142	(28.2)	37,884	36,549	3.7
759	372	*				1	4	(75.0)	46,873	39,166	19.7
			16,416	16,696	(1.7)				16,416	16,696	(1.7)
1,548	1,512	2.4	741	814	(9.0)				46,866	47,900	(2.2)
4,752	3,758	26.5	23,192	23,511	(1.4)	281	332	(15.4)	214,801	200,331	7.2
15	12	25.0	5	5		3,270	5,004	(34.7)	10,385	13,738	(24.4)
4,767	3,770	26.4	23,197	23,516	(1.4)	3,551	5,336	(33.5)	225,186	214,069	5.2
1,527	1,469	3.9	2,508	2,350	6.7				9,154	8,938	2.4
173	175	(1.1)	585	734	(20.3)	2	4	(50.0)	2,994	2,775	7.9
7,620	6,479	17.6	29,401	29,785	(1.3)	96,351	100,055	(3.7)	349,589	340,429	2.7
13,805	13,476	2.4	675	632	6.8	295	500	(41.0)	66,866	64,531	3.6
4,672	3,833	21.9	448	1,336	(66.5)	1	1		48,403	45,928	5.4
28,021	23,114	21.2	54	37	45.9	81	139	(41.7)	87,297	74,012	17.9
5,585	4,662	19.8				1,153	894	29.0	44,819	46,830	(4.3)
52,083	45,085	15.5	1,177	2,005	(41.3)	1,530	1,534	(.3)	247,385	231,301	7.0
2,370	2,224	6.6	6,020	5,670	6.2	12,105	11,933	1.4	39,904	37,266	7.1

Wealth Management and Securities Services 2013	2012	Percent Change	Payment Services 2013	2012	Percent Change	Treasury and Corporate Support 2013	2012	Percent Change	Consolidated Company 2013	2012	Percent Change

$ 183	$ 177	3.4%	$ 775	$ 772	.4%	$ 1,109	$ 1,037	6.9%	$ 5,381	$ 5,403	(.4)%
604	545	10.8	1,575	1,548	1.7	140	119	17.6	4,430	4,613	(4.0)
						11	(19)	*	11	(19)	*
787	722	9.0	2,350	2,320	1.3	1,260	1,137	10.8	9,822	9,997	(1.8)
641	566	13.3	970	899	7.9	302	524	(42.4)	4,915	5,020	(2.1)
18	20	(10.0)	69	87	(20.7)				112	141	(20.6)
659	586	12.5	1,039	986	5.4	302	524	(42.4)	5,027	5,161	(2.6)
128	136	(5.9)	1,311	1,334	(1.7)	958	613	56.3	4,795	4,836	(.8)
1	1		388	413	(6.1)	47	5	*	765	951	(19.6)
127	135	(5.9)	923	921	.2	911	608	49.8	4,030	3,885	3.7
46	49	(6.1)	335	335		66	10	*	1,199	1,202	(.2)
81	86	(5.8)	588	586	.3	845	598	41.3	2,831	2,683	5.5
			(19)	(20)	5.0	100	90	11.1	81	70	15.7
$ 81	$ 86	(5.8)	$ 569	$ 566	.5	$ 945	$ 688	37.4	$ 2,912	$ 2,753	5.8
$ 1,767	$ 1,213	45.7%	$ 5,948	$ 5,824	2.1%	$ 171	$ 183	(6.6)%	$ 66,034	$ 58,576	12.7%
650	594	9.4				104	107	(2.8)	37,553	36,267	3.5
670	377	77.7				1	5	(80.0)	45,996	38,498	19.5
			16,472	16,737	(1.6)				16,472	16,737	(1.6)
1,550	1,510	2.6	752	825	(8.8)				47,055	47,915	(1.8)
4,637	3,694	25.5	23,172	23,386	(.9)	276	295	(6.4)	213,110	197,993	7.6
12	12		5	5		3,437	5,236	(34.4)	10,701	14,122	(24.2)
4,649	3,706	25.4	23,177	23,391	(.9)	3,713	5,531	(32.9)	223,811	212,115	5.5
1,528	1,468	4.1	2,508	2,350	6.7				9,154	8,937	2.4
177	176	.6	598	753	(20.6)	3	4	(25.0)	2,917	2,767	5.4
7,511	6,366	18.0	29,421	29,768	(1.2)	97,959	100,597	(2.6)	350,483	338,358	3.6
13,950	13,419	4.0	683	646	5.7	318	474	(32.9)	66,634	64,057	4.0
4,686	3,952	18.6	439	1,320	(66.7)	1	1		48,404	46,693	3.7
27,456	23,257	18.1	50	36	38.9	88	134	(34.3)	85,908	74,392	15.5
5,766	4,603	25.3				993	548	81.2	45,262	44,650	1.4
51,858	45,231	14.7	1,172	2,002	(41.5)	1,400	1,157	21.0	246,208	229,792	7.1
2,366	2,214	6.9	5,985	5,699	5.0	11,887	11,193	6.2	39,543	36,341	8.8

Noninterest expense decreased $31 million (2.5 percent) in the second quarter and $24 million (1.0 percent) in the first six months of 2013, compared with the same periods of 2012. The decreases reflected reductions in mortgage servicing review-related professional services costs, FDIC insurance expense, costs related to other real estate owned and other intangibles expense, partially offset by higher net shared services costs.

The provision for credit losses decreased $106 million (38.7 percent) in the second quarter and $125 million (23.6 percent) in the first six months of 2013, compared with the same periods of 2012, due to lower net charge-offs and a favorable change in the reserve allocation. As a percentage of average loans outstanding on an annualized basis, net charge-offs decreased to .63 percent in the second quarter of 2013, compared with .90 percent in the second quarter of 2012. Nonperforming assets were $1.4 billion at June 30, 2013, $1.4 billion at March 31, 2013, and $1.3 billion at June 30, 2012. Nonperforming assets as a percentage of period-end loans were 1.13 percent at June 30, 2013, 1.17 percent at March 31, 2013, and 1.12 percent at June 30, 2012. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Wealth Management and Securities Services Wealth Management and Securities Services provides private banking, financial advisory services, investment management, retail brokerage services, insurance, trust, custody and fund servicing through five businesses: Wealth Management, Corporate Trust Services, U.S. Bancorp Asset Management, Institutional Trust & Custody and Fund Services. Wealth Management and Securities Services contributed $46 million of the Company s net income in the second quarter and $81 million in the first six months of 2013, or an increase of $5 million (12.2 percent) and a decrease of $5 million (5.8 percent), respectively, compared with the same periods of 2012, reflecting the net impact of higher net revenue, offset by higher noninterest expense.

Net revenue increased $40 million (11.1 percent) in the second quarter and $65 million (9.0 percent) in the first six months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, increased $8 million (9.6 percent) in the second quarter and $6 million (3.4 percent) in the first six months of 2013, compared with the same periods of 2012, primarily due to the impact of higher average loan and deposit balances, partially offset by the impact of lower rates on the margin benefit of deposits.

Noninterest income increased $32 million (11.5 percent) in the second quarter and $59 million (10.8 percent) in the first six months of 2013, compared with the same periods of 2012, due to the impact of improved market conditions, business expansion and higher investment products fees. Noninterest expense increased $33 million (11.2 percent) in the second quarter and $73 million (12.5 percent) in the first six months of 2013, compared with the same periods of 2012. The increases in noninterest expense were primarily due to higher total compensation and employee benefits expense, and an increase in net shared services costs, including the impact of business expansion.

Payment Services Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit and merchant processing. Payment Services contributed $313 million and $569 million of the Company s net income in the second quarter and first six months of 2013, respectively, or equal to and higher by $3 million (.5 percent), respectively, compared with the same periods of 2012, reflecting higher total net revenue and lower provision for credit losses, offset by higher noninterest expense.

Net revenue increased $23 million (1.9 percent) in the second quarter and $30 million (1.3 percent) in the first six months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, increased $11 million (2.9 percent) in the second quarter and $3 million (.4 percent) in the first six months of 2013, compared with the same periods of 2012, primarily due to improved loan rates and lower rebate costs on the Company s government card program. Noninterest income increased $12 million (1.5 percent) in the second quarter and $27 million (1.7 percent) in the first six months of 2013, compared with the same periods of 2012, the result of higher credit and debit card revenue primarily due to higher volumes and business expansion, partially offset by the impact of a credit recorded in the second quarter of 2012 related to the final expiration of debit card customer awards. Merchant processing services revenue was also higher over the prior year due to higher product fees and volumes.

Noninterest expense increased $37 million (7.6 percent) in the second quarter and $53 million (5.4 percent) in the first six months of 2013, compared with the same periods of 2012, primarily due to higher total compensation and employee benefits expense and net shared services expense, including the impact of business expansion, partially offset by reductions in other intangibles expense. The provision for credit losses decreased $14 million (7.1 percent) in the second quarter and $25 million (6.1 percent) in the first six months of 2013, compared with the same periods of 2012, principally due to a favorable change in the reserve allocation. As a percentage of average loans outstanding, net charge-offs were 3.51 percent in the second quarter of 2013, compared with 3.52 percent in the second quarter of 2012.

Treasury and Corporate Support Treasury and Corporate Support includes the Company s investment portfolios, most covered commercial and commercial real estate loans and related other real estate owned, funding, capital management, interest rate risk management, the net effect of transfer pricing related to average balances, income taxes not allocated to business lines, including most tax-advantaged investments, and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. Treasury and Corporate Support recorded net income of $453 million in the second quarter and $945 million in the first six months of 2013, compared with $359 million and $688 million in the same periods of 2012, respectively.

Net revenue increased $43 million (7.3 percent) in the second quarter and $123 million (10.8 percent) in the first six months of 2013, compared with the same periods of 2012. Net interest income, on a taxable-equivalent basis, decreased $10 million (1.8 percent) in the second quarter and increased $72 million (6.9 percent) in the first six months of 2013, compared with the same periods of 2012, reflecting the net impact of lower long-term funding costs, offset by lower rates on investment securities. Noninterest income increased $53 million in the second quarter and $51 million (51.0 percent) in the first six months of 2013, compared with the same periods of 2012, primarily due to favorable changes in net securities gains (losses) as the Company recognized impairments on a number of securities in the second quarter of 2012, and higher commercial products revenue.

Noninterest expense decreased $73 million (27.0 percent) in the second quarter and $222 million (42.4 percent) in the first six months of 2013, compared with the same periods of 2012, principally reflecting the prior year Visa accrual and a reduction in net shared services expense. These decreases were partially offset by increases in total compensation and employee benefits expense and higher costs related to investments in affordable housing and other tax-advantaged projects.

In addition, noninterest expense for the first six months of 2013 was lower than the same period of the prior year due to lower insurance-related costs.

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

NON-GAAP FINANCIAL MEASURES

In addition to capital ratios defined by banking regulators under the FDIC Improvement Act prompt corrective action provisions that are currently effective, the Company considers various other measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets,
- Tangible common equity to risk-weighted assets using Basel I definition,
- Tier 1 common equity to risk-weighted assets using Basel I definition,
- Tier 1 common equity to risk-weighted assets estimated using final rules for the Basel III standardized approach released July 2013, and in addition
- Tier 1 common equity to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012, for additional information.

These measures are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market or economic conditions. Additionally, presentation of these measures allows investors, analysts and banking regulators to assess the Company s capital position relative to other financial services companies. These measures differ from the currently effective capital ratios defined by banking regulations principally in that the numerator excludes trust preferred securities and preferred stock, the nature and extent of which varies among different financial services companies. These measures are not defined in generally accepted accounting principles (GAAP), or are not currently effective or defined in federal banking regulations. As a result, these measures disclosed by the Company may be considered non-GAAP financial measures.

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

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

(Dollars in Millions)	June 30, 2013	December 31, 2012
Total equity	$ 41,050	$ 40,267
Preferred stock	(4,756)	(4,769)
Noncontrolling interests	(1,367)	(1,269)
Goodwill (net of deferred tax liability)	(8,317)	(8,351)
Intangible assets, other than mortgage servicing rights	(910)	(1,006)
Tangible common equity (a)	25,700	24,872
Tier 1 capital, determined in accordance with prescribed regulatory requirements using Basel I definition	32,219	31,203
Preferred stock	(4,756)	(4,769)
Noncontrolling interests, less preferred stock not eligible for Tier 1 capital	(685)	(685)
Tier 1 common equity using Basel I definition (b)	26,778	25,749
Tangible common equity (as calculated above)	25,700	
Adjustments (1)	195	
Tier 1 common equity estimated using final rules for the Basel III standardized approach released July 2013 (c)	25,895	
Tangible common equity (as calculated above)	25,700	24,872
Adjustments (2)	(43)	126
Tier 1 common equity approximated using proposed rules for the Basel III standardized approach released June 2012 (d)	25,657	24,998
Total assets	353,415	353,855
Goodwill (net of deferred tax liability)	(8,317)	(8,351)
Intangible assets, other than mortgage servicing rights	(910)	(1,006)
Tangible assets (e)	344,188	344,498
Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (f)	289,613	
Adjustments (3)	12,476	
Risk-weighted assets estimated using final rules for the Basel III standardized approach released July 2013 (g)	302,089	
Risk-weighted assets, determined in accordance with prescribed regulatory requirements using Basel I definition (f)	289,613	287,611
Adjustments (4)	20,866	21,233
Risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (h)	310,479	308,844
Ratios		
Tangible common equity to tangible assets (a)/(e)	7.5%	7.2%
Tangible common equity to risk-weighted assets using Basel I definition (a)/(f)	8.9	8.6
Tier 1 common equity to risk-weighted assets using Basel I definition (b)/(f)	9.2	9.0
Tier 1 common equity to risk-weighted assets estimated using final rules for the Basel III standardized approach released July 2013 (c)/(g)	8.6	
Tier 1 common equity to risk-weighted assets approximated using proposed rules for the Basel III standardized approach released June 2012 (d)/(h)	8.3	8.1

(1) *Includes net losses on cash flow hedges included in accumulated other comprehensive income and unrealized losses on securities transferred from available-for-sale to held-to-maturity included in accumulated other comprehensive income.*

(2) *Includes net losses on cash flow hedges included in accumulated other comprehensive income, unrealized losses on securities transferred from available-for-sale to held-to-maturity included in accumulated other comprehensive income and disallowed mortgage servicing rights.*

(3) *Includes higher risk-weighting for unfunded loan commitments, investment securities and mortgage servicing rights, and other adjustments.*

(4) *Includes higher risk-weighting for residential mortgages, unfunded loan commitments, investment securities and mortgage servicing rights, and other adjustments.*

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CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The Company s financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding the Company s financial statements. Critical accounting policies are those policies management believes are the most important to the portrayal of the Company s financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, fair value estimates, purchased loans and related indemnification assets, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company s Audit Committee. These accounting policies are discussed in detail in Management s Discussion and Analysis Critical Accounting Policies and the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company s management, including its principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective.

During the most recently completed fiscal quarter, there was no change made in the Company s internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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U.S. Bancorp

Consolidated Balance Sheet

(Dollars in Millions)	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 6,618	$ 8,252
Investment securities		
Held-to-maturity (fair value $34,514 and $34,952, respectively; including $1,019 and $1,482 at fair value pledged as collateral, respectively) (a)	34,668	34,389
Available-for-sale ($1,152 and $2,042 pledged as collateral, respectively) (a)	40,307	40,139
Loans held for sale (including $4,753 and $7,957 of mortgage loans carried at fair value, respectively)	4,766	7,976
Loans		
Commercial	68,185	66,223
Commercial real estate	38,298	36,953
Residential mortgages	47,753	44,018
Credit card	16,649	17,115
Other retail	47,105	47,712
Total loans, excluding covered loans	217,990	212,021
Covered loans	9,985	11,308
Total loans	227,975	223,329
Less allowance for loan losses	(4,312)	(4,424)
Net loans	223,663	218,905
Premises and equipment	2,622	2,670
Goodwill	9,156	9,143
Other intangible assets	3,287	2,706
Other assets (including $81 and $47 of trading securities at fair value pledged as collateral, respectively) (a)	28,328	29,675
Total assets	$ 353,415	$ 353,855
Liabilities and Shareholders Equity		
Deposits		
Noninterest-bearing	$ 70,632	$ 74,172
Interest-bearing	147,693	145,972
Time deposits greater than $100,000	33,243	29,039
Total deposits	251,568	249,183
Short-term borrowings	26,179	26,302
Long-term debt	19,724	25,516
Other liabilities	14,894	12,587
Total liabilities	312,365	313,588
Shareholders equity		
Preferred stock	4,756	4,769
Common stock, par value $0.01 a share authorized: 4,000,000,000 shares; issued: 6/30/13 and 12/31/12 2,125,725,742 shares	21	21
Capital surplus	8,167	8,201
Retained earnings	36,707	34,720
Less cost of common stock in treasury: 6/30/13 281,665,410 shares; 12/31/12 256,294,227 shares	(8,680)	(7,790)
Accumulated other comprehensive income (loss)	(1,288)	(923)
Total U.S. Bancorp shareholders equity	39,683	38,998
Noncontrolling interests	1,367	1,269
Total equity	41,050	40,267
Total liabilities and equity	$ 353,415	$ 353,855

(a) Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral.

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2013	2012	2013	2012
Interest Income				
Loans	$ 2,552	$ 2,631	$ 5,114	$ 5,269
Loans held for sale	54	67	126	132
Investment securities	392	470	802	938
Other interest income	40	60	107	121
Total interest income	3,038	3,228	6,149	6,460
Interest Expense				
Deposits	144	177	299	358
Short-term borrowings	87	127	172	250
Long-term debt	191	266	409	560
Total interest expense	422	570	880	1,168
Net interest income	2,616	2,658	5,269	5,292
Provision for credit losses	362	470	765	951
Net interest income after provision for credit losses	2,254	2,188	4,504	4,341
Noninterest Income				
Credit and debit card revenue	244	235	458	437
Corporate payment products revenue	176	190	348	365
Merchant processing services	373	359	720	696
ATM processing services	83	89	165	176
Trust and investment management fees	284	262	562	514
Deposit service charges	160	156	313	309
Treasury management fees	140	142	274	276
Commercial products revenue	209	216	409	427
Mortgage banking revenue	396	490	797	942
Investment products fees	46	38	87	73
Securities gains (losses), net				
Realized gains (losses), net	9	21	21	30
Total other-than-temporary impairment	(2)	(39)	(3)	(48)
Portion of other-than-temporary impairment recognized in other comprehensive income	(1)	(1)	(7)	(1)
Total securities gains (losses), net	6	(19)	11	(19)
Other	159	197	297	398
Total noninterest income	2,276	2,355	4,441	4,594
Noninterest Expense				
Compensation	1,098	1,076	2,180	2,128
Employee benefits	277	229	587	489
Net occupancy and equipment	234	230	469	450
Professional services	91	136	169	220
Marketing and business development	96	80	169	189
Technology and communications	214	201	425	402
Postage, printing and supplies	78	77	154	151
Other intangibles	55	70	112	141
Other	414	502	762	991
Total noninterest expense	2,557	2,601	5,027	5,161
Income before income taxes	1,973	1,942	3,918	3,774
Applicable income taxes	529	564	1,087	1,091
Net income	1,444	1,378	2,831	2,683
Net (income) loss attributable to noncontrolling interests	40	37	81	70
Net income attributable to U.S. Bancorp	$ 1,484	$ 1,415	$ 2,912	$ 2,753
Net income applicable to U.S. Bancorp common shareholders	$ 1,405	$ 1,345	$ 2,763	$ 2,630
Earnings per common share	$ .76	$ .71	$ 1.49	$ 1.39
Diluted earnings per common share	$ .76	$ .71	$ 1.49	$ 1.38

Dividends declared per common share	$ .230	$ .195	$ .425	$ .390
Average common shares outstanding	1,843	1,888	1,851	1,895
Average diluted common shares outstanding	1,853	1,898	1,860	1,904

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Comprehensive Income

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2013	2012	2013	2012
Net income	$ 1,444	$ 1,378	$ 2,831	$ 2,683
Other comprehensive income (loss)				
Changes in unrealized gains and losses on securities available-for-sale	(675)	132	(795)	438
Other-than-temporary impairment not recognized in earnings on securities available-for-sale	1	1	7	1
Changes in unrealized gains and losses on derivative hedges	53	(40)	50	(38)
Foreign currency translation	(23)	(6)	(33)	8
Changes in unrealized gains and losses on retirement plans			(1)	
Reclassification to earnings of realized gains and losses	80	100	171	191
Income taxes related to other comprehensive income	217	(73)	236	(230)
Total other comprehensive income (loss)	(347)	114	(365)	370
Comprehensive income	1,097	1,492	2,466	3,053
Comprehensive (income) loss attributable to noncontrolling interests	40	37	81	70
Comprehensive income attributable to U.S. Bancorp	$ 1,137	$ 1,529	$ 2,547	$ 3,123

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Shareholders Equity

(Dollars and Shares in Millions) (Unaudited)	U.S. Bancorp Shareholders Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total U.S. Bancorp Shareholders Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2011	1,910	$ 2,606	$ 21	$ 8,238	$ 30,785	$ (6,472)	$ (1,200)	$ 33,978	$ 993	$ 34,971
Net income (loss)					2,753			2,753	(70)	2,683
Other comprehensive income (loss)							370	370		370
Preferred stock dividends					(110)			(110)		(110)
Common stock dividends					(741)			(741)		(741)
Issuance of preferred stock		2,163						2,163		2,163
Issuance of common and treasury stock	11			(122)		325		203		203
Purchase of treasury stock	(29)					(884)		(884)		(884)
Distributions to noncontrolling interests									(43)	(43)
Net other changes in noncontrolling interests									202	202
Stock option and restricted stock grants				60				60		60
Balance June 30, 2012	1,892	$ 4,769	$ 21	$ 8,176	$ 32,687	$ (7,031)	$ (830)	$ 37,792	$ 1,082	$ 38,874
Balance December 31, 2012	1,869	$ 4,769	$ 21	$ 8,201	$ 34,720	$ (7,790)	$ (923)	$ 38,998	$ 1,269	$ 40,267
Net income (loss)					2,912			2,912	(81)	2,831
Other comprehensive income (loss)							(365)	(365)		(365)
Redemption of preferred stock		(500)		8	(8)			(500)		(500)
Preferred stock dividends					(128)			(128)		(128)
Common stock dividends					(789)			(789)		(789)
Issuance of preferred stock		487						487		487
Issuance of common and treasury stock	10			(119)		294		175		175
Purchase of treasury stock	(35)					(1,184)		(1,184)		(1,184)
Distributions to noncontrolling interests									(30)	(30)
Net other changes in noncontrolling interests									209	209
Stock option and restricted stock grants				77				77		77
Balance June 30, 2013	1,844	$ 4,756	$ 21	$ 8,167	$ 36,707	$ (8,680)	$ (1,288)	$ 39,683	$ 1,367	$ 41,050

See Notes to Consolidated Financial Statements.

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U.S. Bancorp

Consolidated Statement of Cash Flows

(Dollars in Millions)	Six Months Ended June 30,	
(Unaudited)	2013	2012
Operating Activities		
Net income attributable to U.S. Bancorp	$ 2,912	$ 2,753
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	765	951
Depreciation and amortization of premises and equipment	148	140
Amortization of intangibles	112	141
Provision for deferred income taxes	(106)	(26)
(Gain) loss on sale of loans held for sale	(874)	(1,210)
(Gain) loss on sale of securities and other assets		