COMERICA INC /NEW/
Form 10-Q
July 30, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

Or

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

For the transition period from to

Commission file number 1-10706

Comerica Incorporated
(Exact name of registrant as specified in its charter)

Delaware	38-1998421
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of principal executive offices)
(Zip Code)
(214) 462-6831
(Registrant's telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
$5 par value common stock:
Outstanding as of July 26, 2012: 193,495,548 shares

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	June 30, 2012 (unaudited)	December 31, 2011	June 30, 2011 (unaudited)
ASSETS			
Cash and due from banks	$1,076	$982	$987
Interest-bearing deposits with banks	3,065	2,574	2,479
Other short-term investments	170	149	124
Investment securities available-for-sale	9,940	10,104	7,537
Commercial loans	27,016	24,996	22,052
Real estate construction loans	1,377	1,533	1,728
Commercial mortgage loans	9,830	10,264	9,579
Lease financing	858	905	949
International loans	1,224	1,170	1,162
Residential mortgage loans	1,469	1,526	1,491
Consumer loans	2,218	2,285	2,232
Total loans	43,992	42,679	39,193
Less allowance for loan losses	(667)	(726)	(806)
Net loans	43,325	41,953	38,387
Premises and equipment	667	675	641
Accrued income and other assets	4,407	4,571	3,986
Total assets	$62,650	$61,008	$54,141
LIABILITIES AND SHAREHOLDERS' EQUITY			
Noninterest-bearing deposits	$21,330	$19,764	$16,344
Money market and interest-bearing checking deposits	20,008	20,311	18,033
Savings deposits	1,629	1,524	1,462
Customer certificates of deposit	6,045	5,808	5,551
Foreign office time deposits	376	348	368
Total interest-bearing deposits	28,058	27,991	25,414
Total deposits	49,388	47,755	41,758
Short-term borrowings	83	70	67
Accrued expenses and other liabilities	1,409	1,371	1,072
Medium- and long-term debt	4,742	4,944	5,206
Total liabilities	55,622	54,140	48,103
Common stock - $5 par value: Authorized - 325,000,000 shares Issued - 228,164,824 shares at 6/30/12 and 12/31/11 and 203,878,110 shares at 6/30/11	1,141	1,141	1,019
Capital surplus	2,144	2,170	1,472

Accumulated other comprehensive loss	(301)	(356)	(308)
Retained earnings	5,744	5,546	5,395
Less cost of common stock in treasury - 33,889,392 shares at 6/30/12, 30,831,076 shares at 12/31/11 and 27,092,427 shares at 6/30/11	(1,700)	(1,633)	(1,540)
Total shareholders' equity	7,028	6,868	6,038
Total liabilities and shareholders' equity	$62,650	$61,008	$54,141

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
Comerica Incorporated and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2012	2011	2012	2011
INTEREST INCOME				
Interest and fees on loans	$408	$369	$819	$744
Interest on investment securities	59	59	123	116
Interest on short-term investments	3	3	6	5
Total interest income	470	431	948	865
INTEREST EXPENSE				
Interest on deposits	18	23	37	45
Interest on medium- and long-term debt	17	17	33	34
Total interest expense	35	40	70	79
Net interest income	435	391	878	786
Provision for credit losses	19	45	41	91
Net interest income after provision for credit losses	416	346	837	695
NONINTEREST INCOME				
Service charges on deposit accounts	53	51	109	103
Fiduciary income	39	39	77	78
Commercial lending fees	24	21	49	42
Letter of credit fees	18	18	35	36
Card fees	12	15	23	30
Foreign exchange income	10	10	19	19
Bank-owned life insurance	10	9	20	17
Brokerage fees	5	6	11	12
Net securities gains	6	4	11	6
Other noninterest income	34	29	63	66
Total noninterest income	211	202	417	409
NONINTEREST EXPENSES				
Salaries	189	185	390	373
Employee benefits	61	50	121	100
Total salaries and employee benefits	250	235	511	473
Net occupancy expense	40	38	81	78
Equipment expense	16	17	33	32
Outside processing fee expense	26	25	52	49
Software expense	21	20	44	43
Merger and restructuring charges	8	5	8	5
FDIC insurance expense	10	12	20	27
Advertising expense	7	7	14	14
Other real estate expense	—	6	4	14
Other noninterest expenses	55	46	115	94
Total noninterest expenses	433	411	882	829
Income before income taxes	194	137	372	275
Provision for income taxes	50	41	98	76
NET INCOME	144	96	274	199
Less income allocated to participating securities	2	1	3	2
Net income attributable to common shares	$142	$95	$271	$197
Earnings per common share:				

Basic	$0.73	$0.54	$1.39	$1.12
Diluted	0.73	0.53	1.39	1.10
Comprehensive income	169	170	329	280
Cash dividends declared on common stock	29	18	49	35
Cash dividends declared per common share	0.15	0.10	0.25	0.20

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (unaudited)
Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders’ Equity
BALANCE AT DECEMBER 31, 2010	176.5	$1,019	$1,481	$(389)	$5,247	$(1,565)	$5,793
Net income	—	—	—	—	199	—	199
Other comprehensive income, net of tax	—	—	—	81	—	—	81
Cash dividends declared on common stock ($0.20 per share)	—	—	—	—	(35)	—	(35)
Purchase of common stock	(0.5)	—	—	—	—	(21)	(21)
Net issuance of common stock under employee stock plans	0.8	—	(30)	—	(16)	46	—
Share-based compensation	—	—	21	—	—	—	21
BALANCE AT JUNE 30, 2011	176.8	$1,019	$1,472	$(308)	$5,395	$(1,540)	$6,038
BALANCE AT DECEMBER 31, 2011	197.3	$1,141	$2,170	$(356)	$5,546	$(1,633)	$6,868
Net income	—	—	—	—	274	—	274
Other comprehensive income, net of tax	—	—	—	55	—	—	55
Cash dividends declared on common stock ($0.25 per share)	—	—	—	—	(49)	—	(49)
Purchase of common stock	(4.1)	—	—	—	—	(125)	(125)
Net issuance of common stock under employee stock plans	1.1	—	(49)	—	(27)	60	(16)
Share-based compensation	—	—	21	—	—	—	21
Other	—	—	2	—	—	(2)	—
BALANCE AT JUNE 30, 2012	194.3	$1,141	$2,144	$(301)	$5,744	$(1,700)	$7,028

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
Comerica Incorporated and Subsidiaries

	Six Months Ended June 30,	
(in millions)	2012	2011
OPERATING ACTIVITIES		
Net income	$274	$199
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	41	91
Provision for deferred income taxes	64	23
Depreciation and amortization	67	59
Share-based compensation expense	21	21
Net amortization of securities	23	12
Accretion of loan purchase discount	(43)	—
Net securities gains	(11)	(6)
Excess tax benefits from share-based compensation arrangements	(1)	(1)
Net change in:		
Trading securities	(23)	14
Accrued income receivable	1	5
Accrued expenses payable	(47)	(40)
Other, net	66	85
Net cash provided by operating activities	432	462
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	1,893	1,031
Sales	—	5
Purchases	(1,689)	(1,028)
Net change in loans	(1,379)	822
Sales of Federal Home Loan Bank stock	3	36
Proceeds from sales of indirect private equity and venture capital funds	1	33
Other, net	(34)	(58)
Net cash (used in) provided by investing activities	(1,205)	841
FINANCING ACTIVITIES		
Net change in:		
Deposits	1,704	1,134
Short-term borrowings	13	(63)
Medium- and long-term debt:		
Repayments	(193)	(940)
Common stock:		
Repurchases	(125)	(21)
Cash dividends paid	(40)	(35)
Excess tax benefits from share-based compensation arrangements	1	1
Other, net	(2)	4
Net cash provided by financing activities	1,358	80
Net increase in cash and cash equivalents	585	1,383
Cash and cash equivalents at beginning of period	3,556	2,083
Cash and cash equivalents at end of period	$4,141	$3,466
Interest paid	$69	$76
Income taxes, tax deposits and tax-related interest paid	64	47

Noncash investing and financing activities:		
Loans transferred to other real estate	20	30
Pending settlement of matured investment securities available-for-sale	—	110

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2011.

Beginning in the second quarter 2012, the Corporation presents the provision for loan losses and the provision for credit losses on lending-related commitments together as the "provision for credit losses" on the consolidated statements of comprehensive income. Prior period amounts were reclassified to conform to the current presentation.

Nonperforming Assets

In the second quarter 2012, the Corporation modified its residential mortgage and home equity nonaccrual policy. Under the new policy, residential mortgage and home equity loans are generally placed on nonaccrual status once they become 90 days past due (previously no later than 180 days past due). In addition, certain current junior lien home equity loans where the Corporation also holds and services the senior position are placed on nonaccrual status when full collection of the senior position is in doubt.

Recently Adopted Accounting Standards

In the first quarter 2012, the Corporation adopted amendments to GAAP which revise the presentation of comprehensive income in the financial statements. As a result, the Corporation presents on an interim basis the components of net income and a total for comprehensive income in one continuous consolidated statement of comprehensive income and will present on an annual basis the components of net income and other comprehensive income in two separate, but consecutive statements. Information on the components of other comprehensive income is provided on an interim basis in Note 9 to these unaudited financial statements.

In the first quarter 2012, the Corporation adopted an amendment to GAAP which generally aligns the principles of fair value measurements with International Financial Reporting Standards (IFRS) and requires expanded disclosures. The adoption of the amendment had no impact on the Corporation's financial condition or results of operations. The required disclosures are provided in Note 2 to these unaudited financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. However, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the financial instrument.

Trading securities, investment securities available-for-sale, derivatives and deferred compensation plan liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate (primarily foreclosed property), nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting.

The Corporation categorizes assets and liabilities recorded at fair value on a recurring or nonrecurring basis and the estimated fair value of financial instruments not recorded at fair value on a recurring basis into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Corporation generally utilizes third-party pricing services to value Level 1 and Level 2 trading and investment securities, as well as certain derivatives designated as fair value hedges. Management reviews the methodologies and assumptions used by the third-party pricing services and evaluates the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. The Corporation may occasionally adjust certain values provided by the third-party pricing service when management believes, as the result of its review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified. Transfers of assets or liabilities between levels of the fair value hierarchy are recognized at the beginning of the reporting period, when applicable.

Cash and due from banks, federal funds sold and interest-bearing deposits with banks

Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Trading securities and associated deferred compensation plan liabilities

Securities held for trading purposes and associated deferred compensation plan liabilities are recorded at fair value on a recurring basis and included in “other short-term investments” and “accrued expenses and other liabilities,” respectively, on the consolidated balance sheets. Level 1 securities held for trading purposes include assets related to employee deferred compensation plans, which are invested in mutual funds, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and other securities traded on an active exchange, such as the New York Stock Exchange. Deferred compensation plan liabilities represent the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets. Level 2 trading securities include municipal bonds and residential mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. Securities classified as Level 3 include securities in less liquid markets and securities not rated by a credit agency. The methods used to value trading securities are the same as the methods used to value investment securities available-for-sale, discussed below.

Loans held-for-sale

Loans held-for-sale, included in “other short-term investments” on the consolidated balance sheets, are recorded at the lower of cost or fair value. Loans held-for-sale may be carried at fair value on a nonrecurring basis when fair value is less than cost. The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies both loans held-for-sale subjected to nonrecurring fair value adjustments and the estimated fair value of loans held-for sale as Level 2.

Investment securities available-for-sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available or the market is deemed to be inactive at the measurement date, an adjustment to the quoted prices may be necessary. In some circumstances, the Corporation may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an instrument's fair value. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include residential mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored entities and corporate debt securities. The fair value of Level 2 securities was determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information.

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Comerica Incorporated and Subsidiaries

Securities classified as Level 3, of which the substantial majority is auction-rate securities, represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on a discounted cash flow model. The discounted cash flow model utilizes two significant inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities plus a liquidity risk premium. The liquidity risk premium was derived from observed liquidity premiums based on auction-rate securities valuations performed by third parties and incorporated the rate at which the various types of similar auction-rate securities had been redeemed or sold since acquisition in 2008. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and the Corporation's own redemption experience. As of June 30, 2012, approximately 81 percent of the aggregate auction-rate securities par value had been redeemed or sold since acquisition. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. Additionally, as the discount rate incorporates the liquidity risk premium, a change in an assumption used for the liquidity risk premium would be accompanied by a directionally similar change in the discount rate. On an annual basis, an independent third party verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, periodically, the Corporation records nonrecurring adjustments to the carrying value of loans based on fair value measurements. Loans for which it is probable that payment of interest or principal will not be made in accordance with the contractual terms of the original loan agreement are considered impaired, which are reported as nonrecurring fair value measurements when a specific allowance for the impaired loan is established based on the fair value of collateral. Collateral values supporting individually evaluated impaired loans are evaluated quarterly. When management determines that the fair value of the collateral requires additional adjustments, either as a result of non-current appraisal value or when there is no observable market price, the Corporation classifies the impaired loan as Level 3.

The Corporation provides fair value estimates for loans not recorded at fair value. The estimated fair value is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment and credit loss estimates. For variable rate business loans that reprice frequently, the estimated fair value is based on carrying values adjusted for estimated credit losses inherent in the portfolio at the balance sheet date. For other business loans and retail loans, fair values are estimated using a discounted cash flow model that employs a discount rate that reflect the Corporation's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Corporation classifies the estimated fair value of loans held for investment as Level 3.

Customers’ liability on acceptances outstanding and acceptances outstanding

The carrying amount of these instruments approximates the estimated fair value, due to their short-term nature. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Derivative assets and derivative liabilities

Derivative instruments held or issued for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. Fair value for over-the-counter derivative instruments is measured on a recurring basis using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities. The Corporation manages credit risk for its over-the-counter derivative positions on a counterparty-by-counterparty basis and calculates credit valuation adjustments, included in the fair value of these instruments, on the basis of its relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative after considering collateral and other master netting arrangements. These adjustments, which are considered Level 3 inputs, are based on estimates of current credit spreads to evaluate the likelihood of default. The Corporation assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Corporation classifies its over-the-counter derivative valuations in Level 2 of the fair value hierarchy. Examples of Level 2 derivative instruments are interest rate swaps and energy derivative and foreign exchange contracts.

The Corporation holds a portfolio of warrants for generally nonmarketable equity securities. These warrants are primarily from high technology, non-public companies obtained as part of the loan origination process. Warrants which contain a net exercise provision or a non-contingent put right embedded in the warrant agreement are accounted for as derivatives and recorded at fair value on a recurring basis using a Black-Scholes valuation model. The Black-Scholes valuation model utilizes five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. Significant increases in any of these inputs in isolation, with the exception of exercise price, would result in a significantly higher fair value. Significant increases in exercise price in isolation would result in a significantly lower fair value. The Corporation classifies warrants accounted for as derivatives as Level 3.

The Corporation also holds a derivative contract associated with the 2008 sale of its remaining ownership of Visa Inc. (Visa) Class B shares. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. The recurring fair value of the derivative contract is based on unobservable inputs consisting of management's estimate of the litigation outcome, timing of litigation settlements and payments related to the derivative. Significant increases in the estimate of litigation outcome and the timing of litigation settlements in isolation would result in a significantly higher liability fair value. Significant increases in payments related to the derivative in isolation would result in a significantly lower liability fair value. The Corporation classifies the derivative liability as Level 3. On July 13, 2012, Visa announced it had reached an agreement in principle to settle the multi-district interchange litigation which pertains to its Class B shares. The announcement of this settlement did not have a material impact in the fair value of the Corporation’s liability.

Nonmarketable equity securities

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments. These funds generally cannot be redeemed and the majority are not readily marketable. Distributions from these funds are received by the Corporation as a result of the liquidation of underlying investments of the funds and/or as income distributions. It is estimated that the underlying assets of the funds will be liquidated over a period of up to 18 years. The investments are accounted for on the cost or equity method and are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. These investments may be carried at fair value on a nonrecurring basis when they are deemed to be impaired and written down to fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the Corporation's percentage ownership in the net asset value of the entire fund, as reported by the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, the Corporation derives the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, the Corporation gives consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. The Corporation classifies both nonmarketable equity securities subjected to nonrecurring fair value adjustments and the estimated fair value of nonmarketable equity securities not recorded at fair value in their entirety on a recurring basis as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were $1 million at both June 30, 2012 and December 31, 2011, respectively.

The Corporation also holds restricted equity investments, primarily Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock. Restricted equity securities are not readily marketable and are recorded at cost (par value) and evaluated for impairment based on the ultimate recoverability of the par value. No significant observable market data for these instruments is available. The Corporation considers the profitability and asset quality of the issuer, dividend payment history and recent redemption experience when determining the ultimate recoverability of the par value. The Corporation’s investment in FHLB stock totaled $89 million and $92 million at June 30, 2012 and December 31, 2011, respectively, and its investment in FRB stock totaled $85 million at both June 30, 2012 and

December 31, 2011, respectively. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par.

Other real estate

Other real estate is included in “accrued income and other assets” on the consolidated balance sheets and includes primarily foreclosed property. Foreclosed property is initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequently, foreclosed property is carried at the lower of cost or fair value, less costs to sell. Other real estate may be carried at fair value on a nonrecurring basis when fair value is less than cost. Fair value is based upon independent market prices, appraised value or management's estimate of the value of the property. Throughout each quarter, the Corporation obtains updated independent market prices and appraised values as are required by state regulation or as are deemed necessary based on market conditions and determines if additional write-downs are necessary. On a quarterly basis, senior management reviews all other real estate and determines whether the carrying values are reasonable, based on collateral values and other current market factors. Other real estate carried at fair value based on an observable market price or a current appraised value is classified by the Corporation as Level 2. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Corporation classifies the other real estate as Level 3.

Loan servicing rights

Loan servicing rights, included in “accrued income and other assets” on the consolidated balance sheets and primarily related to Small Business Administration loans, are subject to impairment testing. Loan servicing rights may be carried at fair value on a nonrecurring basis when impairment testing indicates that the fair value of the loan servicing rights is less than the recorded value. A valuation model is used for impairment testing on a quarterly basis, which utilizes a discounted cash flow model, using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights as Level 3.

Deposit liabilities

The estimated fair value of checking, savings and certain money market deposit accounts is represented by the amounts payable on demand. The estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the period-end rates offered on these instruments. As such, the Corporation classifies the estimated fair value of deposit liabilities as Level 2.

Short-term borrowings

The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of short-term borrowings as Level 1.

Medium- and long-term debt

The carrying value of variable-rate FHLB advances approximates the estimated fair value. The estimated fair value of the Corporation's remaining variable- and fixed-rate medium- and long-term debt is based on quoted market values when available. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics. The Corporation classifies the estimated fair value of medium- and long-term debt as Level 2.

Credit-related financial instruments

Credit-related financial instruments include unused commitments to extend credit and standby and commercial letters of credit. These instruments generate ongoing fees which are recognized over the term of the commitment. In situations where credit losses are probable, the Corporation records an allowance. The carrying value of these instruments, which includes the carrying value of the deferred fees plus the related allowance, approximates the estimated fair value. The Corporation classifies the estimated fair value of credit-related financial instruments as Level 3.

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ASSETS AND LIABLILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011.

(in millions)	Total	Level 1	Level 2	Level 3
June 30, 2012				
Trading securities:				
Deferred compensation plan assets	$86	$86	$—	$—
Residential mortgage-backed securities (a)	7	—	7	—
Other government-sponsored enterprise securities	2	—	2	—
State and municipal securities	43	—	43	—
Total trading securities	138	86	52	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	9,564	—	9,564	—
State and municipal securities (b)	24	—	—	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	46	—
Equity and other non-debt securities:				
Auction-rate preferred securities	215	—	—	215
Money market and other mutual funds	70	70	—	—
Total investment securities available-for-sale	9,940	90	9,610	240
Derivative assets:				
Interest rate contracts	593	—	593	—
Energy derivative contracts	190	—	190	—
Foreign exchange contracts	31	—	31	—
Warrants	3	—	—	3
Total derivative assets	817	—	814	3
Total assets at fair value	$10,895	$176	$10,476	$243
Derivative liabilities:				
Interest rate contracts	$247	$—	$247	$—
Energy derivative contracts	189	—	189	—
Foreign exchange contracts	26	—	26	—
Total derivative liabilities	462	—	462	—
Deferred compensation plan liabilities	86	86	—	—
Total liabilities at fair value	$548	$86	$462	$—

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) Primarily auction-rate securities.

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(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2011				
Trading securities:				
Deferred compensation plan assets	$90	$90	$—	$—
Residential mortgage-backed securities (a)	2	—	2	—
Other government-sponsored enterprise securities	9	—	9	—
State and municipal securities	12	—	12	—
Corporate debt securities	1	—	1	—
Other securities	1	1	—	—
Total trading securities	115	91	24	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	9,512	—	9,512	—
State and municipal securities (b)	24	—	—	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	46	—
Equity and other non-debt securities:				
Auction-rate preferred securities	408	—	—	408
Money market and other mutual funds	93	93	—	—
Total investment securities available-for-sale	10,104	113	9,558	433
Derivative assets:				
Interest rate contracts	602	—	602	—
Energy derivative contracts	115	—	115	—
Foreign exchange contracts	40	—	40	—
Warrants	3	—	—	3
Total derivative assets	760	—	757	3
Total assets at fair value	$10,979	$204	$10,339	$436
Derivative liabilities:				
Interest rate contracts	$253	$—	$253	$—
Energy derivative contracts	115	—	115	—
Foreign exchange contracts	35	—	35	—
Other	6	—	—	6
Total derivative liabilities	409	—	403	6
Deferred compensation plan liabilities	90	90	—	—
Total liabilities at fair value	$499	$90	$403	$6

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during the three- and six-month periods ended June 30, 2012 and 2011.

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The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and six-month periods ended June 30, 2012 and 2011.

		Net Realized/Unrealized Gains (Losses)							
		Recorded in Earnings		Recorded in Other Comprehensive Income (Pre-tax)					
(in millions)	Balance at Beginning of Period	Realized	Unrealized			Purchases	Sales	Settlements	Balance at End of Period
Three Months Ended June 30, 2012									
Investment securities available-for-sale:									
State and municipal securities (a)	$ 23	$—	$ —	$ 2	(b)	$ —	$ (1)	$ —	$ 24
Auction-rate debt securities	1	—	—	—		—	—	—	1
Auction-rate preferred securities (c)	320	6	—	7	(b)	—	(118)	—	215
Total investment securities available-for-sale (c)	344	6	—	9	(b)	—	(119)	—	240
Derivative assets:									
Warrants (d)	3	2	1	—		—	(3)	—	3
Three Months Ended June 30, 2011									
Trading securities:									
State and municipal securities	$ —	$—	$ —	$—		$ 2	$—	$ —	$ 2
Investment securities available-for-sale:									
State and municipal securities (a)	26	—	—	—		—	—	—	26
Auction-rate debt securities	1	—	—	—		—	—	—	1
Other corporate debt securities	1	—	—	—		—	—	—	1
Auction-rate preferred securities (c)	504	4	—	8	(b)	—	(79)	—	437
Total investment securities available-for-sale (c)	532	4	—	8	(b)	—	(79)	—	465
Derivative assets:									
Warrants (d)	8	5	—	—		—	(5)	—	8
Derivative liabilities:									
Other	2	—	—	—		—	—	(1)	1

(a) Primarily auction-rate securities.
(b) Recorded in "net unrealized gains (losses) on investment securities available-for-sale" in other comprehensive income.
(c) Realized and unrealized gains and losses due to changes in fair value recorded in "net securities gains (losses)" on the consolidated statements of comprehensive income.

(d) Realized and unrealized gains and losses due to changes in fair value recorded in "other noninterest income" on the consolidated statements of comprehensive income.

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(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) Recorded in Earnings Realized	Unrealized	Recorded in Other Comprehensive Income (Pre-tax)		Purchases	Sales	Settlements	Balance at End of Period
Six Months Ended June 30, 2012									
Investment securities available-for-sale:									
State and municipal securities (a)	$ 24	$—	$ —	$ 1	(b)	$ —	$ (1)	$ —	$ 24
Auction-rate debt securities	1	—	—	—		—	—	—	1
Auction-rate preferred securities (c)	408	11	—	11	(b)	—	(215)	—	215
Total investment securities available-for-sale (c)	433	11	—	12	(b)	—	(216)	—	240
Derivative assets:									
Warrants (d)	3	3	1	—		—	(4)	—	3
Derivative liabilities:									
Other	6	—	—	—		—	—	(6)	—
Six Months Ended June 30, 2011									
Trading securities:									
State and municipal securities	$ —	$—	$ —	$—		$ 2	$—	$ —	$ 2
Other securities	1	—	—	—		—	(1)	—	—
Total trading securities	1	—	—	—		2	(1)	—	2
Investment securities available-for-sale:									
State and municipal securities (a)	39	—	—	—		—	(13)	—	26
Auction-rate debt securities	1	—	—	—		—	—	—	1
Other corporate debt securities	1	—	—	—		—	—	—	1
Auction-rate preferred securities (c)	570	7	—	(3)	(b)	—	(137)	—	437
Total investment securities available-for-sale (c)	611	7	—	(3)	(b)	—	(150)	—	465
Derivative assets:									
Warrants (d)	7	7	1	—		—	(7)	—	8
Derivative liabilities:									
Other (c)	1	—	(1)	—		—	—	(1)	1

(a) Primarily auction-rate securities.
(b) Recorded in "net unrealized gains (losses) on investment securities available-for-sale" in other comprehensive income.

(c) Realized and unrealized gains and losses due to changes in fair value recorded in "net securities gains (losses)" on the consolidated statements of comprehensive income.

(d) Realized and unrealized gains and losses due to changes in fair value recorded in "other noninterest income" on the consolidated statements of comprehensive income.

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ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. All assets recorded at fair value on a nonrecurring basis were classified as Level 3 at June 30, 2012 and December 31, 2011 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2012 and December 31, 2011.

(in millions)	Level 3
June 30, 2012	
Loans:	
Commercial	$118
Real estate construction	58
Commercial mortgage	246
Lease financing	3
Total loans	425
Nonmarketable equity securities	1
Other real estate	15
Loan servicing rights	3
Total assets at fair value	$444
December 31, 2011	
Loans:	
Commercial	$164
Real estate construction	87
Commercial mortgage	302
Lease financing	3
International	8
Total loans	564
Nonmarketable equity securities	1
Other real estate	29
Loan servicing rights	3
Total assets at fair value	$597

The following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's Level 3 recurring fair value measurements as of June 30, 2012. No liabilities were recorded as Level 3 at June 30, 2012.

		Discounted Cash Flow Model Unobservable Input	
June 30, 2012	Fair Value (in millions)	Discount Rate	Workout Period (in years)
State and municipal securities (a)	$24	6% - 9%	4 - 5
Equity and other non-debt securities:			
Auction-rate preferred securities	215	3% - 7%	2 - 5

(a) Primarily auction-rate securities.

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2012 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

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ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS NOT RECORDED AT FAIR VALUE ON A RECURRING BASIS

The Corporation typically holds the majority of its financial instruments until maturity and thus does not expect to realize many of the estimated fair value amounts disclosed. The disclosures also do not include estimated fair value amounts for items that are not defined as financial instruments, but which have significant value. These include such items as core deposit intangibles, the future earnings potential of significant customer relationships and the value of trust operations and other fee generating businesses. The Corporation believes the imprecision of an estimate could be significant.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are as follows:

	Carrying	Estimated Fair Value			
(in millions)	Amount	Total	Level 1	Level 2	Level 3
June 30, 2012					
Assets					
Cash and due from banks	$1,076	$1,076	$1,076	$—	$—
Interest-bearing deposits with banks	3,065	3,065	3,065	—	—
Loans held-for-sale	32	32	—	32	—
Total loans, net of allowance for loan losses (a)	43,325	43,592	—	—	43,592
Customers' liability on acceptances outstanding	18	18	18	—	—
Nonmarketable equity securities (b)	14	27	—	—	27
Liabilities					
Demand deposits (noninterest-bearing)	21,330	21,330	—	21,330	—
Interest-bearing deposits	22,013	22,013	—	22,013	—
Customer certificates of deposit	6,045	6,046	—	6,046	—
Total deposits	49,388	49,389	—	49,389	—
Short-term borrowings	83	83	83	—	—
Acceptances outstanding	18	18	18	—	—
Medium- and long-term debt	4,742	4,655	—	4,655	—
Credit-related financial instruments	(113)	(113)	—	—	(113)
December 31, 2011					
Assets					
Cash and due from banks	$982	$982	$982	$—	$—
Interest-bearing deposits with banks	2,574	2,574	2,574	—	—
Loans held-for-sale	34	34	—	34	—
Total loans, net of allowance for loan losses (a)	41,953	42,233	—	—	42,233
Customers' liability on acceptances outstanding	22	22	22	—	—
Nonmarketable equity securities (b)	16	27	—	—	27
Liabilities					
Demand deposits (noninterest-bearing)	19,764	19,764	—	19,764	—
Interest-bearing deposits	22,183	22,183	—	22,183	—
Customer certificates of deposit	5,808	5,809	—	5,809	—
Total deposits	47,755	47,756	—	47,756	—
Short-term borrowings	70	70	70	—	—
Acceptances outstanding	22	22	22	—	—
Medium- and long-term debt	4,944	4,794	—	4,794	—

Credit-related financial instruments	(101)	(101)	—	—	(101)

(a) Included \$425 million and \$564 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2012 and December 31, 2011, respectively.

(b) Included \$1 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at both June 30, 2012 and December 31, 2011.

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NOTE 3 - INVESTMENT SECURITIES
A summary of the Corporation's investment securities available-for-sale follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
U.S. Treasury and other U.S. government agency securities	$20	$—	$—	$20
Residential mortgage-backed securities (a)	9,301	263	—	9,564
State and municipal securities (b)	28	—	4	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	—	46
Equity and other non-debt securities:				
Auction-rate preferred securities	219	—	4	215
Money market and other mutual funds	70	—	—	70
Total investment securities available-for-sale	$9,685	$263	$8	$9,940
December 31, 2011				
U.S. Treasury and other U.S. government agency securities	$20	$—	$—	$20
Residential mortgage-backed securities (a)	9,289	224	1	9,512
State and municipal securities (b)	29	—	5	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	—	46
Equity and other non-debt securities:				
Auction-rate preferred securities	423	—	15	408
Money market and other mutual funds	93	—	—	93
Total investment securities available-for-sale	$9,901	$224	$21	$10,104

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily auction-rate securities.

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A summary of the Corporation's investment securities available-for-sale in an unrealized loss position as of June 30, 2012 and December 31, 2011 follows:

(in millions)	Temporarily Impaired Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses		Total Fair Value	Unrealized Losses	
June 30, 2012								
State and municipal securities (b)	$—	$—	$23	$4		$23	$4	
Corporate debt securities:								
Auction-rate debt securities	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities:								
Auction-rate preferred securities	—	—	215	4		215	4	
Total impaired securities	$—	$—	$239	$8		$239	$8	
December 31, 2011								
Residential mortgage-backed securities (a)	$249	$1	$—	$—		$249	$1	
State and municipal securities (b)	—	—	24	5		24	5	
Corporate debt securities:								
Auction-rate debt securities	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities:								
Auction-rate preferred securities	88	1	320	14		408	15	
Total impaired securities	$337	$2	$345	$19		$682	$21	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily auction-rate securities.
(c) Unrealized losses less than $0.5 million.

As of June 30, 2012, 89 percent of the Corporation's auction-rate portfolio was rated Aaa/AAA by the credit rating agencies.

At June 30, 2012, the Corporation had 89 securities in an unrealized loss position with no credit impairment, including 66 auction-rate preferred securities, 22 state and municipal auction-rate securities and one auction-rate debt security. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2012.

Sales, calls and write-downs of investment securities available-for-sale resulted in the following gains and losses, recorded in "net securities gains" on the consolidated statements of comprehensive income, computed based on the adjusted cost of the specific security.

(in millions)	Six Months Ended June 30, 2012	2011	
Securities gains	$11	$7	
Securities losses (a)	—	(1	)
Total net securities gains	$11	$6	

(a) Primarily charges related to a derivative contract tied to the conversion rate of Visa Class B shares.

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The following table summarizes the amortized cost and fair values of debt securities by contractual maturity. Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2012	
(in millions)	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$66	$66
After one year through five years	451	459
After five years through ten years	129	131
After ten years	8,750	8,999
Subtotal	9,396	9,655
Equity and other nondebt securities:		
Auction-rate preferred securities	219	215
Money market and other mutual funds	70	70
Total investment securities available-for-sale	$9,685	$9,940

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of $28 million and $24 million, respectively. Auction-rate securities are long-term, floating rate instruments for which interest rates are reset at periodic auctions. At each successful auction, the Corporation has the option to sell the security at par value. Additionally, the issuers of auction-rate securities generally have the right to redeem or refinance the debt. As a result, the expected life of auction-rate securities may differ significantly from the contractual life. Also included in the table above were residential mortgage-backed securities with a total amortized cost and fair value of $9.3 billion and $9.6 billion, respectively. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At June 30, 2012, investment securities with a carrying value of $2.9 billion were pledged where permitted or required by law to secure $2.2 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table summarizes nonperforming assets.

(in millions)	June 30, 2012	December 31, 2011
Nonaccrual loans	$719	$860
Reduced-rate loans (a)	28	27
Total nonperforming loans	747	887
Foreclosed property	67	94
Total nonperforming assets	$814	$981

(a) Reduced-rate business loans totaled $9 million and $8 million, respectively, and reduced-rate retail loans totaled $19 million at both June 30, 2012 and December 31, 2011.

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The following table presents an aging analysis of the recorded balance of loans.

(in millions)	Loans Past Due and Still Accruing 30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans (c)	Total Loans
June 30, 2012							
Business loans:							
Commercial	$93	$43	$11	$147	$ 175	$26,694	$27,016
Real estate construction:							
Commercial Real Estate business line (a)	—	1	—	1	60	930	991
Other business lines (b)	—	—	—	—	9	377	386
Total real estate construction	—	1	—	1	69	1,307	1,377
Commercial mortgage:							
Commercial Real Estate business line (a)	21	12	11	44	155	2,116	2,315
Other business lines (b)	43	14	15	72	220	7,223	7,515
Total commercial mortgage	64	26	26	116	375	9,339	9,830
Lease financing	—	—	—	—	4	854	858
International	—	1	—	1	—	1,223	1,224
Total business loans	157	71	37	265	623	39,417	40,305
Retail loans:							
Residential mortgage	16	4	—	20	76	1,373	1,469
Consumer:							
Home equity	8	4	—	12	16	1,556	1,584
Other consumer	8	2	6	16	4	614	634
Total consumer	16	6	6	28	20	2,170	2,218
Total retail loans	32	10	6	48	96	3,543	3,687
Total loans	$189	$81	$43	$313	$ 719	$42,960	$43,992
December 31, 2011							
Business loans:							
Commercial	$45	$6	$8	$59	$ 237	$24,700	$24,996
Real estate construction:							
Commercial Real Estate business line (a)	15	5	—	20	93	990	1,103
Other business lines (b)	1	1	1	3	8	419	430
Total real estate construction	16	6	1	23	101	1,409	1,533
Commercial mortgage:							
Commercial Real Estate business line (a)	62	16	1	79	159	2,269	2,507
Other business lines (b)	34	22	31	87	268	7,402	7,757
Total commercial mortgage	96	38	32	166	427	9,671	10,264
Lease financing	—	—	—	—	5	900	905
International	2	—	—	2	8	1,160	1,170
Total business loans	159	50	41	250	778	37,840	38,868
Retail loans:							

Residential mortgage	28	6	6	40	71	1,415	1,526
Consumer:							
Home equity	11	8	6	25	5	1,625	1,655
Other consumer	11	2	5	18	6	606	630
Total consumer	22	10	11	43	11	2,231	2,285
Total retail loans	50	16	17	83	82	3,646	3,811
Total loans	$209	$66	$58	$333	$ 860	$41,486	$42,679

(a) Primarily loans to real estate investors and developers.

(b) Primarily loans secured by owner-occupied real estate.

(c) Included acquired purchase credit-impaired (PCI) loans with a total carrying value of $62 million and $87 million at June 30, 2012 and December 31, 2011, respectively.

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The following table presents loans by credit quality indicator, based on internal risk ratings assigned to each business loan at the time of approval and subjected to subsequent reviews, generally at least annually, and to pools of retail loans with similar risk characteristics.

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
June 30, 2012					
Business loans:					
Commercial	$25,332	$905	$ 604	$ 175	$27,016
Real estate construction:					
Commercial Real Estate business line (e)	777	121	33	60	991
Other business lines (f)	354	5	18	9	386
Total real estate construction	1,131	126	51	69	1,377
Commercial mortgage:					
Commercial Real Estate business line (e)	1,658	324	178	155	2,315
Other business lines (f)	6,524	318	453	220	7,515
Total commercial mortgage	8,182	642	631	375	9,830
Lease financing	834	13	7	4	858
International	1,155	19	50	—	1,224
Total business loans	36,634	1,705	1,343	623	40,305
Retail loans:					
Residential mortgage	1,378	7	8	76	1,469
Consumer:					
Home equity	1,546	16	6	16	1,584
Other consumer	599	23	8	4	634
Total consumer	2,145	39	14	20	2,218
Total retail loans	3,523	46	22	96	3,687
Total loans	$40,157	$1,751	$ 1,365	$ 719	$43,992
December 31, 2011					
Business loans:					
Commercial	$23,206	$898	$ 655	$ 237	$24,996
Real estate construction:					
Commercial Real Estate business line (e)	768	139	103	93	1,103
Other business lines (f)	370	23	29	8	430
Total real estate construction	1,138	162	132	101	1,533
Commercial mortgage:					
Commercial Real Estate business line (e)	1,728	409	211	159	2,507
Other business lines (f)	6,541	415	533	268	7,757
Total commercial mortgage	8,269	824	744	427	10,264
Lease financing	865	18	17	5	905
International	1,097	33	32	8	1,170
Total business loans	34,575	1,935	1,580	778	38,868
Retail loans:					
Residential mortgage	1,434	12	9	71	1,526
Consumer:					
Home equity	1,600	22	28	5	1,655

Other consumer	603	12	9	6	630
Total consumer	2,203	34	37	11	2,285
Total retail loans	3,637	46	46	82	3,811
Total loans	$38,212	$1,981	$ 1,626	$ 860	$42,679

(a) Includes all loans not included in the categories of special mention, substandard or nonaccrual.

(b) Special mention loans are accruing loans that have potential credit weaknesses that deserve management's close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date. Included in the special mention category were $366 million and $481 million at June 30, 2012 and December 31, 2011, respectively, of loans proactively monitored by management that were considered "pass" by regulatory authorities.

(c) Substandard loans are accruing loans that have a well-defined weakness, or weaknesses, such as loans to borrowers who may be experiencing losses from operations or inadequate liquidity of a degree and duration that jeopardizes the orderly repayment of the loan. Substandard loans also are distinguished by the distinct possibility of loss in the future if these weaknesses are not corrected. PCI loans are included in the substandard category. This category is generally consistent with the "substandard" category as defined by regulatory authorities.

(d) Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Summary of Significant Accounting Policies - on page F-59 in the Corporation's 2011 Annual Report and to Note 1 of these interim consolidated financial statements. A significant majority of nonaccrual loans are generally consistent with the "substandard" category and the remainder are generally consistent with the "doubtful" category as defined by regulatory authorities.

(e) Primarily loans to real estate investors and developers.

(f) Primarily loans secured by owner-occupied real estate.

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Allowance for Credit Losses
The following table details the changes in the allowance for loan losses and related loan amounts.

(in millions)	2012 Business Loans	Retail Loans	Total	2011 Business Loans	Retail Loans	Total
Three Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$632	$72	$704	$771	$78	$849
Loan charge-offs	(56)	(8)	(64)	(109)	(16)	(125)
Recoveries on loans previously charged-off	15	4	19	33	2	35
Net loan charge-offs	(41)	(4)	(45)	(76)	(14)	(90)
Provision for loan losses	2	6	8	31	16	47
Balance at end of period	$593	$74	$667	$726	$80	$806
Six Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$648	$78	$726	$824	$77	$901
Loan charge-offs	(111)	(15)	(126)	(222)	(26)	(248)
Recoveries on loans previously charged-off	29	7	36	54	3	57
Net loan charge-offs	(82)	(8)	(90)	(168)	(23)	(191)
Provision for loan losses	27	4	31	70	26	96
Balance at end of period	$593	$74	$667	$726	$80	$806
As a percentage of total loans	1.47%	2.02%	1.52%	2.05%	2.16%	2.06%
June 30						
Allowance for loan losses:						
Individually evaluated for impairment	$119	$3	$122	$172	$4	$176
Collectively evaluated for impairment	474	71	545	554	76	630
Total allowance for loan losses	$593	$74	$667	$726	$80	$806
Loans:						
Individually evaluated for impairment	$569	$49	$618	$808	$49	$857
Collectively evaluated for impairment	39,681	3,631	43,312	34,662	3,674	38,336
PCI loans (a)	55	7	62	—	—	—
Total loans evaluated for impairment	$40,305	$3,687	$43,992	$35,470	$3,723	$39,193

(a) No allowance for loan losses was required for PCI loans at June 30, 2012.

Changes in the allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, are summarized in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2012	2011	2012	2011
Balance at beginning of period	$25	$32	$26	$35
Provision for credit losses on lending-related commitments	11	(2)	10	(5)
Balance at end of period	$36	$30	$36	$30

Unfunded lending-related commitments sold	$—	$3	$—	$5

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Individually Evaluated Impaired Loans
The following table presents additional information regarding individually evaluated impaired loans.

(in millions)	Recorded Investment In: Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2012					
Business loans:					
Commercial	$—	$202	$202	$313	$47
Real estate construction:					
Commercial Real Estate business line (a)	—	54	54	76	6
Other business lines (b)	—	6	6	7	2
Total real estate construction	—	60	60	83	8
Commercial mortgage:					
Commercial Real Estate business line (a)	—	134	134	207	28
Other business lines (b)	—	170	170	232	35
Total commercial mortgage	—	304	304	439	63
Lease financing	—	3	3	6	1
Total business loans	—	569	569	841	119
Retail loans:					
Residential mortgage	8	33	41	45	3
Consumer:					
Home equity	3	2	5	6	—
Other consumer	—	3	3	9	—
Total consumer	3	5	8	15	—
Total retail loans	11	38	49	60	3
Total individually evaluated impaired loans	$11	$607	$618	$901	$122
December 31, 2011					
Business loans:					
Commercial	$2	$244	$246	$348	$57
Real estate construction:					
Commercial Real Estate business line (a)	—	102	102	146	18
Other business lines (b)	—	5	5	7	1
Total real estate construction	—	107	107	153	19
Commercial mortgage:					
Commercial Real Estate business line (a)	—	148	148	198	34
Other business lines (b)	6	201	207	299	36
Total commercial mortgage	6	349	355	497	70
Lease financing	—	3	3	6	1
International	—	8	8	10	2
Total business loans	8	711	719	1,014	149
Retail loans:					
Residential mortgage	16	30	46	51	3

Consumer:					
Home equity	—	1	1	1	—
Other consumer	—	5	5	12	1
Total consumer	—	6	6	13	1
Total retail loans	16	36	52	64	4
Total individually evaluated impaired loans	$24	$747	$771	$1,078	$153

(a) Primarily loans to real estate investors and developers.
(b) Primarily loans secured by owner-occupied real estate.

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The following table presents information regarding average individually evaluated impaired loans and the related interest recognized. Interest income recognized for the period primarily related to reduced-rate loans.

	Individually Evaluated Impaired Loans			
	2012		2011	
(in millions)	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period
Three Months Ended June 30				
Business loans:				
Commercial	$215	$1	$242	$2
Real estate construction:				
Commercial Real Estate business line (a)	61	—	159	—
Other business lines (b)	5	—	1	—
Total real estate construction	66	—	160	—
Commercial mortgage:				
Commercial Real Estate business line (a)	156	—	192	—
Other business lines (b)	194	1	224	1
Total commercial mortgage	350	1	416	1
Lease financing	3	—	7	—
International	2	—	6	—
Total business loans	636	2	831	3
Retail loans:				
Residential mortgage	41	—	41	—
Consumer loans:				
Home equity	5	—	—	—
Other consumer	3	—	7	—
Total consumer	8	—	7	—
Total retail loans	49	—	48	—
Total individually evaluated impaired loans	$685	$2	$879	$3
Six Months Ended June 30				
Business loans:				
Commercial	$225	$2	$244	$3
Real estate construction:				
Commercial Real Estate business line (a)	74	—	189	—
Other business lines (b)	5	—	1	—
Total real estate construction	79	—	190	—
Commercial mortgage:				
Commercial Real Estate business line (a)	153	—	187	—
Other business lines (b)	199	2	231	2
Total commercial mortgage	352	2	418	2
Lease financing	3	—	7	—
International	4	—	4	—
Total business loans	663	4	863	5
Retail loans:				

Residential mortgage	43	—	39	—
Consumer loans:				
Home equity	3	—	—	—
Other consumer	4	—	8	—
Total consumer	7	—	8	—
Total retail loans	50	—	47	—
Total individually evaluated impaired loans	$713	$4	$910	$5

(a) Primarily loans to real estate investors and developers.
(b) Primarily loans secured by owner-occupied real estate.

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Troubled Debt Restructurings (TDRs)
The following tables detail the recorded balance at June 30, 2012 and 2011 of loans considered to be TDRs that were restructured during the three- and six-month periods ended June 30, 2012 and 2011, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

	2012				2011			
	Type of Modification				Type of Modification			
(in millions)	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications
Three Months Ended June 30								
Business loans:								
Commercial	$6	$ 1	$ —	$ 7	$28	$ —	$ 7	$ 35
Commercial mortgage:								
Commercial Real Estate business line (c)	16	—	—	16	3	—	—	3
Other business lines (d)	5	2	—	7	9	—	6	15
Total commercial mortgage	21	2	—	23	12	—	6	18
Total business loans	27	3	—	30	40	—	13	53
Retail loans:								
Residential mortgage	—	1	—	1	—	3	—	3
Total retail loans	—	1	—	1	—	3	—	3
Total loans	$27	$ 4	$ —	$ 31	$40	$ 3	$ 13	$ 56
Six Months Ended June 30								
Business loans:								
Commercial	$27	$ 1	$ —	$ 28	$60	$ 3	$ 7	$ 70
Commercial mortgage:								
Commercial Real Estate business line (c)	16	—	3	19	3	—	—	3
Other business lines (d)	14	2	—	16	23	4	6	33
Total commercial mortgage	30	2	3	35	26	4	6	36
Total business loans	57	3	3	63	86	7	13	106
Retail loans:								
Residential mortgage	—	1	—	1	—	5	—	5
Total retail loans	—	1	—	1	—	5	—	5
Total loans	$57	$ 4	$ 3	$ 64	$86	$ 12	$ 13	$ 111

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.

(b) Loan restructurings whereby the original loan is restructured into two notes: an "A" note, which generally reflects the portion of the modified loan which is expected to be collected; and a "B" note, which is either fully charged off or exchanged for an equity interest.

(c) Primarily loans to real estate investors and developers.
(d) Primarily loans secured by owner-occupied real estate.

At June 30, 2012 and December 31, 2011, commitments to lend additional funds to borrowers whose terms have been modified in TDRs totaled $8 million and $13 million, respectively.

The majority of the modifications considered to be TDRs that occurred during the three- and six-month periods ended June 30, 2012 and 2011 were principal deferrals. The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of loans considered to be TDRs that were restructured during the three- and six-month periods ended June 30, 2012 and 2011 were insignificant.

On an ongoing basis, the Corporation monitors the performance of modified loans to their restructured terms. For reduced-rate loans and AB Note restructures, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. During the twelve-month period from July 1, 2011 to June 30, 2012, loans with a carrying value of $30 million at June 30, 2012 had been modified by reducing the rate on the loans. Of these modifications, $5 million and $6 million, primarily consisting of commercial mortgage loans included in other business lines and real estate construction loans included in the Commercial Real Estate business line, subsequently defaulted during the three- and six-month periods ended June 30, 2012, respectively. During the twelve-month period from July 1, 2011 to June 30, 2012, loans with a carrying value of

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$29 million at June 30, 2012 had been restructured into two notes. Of these modifications, $3 million of commercial loans subsequently defaulted during both the three- and six-month periods ended June 30, 2012. For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default. During the twelve-month period from July 1, 2011 to June 30, 2012, loans with a carrying value of $156 million at June 30, 2012 had been modified by principal deferral. Of these principal deferral modifications, $38 million and $55 million, primarily consisting of commercial loans and commercial mortgage loans included in the Commercial Real Estate and other business lines, subsequently experienced a change in the risk rating such that the loans are currently included in non-performing loans during the three- and six-month periods ended June 30, 2012, respectively. In the event of a subsequent default, the allowance for loan losses continues to be reassessed on the basis of an individual evaluation of the loan.

Purchased Credit-Impaired (PCI) Loans

In connection with the acquisition of Sterling Bancshares, Inc. (Sterling) on July 28, 2011, the Corporation acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses.

Loans acquired with evidence of credit quality deterioration at acquisition for which it was probable that the Corporation would not be able to collect all contractual amounts due were accounted for as PCI. The Corporation aggregated the acquired PCI loans into pools of loans based on common risk characteristics.

The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at June 30, 2012 and December 31, 2011 were as follows. The outstanding balance represents the total amount owed as of June 30, 2012 and December 31, 2011, including accrued but unpaid interest and any amounts previously charged off. No allowance for loan losses was required on the acquired PCI loan pools at both June 30, 2012 and December 31, 2011.

(in millions)	June 30, 2012	December 31, 2011
Acquired PCI loans:		
Carrying amount	$62	$87
Outstanding balance	181	234

Changes in the accretable yield for acquired PCI loans for the three- and six-month periods ended June 30, 2012 were as follows.

(in millions)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Balance at beginning of period	$20	$25
Accretion	(4)	(9)
Balance at end of period	$16	$16

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NOTE 5 - GOODWILL
The Corporation performs its annual evaluation of goodwill impairment in the third quarter of each year and on an interim basis if events or changes in circumstances between annual tests indicate goodwill might be impaired.
In January 2012, the Federal Reserve announced their expectation for the Federal Funds target rate to remain at currently low levels through 2014. Given the potential for a continued low interest rate environment, the Corporation determined that an additional interim goodwill impairment test should be performed in the first quarter 2012.
At the conclusion of the first step of the interim goodwill impairment tests performed in the first quarter 2012, the estimated fair values of all reporting units exceeded their carrying amounts, including goodwill.
NOTE 6 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS
In the normal course of business, the Corporation enters into various transactions involving derivative and credit-related financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers (customer-initiated derivatives). These financial instruments involve, to varying degrees, elements of market and credit risk. Derivatives are carried at fair value in the consolidated financial statements. Market and credit risk are included in the determination of fair value.
Market risk is the potential loss that may result from movements in interest rates, foreign currency exchange rates or energy commodity prices that cause an unfavorable change in the value of a financial instrument. The Corporation manages this risk by establishing monetary exposure limits and monitoring compliance with those limits. Market risk inherent in interest rate and energy contracts entered into on behalf of customers is mitigated by taking offsetting positions, except in those circumstances when the amount, tenor and/or contract rate level results in negligible economic risk, whereby the cost of purchasing an offsetting contract is not economically justifiable. The Corporation mitigates most of the inherent market risk in foreign exchange contracts entered into on behalf of customers by taking offsetting positions and manages the remainder through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. Market risk inherent in derivative instruments held or issued for risk management purposes is typically offset by changes in the fair value of the assets or liabilities being hedged.
Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. For derivatives with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit risk by permitting settlement, on a net basis, of contracts entered into with the same counterparty. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party beyond certain risk limits. At June 30, 2012, counterparties had pledged cash and marketable investment securities to secure 89 percent of the fair value of contracts with bilateral collateral agreements in an unrealized gain position, including $19 million cash collateral held by the Corporation, and the Corporation had pledged $77 million of investment securities and $1 million cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management’s credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative.
The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on June 30, 2012 was $84 million, for which the Corporation had pledged collateral of $69 million in the normal course of business. The credit-risk-related contingent features require the Corporation’s debt to maintain an

investment grade credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below investment grade, the counterparties to the derivative instruments could require additional overnight collateral on derivative instruments in net liability positions. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2012, the Corporation would have been required to assign an additional $15 million of collateral to its counterparties.

Derivative Instruments

Derivative instruments utilized by the Corporation are negotiated over-the-counter and primarily include swaps, caps and floors, forward contracts and options, each of which may relate to interest rates, energy commodity prices or foreign currency

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exchange rates. Swaps are agreements in which two parties periodically exchange cash payments based on specified indices applied to a specified notional amount until a stated maturity. Caps and floors are agreements which entitle the buyer to receive cash payments based on the difference between a specified reference rate or price and an agreed strike rate or price, applied to a specified notional amount until a stated maturity. Forward contracts are over-the-counter agreements to buy or sell an asset at a specified future date and price. Options are similar to forward contracts except the purchaser has the right, but not the obligation, to buy or sell the asset during a specified period or at a specified future date.

Over-the-counter contracts are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Corporation reduces exposure to market and liquidity risks from over-the-counter derivative instruments entered into for risk management purposes, and transactions entered into to mitigate the market risk associated with customer-initiated transactions, by conducting hedging transactions with investment grade domestic and foreign financial institutions and subjecting counterparties to credit approvals, limits and collateral monitoring procedures similar to those used in making other extensions of credit.

The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at June 30, 2012 and December 31, 2011. The table excludes commitments, warrants accounted for as derivatives and a derivative related to the Corporation's 2008 sale of its remaining ownership of Visa shares.

	June 30, 2012			December 31, 2011		
		Fair Value (a)			Fair Value (a)	
(in millions)	Notional/ Contract Amount (b)	Asset Derivatives	Liability Derivatives	Notional/ Contract Amount (b)	Asset Derivatives	Liability Derivatives
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	$1,450	$309	$—	$1,450	$317	$—
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	260	2	1	229	1	1
Total risk management purposes	$1,710	$311	$1	$1,679	$318	$1
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	$435	$—	$3	$421	$—	$3
Caps and floors purchased	435	3	—	421	3	—
Swaps	10,910	281	244	9,699	282	250
Total interest rate contracts	11,780	284	247	10,541	285	253
Energy contracts:						
Caps and floors written	1,723	—	121	1,141	—	86
Caps and floors purchased	1,723	121	—	1,141	86	—
Swaps	1,019	69	68	379	29	29
Total energy contracts	4,465	190	189	2,661	115	115
Foreign exchange contracts:						

Spot, forwards, options and swaps	2,583	29	26	2,842	39	34
Total customer-initiated and other activities	$18,828	$503	$462	$16,044	$439	$402
Total derivatives	$20,538	$814	$463	$17,723	$757	$403

(a) Asset derivatives are included in "accrued income and other assets" and liability derivatives are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Included in the fair value of derivative assets and liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of derivative assets included credit valuation adjustments for counterparty credit risk totaling $6 million and $4 million at June 30, 2012 and December 31, 2011, respectively.

(b) Notional or contract amounts, which represent the extent of involvement in the derivatives market, are used to determine the contractual cash flows required in accordance with the terms of the agreement. These amounts are typically not exchanged, significantly exceed amounts subject to credit or market risk and are not reflected in the consolidated balance sheets.

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Risk Management

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes, including cash instruments, such as investment securities, as well as derivative instruments. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments also may be used to manage exposures to market risks, including interest rate caps and floors, total return swaps, foreign exchange forward contracts and foreign exchange swap agreements.

As part of a fair value hedging strategy, the Corporation entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation’s exposure to interest rate risk by converting fixed-rate debt to a floating rate. These agreements involve the receipt of fixed-rate interest amounts in exchange for floating-rate interest payments over the life of the agreement, without an exchange of the underlying principal amount.

Risk management fair value interest rate swaps generated net interest income of $17 million and $34 million for the three- and six-month periods ended June 30, 2012, respectively, compared to net interest income of $18 million and $36 million for the three- and six-month periods ended June 30, 2011, respectively.

The net gain recognized in "other noninterest income" in the consolidated statements of comprehensive income for the ineffective portion of risk management derivative instruments designated as fair value hedges of fixed-rate debt was insignificant for the three- and six-month periods ended June 30, 2012, as well as for the three-month period ended June 30, 2011, and was $1 million for the six-month period ended June 30, 2011.

As of and for the six months ended June 30, 2012 the Corporation had no interest rate swap agreements designated as cash flow hedges of loans. In the first quarter 2011, the remaining interest rate swap agreements outstanding matured. The net gains (losses) recognized in income and OCI on risk management derivatives designated as cash flow hedges of loans for the six months ended June 30, 2011 are displayed in the table below.

(in millions)	Six Months Ended June 30, 2011
Interest rate swaps	
(Loss) recognized in OCI (effective portion)	$(2)
Gain recognized in other noninterest income (ineffective portion)	1
Gain reclassified from accumulated OCI into interest and fees on loans (effective portion)	1

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks.

The Corporation recognized an insignificant amount of net gains (losses) on risk management derivative instruments used as economic hedges in "other noninterest income" in the consolidated statements of comprehensive income in the three- and six-month periods ended June 30, 2012 and 2011.

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The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of June 30, 2012 and December 31, 2011.

(dollar amounts in millions)	Notional Amount	Weighted Average Remaining Maturity (in years)	Receive Rate		Pay Rate (a)	
June 30, 2012						
Swaps - fair value - receive fixed/pay floating rate						
Medium- and long-term debt designation	$1,450	4.9	5.45	%	0.74	%
December 31, 2011						
Swaps - fair value - receive fixed/pay floating rate						
Medium- and long-term debt designation	$1,450	5.4	5.45	%	0.60	%

(a) Variable rates paid on receive fixed swaps are based on prime and six-month LIBOR rates in effect at June 30, 2012 and December 31, 2011.

Management believes these hedging strategies achieve the desired relationship between the rate maturities of assets and funding sources which, in turn, reduce the overall exposure of net interest income to interest rate risk, although there can be no assurance that such strategies will be successful.

Customer-Initiated and Other

The Corporation enters into derivative transactions at the request of customers and generally takes offsetting positions with dealer counterparties to mitigate the inherent market risk. Income primarily results from the spread between the customer derivative and the offsetting dealer position.

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a speculative position within the limits described above, the Corporation recognized an insignificant amount of net gains in “other noninterest income” in the consolidated statements of comprehensive income in the three- and six-month periods ended June 30, 2012 and 2011.

Fair values of customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded in the consolidated balance sheets. Changes in fair value are recognized in the consolidated statements of comprehensive income. The net gains recognized in income on customer-initiated derivative instruments, net of the impact of offsetting positions, were as follows.

		Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	Location of Gain	2012	2011	2012	2011
Interest rate contracts	Other noninterest income	$7	$2	$9	$8
Energy contracts	Other noninterest income	1	1	2	1
Foreign exchange contracts	Foreign exchange income	9	9	18	17