WELLS FARGO & COMPANY/MN
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

Commission file number 001-2979

WELLS FARGO & COMPANY
(Exact name of registrant as specified in its charter)

Delaware	No. 41-0449260
(State of incorporation)	(I.R.S. Employer Identification No.)

420 Montgomery Street, San Francisco, California 94163
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 1-866-249-3302

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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ 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 þ	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 þ

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

	Shares Outstanding July 31, 2015
Common stock, $1-2/3 par value	5,133,359,268

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PART I Financial Information

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

	Quarter ended			% Change June 30, 2015 from		Six months ended		
($ in millions, except per share amounts)	June 30, 2015	March 31, 2015	June 30, 2014	March 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014	% Change
For the Period								
Wells Fargo net income	$5,719	5,804	5,726	(1)%	—	11,523	11,619	(1)%
Wells Fargo net income applicable to common stock	5,363	5,461	5,424	(2)	(1)	10,824	11,031	(2)
Diluted earnings per common share	1.03	1.04	1.01	(1)	2	2.07	2.06	—
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	1.33 %	1.38	1.47	(4)	(10)	1.35	1.52	(11)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	12.71	13.17	13.40	(3)	(5)	12.94	13.86	(7)
Efficiency ratio (1)	58.5	58.8	57.9	(1)	1	58.6	57.9	1
Total revenue	21,318	21,278	21,066	—	1	42,596	41,691	2
Pre-tax pre-provision profit (PTPP) (2)	8,849	8,771	8,872	1	—	17,620	17,549	—
Dividends declared per common share	0.375	0.35	0.35	7	7	0.725	0.65	12
Average common shares outstanding	5,151.9	5,160.4	5,268.4	—	(2)	5,156.1	5,265.6	(2)
Diluted average common shares outstanding	5,220.5	5,243.6	5,350.8	—	(2)	5,233.2	5,353.2	(2)
Average loans	$870,446	863,261	831,043	1	5	866,873	827,436	5
Average assets	1,729,278	1,707,798	1,564,003	1	11	1,718,597	1,545,060	11
Average core deposits (3)	1,079,160	1,063,234	991,727	1	9	1,071,241	982,814	9
Average retail core deposits (4)	741,500	731,413	698,763	1	6	736,484	694,726	6
Net interest margin	2.97 %	2.95	3.15	1	(6)	2.96	3.17	(7)
At Period End								

Investment securities	$340,769	324,736	279,069	5	22	340,769	279,069	22
Loans	888,459	861,231	828,942	3	7	888,459	828,942	7
Allowance for loan losses	11,754	12,176	13,101	(3)	(10)	11,754	13,101	(10)
Goodwill	25,705	25,705	25,705	—	—	25,705	25,705	—
Assets	1,720,617	1,737,737	1,598,874	(1)	8	1,720,617	1,598,874	8
Core deposits (3)	1,082,634	1,086,993	1,007,485	—	7	1,082,634	1,007,485	7
Wells Fargo stockholders' equity	189,558	188,796	180,859	—	5	189,558	180,859	5
Total equity	190,676	189,964	181,549	—	5	190,676	181,549	5
Capital ratios (5)(6):								
Total equity to assets	11.08 %	10.93	11.35	1	(2)	11.08	11.35	(2)
Risk-based capital:								
Common Equity Tier 1	10.78	10.69	11.31	NM	NM	10.78	11.31	NM
Tier 1 capital	12.28	12.20	12.72	NM	NM	12.28	12.72	NM
Total capital	14.45	15.08	15.89	NM	NM	14.45	15.89	NM
Tier 1 leverage	9.45	9.48	9.86	NM	NM	9.45	9.86	NM
Common shares outstanding	5,145.2	5,162.9	5,249.9	—	(2)	5,145.2	5,249.9	(2)
Book value per common share	$32.96	32.70	31.18	1	6	32.96	31.18	6
Common stock price:								
High	58.26	56.29	53.05	3	10	58.26	53.05	10
Low	53.56	50.42	46.72	6	15	50.42	44.17	14
Period end	56.24	54.40	52.56	3	7	56.24	52.56	7
Team members (active, full-time equivalent)	265,800	266,000	263,500	—	1	265,800	263,500	1

NM - Not meaningful

(1) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).

(2) Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company's ability to generate capital to cover credit losses through a credit cycle.

(3) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).

(4) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.

(5) The risk-based capital ratios presented were calculated: (a) under the Basel III Standardized Approach with Transition Requirements at June 30 and March 31, 2015, except for total capital ratio at June 30, 2015, which was calculated under the Basel III Advanced Approach with Transition Requirements, and (b) under the Basel III General Approach at June 30, 2014.

(6) See the "Capital Management" section and Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

Overview (continued)

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Form 10-K).

When we refer to "Wells Fargo," "the Company," "we," "our" or "us" in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the "Parent," we mean Wells Fargo & Company. See the Glossary of Acronyms for terms used throughout this Report.

Financial Review

Overview

Wells Fargo & Company is a nationwide, diversified, community-based financial services company with $1.7 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through 8,700 locations, 12,800 ATMs, the internet (wellsfargo.com) and mobile banking, and we have offices in 36 countries to support customers who conduct business in the global economy. With approximately 266,000 active, full-time equivalent team members, we serve one in three households in the United States and rank No. 30 on Fortune's 2015 rankings of America's largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at June 30, 2015.

We use our Vision and Values to guide us toward growth and success. Our vision is to satisfy our customers' financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America's great companies. Important to our strategy to achieve this vision is to increase the number of our products our customers use and to offer them all of the financial products that fulfill their financial needs. We aspire to create deep and enduring relationships with our customers by discovering their needs and delivering the most relevant products, services, advice, and guidance.

We have six primary values, which are based on our vision and provide the foundation for everything we do. First, we value and support our people as a competitive advantage and strive to attract, develop, retain and motivate the most talented people we can find. Second, we strive for the highest ethical standards with our team members, our customers, our communities and our shareholders. Third, with respect to our customers, we strive to base our decisions and actions on what is right for them in everything we do. Fourth, for team members we strive to build and sustain a diverse and inclusive culture – one where they feel valued and respected for who they are as well as for the skills and experiences they bring to our company. Fifth, we also look to each of our team members to be leaders in establishing, sharing and communicating our vision. Sixth, we strive to make risk management a competitive advantage by working hard to ensure that appropriate controls are in place to reduce risks to our customers, maintain and increase our competitive market position, and protect Wells Fargo's long-term safety, soundness and reputation.

Financial Performance

Wells Fargo net income was $5.7 billion in second quarter 2015 with diluted earnings per share (EPS) of $1.03, compared with $5.7 billion and $1.01, respectively, a year ago. Our results

reflected the benefit of our diversified business model, and our financial strength and competitive positioning allowed us to capture opportunities for growth - both organically and through acquisitions.

Compared with a year ago:

- revenue grew 1%, with 4% growth in net interest income;
-

- our total loans reached a record $888.5 billion, an increase of $59.5 billion, or 7%, even with the planned runoff in our non-strategic/liquidating portfolios, and our core loan portfolio grew by $68.5 billion, or 9%;
- our liquidating portfolio declined $9.0 billion and was only 6% of our total loans, down from 8% a year ago;
- our deposit franchise continued to generate strong customer and balance growth, with average deposits up $83.8 billion, or 8%, and we grew the number of primary consumer checking customers by 5.6% (May 2015 compared with May 2014);
- our credit performance continued to improve with total net charge-offs down $67 million, or 9%, and represented only 30 basis points (annualized) of average loans; and
- we increased the quarterly dividend rate on our common stock by 7% to $0.375 per share.

Balance Sheet and Liquidity

Our balance sheet continued to strengthen in second quarter 2015 as we increased our liquidity position, generated core loan and deposit growth, experienced continued improvement in credit quality and maintained strong capital levels. We have been able to grow our loans on a year-over-year basis for 16 consecutive quarters (for the past 13 quarters year-over-year loan growth has been 3% or greater) despite the planned runoff from our non-strategic/liquidating portfolios. Our non-strategic/liquidating loan portfolios decreased $2.2 billion during the quarter and our core loan portfolio increased $29.4 billion, which included $11.5 billion from the GE Capital loan purchase and associated financing transaction announced in first quarter 2015. Our investment securities increased by $16.0 billion during the quarter, driven primarily by purchases of federal agency mortgage-backed securities (MBS), U.S. Treasuries, and municipal securities, which were partially offset by maturities, amortization and sales.

Deposit growth continued in second quarter 2015 with period-end deposits up $17.5 billion, or 1%, from December 31, 2014. This increase reflected growth across both our commercial and consumer businesses. Our average deposit cost was 8 basis points, down 2 basis points from a year ago. We successfully grew our primary consumer checking customers (i.e., customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) by 5.6% and primary business checking customers by 5.3% from a year ago (May 2015 compared with May 2014). Our ability to consistently grow primary checking customers is important to our results because these customers have more interactions with us and are more than twice as profitable as non-primary customers.

Credit Quality
Credit quality improved in second quarter 2015 as losses remained at historically low levels, nonperforming assets (NPAs) continued to decline, and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $650 million, or 0.30% (annualized) of average loans, in second quarter 2015, compared with $717 million a year ago (0.35%), a 9% year-over-year decrease in credit losses. Our commercial portfolio net charge-offs were $62 million, or 6 basis points of average commercial loans. Net consumer credit losses declined to 53 basis points of average consumer loans in second quarter 2015 from 62 basis points in second quarter 2014. Our commercial real estate portfolios were in a net recovery position for the tenth consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined $136 million from a year ago, down 46%, which included a $15 million decline in losses in our core 1-4 family first mortgage portfolio. The lower consumer loss levels reflected the benefit of the improving economy and our continued focus on originating high quality loans. Approximately 63% of the consumer first mortgage portfolio was originated after 2008, when more stringent underwriting standards were implemented.
Our provision for credit losses reflected a release from the allowance for credit losses of $350 million in second quarter 2015, which was $150 million less than what we released a year ago. Future allowance levels may increase or decrease based on a variety of factors, including loan growth, portfolio performance and general economic conditions.
In addition to lower net charge-offs and provision expense, NPAs also improved and were down $438 million, or 3%, from March 31, 2015, the eleventh consecutive quarter of decline. Nonaccrual loans declined $67 million from the prior quarter despite an increase in nonaccrual loans in our energy portfolio. The oil and gas portfolio represented only 2% of our total loan portfolio and balances in this portfolio declined by $1.1 billion from first quarter primarily due to pay downs. In addition, foreclosed assets were down $371 million from the prior quarter.

Capital
Our financial performance in second quarter 2015 resulted in strong capital generation, which increased total equity to $190.7 billion at June 30, 2015, up $712 million from the prior quarter. We continued to reduce our common share count through the repurchase of 36.3 million common shares in the quarter. We also entered into a $750 million forward repurchase contract in April 2015 with an unrelated third party that settled in July 2015 for 13.6 million shares. In addition, we entered into a $1.0 billion forward repurchase contract with an unrelated third party in July 2015 that is expected to settle in fourth quarter 2015 for approximately 17.5 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2015. Our dividend payout ratio increased to 36% in second quarter 2015 as we increased the quarterly dividend rate on our common stock by 7%.
We believe an important measure of our capital strength is the Common Equity Tier 1 ratio under Basel III, fully phased-in, which increased to 10.55% at June 30, 2015. Likewise, our other regulatory capital ratios remained strong. See the “Capital Management” section in this Report for more information regarding our capital, including the calculation of our regulatory capital amounts.

Earnings Performance (continued)

Earnings Performance

Wells Fargo net income for second quarter 2015 was $5.7 billion ($1.03 diluted earnings per common share), compared with $5.7 billion ($1.01) for second quarter 2014. Net income for the first half of 2015 was $11.5 billion ($2.07), compared with $11.6 billion ($2.06) for the same period a year ago. Our second quarter 2015 earnings reflected execution of our business strategy as we continued to satisfy our customers' financial needs. The key drivers of our financial performance in the second quarter and first half of 2015 were balanced net interest income and noninterest income, diversified sources of fee income, a diversified and growing loan portfolio and strong underlying credit performance.

Revenue, the sum of net interest income and noninterest income, was $21.3 billion in second quarter 2015, compared with $21.1 billion in second quarter 2014. Revenue for the first half of 2015 was $42.6 billion, up 2% from the first half of 2014. The increase in revenue for the second quarter and first half of 2015, compared with the same periods in 2014, was primarily due to an increase in net interest income, reflecting increases in interest income from loans and trading assets. In the second quarter and first half of 2015, net interest income represented 53% and 52% of revenue, respectively, compared with 51% for both the second quarter and first half of 2014.

Noninterest income represented 47% and 48% of revenue for the second quarter and first half of 2015, respectively, compared with 49% for both the second quarter and first half of 2014. The drivers of our noninterest income can differ depending on the interest rate and economic environment. For example, net gains on mortgage loan origination/sales activities were 12% of our fee income in second quarter 2015, up from 7% in the same period a year ago when the refinance market was not as strong. Other businesses, such as equity investments, brokerage and card, contributed more to fee income this quarter, demonstrating the benefit of our diversified business model.

Noninterest expense was $12.5 billion and $25.0 billion in the second quarter and first half of 2015, respectively, compared with $12.2 billion and $24.1 billion in the second quarter and first half of 2014, respectively. The increase for both periods reflected higher personnel expense, including higher commission and incentive compensation, as well as higher operating losses, partially offset by lower travel and entertainment expense.

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid on deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 1 to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate. While the Company believes that it has the ability to increase net interest income over time, net interest income and the net interest margin in any one period can be significantly affected by a variety of factors including the mix and overall size of our earning assets portfolio and the cost of funding those assets. In addition, some sources of interest income, such as resolutions from purchased credit-impaired (PCI) loans, loan prepayment fees and collection of interest on nonaccrual loans, can vary from period to period. Net interest income growth has been challenged during the prolonged low interest rate environment as higher yielding loans and securities have runoff and been replaced with lower yielding assets. The pace of this repricing has slowed in recent quarters.

Net interest income on a taxable-equivalent basis was $11.5 billion and $22.8 billion in the second quarter and first half of 2015, respectively, up from $11.0 billion and $21.8 billion for the same periods a year ago. The net interest margin was 2.97% and 2.96% for the second quarter and first half of 2015, respectively, down from 3.15% and 3.17% for the same periods a year ago. The increase in net interest income in the second quarter and first half of 2015 from the same periods a year ago, was primarily driven by growth in earning assets, including growth in short-term investments, investment securities, commercial and industrial loans, and trading assets, which offset a decrease in earning asset yields. Lower funding expense, due to an increase in noninterest bearing funding sources and reduced deposit costs, also contributed to higher net interest income. The decline in net interest margin in second quarter 2015, compared with the same period a year ago, was primarily driven by higher funding balances, including customer-driven deposit growth and actions we took in 2014 in response to increased regulatory liquidity expectations which raised long-term debt and term deposits. This growth in funding increased cash and federal funds sold and other short-term investments which are dilutive to net interest margin although essentially neutral to net interest income. Average earning assets increased $153.7 billion in the second quarter and $161.8 billion in the first half of 2015, compared with the same periods a year ago, as average investment securities increased $58.3 billion in the second quarter and $53.9 billion in the first half of 2015 from the same periods a year ago. In addition, average federal funds sold and other short-term investments increased $37.3 billion in the second quarter and $49.8 billion in the first half of 2015 from the same periods a year ago. Average loans increased $39.4 billion in both the second quarter and first half of 2015, compared with the same periods a year ago.

Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to $1.1 trillion in second quarter 2015 ($1.1 trillion in the first half of 2015), compared with $991.7 billion in second quarter 2014 ($982.8 billion in the first half of 2014), and funded 124% of average loans in both the second quarter and first half of 2015, compared with 119% for the same periods a year ago. Average core deposits decreased to 69% of average earning assets in both the second quarter and first half of 2015, compared with 71% for the same periods a year ago. The cost of these deposits has continued to decline due to a sustained low interest rate environment and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 97% of our average core deposits are in checking and savings deposits, one of the highest industry percentages.

Table 1: Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) (1)(2)

(in millions)	Quarter ended June 30, 2015 Average balance	Yields/ rates	Interest income/ expense	2014 Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	$267,101	0.28 %	$186	229,770	0.28 %	$161
Trading assets	67,615	2.91	492	54,347	3.05	414
Investment securities (3):						
Available-for-sale securities:						
Securities of U.S. Treasury and federal agencies	31,748	1.58	125	6,580	1.78	29
Securities of U.S. states and political subdivisions	47,075	4.13	486	42,721	4.26	456
Mortgage-backed securities:						
Federal agencies	97,958	2.65	650	116,475	2.85	831
Residential and commercial	22,677	5.84	331	27,252	6.11	416
Total mortgage-backed securities	120,635	3.25	981	143,727	3.47	1,247
Other debt and equity securities	48,816	3.51	427	48,734	3.76	457
Total available-for-sale securities	248,274	3.25	2,019	241,762	3.62	2,189
Held-to-maturity securities:						
Securities of U.S. Treasury and federal agencies	44,492	2.19	243	10,829	2.20	59
Securities of U.S. states and political subdivisions	2,090	5.17	27	8	6.00	—
Federal agency mortgage-backed securities	21,044	2.00	105	6,089	2.74	42
Other debt securities	6,270	1.70	26	5,206	1.90	25
Total held-to-maturity securities	73,896	2.18	401	22,132	2.28	126
Total investment securities	322,170	3.01	2,420	263,894	3.51	2,315
Mortgages held for sale (4)	23,456	3.57	209	18,824	4.16	195
Loans held for sale (4)	666	3.51	5	157	2.55	1
Loans:						
Commercial:						
Commercial and industrial - U.S.	231,551	3.36	1,939	199,246	3.39	1,687
Commercial and industrial - Non U.S.	45,123	1.93	217	43,045	2.06	221
Real estate mortgage	113,089	3.48	982	112,795	3.61	1,016
Real estate construction	20,771	4.12	214	17,458	4.18	182
Lease financing	12,364	5.16	160	12,151	5.68	172
Total commercial	422,898	3.33	3,512	384,695	3.42	3,278
Consumer:						
Real estate 1-4 family first mortgage	266,023	4.12	2,740	259,985	4.20	2,729
Real estate 1-4 family junior lien mortgage	57,066	4.23	603	63,305	4.31	680
Credit card	30,373	11.69	885	26,442	11.97	790
Automobile	56,974	5.88	836	53,480	6.34	845
Other revolving credit and installment	37,112	5.88	544	43,136	5.07	545
Total consumer	447,548	5.02	5,608	446,348	5.02	5,589
Total loans (4)	870,446	4.20	9,120	831,043	4.28	8,867
Other	4,859	5.14	64	4,535	5.74	65
Total earning assets	$1,556,313	3.22 %	$12,496	1,402,570	3.43 %	$12,018
Funding sources						
Deposits:						

Interest-bearing checking	$38,551	0.05	%	$5	40,193	0.07	%	$7
Market rate and other savings	619,837	0.06		87	583,907	0.07		101
Savings certificates	32,454	0.63		52	38,754	0.86		82
Other time deposits	52,238	0.42		55	48,512	0.41		50
Deposits in foreign offices	104,334	0.13		33	94,232	0.15		35
Total interest-bearing deposits	847,414	0.11		232	805,598	0.14		275
Short-term borrowings	84,499	0.09		21	58,845	0.10		14
Long-term debt	185,093	1.34		620	159,233	1.56		620
Other liabilities	16,405	2.03		83	13,589	2.73		93
Total interest-bearing liabilities	1,133,411	0.34		956	1,037,265	0.39		1,002
Portion of noninterest-bearing funding sources	422,902			—	365,305	—		—
Total funding sources	$1,556,313	0.25		956	1,402,570	0.28		1,002
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.97	%	$11,540		3.15	%	$11,016
Noninterest-earning assets								
Cash and due from banks	$17,462				15,956			
Goodwill	25,705				25,699			
Other	129,798				119,778			
Total noninterest-earning assets	$172,965				161,433			
Noninterest-bearing funding sources								
Deposits	$337,890				295,875			
Other liabilities	67,595				51,184			
Total equity	190,382				179,679			
Noninterest-bearing funding sources used to fund earning assets	(422,902)				(365,305)			
Net noninterest-bearing funding sources	$172,965				161,433			
Total assets	$1,729,278				1,564,003			

(1) Our average prime rate was 3.25% for the quarters ended June 30, 2015 and 2014, and 3.25% for the first six months of both 2015 and 2014. The average three-month London Interbank Offered Rate (LIBOR) was 0.28% and 0.23% for the quarters ended June 30, 2015 and 2014, respectively, and 0.27% and 0.23% for the first six months of 2015 and 2014, respectively.

(2) Yields/rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Yields and rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts represent amortized cost for the periods presented.

(4) Nonaccrual loans and related income are included in their respective loan categories.

(5) Includes taxable-equivalent adjustments of $270 million and $225 million for the quarters ended June 30, 2015 and 2014, respectively, and $512 million and $442 million for the first six months of 2015 and 2014, respectively, primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

(in millions)	Six months ended June 30, Average balance	Yields/ rates		2015 Interest income/ expense	Average balance	Yields/ rates		2014 Interest income/ expense
Earning assets								
Federal funds sold, securities purchased under resale agreements and other short-term investments	$271,392	0.28	%	$376	221,573	0.28	%	$305
Trading assets	65,309	2.89		945	51,306	3.10		795
Investment securities (3):								
Available-for-sale securities:								
Securities of U.S. Treasury and federal agencies	28,971	1.56		225	6,576	1.73		57
Securities of U.S. states and political subdivisions	46,017	4.16		958	42,661	4.32		921
Mortgage-backed securities:								
Federal agencies	100,064	2.71		1,356	117,055	2.90		1,695
Residential and commercial	23,304	5.77		673	27,641	6.12		845
Total mortgage-backed securities	123,368	3.29		2,029	144,696	3.51		2,540
Other debt and equity securities	47,938	3.47		827	48,944	3.68		895
Total available-for-sale securities	246,294	3.28		4,039	242,877	3.64		4,413
Held-to-maturity securities:								
Securities of U.S. Treasury and federal agencies	43,685	2.20		477	5,993	2.20		65
Securities of U.S. states and political subdivisions	2,019	5.16		52	4	5.97		—
Federal agency mortgage-backed securities	16,208	1.95		158	6,125	2.93		90
Other debt securities	6,530	1.71		55	5,807	1.88		54
Total held-to-maturity securities	68,442	2.18		742	17,929	2.34		209
Total investment securities	314,736	3.04		4,781	260,806	3.55		4,622
Mortgages held for sale (4)	21,530	3.59		386	17,696	4.13		365
Loans held for sale (4)	683	3.08		10	134	4.08		3
Loans:								
Commercial:								
Commercial and industrial - U.S.	229,627	3.32		3,783	196,570	3.41		3,328
Commercial and industrial - Non U.S.	45,093	1.90		426	42,616	1.99		421
Real estate mortgage	112,298	3.52		1,963	112,810	3.58		2,006
Real estate construction	20,135	3.83		383	17,265	4.28		366
Lease financing	12,341	5.06		312	12,206	5.90		360
Total commercial	419,494	3.30		6,867	381,467	3.42		6,481
Consumer:								
Real estate 1-4 family first mortgage	265,923	4.12		5,481	259,737	4.19		5,434
Real estate 1-4 family junior lien mortgage	57,968	4.25		1,224	64,155	4.31		1,372
Credit card	30,376	11.74		1,768	26,363	12.14		1,588
Automobile	56,492	5.91		1,657	52,642	6.42		1,676
Other revolving credit and installment	36,620	5.94		1,079	43,072	5.03		1,076
Total consumer	447,379	5.03		11,209	445,969	5.02		11,146
Total loans (4)	866,873	4.19		18,076	827,436	4.28		17,627
Other	4,795	5.27		127	4,595	5.73		131
Total earning assets	$1,545,318	3.21	%	$24,701	1,383,546	3.46	%	$23,848
Funding sources								

Deposits:								
Interest-bearing checking	$38,851	0.05	%	$10	38,506	0.07	%	$13
Market rate and other savings	616,643	0.06		184	581,489	0.07		206
Savings certificates	33,525	0.69		116	39,639	0.87		171
Other time deposits	54,381	0.41		111	47,174	0.42		98
Deposits in foreign offices	104,932	0.13		69	92,650	0.14		66
Total interest-bearing deposits	848,332	0.12		490	799,458	0.14		554
Short-term borrowings	78,141	0.10		39	56,686	0.10		27
Long-term debt	184,432	1.33		1,224	156,528	1.59		1,239
Other liabilities	16,648	2.17		180	13,226	2.72		180
Total interest-bearing liabilities	1,127,553	0.34		1,933	1,025,898	0.39		2,000
Portion of noninterest-bearing funding sources	417,765			—	357,648	—		—
Total funding sources	$1,545,318	0.25		1,933	1,383,546	0.29		2,000
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.96	%	$22,768		3.17	%	$21,848
Noninterest-earning assets								
Cash and due from banks	$17,262				16,159			
Goodwill	25,705				25,668			
Other	130,312				119,687			
Total noninterest-earning assets	$173,279				161,514			
Noninterest-bearing funding sources								
Deposits	$331,745				290,004			
Other liabilities	69,779				52,065			
Total equity	189,520				177,093			
Noninterest-bearing funding sources used to fund earning assets	(417,765)				(357,648)			
Net noninterest-bearing funding sources	$173,279				161,514			
Total assets	$1,718,597				1,545,060			

Noninterest Income

Table 2: Noninterest Income

(in millions)	Quarter ended June 30, 2015	Quarter ended June 30, 2014	% Change	Six months ended June 30, 2015	Six months ended June 30, 2014	% Change
Service charges on deposit accounts	$1,289	1,283	— %	$2,504	2,498	— %
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,399	2,280	5	4,779	4,521	6
Trust and investment management	861	838	3	1,713	1,682	2
Investment banking	450	491	(8)	895	818	9
Total trust and investment fees	3,710	3,609	3	7,387	7,021	5
Card fees	930	847	10	1,801	1,631	10
Other fees:						
Charges and fees on loans	304	342	(11)	613	709	(14)
Merchant processing fees	202	183	10	389	355	10
Cash network fees	132	128	3	257	248	4
Commercial real estate brokerage commissions	141	99	42	270	171	58
Letters of credit fees	90	92	(2)	178	188	(5)
All other fees	238	244	(2)	478	464	3
Total other fees	1,107	1,088	2	2,185	2,135	2
Mortgage banking:						
Servicing income, net	514	1,035	(50)	1,037	1,973	(47)
Net gains on mortgage loan origination/sales activities	1,191	688	73	2,215	1,260	76
Total mortgage banking	1,705	1,723	(1)	3,252	3,233	1
Insurance	461	453	2	891	885	1
Net gains from trading activities	133	382	(65)	541	814	(34)
Net gains on debt securities	181	71	155	459	154	198
Net gains from equity investments	517	449	15	887	1,296	(32)
Lease income	155	129	20	287	262	10
Life insurance investment income	145	138	5	290	270	7
All other	(285)	103	NM	(144)	86	NM
Total	$10,048	10,275	(2)	$20,340	20,285	—

NM - Not meaningful

Noninterest income was $10.0 billion and $10.3 billion for second quarter 2015 and 2014, respectively, and $20.3 billion for both the first half of 2015 and 2014. This income represented 47% and 48% of revenue for the second quarter and first half of 2015, respectively, compared with 49% for both the second quarter and first half of 2014. Many of our businesses, including credit and debit cards, merchant card processing, commercial banking, asset-backed finance, real estate capital markets, international, wealth management and retirement grew noninterest income in the second quarter and first half of 2015. This growth was offset by lower other income driven by the accounting impact related to debt hedges.

Service charges on deposit accounts were $1.3 billion and $2.5 billion in the second quarter and first half of 2015, respectively, unchanged from the second quarter and first half of 2014, respectively. Lower overdraft fees driven by changes implemented in early October 2014, designed to provide customers with more real time information, were offset by higher fees from commercial product sales and commercial product re-pricing.

Brokerage advisory, commissions and other fees are received for providing services to full-service and discount brokerage customers. Income from these brokerage-related activities include asset-based fees, which are based on the market value of the customer's assets, and transactional commissions based on the number and size of transactions executed at the customer's

direction. These fees increased to $2.4 billion and $4.8 billion in the second quarter and first half of 2015, respectively, from $2.3 billion and $4.5 billion for the same periods in 2014. The increase in retail brokerage income was predominantly due to higher asset-based fees as a result of higher market values and growth in assets under management. Retail brokerage client assets totaled $1.43 trillion at June 30, 2015, up 1% from $1.42 trillion at June 30, 2014.

We earn trust and investment management fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees increased to $861 million and $1.71 billion in the second quarter and first half of 2015, respectively, from $838 million and $1.68 billion for the same periods in 2014, with growth primarily due to higher market values. At June 30, 2015, these assets totaled $2.4 trillion, compared with $2.5 trillion at June 30, 2014.

We earn investment banking fees from underwriting debt and equity securities, arranging loan syndications, and performing other related advisory services. Investment banking fees decreased to $450 million in second quarter 2015 from $491 million for the same period in 2014, driven by declines in advisory services and equity origination. In the first half of 2015, investment banking fees increased to $895 million from

Earnings Performance (continued)

$818 million for the same period in 2014, driven by higher investment grade debt origination reflecting an active domestic market.

Card fees were $930 million and $1.8 billion in the second quarter and first half of 2015, respectively, compared with $847 million and $1.6 billion for the same periods a year ago. The increase was primarily due to account growth and increased purchase activity.

Other fees of $1.11 billion and $2.19 billion in the second quarter and first half of 2015, respectively, increased from $1.09 billion and $2.14 billion for the same periods a year ago as increases in commercial real estate brokerage commissions and merchant processing fees more than offset a decline in charges and fees on loans. Charges and fees on loans decreased to $304 million and $613 million in the second quarter and first half of 2015, respectively, compared with $342 million and $709 million for the same periods a year ago, primarily due to the phase out of the direct deposit advance product during the first half of 2014. Commercial real estate brokerage commissions increased by $42 million and $99 million in the second quarter and first half of 2015, respectively, compared with the same periods a year ago, driven by increased sales and other property-related activities, including financing and advisory services.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $1.7 billion in both second quarter 2015 and 2014, and totaled $3.3 billion for the first half of 2015, compared with $3.2 billion for the same period a year ago.

In addition to servicing fees, net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for second quarter 2015 included a $107 million net MSR valuation gain ($1.1 billion increase in the fair value of the MSRs and a $946 million hedge loss) and for second quarter 2014 included a $475 million net MSR valuation gain ($835 million decrease in the fair value of the MSRs offset by an $1.3 billion hedge gain). For the first half of 2015, net servicing income included a $215 million net MSR valuation gain ($280 million increase in the fair value of the MSRs and a $65 million hedge loss) and for the same period of 2014 included a $882 million net MSR valuation gain ($1.3 billion decrease in the fair value of the MSRs offset by an $2.2 billion hedge gain). The decrease in net MSR valuation gains in the second quarter and first half of 2015, compared with the same periods in 2014, was primarily attributable to lower hedge gains, MSR valuation adjustments in first quarter 2015 that reflected higher prepayment expectations due to the reduction in FHA mortgage insurance premiums as well as overall lower actual prepayments in the first half of 2014.

Our portfolio of residential and commercial loans serviced for others was $1.81 trillion at June 30, 2015, and $1.86 trillion at December 31, 2014. At June 30, 2015, the ratio of combined residential and commercial MSRs to related loans serviced for others was 0.77%, compared with 0.75% at December 31, 2014. See the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section of this Report for additional information regarding our MSRs risks and hedging approach.

Net gains on mortgage loan origination/sale activities were $1.2 billion and $2.2 billion in the second quarter and first half of 2015, respectively, up from $688 million and $1.3 billion for the same periods a year ago. The increase in the second quarter and first half of 2015, compared with the same periods a year ago, was primarily driven by increased origination volumes and

margins. Mortgage loan originations were $62 billion for second quarter 2015, of which 54% were for home purchases, compared with $47 billion and 74%, respectively, for the same period a year ago. The year-over-year increase was primarily driven by higher refinance activity reflecting lower mortgage interest rates. Mortgage applications were $81 billion and $174 billion in the second quarter and first half of 2015, respectively, compared with $72 billion and $132 billion for the same periods a year ago. The real estate 1-4 family first mortgage unclosed pipeline was $38 billion at June 30, 2015, compared with $30 billion at June 30, 2014. For additional information about our mortgage banking activities and results, see the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For the first half of 2015, we released a net $34 million from the repurchase liability, including $18 million in second quarter 2015, compared with a net $20 million release for the first half of 2014, including $26 million in second quarter 2014. For additional information about mortgage loan repurchases, see the “Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses” section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

We engage in trading activities primarily to accommodate the investment activities of our customers, execute economic hedging to manage certain components of our balance sheet risks and for a very limited amount of proprietary trading for our own account. Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $133 million and $541 million in the second quarter and first half of 2015, respectively, compared with $382 million and $814 million for the same periods a year ago. Both second quarter and first half year-over-year decreases were primarily driven by lower economic hedge income and lower deferred compensation gains (offset in employee benefits expense).

Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. Interest and fees related to proprietary trading are reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. For additional information about proprietary and other trading, see the “Risk Management – Asset and Liability Management – Market Risk – Trading Activities” section in this Report.

Net gains on debt and equity securities totaled $698 million for second quarter 2015 and $520 million for second quarter 2014 ($1.3 billion and $1.5 billion for the first half of 2015 and 2014, respectively), net of other-than-temporary impairment (OTTI) write-downs of $96 million and $82 million for second quarter 2015 and 2014, respectively, and $169 million and $217 million for the first half of 2015 and 2014, respectively. The increase in net gains on debt and equity securities in second quarter 2015 compared with the same period a year ago reflects positive operating performance in the portfolio. The decrease in net gains on debt and equity securities in the first half of 2015 compared with the same period a year ago was primarily due to lower net gains from equity investments as our portfolio benefited from strong public and private equity markets in 2014.

All other income was $(285) million and $(144) million in the second quarter and first half of 2015, respectively, compared with $103 million and $86 million for the same periods a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, the results of certain economic hedges, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity method of accounting, any of which can cause decreases and net losses in other income. The decrease in other income for the second quarter and first half of 2015, compared with the same periods a year ago, primarily reflected changes in ineffectiveness recognized on interest rate swaps used to hedge our exposure to interest rate risk on long-term debt and cross-currency swaps,

cross-currency interest rate swaps and forward contracts used to hedge our exposure to foreign currency risk and interest rate risk involving non-U.S. dollar denominated long-term debt. A portion of the ineffectiveness recognized was partially offset by benefits from certain economic hedges. The ineffective portion recognized on our fair value hedges was $(287) million and $(114) million in the second quarter and first half of 2015, respectively, compared with $104 million and $224 million for the same periods a year ago. For additional information about derivatives used as part of our asset/liability management, see Note 12 (Derivatives) to Financial Statements in this Report.

Noninterest Expense

Table 3: Noninterest Expense

	Quarter ended June 30,		%	Six months ended June 30,		%
(in millions)	2015	2014	Change	2015	2014	Change
Salaries	$3,936	3,795	4 %	$7,787	7,523	4 %
Commission and incentive compensation	2,606	2,445	7	5,291	4,861	9
Employee benefits	1,106	1,170	(5)	2,583	2,542	2
Equipment	470	445	6	964	935	3
Net occupancy	710	722	(2)	1,433	1,464	(2)
Core deposit and other intangibles	312	349	(11)	624	690	(10)
FDIC and other deposit assessments	222	225	(1)	470	468	—
Outside professional services	627	646	(3)	1,175	1,205	(2)
Operating losses	521	364	43	816	523	56
Outside data processing	269	259	4	522	500	4
Contract services	238	249	(4)	463	483	(4)
Travel and entertainment	172	243	(29)	330	462	(29)
Postage, stationery and supplies	180	170	6	351	361	(3)
Advertising and promotion	169	187	(10)	287	305	(6)
Foreclosed assets	117	130	(10)	252	262	(4)
Telecommunications	113	111	2	224	225	—
Insurance	156	140	11	296	265	12
Operating leases	64	54	19	126	104	21
All other	481	490	(2)	982	964	2
Total	$12,469	12,194	2	$24,976	24,142	3

Noninterest expense was $12.5 billion in second quarter 2015, up 2% from $12.2 billion a year ago, predominantly due to higher personnel expenses ($7.6 billion, up from $7.4 billion a year ago) and higher operating losses ($521 million, up from $364 million a year ago), partially offset by lower travel and entertainment expense ($172 million, down from $243 million a year ago). For the first half of 2015, noninterest expense was up 3% from the same period a year ago predominantly due to higher personnel expenses ($15.7 billion, up from $14.9 billion a year ago) and higher operating losses ($816 million, up from $523 million a year ago), partially offset by lower travel and entertainment expense ($330 million, down from $462 million a year ago).

Personnel expenses, which include salaries, commissions, incentive compensation and employee benefits, were up $238 million, or 3%, in second quarter 2015 compared with the same quarter last year, and up $735 million, or 5%, for the first half of 2015 compared with the same period in 2014. The increase in both periods was predominantly due to higher revenue-related compensation, annual salary increases and staffing growth across various businesses. These increases were partially offset by lower deferred compensation (offset in trading revenue).

Operating losses were up 43% and 56% in the second quarter and first half of 2015, respectively, compared with the same periods a year ago. The increase for both periods was predominantly due to litigation accruals for various legal matters.

Travel and entertainment expense was down 29% in both the second quarter and first half of 2015, compared with the same periods a year ago, primarily driven by travel expense reduction initiatives.

In general, our noninterest expense continued to reflect ongoing investments in our risk management infrastructure to meet increased regulatory and compliance requirements as well as to address evolving cybersecurity risk.

The efficiency ratio was 58.5% in second quarter 2015, compared with 57.9% in the prior year. The Company expects to operate within its targeted efficiency ratio range of 55 to 59% for full year 2015.

Earnings Performance (continued)

Income Tax Expense

Our effective tax rate was 32.6% and 33.4% for second quarter 2015 and 2014, respectively. Our effective tax rate was 30.4% in the first half of 2015, down from 30.7% in the first half of 2014. The effective tax rates for the first half of 2015 and 2014 reflected $359 million and $423 million, respectively, of discrete tax benefits recognized in the first quarter of each period primarily from reductions in reserves for uncertain tax positions due to audit resolutions of prior period matters with U.S. federal and state taxing authorities.

Operating Segment Results

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles (GAAP). Table 4 and the following discussion present our results by operating segment. For additional description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results – Highlights

(income/expense in millions,	Community Banking		Wholesale Banking		Wealth, Brokerage and Retirement		Other (1)		Consolidated Company	
average balances in billions)	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Quarter ended June 30,										
Revenue	$12,661	12,606	6,083	5,946	3,739	3,550	(1,165)	(1,036)	21,318	21,066
Provision (reversal of provision) for credit losses	363	279	(58)	(49)	(10)	(25)	5	12	300	217
Noninterest expense	7,164	7,020	3,295	3,203	2,775	2,695	(765)	(724)	12,469	12,194
Net income	3,358	3,431	2,011	1,952	602	544	(252)	(201)	5,719	5,726
Average loans	$506.5	505.4	343.6	308.1	59.3	51.0	(39.0)	(33.5)	870.4	831.0
Average core deposits	685.7	639.8	304.2	265.8	159.4	153.0	(70.1)	(66.9)	1,079.2	991.7
Six months ended June 30,										
Revenue	$25,445	25,199	11,995	11,526	7,472	7,018	(2,316)	(2,052)	42,596	41,691
Provision (reversal of provision) for credit losses	980	698	(64)	(142)	(13)	(33)	5	19	908	542
Noninterest expense	14,228	13,794	6,704	6,418	5,606	5,406	(1,562)	(1,476)	24,976	24,142
Net income (loss)	7,023	7,275	3,808	3,694	1,163	1,019	(471)	(369)	11,523	11,619
Average loans	$506.5	505.2	340.6	305.0	58.1	50.5	(38.3)	(33.3)	866.9	827.4
Average core deposits	677.3	633.2	303.8	262.4	160.4	154.5	(70.3)	(67.3)	1,071.2	982.8

(1) Includes corporate items not specific to a business segment and the elimination of certain items that are included in more than one business segment, substantially all of which represents products and services for wealth management customers provided in Community Banking stores.

Cross-sell Our cross-sell strategy is to increase the number of products our customers use by offering them all of the financial products that satisfy their financial needs. Our approach is needs-based as some customers will benefit from more products, and some may need fewer. We believe there is continued opportunity to earn more business from our customers as we build lifelong relationships with them. We track our cross-sell activities based on whether the customer is a retail banking household or has a wholesale banking relationship. For additional information regarding our cross-sell metrics, see the "Earnings Performance – Operating Segments – Cross-sell" section in our 2014 Form 10-K.

Operating Segment Results
The following discussion provides a description of each of our operating segments, including cross-sell metrics and financial results.

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including checking and savings accounts, credit and debit cards, and auto, student, and small business lending. These products also include investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C. The Community Banking segment also includes the results of our Corporate Treasury activities net of allocations in support of the other operating segments and results of investments in our affiliated venture capital partnerships. Our retail banking household cross-sell was 6.13 products per household in May 2015, compared with 6.17 in May 2014. The May 2015 retail banking household cross-sell ratio reflects the impact of the sale of government guaranteed student loans in fourth quarter 2014. Table 4a provides additional financial information for Community Banking.

Table 4a - Community Banking

(in millions, except average balances which are in billions)	Quarter ended June 30, 2015	2014	% Change	Six months ended June 30, 2015	2014	% Change
Net interest income	$7,698	7,386	4 %	$15,259	14,661	4 %
Noninterest income:						
Service charges on deposit accounts	832	866	(4)	1,604	1,683	(5)
Trust and investment fees:						
Brokerage advisory, commissions and other fees	523	447	17	1,029	880	17
Trust and investment management	209	195	7	423	394	7
Investment banking (1)	(24)	(39)	(38)	(60)	(46)	30
Total trust and investment fees	708	603	17	1,392	1,228	13
Card fees	859	783	10	1,661	1,504	10
Other fees	571	588	(3)	1,122	1,181	(5)
Mortgage banking	1,575	1,660	(5)	3,010	3,084	(2)
Insurance	32	32	—	63	64	(2)
Net gains (losses) from trading activities	(89)	84	(206)	(6)	120	(105)
Net gains on debt securities	68	11	518	274	21	NM
Net gains from equity investments (2)	323	319	1	613	1,074	(43)
Other income of the segment	84	274	(69)	453	579	(22)
Total noninterest income	4,963	5,220	(5)	10,186	10,538	(3)
Total revenue	12,661	12,606	—	25,445	25,199	1
Provision for credit losses	363	279	30	980	698	40
Noninterest expense:						
Personnel expense	4,404	4,271	3	8,952	8,530	5
Equipment	422	402	5	858	822	4
Net occupancy	520	535	(3)	1,054	1,090	(3)
Core deposit and other intangibles	145	156	(7)	291	314	(7)
FDIC and other deposit assessments	140	151	(7)	287	303	(5)
Outside professional services	267	258	3	474	482	(2)
Operating losses	406	322	26	636	441	44
Other expense of the segment	860	925	(7)	1,676	1,812	(8)
Total noninterest expense	7,164	7,020	2	14,228	13,794	3
Income before income tax expense and noncontrolling interests	5,134	5,307	(3)	10,237	10,707	(4)
Income tax expense	1,707	1,820	(6)	3,071	3,196	(4)
Net income from noncontrolling interests (3)	69	56	23	143	236	(39)
Net income	$3,358	3,431	(2)	$7,023	7,275	(3)
Average loans	$506.5	505.4	—	$506.5	505.2	—
Average core deposits	685.7	639.8	7	677.3	633.2	7

NM - Not meaningful

(1) Represents syndication and underwriting fees paid to Wells Fargo Securities which are offset in our Wholesale Banking segment.

(2) Predominantly represents gains resulting from venture capital investments.

(3)

Reflects results attributable to noncontrolling interests primarily associated with the Company's consolidated merchant services joint venture and venture capital investments.

Community Banking reported net income of $3.4 billion, down $73 million, or 2%, from second quarter 2014, and $7 billion for the first half of 2015, down $252 million, or 3%, compared with the same period a year ago. Revenue of $12.7 billion increased $55 million, or 0.4%, from second quarter 2014, and was $25.4 billion for the first half of 2015, an increase of $246 million, or 1%, compared with the same period last year. The increase in revenue for both periods was due to higher net interest income, trust and investment fees, gains on sale of debt securities, and debit and credit card fees, partially offset by lower gains on equity investments and trading activities, and lower mortgage banking income. Average core deposits increased $45.9 billion, or 7%, from second quarter 2014 and $44.1 billion, or 7 %, from the first half of 2014. Primary consumer checking customers as of May 2015 (customers who actively use their

checking account with transactions such as debit card purchases, online bill payments, and direct deposit) were up 5.6% from May 2014. Noninterest expense increased 2% from second quarter 2014 and 3% from the first half of 2014 driven by higher personnel expenses and operating losses, partially offset by lower travel, occupancy, and other expenses. Net loan charge-offs decreased $97 million from second quarter 2014 and $269 million from the first half of 2014 primarily due to improvement in the consumer real estate portfolios. The provision for credit losses increased $84 million from second quarter 2014 and $282 million from the first half of 2014 as the improvement in net charge-offs was more than offset by a lower allowance release.

Earnings Performance (continued)

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $20 million. Products and business segments include Middle Market Commercial Banking, Government and Institutional Banking, Corporate Banking, Commercial Real Estate, Treasury Management, Wells Fargo Capital Finance, Insurance, International, Real Estate Capital Markets, Commercial Mortgage Servicing, Corporate Trust, Equipment

Finance, Wells Fargo Securities, Principal Investments, Asset Backed Finance, and Asset Management. Wholesale Banking cross-sell was 7.3 products per relationship in second quarter 2015, up from 7.2 in second quarter 2014. Table 4b provides additional financial information for Wholesale Banking.

Table 4b - Wholesale Banking

	Quarter ended June 30,			Six months ended June 30,		
(in millions, except average balances which are in billions)	2015	2014	% Change	2015	2014	% Change
Net interest income	$3,068	2,953	4 %	$5,989	5,844	2 %
Noninterest income:						
Service charges on deposit accounts	456	416	10	899	814	10
Trust and investment fees:						
Brokerage advisory, commissions and other fees	84	81	4	169	157	8
Trust and investment management	459	450	2	912	910	—
Investment banking	476	533	(11)	960	870	10
Total trust and investment fees	1,019	1,064	(4)	2,041	1,937	5
Card fees	70	64	9	139	126	10
Other fees	535	499	7	1,061	952	11
Mortgage banking	130	63	106	243	149	63
Insurance	368	379	(3)	712	740	(4)
Net gains from trading activities	224	234	(4)	507	594	(15)
Net gains on debt securities	112	59	90	173	128	35
Net gains from equity investments	187	127	47	264	215	23
Other income of the segment	(86)	88	(198)	(33)	27	(222)
Total noninterest income	3,015	2,993	1	6,006	5,682	6
Total revenue	6,083	5,946	2	11,995	11,526	4
Reversal of provision for credit losses	(58)	(49)	18	(64)	(142)	(55)
Noninterest expense:						
Personnel expense	1,828	1,702	7	3,779	3,492	8
Equipment	38	32	19	85	92	(8)
Net occupancy	114	111	3	227	222	2
Core deposit and other intangibles	85	105	(19)	170	201	(15)
FDIC and other deposit assessments	67	58	16	146	128	14
Outside professional services	254	274	(7)	490	517	(5)
Operating losses	48	29	66	85	48	77
Other expense of the segment	861	892	(3)	1,722	1,718	—
Total noninterest expense	3,295	3,203	3	6,704	6,418	4
	2,846	2,792	2	5,355	5,250	2

Income before income tax expense and noncontrolling interests						
Income tax expense	840	838	—	1,546	1,552	—
Net income from noncontrolling interests	(5)	2	(350)	1	4	(75)
Net income	$2,011	1,952	3	$3,808	3,694	3
Average loans	$343.6	308.1	12	$340.6	305.0	12
Average core deposits	304.2	265.8	14	303.8	262.4	16

Wholesale Banking had net income of $2.0 billion in second quarter 2015, up $59 million, or 3%, from second quarter 2014. In the first half of 2015, net income of $3.8 billion increased $114 million, or 3%, from the same period a year ago. The higher results for both second quarter and the first half of 2015 were driven by increased revenues which were partially offset by increased expenses. Revenue increased $137 million, or 2%, from second quarter 2014 and $469 million, or 4%, from the first half of 2014 on both increased net interest income and noninterest

income. Net interest income increased driven by loan growth, which included the GE Capital loan purchase and financing transaction, and other earning asset growth. Noninterest income increased primarily due to higher mortgage banking income driven by originations and sales of commercial mortgage loans, higher service charges on deposits as a result of increased treasury management fees, increased other fees related to higher commercial real estate brokerage commissions and higher gains on debt and equity investments.

Average loans of $343.6 billion in second quarter 2015 increased $35.5 billion, or 12%, from second quarter 2014, driven by broad based growth across most customer segments. Average core deposits of $304.2 billion increased $38.4 billion, or 14%, from second quarter 2014 reflecting continued customer liquidity. Noninterest expense increased 3% from second quarter 2014 and 4% from the first half of 2014, primarily due to higher personnel expenses related to growth initiatives, compliance, and regulatory requirements. The provision for credit losses remained in a net recovery position for the second quarter and first half of 2015 with the amount of reversal increasing $9 million from second quarter 2014 but decreasing $78 million from the first half of 2014 driven by lower net credit recoveries.

Wealth, Brokerage and Retirement provides a full range of financial advisory services to clients using a planning approach to meet each client's financial needs. Wealth Management provides

affluent and high net worth clients with a complete range of wealth management solutions, including financial planning, private banking, credit, investment management and fiduciary services. Abbot Downing, a Wells Fargo business, provides comprehensive wealth management services to ultra-high net worth families and individuals as well as endowments and foundations. Brokerage serves customers' advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the United States. Retirement is a national leader in providing retirement and trust services (including 401(k) and pension plan record keeping) for institutional clients and reinsurance services for the life insurance industry. Wealth, Brokerage and Retirement cross-sell was 10.53 products per retail banking household in May 2015, up from 10.44 a year ago. Table 4c provides additional financial information for Wealth, Brokerage and Retirement.

Table 4c - Wealth, Brokerage and Retirement

	Quarter ended June 30,			Six months ended June 30,		
(in millions, except average balances which are in billions)	2015	2014	% Change	2015	2014	% Change
Net interest income	$865	775	12 %	$1,726	1,543	12 %
Noninterest income:						
Service charges on deposit accounts	6	5	20	10	9	11
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,316	2,199	5	4,610	4,363	6
Trust and investment management	409	396	3	816	788	4
Investment banking (1)	(2)	(3)	(33)	(5)	(6)	(17)
Total trust and investment fees	2,723	2,592	5	5,421	5,145	5
Card fees	1	1	—	2	2	—
Other fees	4	5	(20)	8	9	(11)
Mortgage banking	(1)	—	NM	(3)	(1)	200
Insurance	61	42	45	116	81	43
Net gains from trading activities	(2)	64	(103)	40	100	(60)
Net gains on debt securities	1	1	—	12	5	140
Net gains from equity investments	7	3	133	10	7	43
Other income of the segment	74	62	19	130	118	10
Total noninterest income	2,874	2,775	4	5,746	5,475	5
Total revenue	3,739	3,550	5	7,472	7,018	6
Reversal of provision for credit losses	(10)	(25)	(60)	(13)	(33)	(61)

Noninterest expense:						
Personnel expense	1,831	1,813	1	3,763	3,660	3
Equipment	11	13	(15)	23	24	(4)
Net occupancy	105	103	2	210	206	2
Core deposit and other intangibles	82	88	(7)	163	175	(7)
FDIC and other deposit assessments	26	28	(7)	63	63	—
Outside professional services	114	122	(7)	226	222	2
Operating losses	69	14	393	99	38	161
Other expense of the segment	537	514	4	1,059	1,018	4
Total noninterest expense	2,775	2,695	3	5,606	5,406	4
Income before income tax expense and noncontrolling interests	974	880	11	1,879	1,645	14
Income tax expense	369	334	10	713	624	14
Net income from noncontrolling interests	3	2	50	3	2	50
Net income	$602	544	11	$1,163	1,019	14
Average loans	$59.3	51.0	16	$58.1	50.5	15
Average core deposits	159.4	153.0	4	160.4	154.5	4

NM - Not meaningful

(1) Represents syndication and underwriting fees paid to Wells Fargo Securities which are offset in our Wholesale Banking segment.

Earnings Performance (continued)

Wealth, Brokerage and Retirement reported net income of $602 million in second quarter 2015, up 11% from second quarter 2014. Net income for the first half of 2015 was $1.2 billion, up 14% compared with the same period a year ago. Growth in net income for both periods was driven by revenue growth. Revenue was up 5% from second quarter 2014 and up 6% from the first half of 2014, primarily due to higher asset-based fees and net interest income. Average loans in second quarter 2015 of $59.3 billion were up 16% from second quarter 2014. First half 2015 average loans increased 15% from the same period a year ago. Average loan growth was driven by growth in non-conforming mortgages, commercial and security-based lending. Average core deposits in second quarter 2015 of $159.4 billion were up 4% from second quarter 2014. First half 2015 average core deposits increased 4% from the same period a year ago. Noninterest expense was up 3% from second quarter 2014 and up 4% from the first half of 2014 largely due to increased personnel expenses, largely broker commissions, and higher operating losses reflecting increased litigation accruals. Total provision for credit losses increased $15 million and $20 million from the second quarter and first half of 2014, respectively, driven primarily by lower allowance releases.

Balance Sheet Analysis

At June 30, 2015, our assets totaled $1.7 trillion, up $33.5 billion from December 31, 2014. The predominant areas of asset growth were in investment securities, which increased $27.8 billion, loans, which increased $25.9 billion (including $11.5 billion from the GE Capital loan purchase and financing transaction) and mortgages held for sale, which increased $5.9 billion. A decrease in federal funds sold and other short-term investments of $26.2 billion combined with deposit growth of $17.5 billion, an increase in short-term borrowings of $19.4 billion, and total equity growth of $5.4 billion from December 31, 2014, were the

predominant sources that funded our asset growth in the first half of 2015. Equity growth benefited from $7.1 billion in earnings net of dividends paid.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and changes in our asset mix is included in the “Earnings Performance – Net Interest Income” and “Capital Management” sections and Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

Investment Securities

Table 5: Investment Securities – Summary

	June 30, 2015			December 31, 2014		
(in millions)	Amortized Cost	Net unrealized gain	Fair value	Amortized Cost	Net unrealized gain	Fair value
Available-for-sale securities:						
Debt securities	$253,785	4,395	258,180	247,747	6,019	253,766
Marketable equity securities	1,145	1,342	2,487	1,906	1,770	3,676
Total available-for-sale securities	254,930	5,737	260,667	249,653	7,789	257,442
Held-to-maturity debt securities	80,102	213	80,315	55,483	876	56,359
Total investment securities (1)	$335,032	5,950	340,982	305,136	8,665	313,801

(1) Available-for-sale securities are carried on the balance sheet at fair value. Held-to-maturity securities are carried on the balance sheet at amortized cost.

Table 5 presents a summary of our investment securities portfolio, which increased $27.8 billion from December 31, 2014, predominantly due to purchases of U.S. Treasury securities and Federal agency mortgage-backed securities. The total net unrealized gains on available-for-sale securities were $5.7 billion at June 30, 2015, down from $7.8 billion at December 31, 2014, due primarily to an increase in interest rates. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section of our 2014 Form 10-K. Also, see the “Risk Management - Asset/Liability Management” section in this Report for information on our use of investments to manage liquidity and interest rate risk.

We analyze securities for other-than-temporary impairment (OTTI) quarterly or more often if a potential loss-triggering event occurs. Of the $169 million in OTTI write-downs recognized in earnings in the first half of 2015, $51 million related to debt securities and $117 million related to nonmarketable equity investments, which are included in other assets. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2014 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At June 30, 2015, investment securities included $50.5 billion of municipal bonds, of which 93.0% were rated “A-” or better based predominantly on external and, in some cases, internal ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are substantially all investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer’s guarantee in making the investment decision. The credit quality of our

municipal bond holdings are monitored as part of our ongoing impairment analysis.

The weighted-average expected maturity of debt securities available-for-sale was 6.6 years at June 30, 2015. Because 48% of this portfolio is MBS, the expected remaining maturity is shorter than the remaining contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effects of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available-for-sale portfolio are shown in Table 6.

Table 6: Mortgage-Backed Securities Available-for-Sale

(in billions)	Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At June 30, 2015			
Actual	$123.8	2.8	4.9
Assuming a 200 basis point:			
Increase in interest rates	112.8	(8.2)	6.7
Decrease in interest rates	128.3	7.3	2.6

The weighted-average expected maturity of debt securities held-to-maturity was 6.5 years at June 30, 2015. See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

Balance Sheet Analysis (continued)

Loan Portfolio

Total loans were $888.5 billion at June 30, 2015, up $25.9 billion from December 31, 2014. Table 7 provides a summary of total outstanding loans by core and non-strategic/liquidating loan portfolios. Loans in the core portfolio grew $30.3 billion from December 31, 2014, primarily due to growth in commercial and industrial and real estate construction loans within the

commercial loan portfolio segment, which included the GE Capital loan purchase and associated financing transaction announced in first quarter 2015. Non-strategic/liquidating portfolios decreased by $4.4 billion. Additional information on the non-strategic and liquidating loan portfolios is included in Table 12 in the “Risk Management – Credit Risk Management” section in this Report.

Table 7: Loan Portfolios

	June 30, 2015			December 31, 2014		
(in millions)	Core	Liquidating	Total	Core	Liquidating	Total
Commercial	$437,430	592	438,022	413,701	1,125	414,826
Consumer	394,670	55,767	450,437	388,062	59,663	447,725
Total loans	$832,100	56,359	888,459	801,763	60,788	862,551
Change from prior year-end	$30,337	(4,429)	25,908	60,343	(20,078)	40,265

A discussion of average loan balances and a comparative detail of average loan balances is included in Table 1 under “Earnings Performance – Net Interest Income” earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the “Risk Management – Credit Risk Management” section in this Report. Period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 8 shows contractual loan maturities for loan categories normally not subject to regular periodic principal reduction and the contractual distribution of loans in those categories to changes in interest rates.

Table 8: Maturities for Selected Commercial Loan Categories

	June 30, 2015				December 31, 2014			
(in millions)	Within one year	After one year through five years	After five years	Total	Within one year	After one year through five years	After five years	Total
Selected loan maturities:								
Commercial and industrial	$79,986	182,824	22,007	284,817	76,216	172,801	22,778	271,795
Real estate mortgage	17,980	65,933	35,782	119,695	17,485	61,092	33,419	111,996
Real estate construction	6,981	12,939	1,389	21,309	6,079	11,312	1,337	18,728
Total selected loans	$104,947	261,696	59,178	425,821	99,780	245,205	57,534	402,519
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$18,523	27,268	22,001	67,792	15,574	25,429	20,002	61,005
Loans at floating/variable interest rates	86,424	234,428	37,177	358,029	84,206	219,776	37,532	341,514
Total selected loans	$104,947	261,696	59,178	425,821	99,780	245,205	57,534	402,519

Deposits

Deposits totaled $1.2 trillion at both June 30, 2015, and December 31, 2014. Table 9 provides additional information regarding deposits. Deposit growth of $17.5 billion from December 31, 2014, reflected continued customer-driven growth as well as liquidity-related issuances of term deposits. Information regarding the impact of deposits on net interest

income and a comparison of average deposit balances is provided in “Earnings Performance – Net Interest Income” and Table 1 earlier in this Report. Total core deposits were $1.1 trillion at June 30, 2015, up $28.3 billion from December 31, 2014.

Table 9: Deposits

($ in millions)	Jun 30, 2015	% of total deposits		Dec 31, 2014	% of total deposits		% % Change	
Noninterest-bearing	$343,581	28	%	$321,962	27	%	7	
Interest-bearing checking	42,950	4		41,713	4		3	
Market rate and other savings	597,865	50		585,530	50		2	
Savings certificates	31,500	3		35,354	3		(11	)
Foreign deposits (1)	66,738	6		69,789	6		(4	)
Core deposits	1,082,634	91		1,054,348	90		3	
Other time and savings deposits	68,110	6		76,322	7		(11	)
Other foreign deposits	35,084	3		37,640	3		(7	)
Total deposits	$1,185,828	100	%	$1,168,310	100	%	1	

(1) Reflects Eurodollar sweep balances included in core deposits.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2014 Form 10-K for a description of our critical accounting policy related to fair value of financial instruments and a discussion of our fair value measurement techniques.

Table 10 presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs (excluding derivative netting adjustments). The fair value of the remaining assets and liabilities were measured using valuation methodologies involving market-based or market-derived information (collectively Level 1 and 2 measurements).

Table 10: Fair Value Level 3 Summary

	June 30, 2015			December 31, 2014	
($ in billions)	Total balance		Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$386.7		29.9	378.1	32.3
As a percentage of total assets	22	%	2	22	2
Liabilities carried at fair value	$30.6		2.0	34.9	2.3
As a percentage of total liabilities	2	%	*	2	*

* Less than 1%.

(1) Excludes derivative netting adjustments.

See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information on fair value measurements and a description of the Level 1, 2 and 3 fair value hierarchy.

Equity

Total equity was $190.7 billion at June 30, 2015 compared with $185.3 billion at December 31, 2014. The increase was predominantly driven by a $7.1 billion increase in retained earnings from earnings net of dividends paid, and a $2.4 billion increase in preferred stock, partially offset by a net reduction in common stock due to repurchases.

Off-Balance Sheet Arrangements

In the ordinary course of business, we engage in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements include commitments to lend and purchase securities, transactions with unconsolidated entities, guarantees, derivatives, and other commitments. These transactions are designed to (1) meet the financial needs of customers, (2) manage our credit, market or liquidity risks, and/or (3) diversify our funding sources.

Commitments to Lend and Purchase Securities

We enter into commitments to lend funds to customers, which are usually at a stated interest rate, if funded, and for specific purposes and time periods. When we make commitments, we are exposed to credit risk. However, the maximum credit risk for these commitments will generally be lower than the contractual amount because a portion of these commitments are expected to expire without being used by the customer. For more information on lending commitments, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report. We also enter into commitments to purchase securities under resale agreements. For more information on commitments to purchase securities under resale agreements, see Note 3 (Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments) to Financial Statements in this Report.

Transactions with Unconsolidated Entities

We routinely enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts or partnerships that are established for a limited purpose. Generally, SPEs are formed in connection with securitization transactions. For more information on securitizations, including sales proceeds and cash flows from securitizations, see Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

Guarantees and Certain Contingent Arrangements

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of standby letters of credit, securities lending and other indemnifications, written put options, recourse obligations and other types of guarantee arrangements.

For more information on guarantees and certain contingent arrangements, see Note 10 (Guarantees, Pledged Assets and Collateral) to Financial Statements in this Report.

Derivatives

We primarily use derivatives to manage exposure to market risk, including interest rate risk, credit risk and foreign currency risk, and to assist customers with their risk management objectives. Derivatives are recorded on the balance sheet at fair value and volume can be measured in terms of the notional amount, which is generally not exchanged, but is used only as the basis on which interest and other payments are determined. The notional amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments.

For more information on derivatives, see Note 12 (Derivatives) to Financial Statements in this Report.

Other Commitments

We also have other off-balance sheet transactions, including obligations to make rental payments under noncancelable operating leases and commitments to purchase certain debt and equity securities. Our operating lease obligations are discussed in Note 7 (Premises, Equipment, Lease Commitments and Other Assets) to Financial Statements in our 2014 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements” section in our 2014 Form 10-K.

Risk Management

Financial institutions must manage a variety of business risks that can significantly affect their financial performance. Among the key risks that we must manage are operational risks, credit risks, and asset/liability management risks, which include interest rate, market, and liquidity and funding risks. Our risk culture is strongly rooted in our Vision and Values, and in order to succeed in our mission of satisfying our customers' financial needs and helping them succeed financially, our business practices and operating model must support prudent risk management practices. For more information about how we manage these risks, see the "Risk Management" section in our 2014 Form 10-K. The discussion that follows provides an update regarding these risks.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal controls and processes, people and systems, or resulting from external events. These losses may be caused by events such as fraud, breaches of customer privacy, business disruptions, inappropriate employee behavior, vendors that do not perform their responsibilities and regulatory fines and penalties.

Information security is a significant operational risk for financial institutions such as Wells Fargo, and includes the risk of losses resulting from cyber attacks. Wells Fargo and other financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. Wells Fargo has not experienced any material losses relating to these or other cyber attacks. Addressing cybersecurity risks is a priority for Wells Fargo, and we continue to develop and enhance our controls, processes and systems in order to protect our networks, computers, software and data from attack, damage or unauthorized access. We are also proactively involved in industry cybersecurity efforts and working with other parties, including our third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cybersecurity threats. See the "Risk Factors" section in our 2014 Form 10-K for additional information regarding the risks associated with a failure or breach of our operational or security systems or infrastructure, including as a result of cyber attacks.

Credit Risk Management

We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk exists with many of our assets and exposures such as debt security holdings, certain derivatives, and loans. The following discussion focuses on our loan portfolios, which represent the largest component of assets on our balance sheet for which we have credit risk. Table 11 presents our total loans outstanding by portfolio segment and class of financing receivable.

Table 11: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable

(in millions)	Jun 30, 2015	Dec 31, 2014
Commercial:		
Commercial and industrial	$284,817	271,795
Real estate mortgage	119,695	111,996
Real estate construction	21,309	18,728
Lease financing	12,201	12,307
Total commercial	438,022	414,826
Consumer:		
Real estate 1-4 family first mortgage	267,868	265,386
Real estate 1-4 family junior lien mortgage	56,164	59,717
Credit card	31,135	31,119
Automobile	57,801	55,740
Other revolving credit and installment	37,469	35,763
Total consumer	450,437	447,725
Total loans	$888,459	862,551

We manage our credit risk by establishing what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our existing loan portfolios. We employ various credit risk management and monitoring activities to mitigate risks associated with multiple risk factors affecting loans we hold, could acquire or originate including:

- Loan concentrations and related credit quality
- Counterparty credit risk
- Economic and market conditions
- Legislative or regulatory mandates
- Changes in interest rates
- Merger and acquisition activities
- Reputation risk

Our credit risk management oversight process is governed centrally, but provides for decentralized management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, disciplined credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process.

A key to our credit risk management is adherence to a well-controlled underwriting process, which we believe is appropriate for the needs of our customers as well as investors who purchase the loans or securities collateralized by the loans.

Risk Management - Credit Risk Management (continued)

Credit Quality Overview Credit quality continued to improve during second quarter 2015 due in part to improving economic conditions, in particular the housing market, as well as our proactive credit risk management activities. In particular:

- Although commercial nonaccrual loans increased to $2.5 billion at June 30, 2015, compared with $2.2 billion at December 31, 2014, consumer nonaccrual loans declined to $9.9 billion at June 30, 2015, compared with $10.6 billion at December 31, 2014. The increase in commercial nonaccrual loans was primarily driven by deterioration in the oil and gas portfolio, and the decrease in consumer nonaccrual loans was primarily driven by credit improvement in real estate 1-4 family first mortgage loans. Nonaccrual loans represented 1.40% of total loans at June 30, 2015, compared with 1.49% at December 31, 2014.
- Net charge-offs (annualized) as a percentage of average total loans improved to 0.30% and 0.32% in the second quarter and first half of 2015, respectively, compared with 0.35% and 0.38% respectively, for the same periods a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.06% and 0.53% in second quarter and 0.05% and 0.56% in the first half of 2015, respectively, compared with 0.03% and 0.62%, respectively, in second quarter, and 0.02% and 0.68%, respectively, in the first half of 2014.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $27 million and $729 million in our commercial and consumer portfolios, respectively, at June 30, 2015, compared with $47 million and $873 million at December 31, 2014.

Various economic indicators such as home prices influenced our evaluation of the allowance and provision for credit losses. Accordingly:

- Our provision for credit losses was $300 million in second quarter 2015 and $908 million during the first half of 2015, compared with $217 million and $542 million, respectively, for the same periods a year ago.
- The allowance for credit losses decreased to $12.6 billion, or 1.42% of total loans, at June 30, 2015 from $13.2 billion, or 1.53%, at December 31, 2014.

Additional information on our loan portfolios and our credit quality trends follows.

Non-Strategic and Liquidating Loan Portfolios We continually evaluate and, when appropriate, modify our credit policies to address appropriate levels of risk. We may designate certain portfolios and loan products as non-strategic or liquidating after which we cease their continued origination and actively work to limit losses and reduce our exposures.

Table 12 identifies our non-strategic and liquidating loan portfolios. They consist primarily of the Pick-a-Pay mortgage portfolio and PCI loans acquired from Wachovia, certain portfolios from legacy Wells Fargo Home Equity and Wells Fargo Financial, and our Education Finance government guaranteed student loan portfolio. The total balance of our non-strategic and liquidating loan portfolios has decreased 70% since the merger with Wachovia at December 31, 2008, and decreased 7% from the end of 2014.

Additional information regarding the liquidating PCI and Pick-a-Pay loan portfolios is provided in the discussion of loan portfolios that follows.

Table 12: Non-Strategic and Liquidating Loan Portfolios

	Outstanding balance		
	June 30,	December 31,	
(in millions)	2015	2014	2008
Commercial:			
Legacy Wachovia commercial and industrial and commercial real estate PCI loans (1)	$592	1,125	18,704
Total commercial	592	1,125	18,704

Consumer:			
Pick-a-Pay mortgage (1)(2)	42,222	45,002	95,315
Legacy Wells Fargo Financial debt consolidation (3)	10,702	11,417	25,299
Liquidating home equity	2,566	2,910	10,309
Legacy Wachovia other PCI loans (1)	262	300	2,478
Legacy Wells Fargo Financial indirect auto (3)	15	34	18,221
Education Finance - government insured	—	—	20,465
Total consumer	55,767	59,663	172,087
Total non-strategic and liquidating loan portfolios	$56,359	60,788	190,791

(1) Net of purchase accounting adjustments related to PCI loans.

(2) Includes PCI loans of $20.4 billion, $21.5 billion and $37.6 billion at June 30, 2015, and December 31, 2014 and 2008, respectively.

(3) When we refer to “legacy Wells Fargo”, we mean Wells Fargo excluding Wachovia Corporation (Wachovia).

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are PCI loans. A nonaccretable difference is established for PCI loans to absorb losses expected on the contractual amounts of those loans in excess of the fair value recorded at the date of acquisition. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. The carrying value of PCI loans totaled $21.6 billion at June 30, 2015, down from $23.3 billion and $58.8 billion at December 31, 2014 and December 31, 2008, respectively, and $3.0 billion in nonaccretable difference remains at June 30, 2015, to absorb losses on PCI loans. Such loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

Since December 31, 2008, we have released over $10.6 billion in nonaccretable difference, including $8.6 billion transferred from the nonaccretable difference to the accretable yield and $2.0 billion released to income through loan resolutions. Also, we have provided $1.7 billion for losses on certain PCI loans or pools of PCI loans that have had credit-related decreases to cash flows expected to be collected. Through June 30, 2015, cumulative losses on PCI loans were $8.9 billion lower than our December 31, 2008 initial expectation of $41.0 billion.

For additional information on PCI loans, see the “Risk Management - Credit Risk Management - Purchased Credit-Impaired Loans” section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2014 Form 10-K, and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Risk Management - Credit Risk Management (continued)

Significant Loan Portfolio Reviews Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, FICO scores, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of credit risk. Our credit risk monitoring process is designed to enable early identification of developing risk and to support our determination of an appropriate allowance for credit losses. The following discussion provides additional characteristics and analysis of our significant portfolios. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for more analysis and credit metric information for each of the following portfolios.

COMMERCIAL AND INDUSTRIAL LOANS AND LEASE FINANCING For purposes of portfolio risk management, we aggregate commercial and industrial loans and lease financing according to market segmentation and standard industry codes. We generally subject commercial and industrial loans and lease financing to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard, doubtful and loss categories.

The commercial and industrial loans and lease financing portfolio totaled $297.0 billion, or 33% of total loans, at June 30, 2015. The annualized net charge-off rate for this portfolio was 0.11% and 0.10% in the second quarter and first half of 2015, respectively, compared with 0.10% and 0.09% in for the same periods a year ago. At June 30, 2015, 0.37% of this portfolio was nonaccruing, compared with 0.20% at December 31, 2014. In addition, $16.5 billion of this portfolio was rated as criticized in accordance with regulatory guidance at June 30, 2015, compared with $16.7 billion at December 31, 2014.

A majority of our commercial and industrial loans and lease financing portfolio is secured by short-term assets, such as accounts receivable, inventory and securities, as well as long-lived assets, such as equipment and other business assets. Generally, the collateral securing this portfolio represents a secondary source of repayment.

Table 13 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $45.1 billion of foreign loans at June 30, 2015, that were reported in a separate foreign loan class in prior periods. Foreign loans totaled $13.6 billion within the investor category, $17.5 billion within the financial institutions category and $1.5 billion within the oil and gas category.

The investors category includes loans to special purpose vehicles (SPVs) formed by sponsoring entities to invest in financial assets backed predominantly by commercial and residential real estate or corporate cash flow, and are repaid from the asset cash flows or the sale of assets by the SPV. We limit loan amounts to a percentage of the value of the underlying assets, as determined by us, based primarily on analysis of underlying credit risk and other factors such as asset duration and ongoing performance.

We provide financial institutions with a variety of relationship focused products and services, including loans supporting short-term trade finance and working capital needs. The $17.5 billion of foreign loans in the financial institutions category were primarily originated by our Global Financial Institutions (GFI) business.

Slightly more than half of our oil and gas loans were to businesses in the exploration and production (E&P) sector. Most of these E&P loans are secured by oil and/or gas reserves and have underlying borrowing base arrangements which include regular (typically semi-annual) “redeterminations” that consider refinements to borrowing structure and prices used to determine borrowing limits. All other oil and gas loans were to midstream and services and equipment companies. Driven by a drop in energy prices and the results of our spring redeterminations, our oil and gas nonaccrual loans increased to $508 million at June 30, 2015, compared with $76 million at December 31, 2014.

Table 13: Commercial and Industrial Loans and Lease Financing by Industry (1)

	June 30, 2015				
(in millions)	Nonaccrual loans	Total portfolio	(2)	% of total loans	
Investors	$27	46,858		5	%
Financial institutions	62	35,635		4	

Oil and gas	508	17,378		2	
Cyclical retailers	18	14,788		2	
Food and beverage	16	14,709		2	
Healthcare	32	14,311		2	
Industrial equipment	20	14,109		1	
Real estate lessor	3	13,296		1	
Public administration	9	8,400		1	
Technology	32	8,347		1	
Transportation	42	7,969		1	
Business services	23	6,977		1	
Other	315	94,241	(3)	10	
Total	$1,107	297,018		33	%

(1) Industry categories are based on the North American Industry Classification System and the amounts reported include foreign loans. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for a breakout of commercial foreign loans.

(2) Includes $86 million of PCI loans, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(3) No other single industry had total loans in excess of $6.1 billion.

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $9.5 billion of foreign CRE loans, totaled $141.0 billion, or 16%, of total loans at June 30, 2015, and consisted of $119.7 billion of mortgage loans and $21.3 billion of construction loans.
During second quarter 2015, we closed $11.5 billion in loans under agreements announced on April 10, 2015, to purchase commercial real estate loans from GE Capital and provide financing to Blackstone Mortgage Trust for its purchase of a GE Capital commercial mortgage portfolio. We expect the remaining balance of approximately $400 million of loans under these agreements to close in third quarter 2015. The loans purchased from GE Capital were recorded at fair value, which reflected a lifetime credit loss adjustment and therefore did not initially require additions to the allowance as would typically be

associated with commercial loan growth.
Table 14 summarizes CRE loans by state and property type with the related nonaccrual totals. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of combined CRE loans are in California and Texas which represented 27% and 8% of the total CRE portfolio, respectively. By property type, the largest concentrations are office buildings at 27% and apartments at 15% of the portfolio. CRE nonaccrual loans totaled 1.0% of the CRE outstanding balance at June 30, 2015, compared with 1.3% at December 31, 2014. At June 30, 2015, we had $8.1 billion of criticized CRE mortgage loans, compared with $7.9 billion at December 31, 2014, and $842 million of criticized CRE construction loans, down from $949 million at December 31, 2014.
At June 30, 2015, the recorded investment in PCI CRE loans totaled $787 million, down from $12.3 billion when acquired at December 31, 2008, reflecting principal payments, loan resolutions and write-downs.

Table 14: CRE Loans by State and Property Type

	June 30, 2015									
	Real estate mortgage			Real estate construction			Total			
(in millions)	Nonaccrual loans	Total portfolio	(1)	Nonaccrual loans	Total portfolio	(1)	Nonaccrual loans	Total portfolio	(1)	% of total loans
By state:										
California	$296	34,066		9	3,983		305	38,049		4 %
Texas	83	8,982		1	2,060		84	11,042		1
Florida	144	8,035		4	1,955		148	9,990		1
New York	33	7,334		14	1,779		47	9,113		1
North Carolina	77	3,940		7	842		84	4,782		1
Arizona	55	3,726		1	502		56	4,228		*
Washington	32	3,433		—	784		32	4,217		*
Georgia	104	3,516		21	478		125	3,994		*
Illinois	4	3,260		1	332		5	3,592		*
Virginia	15	2,464		3	912		18	3,376		*
Other	407	40,939		104	7,682		511	48,621	(2)	5
Total	$1,250	119,695		165	21,309		1,415	141,004		16 %
By property:										
Office buildings	$333	35,790		—	2,870		333	38,660		4 %
Apartments	46	13,756		—	7,347		46	21,103		2
Industrial/warehouse	223									