WELLS FARGO & COMPANY/MN
Form 10-Q
August 03, 2016

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, 2016

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 29, 2016 |
|---|---|
| Common stock, $1-2/3 par value | 5,045,547,142 |

FORM 10-Q
CROSS-REFERENCE INDEX


| PART I | Financial Information | |
|---|---|---|
| Item 1. | Financial Statements | Page |
| | Consolidated Statement of Income | 65 |
| | Consolidated Statement of Comprehensive Income | 66 |
| | Consolidated Balance Sheet | 67 |
| | Consolidated Statement of Changes in Equity | 68 |
| | Consolidated Statement of Cash Flows | 70 |
| | Notes to Financial Statements | |
| | 1 — Summary of Significant Accounting Policies | 71 |
| | 2 — Business Combinations | 73 |
| | 3 — Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments | 73 |
| | 4 — Investment Securities | 74 |
| | 5 — Loans and Allowance for Credit Losses | 81 |
| | 6 — Other Assets | 98 |
| | 7 — Securitizations and Variable Interest Entities | 99 |
| | 8 — Mortgage Banking Activities | 107 |
| | 9 — Intangible Assets | 110 |
| | 10 — Guarantees, Pledged Assets and Collateral | 111 |
| | 11 — Legal Actions | 115 |
| | 12 — Derivatives | 116 |
| | 13 — Fair Values of Assets and Liabilities | 123 |
| | 14 — Preferred Stock | 144 |
| | 15 — Employee Benefits | 147 |
| | 16 — Earnings Per Common Share | 148 |
| | 17 — Other Comprehensive Income | 149 |
| | 18 — Operating Segments | 151 |
| | 19 — Regulatory and Agency Capital Requirements | 152 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations (Financial Review) | |
| | Summary Financial Data | 2 |
| | Overview | 3 |
| | Earnings Performance | 4 |
| | Balance Sheet Analysis | 18 |
| | Off-Balance Sheet Arrangements | 21 |
| | Risk Management | 22 |
| | Capital Management | 53 |
| | Regulatory Reform | 60 |
| | Critical Accounting Policies | 60 |
| | Current Accounting Developments | 61 |
| | Forward-Looking Statements | 63 |
| | Risk Factors | 64 |
| | Glossary of Acronyms | 153 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 42 |
| Item 4. | Controls and Procedures | 64 |
| | | |
| PART II | Other Information | |

| | | |
|---|---|---|
| Item 1. | Legal Proceedings | 154 |
| Item 1A. | Risk Factors | 154 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 154 |
| Item 6. | Exhibits | 155 |
| Signature | | 155 |
| Exhibit Index | | 156 |

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

| | Quarter ended | | | % Change Jun 30, 2016 from | | Six months ended | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions, except per share amounts) | Jun 30, 2016 | Mar 31, 2016 | Jun 30, 2015 | Mar 31, 2016 | Jun 30, 2015 | Jun 30, 2016 | Jun 30, 2015 | % Change |
| For the Period | | | | | | | | |
| Wells Fargo net income | $5,558 | 5,462 | 5,719 | 2 % | (3 ) | $11,020 | 11,523 | (4 )% |
| Wells Fargo net income applicable to common stock | 5,173 | 5,085 | 5,363 | 2 | (4 ) | 10,258 | 10,824 | (5 ) |
| Diluted earnings per common share | 1.01 | 0.99 | 1.03 | 2 | (2 ) | 2.00 | 2.07 | (3 ) |
| Profitability ratios (annualized): | | | | | | | | |
| Wells Fargo net income to average assets (ROA) | 1.20 % | 1.21 | 1.33 | (1 ) | (10 ) | 1.20 % | 1.35 | (11 ) |
| Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE) | 11.70 | 11.75 | 12.71 | — | (8 ) | 11.72 | 12.94 | (9 ) |
| Return on average tangible common equity (ROTCE) (1) | 14.15 | 14.15 | 15.32 | — | (8 ) | 14.15 | 15.61 | (9 ) |
| Efficiency ratio (2) | 58.1 | 58.7 | 58.5 | (1 ) | (1 ) | 58.4 | 58.6 | — |
| Total revenue | $22,162 | 22,195 | 21,318 | — | 4 | $44,357 | 42,596 | 4 |
| Pre-tax pre-provision profit (PTPP) (3) | 9,296 | 9,167 | 8,849 | 1 | 5 | 18,463 | 17,620 | 5 |
| Dividends declared per common share | 0.380 | 0.375 | 0.375 | 1 | 1 | 0.755 | 0.725 | 4 |
| Average common shares outstanding | 5,066.9 | 5,075.7 | 5,151.9 | — | (2 ) | 5,071.3 | 5,156.1 | (2 ) |
| Diluted average common shares outstanding | 5,118.1 | 5,139.4 | 5,220.5 | — | (2 ) | 5,129.8 | 5,233.2 | (2 ) |
| Average loans | $950,751 | 927,220 | 870,446 | 3 | 9 | $938,986 | 866,873 | 8 |
| Average assets | 1,862,084 | 1,819,875 | 1,729,278 | 2 | 8 | 1,840,980 | 1,718,597 | 7 |
| Average total deposits | 1,236,658 | 1,219,430 | 1,185,304 | 1 | 4 | 1,228,044 | 1,180,077 | 4 |
| Average consumer and small business banking deposits (4) | 726,359 | 714,837 | 674,889 | 2 | 8 | 720,598 | 670,418 | 7 |
| Net interest margin | 2.86 % | 2.90 | 2.97 | (1 ) | (4 ) | 2.88 % | 2.96 | (3 ) |
| At Period End | | | | | | | | |
| Investment securities | $353,426 | 334,899 | 340,769 | 6 | 4 | $353,426 | 340,769 | 4 |
| Loans | 957,157 | 947,258 | 888,459 | 1 | 8 | 957,157 | 888,459 | 8 |
| | 11,664 | 11,621 | 11,754 | — | (1 ) | 11,664 | 11,754 | (1 ) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses | | | | | | | | |
| Goodwill | 26,963 | 27,003 | 25,705 | — | 5 | 26,963 | 25,705 | 5 |
| Assets | 1,889,235 | 1,849,182 | 1,720,617 | 2 | 10 | 1,889,235 | 1,720,617 | 10 |
| Deposits | 1,245,473 | 1,241,490 | 1,185,828 | — | 5 | 1,245,473 | 1,185,828 | 5 |
| Common stockholders' equity | 178,633 | 175,534 | 169,596 | 2 | 5 | 178,633 | 169,596 | 5 |
| Wells Fargo stockholders' equity | 201,745 | 197,496 | 189,558 | 2 | 6 | 201,745 | 189,558 | 6 |
| Total equity | 202,661 | 198,504 | 190,676 | 2 | 6 | 202,661 | 190,676 | 6 |
| Tangible common equity (1) | 148,110 | 144,679 | 140,520 | 2 | 5 | 148,110 | 140,520 | 5 |
| Capital ratios (5)(6): | | | | | | | | |
| Total equity to assets | 10.73 % | 10.73 | 11.08 | — | (3) | 10.73 % | 11.08 | (3) |
| Risk-based capital: | | | | | | | | |
| Common Equity Tier 1 | 10.82 | 10.87 | 10.78 | — | — | 10.82 | 10.78 | — |
| Tier 1 capital | 12.50 | 12.49 | 12.28 | — | 2 | 12.50 | 12.28 | 2 |
| Total capital | 15.14 | 14.91 | 14.45 | 2 | 5 | 15.14 | 14.45 | 5 |
| Tier 1 leverage | 9.25 | 9.26 | 9.45 | — | (2) | 9.25 | 9.45 | (2) |
| Common shares outstanding | 5,048.5 | 5,075.9 | 5,145.2 | (1) | (2) | 5,048.5 | 5,145.2 | (2) |
| Book value per common share (7) | $35.38 | 34.58 | 32.96 | 2 | 7 | $35.38 | 32.96 | 7 |
| Tangible book value per common share (1) (7) | 29.34 | 28.50 | 27.31 | 3 | 7 | 29.34 | 27.31 | 7 |
| Common stock price: | | | | | | | | |
| High | 51.41 | 53.27 | 58.26 | (3) | (12) | 53.27 | 58.26 | (9) |
| Low | 44.50 | 44.50 | 53.56 | — | (17) | 44.50 | 50.42 | (12) |
| Period end | 47.33 | 48.36 | 56.24 | (2) | (16) | 47.33 | 56.24 | (16) |
| Team members (active, full-time equivalent) | 267,900 | 268,600 | 265,800 | — | 1 | 267,900 | 265,800 | 1 |

(1) Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including goodwill and intangible assets associated with certain of our nonmarketable equity investments but excluding mortgage servicing rights), net of applicable deferred tax liabilities. The methodology of determining tangible common equity may differ among companies. Management believes that return on average tangible common equity and tangible book value per common share, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. For additional information, including a corresponding reconciliation to GAAP financial measures, see the "Capital Management – Tangible Common Equity" section in this Report.

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

(3) 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.

(4) Consumer and small business banking deposits are total deposits excluding mortgage escrow and wholesale deposits.

(5) The risk-based capital ratios presented at June 30 and March 31, 2016, and June 30, 2015 were calculated under the lower of Standardized or Advanced Approach determined pursuant to Basel III with Transition Requirements. Accordingly, the total capital ratio was calculated under the Advanced Approach and the other ratios were calculated under the Standardized Approach, for each of the periods, respectively.

(6)

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

(7) Book value per common share is common stockholders' equity divided by common shares outstanding. Tangible book value per common share is tangible common equity divided by common shares outstanding.

2

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, 2015 (2015 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 diversified, community-based financial services company with $1.9 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,600 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 36 countries and territories to support customers who conduct business in the global economy. With approximately 268,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 27 on Fortune's 2016 rankings of America's largest corporations. We ranked third in assets and first in the market value of our common stock among all U.S. banks at June 30, 2016.

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. We aspire to create deep and enduring relationships with our customers by providing them with an exceptional experience and by discovering their needs and delivering the most relevant products, services, advice, and guidance.

We have five 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. In addition to our five primary values, one of our key day-to-day priorities is 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 $5.6 billion in second quarter 2016 with diluted earnings per common share (EPS) of $1.01, compared with $5.7 billion and $1.03, respectively, a year ago. We have now generated quarterly earnings of more than

$5 billion for 15 consecutive quarters, which reflected the ability of our diversified business model and risk discipline to generate consistent financial performance during a period that included persistent low interest rates, market volatility and economic uncertainty. Britain's vote to withdraw from the European Union (Brexit) in June 2016 added

to global economic uncertainty and could result in interest rates remaining lower for longer than expected. However, we remain focused on meeting the financial needs of our customers and on investing in our businesses so we may continue to meet the evolving needs of our customers in the future.

Compared with a year ago:

- revenue was $22.2 billion, up 4%, with growth in both net interest income and noninterest income;
- we generated positive operating leverage (revenue growth exceeded expense growth) while we continued to make investments throughout our businesses;
- we grew pre-tax pre-provision profit by 5%;
- our total loans reached a record $957.2 billion, an increase of $68.7 billion, or 8%;
- our deposit franchise generated strong customer and balance growth, with total deposits reaching a record $1.25 trillion, up $59.6 billion, or 5%, and we grew the number of primary consumer checking customers by 4.7% (May 2016 compared with May 2015); and
- our solid capital position enabled us to return $3.2 billion to shareholders through common stock dividends and net share repurchases, the fourth consecutive quarter of returning more than $3 billion.

Balance Sheet and Liquidity

Our balance sheet maintained its strength in second quarter 2016 as we increased our liquidity position, generated loan and deposit growth, experienced solid credit quality and maintained strong capital levels. We have been able to grow our loans on a year-over-year basis for 20 consecutive quarters (for the past 17 quarters year-over-year loan growth has been 3% or greater). Our loan portfolio increased $40.6 billion from December 31, 2015, predominantly due to growth in commercial and industrial, real estate mortgage, real estate construction and lease financing loans within the commercial loan portfolio segment, which included $25.1 billion of commercial and industrial loans and capital leases acquired from GE Capital in the first half of 2016.

With the expectation of interest rates remaining lower for a longer period, we grew our investment securities portfolio by $5.9 billion, or 2%, from December 31, 2015, with approximately $38 billion of gross purchases during second quarter 2016, compared with last year's average of $26 billion per quarter.

Deposit growth continued in the first half of 2016 with period-end deposits up $22.2 billion, or 2%, from December 31, 2015. Our average deposit cost in second quarter 2016 was 11 basis points, up 3 basis points from a year ago, which reflected an increase in deposit pricing for certain wholesale banking

customers. 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 4.7% (May 2016 compared with May 2015). Our ability to consistently grow primary checking customers is important to our results because these customers have more interactions with us and are significantly more profitable than non-primary customers.

Credit Quality
Solid overall credit results continued in second quarter 2016 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $924 million, or 0.39% (annualized) of average loans, in second quarter 2016, compared with $650 million a year ago (0.30%). The increase in net charge-offs in second quarter 2016 was predominantly due to continued challenges in the oil and gas portfolio. While substantially all of the loan portfolio performed well, the oil and gas portfolio remained under pressure due to low energy prices and excess leverage in the industry. Our commercial portfolio net charge-offs were $357 million, or 29 basis points of average commercial loans, in second quarter 2016, compared with net charge-offs of $62 million, or 6 basis points, a year ago. Net consumer credit losses declined to 49 basis points of average consumer loans in second quarter 2016 from 53 basis points in second quarter 2015. Our commercial real estate portfolios were in a net recovery position for the 14th consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined $85 million from a year ago, down 53%. The lower consumer loss levels reflected the benefit of the continued improvement in the housing market and our continued focus on originating high quality loans. Approximately 70% of the consumer first mortgage portfolio was originated after 2008, when more stringent underwriting standards were implemented.
The allowance for credit losses in second quarter 2016 reflected an allowance build of $150 million for the quarter, due to loan growth in the commercial, automobile and credit card portfolios, partially offset by continued improvement in the residential real estate portfolios. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our provision for

loan losses was $1.1 billion in second quarter 2016, up from $300 million a year ago, reflecting losses in the oil and gas portfolio and the loan growth mentioned above.
Nonperforming assets were down $433 million, or 3%, from March 31, 2016, as lower residential and commercial real estate nonaccruals and foreclosed assets were partially offset by higher oil and gas nonaccruals. Nonaccrual loans decreased $271 million from the prior quarter as an $809 million decrease in consumer nonaccruals was partially offset by a $651 million increase in oil and gas nonaccruals. In addition, foreclosed assets were down $162 million from the prior quarter.

Capital
Our financial performance in second quarter 2016 resulted in strong capital generation, which increased total equity to a record $202.7 billion at June 30, 2016, up $4.2 billion from the prior quarter and the first time total equity exceeded $200 billion. We returned $3.2 billion to shareholders in second quarter 2016 through common stock dividends and net share repurchases and our net payout ratio (which is the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock) was 62%, compared with 60% in the prior quarter, and within our targeted range of 55-75%. We continued to reduce our common share count through the repurchase of 44.8 million common shares in the quarter. We also entered into a $750 million forward repurchase contract with an unrelated third party in July 2016 that is expected to settle in fourth quarter 2016 for approximately 16 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2016.
We believe an important measure of our capital strength is the Common Equity Tier 1 ratio under Basel III, fully phased-in, which was 10.61% at June 30, 2016. Likewise, our other regulatory capital ratios remained strong. We also received a non-objection to our 2016 Comprehensive Capital Analysis and Review (CCAR) submission from the Federal Reserve. See the “Capital Management” section in this Report for more information regarding our capital, including the calculation of our regulatory capital amounts.

## Earnings Performance

Wells Fargo net income for second quarter 2016 was $5.6 billion ($1.01 diluted earnings per common share), compared with $5.7 billion ($1.03 diluted per share) for second quarter 2015. Net income for the first half of 2016 was $11.0 billion ($2.00), compared with $11.5 billion ($2.07) for the same period a year ago. Our second quarter and first half of 2016 earnings reflected continued execution of our business strategy as we continued to satisfy our customers' financial needs. We generated revenue across many of our businesses and grew loans and deposits. Our financial performance in the first half of 2016, compared with the same period a year ago, benefited from a $1.1 billion increase in net interest income, which was offset by a $1.3 billion increase in our provision for credit losses and a $918 million increase in noninterest expense. The key drivers of our financial performance in the second quarter and first half of 2016 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 $22.2 billion in second quarter 2016, compared with $21.3 billion in second quarter 2015. Revenue for the first half of 2016 was $44.4 billion, up 4% from the first half of 2015. The increase in revenue for the second quarter and first half of 2016, compared with the same periods in 2015, was primarily due to an increase in net interest income, reflecting increases in interest income from loans and trading assets, partially offset by higher long-term debt and deposit interest expense. In both the second quarter and first half of 2016, net interest income represented 53% of revenue, compared with 53% and 52% in the same periods in 2015, respectively.

Noninterest income was $10.4 billion and $21.0 billion in the second quarter and first half of 2016, respectively, representing 47% of revenue for both periods, compared with $10.0 billion (47%) and $20.3 billion (48%) in the second quarter and first half of 2015. Noninterest income for second quarter 2016, compared with the same period in 2015, reflected an increase in net gains from trading activities, lease income and gain from the sale of our

health benefit services business, partially offset by lower insurance revenue due to the sale of our crop insurance business in first quarter 2016, as well as lower mortgage banking, other fees, and gains on equity investments.
Noninterest income for the first half of 2016, compared with the same period in 2015, reflected an increase in lease income related to operating leases acquired in the GE Capital transactions, gains from the sale of our crop insurance and health benefit services businesses, and hedge ineffectiveness income, primarily on our long-term debt hedges, partially offset by lower trust and investment fees, mortgage banking, other fees, and gains on equity investments.
Noninterest expense was $12.9 billion and $25.9 billion in the second quarter and first half of 2016, respectively, compared with $12.5 billion and $25.0 billion for the same periods in 2015. The increase in noninterest expense for the first half of 2016, compared with the same period in 2015, reflected higher operating lease depreciation expense due to the leases acquired in the GE Capital transactions, higher personnel expenses, and outside professional services, partially offset by lower insurance, foreclosed assets expense, and outside data processing expense. The increase in noninterest expense for second quarter 2016, compared with the same period in 2015, was primarily due to higher personnel expenses and operating lease depreciation expenses. Noninterest expense as a percentage of revenue (efficiency ratio) was 58.1% in second quarter 2016 (58.4% in the first half of 2016), compared with 58.5% in second quarter 2015 (58.6% in the first half of 2015).
During first quarter 2016, we closed substantially all of the previously announced acquisition of certain commercial lending businesses and assets from GE Capital. A portion of the assets were acquired in January 2016 with additional assets acquired in March 2016. In July 2016, we closed the Asia segment of GE Capital's Commercial Distribution Finance business. The remaining GE Capital assets, including segments in Europe, the Middle East, and Africa, are anticipated to close in the second half of 2016.

## 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 variable 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 and net interest margin growth has been challenged during the prolonged low interest rate environment as higher yielding loans and securities have run off and been replaced with lower yielding assets.

Net interest income on a taxable-equivalent basis was $12.0 billion and $24.0 billion in the second quarter and first half of 2016, respectively, compared with $11.5 billion and $22.8 billion for the same periods a year ago. The net interest margin was 2.86% and 2.88% for the second quarter and first half of 2016, down from 2.97% and 2.96% for the same periods a year ago. The increase in net interest income in the second quarter and first half of 2016 from the same periods a year ago was driven by growth in commercial and consumer loans, including the GE Capital transactions that closed in first quarter 2016, increased trading income, growth in investment securities, and higher short-term interest rates. Funding interest expense increased in the second quarter and first half of 2016, compared with the same periods a year ago, primarily due to growth and repricing of long-term debt. Deposit interest expense was also higher, predominantly due to an increase in wholesale pricing resulting from higher short-term interest rates.
The decline in net interest margin in the second quarter and first half of 2016, compared with the same periods a year ago, was primarily due to customer-driven deposit growth, reduced yield on investment securities, and higher

long-term debt balances, including debt issued to fund the GE Capital acquisitions. As a result of growth in funding balances, net interest margin was diluted by an increase in cash, federal funds sold, and other short-term investments, which was partially offset by growth in loans, trading, and the benefit of higher short-term interest rates.

Average earning assets increased $130.6 billion and $124.0 billion in the second quarter and first half of 2016, respectively, compared with the same periods a year ago, as average loans increased $80.3 billion in the second quarter and $72.1 billion in the first half of 2016, average investment securities increased $12.4 billion in the second quarter and $20.2 billion in the first half of 2016, and average trading assets increased $13.8 billion in the second quarter and $15.6 billion in the first half of 2016, compared with the same periods a year ago. In addition, average federal funds sold and other short-term investments increased $26.7 billion and $17.8 billion in the second quarter and first half of 2016, respectively, compared with the same periods a year ago.

Deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Deposits include noninterest-bearing deposits, interest-bearing checking, market rate and other savings, savings certificates, other time deposits, and deposits in foreign offices. Average deposits of $1.24 trillion increased in second quarter 2016 ($1.23 trillion in the first half of 2016), compared with $1.19 trillion in second quarter 2015 ($1.18 trillion in the first half of 2015), and represented 130% of average loans in second quarter 2016 (131% in the first half of 2016) compared with 136% in both the second quarter and first half of 2015. Average deposits decreased to 73% and 74% of average earning assets in the second quarter and first half of 2016, respectively, compared with 76% for the same periods a year ago as the growth in total loans outpaced deposit growth.

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

| | Quarter ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2016 | | | | 2015 |
| (in millions) | Average balance | Yields/ rates | | Interest income/ expense | Average balance | Yields/ rates | | Interest income/ expense |
| Earning assets | | | | | | | | |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | $293,783 | 0.49 | % | $359 | 267,101 | 0.28 | % | $186 |
| Trading assets | 81,380 | 2.86 | | 582 | 67,615 | 2.91 | | 492 |
| Investment securities (3): | | | | | | | | |
| Available-for-sale securities: | | | | | | | | |
| Securities of U.S. Treasury and federal agencies | 31,525 | 1.56 | | 123 | 31,748 | 1.58 | | 125 |
| Securities of U.S. states and political subdivisions | 52,201 | 4.24 | | 553 | 47,075 | 4.13 | | 486 |
| Mortgage-backed securities: | | | | | | | | |
| Federal agencies | 92,010 | 2.53 | | 583 | 97,958 | 2.65 | | 650 |
| Residential and commercial | 19,571 | 5.44 | | 266 | 22,677 | 5.84 | | 331 |
| Total mortgage-backed securities | 111,581 | 3.04 | | 849 | 120,635 | 3.25 | | 981 |
| Other debt and equity securities | 53,301 | 3.48 | | 461 | 48,816 | 3.51 | | 427 |
| Total available-for-sale securities | 248,608 | 3.20 | | 1,986 | 248,274 | 3.25 | | 2,019 |
| Held-to-maturity securities: | | | | | | | | |
| Securities of U.S. Treasury and federal agencies | 44,671 | 2.19 | | 243 | 44,492 | 2.19 | | 243 |
| Securities of U.S. states and political subdivisions | 2,155 | 5.41 | | 29 | 2,090 | 5.17 | | 27 |
| Federal agency mortgage-backed securities | 35,057 | 1.90 | | 166 | 21,044 | 2.00 | | 105 |
| Other debt securities | 4,077 | 1.92 | | 20 | 6,270 | 1.70 | | 26 |
| Total held-to-maturity securities | 85,960 | 2.14 | | 458 | 73,896 | 2.18 | | 401 |
| Total investment securities | 334,568 | 2.93 | | 2,444 | 322,170 | 3.01 | | 2,420 |
| Mortgages held for sale (4) | 20,140 | 3.60 | | 181 | 23,456 | 3.57 | | 209 |
| Loans held for sale (4) | 239 | 4.83 | | 3 | 666 | 3.51 | | 5 |
| Loans: | | | | | | | | |
| Commercial: | | | | | | | | |
| Commercial and industrial – U.S. | 270,862 | 3.45 | | 2,328 | 231,551 | 3.36 | | 1,939 |
| Commercial and industrial – Non U.S. | 51,201 | 2.35 | | 300 | 45,123 | 1.93 | | 217 |
| Real estate mortgage | 126,126 | 3.41 | | 1,069 | 113,089 | 3.48 | | 982 |
| Real estate construction | 23,115 | 3.49 | | 200 | 20,771 | 4.12 | | 214 |
| Lease financing | 18,930 | 5.12 | | 242 | 12,364 | 5.16 | | 160 |
| Total commercial | 490,234 | 3.39 | | 4,139 | 422,898 | 3.33 | | 3,512 |
| Consumer: | | | | | | | | |
| Real estate 1-4 family first mortgage | 275,854 | 4.01 | | 2,765 | 266,023 | 4.12 | | 2,740 |
| Real estate 1-4 family junior lien mortgage | 50,609 | 4.37 | | 551 | 57,066 | 4.23 | | 603 |
| Credit card | 33,368 | 11.52 | | 956 | 30,373 | 11.69 | | 885 |
| Automobile | 61,149 | 5.66 | | 860 | 56,974 | 5.88 | | 836 |
| Other revolving credit and installment | 39,537 | 5.91 | | 581 | 37,112 | 5.88 | | 544 |
| Total consumer | 460,517 | 4.98 | | 5,713 | 447,548 | 5.02 | | 5,608 |
| Total loans (4) | 950,751 | 4.16 | | 9,852 | 870,446 | 4.20 | | 9,120 |
| Other | 6,014 | 2.30 | | 35 | 4,859 | 5.14 | | 64 |
| Total earning assets | $1,686,875 | 3.20 | % | $13,456 | 1,556,313 | 3.22 | % | $12,496 |
| Funding sources | | | | | | | | |
| Deposits: | | | | | | | | |
| Interest-bearing checking | $39,772 | 0.13 | % | $13 | 38,551 | 0.05 | % | $5 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Market rate and other savings | 658,944 | 0.07 | | 110 | 619,837 | 0.06 | | 87 |
| Savings certificates | 26,246 | 0.35 | | 23 | 32,454 | 0.63 | | 52 |
| Other time deposits | 61,170 | 0.85 | | 129 | 52,238 | 0.42 | | 55 |
| Deposits in foreign offices | 97,525 | 0.23 | | 57 | 104,334 | 0.13 | | 33 |
| Total interest-bearing deposits | 883,657 | 0.15 | | 332 | 847,414 | 0.11 | | 232 |
| Short-term borrowings | 111,848 | 0.28 | | 78 | 84,499 | 0.09 | | 21 |
| Long-term debt | 236,156 | 1.56 | | 921 | 185,093 | 1.34 | | 620 |
| Other liabilities | 16,336 | 2.06 | | 83 | 16,405 | 2.03 | | 83 |
| Total interest-bearing liabilities | 1,247,997 | 0.45 | | 1,414 | 1,133,411 | 0.34 | | 956 |
| Portion of noninterest-bearing funding sources | 438,878 | | | — | 422,902 | | | — |
| Total funding sources | $1,686,875 | 0.34 | | 1,414 | 1,556,313 | 0.25 | | 956 |
| Net interest margin and net interest income on a taxable-equivalent basis (5) | | 2.86 | % | $12,042 | | 2.97 | % | $11,540 |
| Noninterest-earning assets | | | | | | | | |
| Cash and due from banks | $18,818 | | | | 17,462 | | | |
| Goodwill | 27,037 | | | | 25,705 | | | |
| Other | 129,354 | | | | 129,798 | | | |
| Total noninterest-earning assets | $175,209 | | | | 172,965 | | | |
| Noninterest-bearing funding sources | | | | | | | | |
| Deposits | $353,001 | | | | 337,890 | | | |
| Other liabilities | 60,083 | | | | 67,595 | | | |
| Total equity | 201,003 | | | | 190,382 | | | |
| Noninterest-bearing funding sources used to fund earning assets | (438,878 ) | | | | (422,902 ) | | | |
| Net noninterest-bearing funding sources | $175,209 | | | | 172,965 | | | |
| Total assets | $1,862,084 | | | | 1,729,278 | | | |

(1) Our average prime rate was 3.50% and 3.25% both for the quarters ended June 30, 2016 and 2015, and for the first half of 2016 and 2015, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 0.64% and 0.28% for the quarters ended June 30, 2016 and 2015, respectively, and 0.63% and 0.27% for the first half of 2016 and 2015, 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 $309 million and $270 million for the quarters ended June 30, 2016 and 2015, respectively, and $599 million and $512 million for the first half of 2016 and 2015, respectively, predominantly 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, 2016 Average balance | Yields/ rates | | Interest income/ expense | 2015 Average balance | Yields/ rates | | Interest income/ expense |
|---|---|---|---|---|---|---|---|---|
| Earning assets | | | | | | | | |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | $289,240 | 0.49 | % | $703 | 271,392 | 0.28 | % | $376 |
| Trading assets | 80,922 | 2.94 | | 1,187 | 65,309 | 2.89 | | 945 |
| Investment securities (3): | | | | | | | | |
| Available-for-sale securities: | | | | | | | | |
| Securities of U.S. Treasury and federal agencies | 33,000 | 1.58 | | 259 | 28,971 | 1.56 | | 225 |
| Securities of U.S. states and political subdivisions | 51,357 | 4.24 | | 1,088 | 46,017 | 4.16 | | 958 |
| Mortgage-backed securities: | | | | | | | | |
| Federal agencies | 94,216 | 2.67 | | 1,258 | 100,064 | 2.71 | | 1,356 |
| Residential and commercial | 20,199 | 5.32 | | 537 | 23,304 | 5.77 | | 673 |
| Total mortgage-backed securities | 114,415 | 3.14 | | 1,795 | 123,368 | 3.29 | | 2,029 |
| Other debt and equity securities | 53,430 | 3.34 | | 890 | 47,938 | 3.47 | | 827 |
| Total available-for-sale securities | 252,202 | 3.20 | | 4,032 | 246,294 | 3.28 | | 4,039 |
| Held-to-maturity securities: | | | | | | | | |
| Securities of U.S. Treasury and federal agencies | 44,667 | 2.19 | | 487 | 43,685 | 2.20 | | 477 |
| Securities of U.S. states and political subdivisions | 2,155 | 5.41 | | 58 | 2,019 | 5.16 | | 52 |
| Federal agency mortgage-backed securities | 31,586 | 2.16 | | 341 | 16,208 | 1.95 | | 158 |
| Other debt securities | 4,338 | 1.92 | | 42 | 6,530 | 1.71 | | 55 |
| Total held-to-maturity securities | 82,746 | 2.25 | | 928 | 68,442 | 2.18 | | 742 |
| Total investment securities | 334,948 | 2.97 | | 4,960 | 314,736 | 3.04 | | 4,781 |
| Mortgages held for sale (4) | 19,005 | 3.60 | | 342 | 21,530 | 3.59 | | 386 |
| Loans held for sale (4) | 260 | 3.97 | | 5 | 683 | 3.08 | | 10 |
| Loans: | | | | | | | | |
| Commercial: | | | | | | | | |
| Commercial and industrial – U.S. | 264,295 | 3.42 | | 4,505 | 229,627 | 3.32 | | 3,783 |
| Commercial and industrial – Non U.S. | 50,354 | 2.23 | | 558 | 45,093 | 1.90 | | 426 |
| Real estate mortgage | 124,432 | 3.41 | | 2,109 | 112,298 | 3.52 | | 1,963 |
| Real estate construction | 22,859 | 3.55 | | 403 | 20,135 | 3.83 | | 383 |
| Lease financing | 16,989 | 4.95 | | 420 | 12,341 | 5.06 | | 312 |
| Total commercial | 478,929 | 3.35 | | 7,995 | 419,494 | 3.30 | | 6,867 |
| Consumer: | | | | | | | | |
| Real estate 1-4 family first mortgage | 275,288 | 4.03 | | 5,547 | 265,923 | 4.12 | | 5,481 |
| Real estate 1-4 family junior lien mortgage | 51,423 | 4.38 | | 1,122 | 57,968 | 4.25 | | 1,224 |
| Credit card | 33,367 | 11.56 | | 1,919 | 30,376 | 11.74 | | 1,768 |
| Automobile | 60,631 | 5.66 | | 1,708 | 56,492 | 5.91 | | 1,657 |
| Other revolving credit and installment | 39,348 | 5.95 | | 1,165 | 36,620 | 5.94 | | 1,079 |
| Total consumer | 460,057 | 5.00 | | 11,461 | 447,379 | 5.03 | | 11,209 |
| Total loans (4) | 938,986 | 4.16 | | 19,456 | 866,873 | 4.19 | | 18,076 |
| Other | 5,910 | 2.18 | | 65 | 4,795 | 5.27 | | 127 |
| Total earning assets | $1,669,271 | 3.21 | % | $26,718 | 1,545,318 | 3.21 | % | $24,701 |
| Funding sources | | | | | | | | |
| Deposits: | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Interest-bearing checking | $39,242 | 0.12 | % | $24 | 38,851 | 0.05 | % | $10 |
| Market rate and other savings | 655,247 | 0.07 | | 217 | 616,643 | 0.06 | | 184 |
| Savings certificates | 27,063 | 0.40 | | 54 | 33,525 | 0.69 | | 116 |
| Other time deposits | 59,688 | 0.80 | | 236 | 54,381 | 0.41 | | 111 |
| Deposits in foreign offices | 97,604 | 0.22 | | 108 | 104,932 | 0.13 | | 69 |
| Total interest-bearing deposits | 878,844 | 0.15 | | 639 | 848,332 | 0.12 | | 490 |
| Short-term borrowings | 109,853 | 0.27 | | 145 | 78,141 | 0.10 | | 39 |
| Long-term debt | 226,519 | 1.56 | | 1,763 | 184,432 | 1.33 | | 1,224 |
| Other liabilities | 16,414 | 2.10 | | 172 | 16,648 | 2.17 | | 180 |
| Total interest-bearing liabilities | 1,231,630 | 0.44 | | 2,719 | 1,127,553 | 0.34 | | 1,933 |
| Portion of noninterest-bearing funding sources | 437,641 | | | — | 417,765 | — | | — |
| Total funding sources | $1,669,271 | 0.33 | | 2,719 | 1,545,318 | 0.25 | | 1,933 |
| Net interest margin and net interest income on a taxable-equivalent basis (5) | | 2.88 | % | $23,999 | | 2.96 | % | $22,768 |
| Noninterest-earning assets | | | | | | | | |
| Cash and due from banks | $18,407 | | | | 17,262 | | | |
| Goodwill | 26,553 | | | | 25,705 | | | |
| Other | 126,749 | | | | 130,312 | | | |
| Total noninterest-earning assets | $171,709 | | | | 173,279 | | | |
| Noninterest-bearing funding sources | | | | | | | | |
| Deposits | $349,200 | | | | 331,745 | | | |
| Other liabilities | 61,355 | | | | 69,779 | | | |
| Total equity | 198,795 | | | | 189,520 | | | |
| Noninterest-bearing funding sources used to fund earning assets | (437,641 ) | | | | (417,765 ) | | | |
| Net noninterest-bearing funding sources | $171,709 | | | | 173,279 | | | |
| Total assets | $1,840,980 | | | | 1,718,597 | | | |

7

Noninterest Income

Table 2: Noninterest Income

| | Quarter ended June 30, | | % | Six months ended June 30, | | % |
|---|---|---|---|---|---|---|
| (in millions) | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Service charges on deposit accounts | $1,336 | 1,289 | 4 % | $2,645 | 2,504 | 6 % |
| Trust and investment fees: | | | | | | |
| Brokerage advisory, commissions and other fees | 2,291 | 2,399 | (5 ) | 4,530 | 4,779 | (5 ) |
| Trust and investment management | 835 | 861 | (3 ) | 1,650 | 1,713 | (4 ) |
| Investment banking | 421 | 450 | (6 ) | 752 | 895 | (16 ) |
| Total trust and investment fees | 3,547 | 3,710 | (4 ) | 6,932 | 7,387 | (6 ) |
| Card fees | 997 | 930 | 7 | 1,938 | 1,801 | 8 |
| Other fees: | | | | | | |
| Charges and fees on loans | 317 | 304 | 4 | 630 | 613 | 3 |
| Cash network fees | 138 | 132 | 5 | 269 | 257 | 5 |
| Commercial real estate brokerage commissions | 86 | 141 | (39 ) | 203 | 270 | (25 ) |
| Letters of credit fees | 83 | 90 | (8 ) | 161 | 178 | (10 ) |
| Wire transfer and other remittance fees | 101 | 93 | 9 | 193 | 180 | 7 |
| All other fees (1)(2)(3) | 181 | 347 | (48 ) | 383 | 687 | (44 ) |
| Total other fees | 906 | 1,107 | (18 ) | 1,839 | 2,185 | (16 ) |
| Mortgage banking: | | | | | | |
| Servicing income, net | 360 | 514 | (30 ) | 1,210 | 1,037 | 17 |
| Net gains on mortgage loan origination/sales activities | 1,054 | 1,191 | (12 ) | 1,802 | 2,215 | (19 ) |
| Total mortgage banking | 1,414 | 1,705 | (17 ) | 3,012 | 3,252 | (7 ) |
| Insurance | 286 | 461 | (38 ) | 713 | 891 | (20 ) |
| Net gains from trading activities | 328 | 133 | 147 | 528 | 541 | (2 ) |
| Net gains on debt securities | 447 | 181 | 147 | 691 | 459 | 51 |
| Net gains from equity investments | 189 | 517 | (63 ) | 433 | 887 | (51 ) |
| Lease income | 497 | 155 | 221 | 870 | 287 | 203 |
| Life insurance investment income | 149 | 145 | 3 | 303 | 290 | 4 |
| All other (3) | 333 | (285 ) | NM | 1,053 | (144 ) | NM |
| Total | $10,429 | 10,048 | 4 | $20,957 | 20,340 | 3 |

NM- Not meaningful

(1) Wire transfer and other remittance fees, reflected in all other fees prior to 2016, have been separately disclosed.

(2) All other fees have been revised to include merchant processing fees for all periods presented.

(3) Effective fourth quarter 2015, the Company's proportionate share of its merchant services joint venture earnings is included in All other income.

Noninterest income was $10.4 billion and $21.0 billion for the second quarter and first half of 2016, respectively, compared with $10.0 billion and $20.3 billion for the same periods a year ago. This income represented 47% of revenue for both the second quarter and first half of 2016, compared with 47% and 48% for the second quarter and first half of 2015, respectively. Noninterest income in the second quarter and first half of 2016 benefited from the gain on sale of our health benefits services business, hedge ineffectiveness income primarily on our long-term debt hedges, and the increase in lease income related to the GE Capital acquisitions we completed in first quarter 2016. Many of our businesses, including credit and debit cards, international, corporate trust and venture capital, also grew noninterest income in the second quarter and first half of 2016.

Service charges on deposit accounts were $1.34 billion and $2.65 billion in the second quarter and first half of 2016, respectively, compared with $1.29 billion and $2.50 billion in the second quarter and first half of 2015. The increase in the second quarter as well as the first half of 2016 was driven by higher overdraft fee revenue, account growth and higher fees from commercial product sales and commercial product re-pricing.

Brokerage advisory, commissions and other fees are received for providing full-service and discount brokerage services

predominantly to retail brokerage clients. Income from these brokerage-related activities include asset-based fees for advisory accounts, which are based on the market value of the client’s assets, and transactional commissions based on the number and size of transactions executed at the client’s direction. These fees decreased to $2.3 billion and $4.5 billion in the second quarter and first half of 2016, respectively, from $2.4 billion and $4.8 billion for the same periods in 2015. The decrease was predominantly due to lower brokerage transaction revenue and lower asset-based fees. Retail brokerage client assets totaled $1.46 trillion at June 30, 2016, compared with $1.43 trillion at June 30, 2015, with all retail brokerage services provided by our Wealth and Investment Management (WIM) operating segment. For additional information on retail brokerage client assets, see the discussion and Tables 4d and 4e in the "Operating Segment Results – Wealth and Investment Management – Retail Brokerage Client Assets" section in this Report.
We earn trust and investment management fees from managing and administering assets, including mutual funds, institutional separate accounts, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fee income is predominantly from client assets under management (AUM) for which the fees are determined

based on a tiered scale relative to the market value of the AUM. AUM consists of assets for which we have investment management discretion. Our AUM totaled $649.1 billion at June 30, 2016, compared with $653.9 billion at June 30, 2015, with substantially all of our AUM managed by our WIM operating segment. Additional information regarding our WIM operating segment AUM is provided in Table 4f and the related discussion in the "Operating Segment Results – Wealth and Investment Management – Trust and Investment Client Assets Under Management" section in this Report. In addition to AUM we have client assets under administration (AUA) that earn various administrative fees which are generally based on the type of the services provided to administer the account. Our AUA totaled $1.55 trillion at June 30, 2016, compared with $1.54 trillion at June 30, 2015. Trust and investment management fees decreased to $835 million and $1.65 billion in the second quarter and first half of 2016, respectively, from $861 million and $1.71 billion for the same periods in 2015, due to lower AUM reflecting net client outflows, lower market values and lower trust revenue.

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 $421 million and $752 million in the second quarter and first half of 2016, respectively, from $450 million and $895 million for the same periods in 2015, driven by declines in debt and equity origination due to market volatility.

Card fees were $997 million and $1.9 billion in the second quarter and first half of 2016, respectively, compared with $930 million and $1.8 billion for the same periods a year ago. The increase was predominantly due to account growth and increased purchase activity.

Other fees decreased to $906 million and $1.8 billion in the second quarter and first half of 2016, respectively, from $1.1 billion and $2.2 billion for the same periods in 2015, predominantly driven by lower commercial real estate brokerage fees, and all other fees. All other fees were $181 million and $383 million in the second quarter and first half of 2016, respectively, compared with $347 million and $687 million for the same periods in 2015. The decrease was predominantly due to the deconsolidation of our merchant services joint venture in fourth quarter 2015, which resulted in a proportionate share of that income now being reported in all other income.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $1.4 billion and $3.0 billion in the second quarter and first half of 2016, respectively, compared with $1.7 billion and $3.3 billion for the same periods 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 of $360 million for second quarter 2016 included a $154 million net MSR valuation gain ($824 million decrease in the fair value of the MSRs and a $978 million hedge gain). Net servicing income of $514 million 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). For the first half of 2016, net servicing income of $1.2 billion included a $652 million net MSR valuation gain ($1.8 billion decrease in the fair value of the MSRs and a $2.4 billion hedge gain) and for the same period of 2015 net servicing income of $1.0 billion included a $215 million net MSR valuation gain ($280 million increase in the fair value of the MSRs and a $65 million hedge loss). Net servicing income

decreased in second quarter 2016, compared with the same period a year ago, from higher unreimbursed servicing costs related to FHA loans and lower contractual servicing fees due to servicing portfolio runoff, offset by the increase in net MSR valuation gains. The increase in net MSR valuation gains in the first half of 2016, compared with the same period in 2015, was primarily attributable to MSR valuation adjustments in first quarter 2015 that reflected higher prepayment expectations due to the reduction in FHA mortgage insurance premiums as well as a reduction in forecasted prepayments in first half of 2016 due to updated economic and mortgage market rate inputs.

Our portfolio of loans serviced for others was $1.73 trillion at June 30, 2016, and $1.78 trillion at December 31, 2015. At June 30, 2016, the ratio of combined residential and commercial MSRs to related loans serviced for others was

0.68%, compared with 0.77% at December 31, 2015. See the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in this Report for additional information regarding our MSRs risks and hedging approach.

Net gains on mortgage loan origination/sales activities was $1.1 billion and $1.8 billion in the second quarter and first half of 2016, respectively, compared with $1.2 billion and $2.2 billion for the same periods a year ago. The decrease in the second quarter and first half of 2016, compared with the same periods a year ago, was mainly driven by a decrease in production margins. Mortgage loan originations were $63 billion and $107 billion for the second quarter and first half of 2016, respectively, compared with $62 billion and $111 billion for the same periods a year ago. The production margin on residential held-for-sale mortgage originations, which represents net gains on residential mortgage loan origination/sales activities divided by total residential held-for-sale mortgage originations, provides a measure of the profitability of our residential mortgage origination activity. Table 2a presents the information used in determining the production margin.

Table 2a: Selected Residential Mortgage Production Data

| | | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| Net gains on mortgage loan origination/sales activities (in millions): | | | | | |
| Residential | (A) | $744 | 814 | 1,276 | 1,525 |
| Commercial | | 72 | 108 | 143 | 199 |
| Residential pipeline and unsold/repurchased loan management (1) | | 238 | 269 | 383 | 491 |
| Total | | $1,054 | 1,191 | 1,802 | 2,215 |
| Residential real estate originations (in billions): | | | | | |
| Held-for-sale | (B) | $46 | 46 | 77 | 83 |
| Held-for-investment | | 17 | 16 | 30 | 28 |
| Total | | $63 | 62 | 107 | 111 |
| Production margin on residential held-for-sale mortgage originations | (A)/(B) | 1.66 % | 1.75 | 1.67 | 1.83 |

(1) Primarily includes the results of GNMA loss mitigation activities, interest rate management activities and changes in estimate to the liability for mortgage loan repurchase losses.

The production margin was 1.66% and 1.67% for the second quarter and first half of 2016, respectively, compared with 1.75% and 1.83% for the same periods a year ago. Mortgage applications were $95 billion and $172 billion for the second quarter and first half of 2016, respectively, compared with $81 billion and $174 billion for the same periods a year ago. The 1-4 family first mortgage unclosed pipeline was $47 billion at June 30, 2016, compared with $38 billion at June 30, 2015. For additional information about our mortgage banking activities and results, see the "Risk Management – Asset/Liability 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 2016, we released a net $93 million from the repurchase liability, including $81 million in second quarter 2016, compared with a net $34 million release for the first half of 2015, including $18 million in second quarter 2015. 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.

Net gains from trading activities, which reflect both unrealized changes in fair value of our trading positions and realized gains, were $328 million and $528 million in the second quarter and first half of 2016, respectively, compared with $133 million and $541 million for the same periods a year ago. The increase in the second quarter of 2016 was predominantly driven by higher customer accommodation trading activity within our capital markets business, and higher deferred compensation gains (offset in employee benefits expense). The decrease in the first half of 2016 compared to the same period in 2015 was due to lower economic hedge income. 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. For additional information about our trading activities, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in this Report.

Net gains on debt and equity securities totaled $636 million and $1.1 billion for the second quarter and first half of 2016, respectively, compared with $698 million and $1.3 billion for the same periods in 2015, after other-than-temporary impairment (OTTI) write-downs of $130 million and $328 million, respectively, for the second quarter and first half of 2016, compared with $96 million and $169 million for the same periods in 2015. OTTI write-downs in the second quarter and first half of 2016 reflected deterioration in energy sector investments and primarily drove the decrease in net gains on debt and equity securities compared with the same period a year ago.

Lease income was $497 million and $870 million in the second quarter and first half of 2016, respectively, compared with $155 million and $287 million for the same periods a year ago, primarily driven by the GE Capital acquisitions completed in first quarter 2016.

All other income was $333 million and $1.1 billion in the second quarter and first half of 2016, respectively, compared with $(285) million and $(144) 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, any of which can cause decreases and net losses in other income. The increase in other income for the second quarter and first half of 2016, compared with the same periods a year ago, reflected a $381 million gain on sale of our crop insurance business in first quarter 2016, a $290 million gain on sale of our health benefit services business in second quarter 2016 and 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 hedge ineffectiveness recognized was partially offset by the results of certain economic hedges and accordingly we recognized a net hedge benefit of $56 million and $435 million for the second quarter and first half of 2016, respectively, compared with a net hedge loss of $175 million and $53 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.

Earnings Performance (continued)

Noninterest Expense

Table 3: Noninterest Expense

| | Quarter ended June 30, | | % | Six months ended June 30, | | % |
|---|---|---|---|---|---|---|
| (in millions) | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Salaries | $4,099 | 3,936 | 4 % | $8,135 | 7,787 | 4 % |
| Commission and incentive compensation | 2,604 | 2,606 | — | 5,249 | 5,291 | (1 ) |
| Employee benefits | 1,244 | 1,106 | 12 | 2,770 | 2,583 | 7 |
| Equipment | 493 | 470 | 5 | 1,021 | 964 | 6 |
| Net occupancy | 716 | 710 | 1 | 1,427 | 1,433 | — |
| Core deposit and other intangibles | 299 | 312 | (4 ) | 592 | 624 | (5 ) |
| FDIC and other deposit assessments | 255 | 222 | 15 | 505 | 470 | 7 |
| Outside professional services | 769 | 627 | 23 | 1,352 | 1,175 | 15 |
| Operating losses | 334 | 521 | (36 ) | 788 | 816 | (3 ) |
| Outside data processing | 225 | 269 | (16 ) | 433 | 522 | (17 ) |
| Contract services | 283 | 238 | 19 | 565 | 463 | 22 |
| Postage, stationery and supplies | 153 | 180 | (15 ) | 316 | 351 | (10 ) |
| Travel and entertainment | 193 | 172 | 12 | 365 | 330 | 11 |
| Advertising and promotion | 166 | 169 | (2 ) | 300 | 287 | 5 |
| Insurance | 22 | 156 | (86 ) | 133 | 296 | (55 ) |
| Telecommunications | 94 | 113 | (17 ) | 186 | 224 | (17 ) |
| Foreclosed assets | 66 | 117 | (44 ) | 144 | 252 | (43 ) |
| Operating leases | 352 | 64 | 450 | 587 | 126 | 366 |
| All other | 499 | 481 | 4 | 1,026 | 982 | 4 |
| Total | $12,866 | 12,469 | 3 | $25,894 | 24,976 | 4 |

Noninterest expense was $12.9 billion in second quarter 2016 and $25.9 billion in the first half of 2016, up 3% and 4%, respectively, from the same periods a year ago, driven predominantly by higher personnel expenses, operating lease expense, outside professional services and contract services, partially offset by lower operating losses, insurance, foreclosed assets and outside data processing expenses.

Personnel expenses, which include salaries, commissions, incentive compensation and employee benefits, were up $299 million, or 4%, in second quarter 2016 compared with the same period a year ago, and up $493 million, or 3%, for the first half of 2016 compared with the same period a year ago. The increase in both periods was primarily due to annual salary increases and staffing growth driven by the GE Capital acquisitions that closed in first quarter 2016, as well as increases in risk management. The increase in the first half of 2016 was also driven by an extra payroll day.

Operating lease expense was up $288 million in second quarter 2016 and $461 million in the first half of 2016, compared with the same periods a year ago, largely due to depreciation expense on the operating leases acquired from GE Capital.

Outside professional services expense was up 23% and 15% in the second quarter and first half of 2016, respectively, compared with the same periods a year ago. Contract services expense was up 19% and 22% in the second quarter and first half of 2016, respectively, compared with the same periods a year ago. The increase in both expense categories reflected continued investments in our products, technology and service delivery, as well as costs to meet heightened regulatory expectations and evolving cybersecurity risk.

Insurance expense was down 86% and 55% in the second quarter and first half of 2016, respectively, compared with the same periods a year ago, due to the sale of our crop insurance business in first quarter 2016 and the sale of our Warranty Solutions business in third quarter 2015.

Operating losses were down 36% and 3% in the second quarter and first half of 2016, respectively, compared with the same periods a year ago, largely due to lower litigation expense for various legal matters.
Foreclosed assets expense was down 44% and 43% in the second quarter and first half of 2016, respectively, compared with the same periods a year ago, driven by lower operating expense and write-downs, partially offset by lower gains on sales of foreclosed properties.
Outside data processing expense was down 16% and 17% in the second quarter and first half of 2016, respectively, compared with the same periods a year ago, largely due to lower card processing expense.
The efficiency ratio was 58.1% in second quarter 2016, compared with 58.5% in second quarter 2015. The Company expects to operate at the higher end of its targeted efficiency ratio range of 55-59% for full year 2016.

Income Tax Expense

Our effective tax rate was 32.3% and 32.6% for second quarter 2016 and 2015, respectively. Our effective tax rate was 32.1% in the first half of 2016, up from 30.4% in the first half of 2015. The effective tax rate for the first half of 2015 reflected $359 million of discrete tax benefits 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 and Investment Management (WIM). 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 and Investment Management | | Other (1) | | Consolidated Company | |
|---|---|---|---|---|---|---|---|---|---|---|
| average balances in billions) | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Quarter ended June 30, | | | | | | | | | | |
| Revenue | $12,204 | 11,967 | 7,284 | 6,610 | 3,919 | 3,976 | (1,245) | (1,235) | 22,162 | 21,318 |
| Provision (reversal of provision) for credit losses | 689 | 397 | 385 | (84) | 2 | (10) | (2) | (3) | 1,074 | 300 |
| Noninterest expense | 6,648 | 6,719 | 4,036 | 3,504 | 2,976 | 3,038 | (794) | (792) | 12,866 | 12,469 |
| Net income (loss) | 3,179 | 3,215 | 2,073 | 2,191 | 584 | 586 | (278) | (273) | 5,558 | 5,719 |
| Average loans | $485.7 | 472.3 | 451.4 | 386.2 | 66.7 | 59.3 | (53.0) | (47.4) | 950.8 | 870.4 |
| Average deposits | 703.7 | 654.8 | 425.8 | 432.4 | 182.5 | 168.2 | (75.3) | (70.1) | 1,236.7 | 1,185.3 |
| Six months ended June 30, | | | | | | | | | | |
| Revenue | $24,818 | 24,078 | 14,242 | 13,019 | 7,773 | 7,952 | (2,476) | (2,453) | 44,357 | 42,596 |
| Provision (reversal of provision) for credit losses | 1,409 | 1,055 | 748 | (135) | (12) | (13) | 15 | 1 | 2,160 | 908 |
| Noninterest expense | 13,484 | 13,310 | 8,004 | 7,122 | 6,018 | 6,160 | (1,612) | (1,616) | 25,894 | 24,976 |
| Net income (loss) | 6,475 | 6,762 | 3,994 | 4,165 | 1,096 | 1,115 | (545) | (519) | 11,020 | 11,523 |
| Average loans | $485.0 | 472.3 | 440.6 | 383.1 | 65.4 | 58.1 | (52.0) | (46.6) | 939.0 | 866.9 |
| Average deposits | 693.3 | 649.1 | 426.9 | 432.1 | 183.5 | 169.2 | (75.7) | (70.3) | 1,228.0 | 1,180.1 |

(1) Includes the elimination of certain items that are included in more than one business segment, substantially all of which represents products and services for WIM customers served through Community Banking distribution channels.

Cross-sell We aspire to create deep and enduring relationships with our customers by providing them with an exceptional experience and by discovering their needs and delivering the most relevant products, services, advice, and guidance. An outcome of offering customers the products and services they need, want and value is that we earn more opportunities to serve them, or what we call cross-sell. Cross-sell is the result of serving our customers well, understanding their financial needs and goals over their lifetimes, and ensuring we innovate our products, services and channels so that we earn more of their business and help them succeed financially. Our customer-focused approach to cross-sell is needs-based as some customers will benefit from more products, and some may need fewer. We believe there is continued opportunity to meet our customers' financial needs as we build lifelong relationships with them. One way we track the degree to which we are satisfying our customers' financial needs is through our cross-sell metrics, which help us measure the depth of relationships we have formed with our Community Banking, Wholesale Banking and WIM customers. For additional information regarding our cross-sell metrics, see the "Earnings Performance – Operating Segments – Cross-sell" section in our 2015 Form 10-K.

The “Earnings Performance – Operating Segments – Cross-sell” section in our 2015 Form 10-K described our methodology for measuring and tracking cross-sell metrics. As described below, in second quarter 2016 we modified

our methodology for Community Banking to better align our cross-sell metrics with ongoing changes in Community Banking's business and products. For similar reasons, we are currently in the process of evaluating changes in our cross-sell methodology for Wholesale Banking and WIM.

During second quarter 2016, we changed how we determine retail banking households within Community Banking to include only those households that maintain a retail checking account, which we believe provides the foundation for long-term retail banking relationships. Previously, retail banking households were defined as a household that used at least one of the following retail products – a demand deposit account, savings account, savings certificate, individual retirement account (IRA) certificate of deposit, IRA savings account, personal line of credit, personal loan, home equity line of credit or home equity loan. We continue to determine a retail banking household for Community Banking based on aggregating all accounts with the same address. During second quarter 2016 we also updated the products included in the Community Banking cross-sell metrics to capture the average number of business products, in addition to retail products, that have the potential for revenue generation and long-term viability. Products and services that generally do not meet these criteria – such as ATM cards, online banking, bill pay and direct deposit – are not included. We may periodically update the products included in our cross-sell metrics to account for changes in our product offerings.
Our Community Banking cross-sell metrics, as revised for prior periods to conform to the current period presentation, were 6.28, 6.32, 6.31, 6.37 and 6.36 as of February 2016, May 2015 and November 2015, 2014 and 2013, respectively, reflecting a one month reporting lag for each period.

Operating Segment Results
The following discussion provides a description of each of our operating segments, including cross-sell metrics and financial results. Operating segment results for 2016 reflect a shift in expenses between the personnel and other expense categories as

Earnings Performance (continued)

a result of the movement of support staff from the Wholesale Banking and WIM segments into a consolidated organization within the Community Banking segment. Personnel expenses associated with the transferred support staff are now being allocated from Community Banking back to the Wholesale Banking and WIM segments through other expense.

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 automobile, 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 (on the revised basis described above) was 6.27 products per household in May 2016, compared with 6.32 in May 2015. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

| | Quarter ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except average balances which are in billions) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Net interest income | $7,379 | 7,277 | 1 % | $14,847 | 14,424 | 3 % |
| Noninterest income: | | | | | | |
| Service charges on deposit accounts | 773 | 747 | 3 | 1,526 | 1,439 | 6 |
| Trust and investment fees: | | | | | | |
| Brokerage advisory, commissions and other fees (1) | 455 | 523 | (13) | 905 | 1,029 | (12) |
| Trust and investment management (1) | 204 | 209 | (2) | 409 | 423 | (3) |
| Investment banking (2) | (50) | (24) | NM | (69) | (60) | (15) |
| Total trust and investment fees | 609 | 708 | (14) | 1,245 | 1,392 | (11) |
| Card fees | 907 | 845 | 7 | 1,759 | 1,635 | 8 |
| Other fees | 366 | 363 | 1 | 738 | 722 | 2 |
| Mortgage banking | 1,325 | 1,575 | (16) | 2,833 | 3,010 | (6) |
| Insurance | — | 32 | (100) | 2 | 63 | (97) |
| Net losses from trading activities | (60) | (89) | 33 | (87) | (6) | NM |
| Net gains on debt securities | 394 | 68 | 479 | 613 | 274 | 124 |
| Net gains from equity investments (3) | 164 | 323 | (49) | 339 | 613 | (45) |
| Other income of the segment | 347 | 118 | 194 | 1,003 | 512 | 96 |
| Total noninterest income | 4,825 | 4,690 | 3 | 9,971 | 9,654 | 3 |
| Total revenue | 12,204 | 11,967 | 2 | 24,818 | 24,078 | 3 |
| Provision for credit losses | 689 | 397 | 74 | 1,409 | 1,055 | 34 |
| Noninterest expense: | | | | | | |
| Personnel expense | 4,662 | 4,398 | 6 | 9,280 | 8,916 | 4 |
| Equipment | 466 | 434 | 7 | 959 | 895 | 7 |
| Net occupancy | 521 | 514 | 1 | 1,031 | 1,041 | (1) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Core deposit and other intangibles | 129 | 143 | (10 ) | 257 | 287 | (10 ) |
| FDIC and other deposit assessments | 148 | 128 | 16 | 294 | 258 | 14 |
| Outside professional services | 264 | 241 | 10 | 449 | 421 | 7 |
| Operating losses | 292 | 402 | (27 ) | 699 | 628 | 11 |
| Other expense of the segment | 166 | 459 | (64 ) | 515 | 864 | (40 ) |
| Total noninterest expense | 6,648 | 6,719 | (1 ) | 13,484 | 13,310 | 1 |
| Income before income tax expense and noncontrolling interests | 4,867 | 4,851 | — | 9,925 | 9,713 | 2 |
| Income tax expense | 1,667 | 1,620 | 3 | 3,364 | 2,910 | 16 |
| Net income from noncontrolling interests (4) | 21 | 16 | 31 | 86 | 41 | 110 |
| Net income | $3,179 | 3,215 | (1 ) | $6,475 | 6,762 | (4 ) |
| Average loans | $485.7 | 472.3 | 3 | $485.0 | 472.3 | 3 |
| Average deposits | 703.7 | 654.8 | 7 | 693.3 | 649.1 | 7 |

NM – Not meaningful

(1) Represents income on products and services for WIM customers served through Community Banking distribution channels and is eliminated in consolidation.

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

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

(4) Reflects results attributable to noncontrolling interests largely associated with the Company’s consolidated venture capital investments.

Community Banking reported net income of $3.2 billion, down $36 million, or 1%, from second quarter 2015, and $6.5 billion for the first half of 2016, down $287 million, or 4%, compared with the same period a year ago. First half 2015 results included a discrete tax benefit of $359 million. Revenue of $12.2 billion increased $237 million, or 2%, from second quarter 2015, and was $24.8 billion for the first half of 2016, an increase of $740 million, or 3%, compared with the same period last year. The increase in revenue was due to higher other income driven by gains on debt securities, positive hedge ineffectiveness related to our long term debt hedging results, net interest income, and revenue from debit and credit card volumes, partially offset by lower gains on equity investments, mortgage banking revenue,

and trust and investment fees. Average loans of $485.7 billion in second quarter 2016 increased $13.4 billion, or 3%, from second quarter 2015, and average loans of $485.0 billion in the first half of 2016 increased $12.7 billion, or 3%, from the first half of 2015. Average deposits increased $48.9 billion, or 7%, from second quarter 2015 and $44.2 billion, or 7%, from the first half of 2015. Primary consumer checking customers as of May 2016 (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) were up 4.7% from May 2015. Noninterest expense decreased 1% from second quarter 2015 and increased 1% from the first half of 2015. The decrease from second quarter 2015 was driven by lower operating losses and foreclosed assets

expense, partially offset by higher personnel expense. The increase from the first half of 2015 was due to higher personnel expense and operating losses, partially offset by lower foreclosed assets expense, data processing, and other expense. The provision for credit losses increased $292 million from second quarter 2015 and $354 million from the first half of 2015 substantially due to allowance releases in the prior year compared with an allowance build, reflecting loan growth in the automobile and credit card portfolios.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $5 million. Products and businesses include Business Banking, 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, and Asset Backed Finance. As previously mentioned, we are currently evaluating changes in our cross-sell methodology to better align our metrics with ongoing changes in Wholesale Banking's business and products. 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) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Net interest income | $3,919 | 3,591 | 9 % | $7,667 | 7,028 | 9 % |
| Noninterest income: | | | | | | |
| Service charges on deposit accounts | 563 | 541 | 4 | 1,118 | 1,064 | 5 |
| Trust and investment fees: | | | | | | |
| Brokerage advisory, commissions and other fees | 94 | 66 | 42 | 185 | 132 | 40 |
| Trust and investment management | 123 | 101 | 22 | 234 | 201 | 16 |
| Investment banking | 471 | 476 | (1) | 821 | 960 | (14) |
| Total trust and investment fees | 688 | 643 | 7 | 1,240 | 1,293 | (4) |
| Card fees | 89 | 84 | 6 | 178 | 165 | 8 |
| Other fees | 538 | 743 | (28) | 1,098 | 1,461 | (25) |
| Mortgage banking | 90 | 130 | (31) | 181 | 243 | (26) |
| Insurance | 286 | 429 | (33) | 711 | 827 | (14) |
| Net gains from trading activities | 344 | 207 | 66 | 551 | 484 | 14 |
| Net gains on debt securities | 52 | 112 | (54) | 77 | 184 | (58) |
| Net gains from equity investments | 26 | 183 | (86) | 92 | 258 | (64) |
| Other income of the segment | 689 | (53) | NM | 1,329 | 12 | NM |
| Total noninterest income | 3,365 | 3,019 | 11 | 6,575 | 5,991 | 10 |
| Total revenue | 7,284 | 6,610 | 10 | 14,242 | 13,019 | 9 |
| Provision (reversal of provision) for credit losses | 385 | (84) | 558 | 748 | (135) | 654 |
| Noninterest expense: | | | | | | |
| Personnel expense | 1,783 | 1,700 | 5 | 3,757 | 3,539 | 6 |
| Equipment | 16 | 23 | (30) | 37 | 43 | (14) |
| Net occupancy | 116 | 114 | 2 | 234 | 228 | 3 |
| Core deposit and other intangibles | 95 | 87 | 9 | 185 | 174 | 6 |
| FDIC and other deposit assessments | 88 | 79 | 11 | 174 | 175 | (1) |
| Outside professional services | 276 | 188 | 47 | 490 | 357 | 37 |
| Operating losses | 38 | 34 | 12 | 75 | 43 | 74 |
| Other expense of the segment | 1,624 | 1,279 | 27 | 3,052 | 2,563 | 19 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total noninterest expense | 4,036 | 3,504 | 15 | 8,004 | 7,122 | 12 |
| Income before income tax expense and noncontrolling interests | 2,863 | 3,190 | (10 ) | 5,490 | 6,032 | (9 ) |
| Income tax expense | 795 | 951 | (16 ) | 1,514 | 1,768 | (14 ) |
| Net income (loss) from noncontrolling interests | (5 ) | 48 | NM | (18 ) | 99 | NM |
| Net income | $2,073 | 2,191 | (5 ) | $3,994 | 4,165 | (4 ) |
| Average loans | $451.4 | 386.2 | 17 | $440.6 | 383.1 | 15 |
| Average deposits | 425.8 | 432.4 | (2 ) | 426.9 | 432.1 | (1 ) |

NM – Not meaningful

Wholesale Banking had net income of $2.1 billion in second quarter 2016, down $118 million, or 5%, from second quarter 2015. In the first half of 2016, net income of $4.0 billion decreased $171 million, or 4%, from the same period a year ago. The lower results for both the second quarter and first half of 2016 were driven by increased provision for credit losses. Revenue increased $674 million, or 10%, from second quarter 2015 and $1.2 billion, or 9%, from the first half of 2015 on both increased net interest income and noninterest income. Net interest income increased $328 million, or 9%, from second quarter 2015 and $639 million, or 9%, from the first half of 2015 driven by the GE Capital acquisition as well as broad based loan

growth. Noninterest income increased $346 million, or 11%, from second quarter 2015 on increased lease income related to the GE Capital acquisition, gain on the sale of the health benefit services business, higher customer accommodation trading, increased trust and investment management fees and higher treasury management fees, partially offset by lower insurance fees related to the first quarter 2016 sale of the crop insurance business, lower commercial real estate brokerage fees, lower gains on equity investments and debt securities, and deconsolidation of our merchant services joint venture in fourth quarter 2015, which resulted in recognizing a proportionate share of that fee income in all other income. Noninterest income increased $584 million,

Earnings Performance (continued)

or 10%, from the first half of 2015 on increased lease income related to the GE Capital acquisition, the gains on sales of the crop insurance and health benefit services businesses, higher customer accommodation trading and higher treasury management fees, partially offset by lower insurance fees related to the sale of the crop insurance business, lower commercial real estate brokerage fees, lower gains on equity investments and debt securities, and deconsolidation of our merchant services joint venture. Average loans of $451.4 billion in second quarter 2016 increased $65.2 billion, or 17%, from second quarter 2015, driven by the GE Capital acquisition and broad based growth in asset-backed finance, commercial real estate, corporate banking, equipment finance and structured real estate. Average deposits of $425.8 billion decreased $6.6 billion, or 2%, from second quarter 2015 reflecting lower interest bearing deposits, primarily in the International business, driven by market volatility and the competitive rate environment. Noninterest expense increased $532 million, or 15%, from second quarter 2015 and $882 million, or 12%, from the first half of 2015, due to increased personnel and operating lease expense related to the GE Capital acquisition as well as increased expenses related to growth initiatives, compliance and regulatory requirements. The provision for credit losses increased $469 million from second

quarter 2015 and $883 million from the first half of 2015 driven by increased losses and credit deterioration in the oil and gas portfolio.

Wealth and Investment Management provides a full range of personalized wealth management, investment and retirement products and services to clients across U.S. based businesses including Wells Fargo Advisors, The Private Bank, Abbot Downing, Wells Fargo Institutional Retirement and Trust, and Wells Fargo Asset Management. We deliver financial planning, private banking, credit, investment management and fiduciary services to high-net worth and ultra-high-net worth individuals and families. We also serve clients' brokerage needs, supply retirement and trust services to institutional clients and provide investment management capabilities delivered to global institutional clients through separate accounts and the Wells Fargo Funds. As previously mentioned, we are currently evaluating changes in our cross-sell methodology to better align our metrics with ongoing changes in WIM's business and products. Table 4c provides additional financial information for WIM.

Table 4c: Wealth and Investment Management

| | Quarter ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except average balances which are in billions) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Net interest income | $932 | 832 | 12 % | $1,875 | 1,658 | 13 % |
| Noninterest income: | | | | | | |
| Service charges on deposit accounts | 5 | 6 | (17 ) | 10 | 10 | — |
| Trust and investment fees: | | | | | | |
| Brokerage advisory, commissions and other fees | 2,208 | 2,334 | (5 ) | 4,362 | 4,647 | (6 ) |
| Trust and investment management | 718 | 767 | (6 ) | 1,430 | 1,527 | (6 ) |
| Investment banking (1) | (1 ) | (2 ) | 50 | (1 ) | (5 ) | 80 |
| Total trust and investment fees | 2,925 | 3,099 | (6 ) | 5,791 | 6,169 | (6 ) |
| Card fees | 2 | 1 | 100 | 3 | 2 | 50 |
| Other fees | 5 | 4 | 25 | 9 | 8 | 13 |
| Mortgage banking | (2 ) | (1 ) | (100 ) | (4 ) | (3 ) | (33 ) |
| Insurance | — | — | NM | — | 1 | (100 ) |
| Net gains from trading activities | 44 | 15 | 193 | 64 | 63 | 2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net gains on debt securities | 1 | 1 | — | 1 | 1 | — |
| Net gains (losses) from equity investments | (1 ) | 11 | NM | 2 | 16 | (88 ) |
| Other income of the segment | 8 | 8 | — | 22 | 27 | (19 ) |
| Total noninterest income | 2,987 | 3,144 | (5 ) | 5,898 | 6,294 | (6 ) |
| Total revenue | 3,919 | 3,976 | (1 ) | 7,773 | 7,952 | (2 ) |
| Provision (reversal of provision) for credit losses | 2 | (10 ) | NM | (12 ) | (13 ) | 8 |
| Noninterest expense: | | | | | | |
| Personnel expense | 1,911 | 1,965 | (3 ) | 3,936 | 4,039 | (3 ) |
| Equipment | 13 | 14 | (7 ) | 28 | 28 | — |
| Net occupancy | 109 | 111 | (2 ) | 221 | 222 | — |
| Core deposit and other intangibles | 75 | 82 | (9 ) | 150 | 163 | (8 ) |
| FDIC and other deposit assessments | 31 | 26 | 19 | 62 | 63 | (2 ) |
| Outside professional services | 236 | 206 | 15 | 427 | 412 | 4 |
| Operating losses | 6 | 87 | (93 ) | 18 | 149 | (88 ) |
| Other expense of the segment | 595 | 547 | 9 | 1,176 | 1,084 | 8 |
| Total noninterest expense | 2,976 | 3,038 | (2 ) | 6,018 | 6,160 | (2 ) |
| Income before income tax expense and noncontrolling interests | 941 | 948 | (1 ) | 1,767 | 1,805 | (2 ) |
| Income tax expense | 358 | 359 | — | 672 | 683 | (2 ) |
| Net income (loss) from noncontrolling interests | (1 ) | 3 | NM | (1 ) | 7 | NM |
| Net income | $584 | 586 | — | $1,096 | 1,115 | (2 ) |
| Average loans | $66.7 | 59.3 | 12 | $65.4 | 58.1 | 13 |
| Average deposits | 182.5 | 168.2 | 9 | 183.5 | 169.2 | 8 |

NM – Not meaningful

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

WIM reported net income of $584 million in second quarter 2016, down $2 million from second quarter 2015. Net income for the first half of 2016 was $1.1 billion, down $19 million, or 2%,

compared with the same period a year ago. The decrease in net income for both periods was driven by lower noninterest income, partially offset by higher net interest income and lower expenses.

Revenue was down $57 million, or 1%, from second quarter 2015 and down $179 million, or 2%, from the first half of 2015, driven by lower asset-based fees and lower brokerage transaction revenue, partially offset by growth in net interest income. Net interest income increased 12% from second quarter 2015, and was up 13% from the first half of 2015, due to growth in loan balances and investment portfolios. Average loan balances of $66.7 billion in second quarter 2016 increased 12% from second quarter 2015. Average loans in the first half of 2016 increased 13% from the same period a year ago. Average loan growth was driven by growth in non-conforming mortgage loans and securities-based lending. Average deposits in second quarter 2016 of $182.5 billion increased 9% from second quarter 2015. Average deposits in the first half of 2016 increased 8% from the same period a year ago. The increase in deposits was due to client repositioning of investment portfolio balances into bank deposits. Noninterest expense was down 2% from second quarter 2015 and the first half of 2015, driven by decreased broker commissions due to reduced sales revenue and lower non-personnel expenses. Total provision for credit losses increased $12 million from second quarter 2015 and $1 million from the first half of 2015.

The following discussions provide additional information for client assets we oversee in our retail brokerage advisory and trust and investment management business lines.

Retail Brokerage Client Assets Brokerage advisory, commissions and other fees are received for providing full-service and discount brokerage services predominantly to retail brokerage clients. Offering advisory account relationships to our brokerage clients is an important component of our broader strategy of meeting their financial needs. Although most of our retail brokerage client assets are in accounts that earn brokerage commissions, the fees from those accounts generally represent transactional commissions based on the number and size of transactions executed at the client’s direction. Fees earned from advisory accounts are asset-based and depend on changes in the value of the client’s assets as well as the level of assets resulting from inflows and outflows. A major portion of our brokerage advisory, commissions and other fee income is earned from advisory accounts. Table 4d shows advisory account client assets as a percentage of total retail brokerage client assets at June 30, 2016 and 2015.

Table 4d:  Retail Brokerage Client Assets

| | June 30, | |
|---|---|---|
| (in billions) | 2016 | 2015 |
| Retail brokerage client assets | $1,455.4 | 1,428.0 |
| Advisory account client assets | 443.7 | 433.6 |
| Advisory account client assets as a percentage of total client assets | 30 % | 30 |

Retail Brokerage advisory accounts include assets that are financial advisor-directed and separately managed by third-party managers, as well as certain client-directed brokerage assets where we earn a fee for advisory and other services, but do not have investment discretion. These advisory accounts generate fees as a percentage of the market value of the assets, which vary across the account types based on the distinct services provided,

and are affected by investment performance as well as asset inflows and outflows. For the second quarter and first half of 2016 and 2015, the average fee rate by account type ranged from 80 to 120 basis points. Table 4e presents retail brokerage advisory account client assets activity by account type for the second quarter and first half of 2016 and 2015.

Table 4e:  Retail Brokerage Advisory Account Client Assets

| | Quarter ended June 30, 2016 | | | | | Six months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in billions) | Mar 31, 2016 | Inflows (5) | Outflows (6) | Market impact (7) | Jun 30, 2016 | Dec 31, 2015 | Inflows (5) | Outflows (6) | Market impact (7) | Jun 30, 2016 |
| Client directed (1) | $155.3 | 9.3 | (9.0) | 2.9 | 158.5 | 154.7 | 18.2 | (18.2) | 3.8 | 158.5 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial advisor directed (2) | 97.4 | 7.8 | (4.8) | 3.8 | 104.2 | 91.9 | 15.1 | (8.8) | 6.0 | 104.2 |
| Separate accounts (3) | 113.5 | 7.3 | (5.2) | 3.3 | 118.9 | 110.4 | 13.0 | (10.0) | 5.5 | 118.9 |
| Mutual fund advisory (4) | 62.0 | 2.0 | (2.9) | 1.0 | 62.1 | 62.9 | 3.9 | (5.9) | 1.2 | 62.1 |
| Total advisory client assets | $428.2 | 26.4 | (21.9) | 11.0 | 443.7 | 419.9 | 50.2 | (42.9) | 16.5 | 443.7 |

| | Quarter ended June 30, 2015 | | | | | Six months ended June 30, 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2015 | Inflows (5) | Outflows (6) | Market impact (7) | Jun 30, 2015 | Dec 31, 2014 | Inflows (5) | Outflows (6) | Market impact (7) | Jun 30, 2015 |
| Client directed (1) | $163.0 | 10.5 | (10.2) | (1.5) | 161.8 | 159.8 | 20.8 | (18.9) | 0.1 | 161.8 |
| Financial advisor directed (2) | 89.9 | 5.2 | (4.8) | 1.1 | 91.4 | 85.4 | 10.6 | (8.4) | 3.8 | 91.4 |
| Separate accounts (3) | 113.6 | 5.6 | (5.2) | (1.0) | 113.0 | 110.7 | 11.6 | (10.1) | 0.8 | 113.0 |
| Mutual fund advisory (4) | 68.0 | 2.7 | (3.0) | (0.3) | 67.4 | 66.9 | 5.6 | (5.9) | 0.8 | 67.4 |
| Total advisory client assets | $434.5 | 24.0 | (23.2) | (1.7) | 433.6 | 422.8 | 48.6 | (43.3) | 5.5 | 433.6 |

(1) Investment advice and other services are provided to client, but decisions are made by the client and the fees earned are based on a percentage of the advisory account assets, not the number and size of transactions executed by the client.

(2) Professionally managed portfolios with fees earned based on respective strategies and as a percentage of certain client assets.

(3) Professional advisory portfolios managed by Wells Fargo asset management advisors or third-party asset managers. Fees are earned based on a percentage of certain client assets.

(4) Program with portfolios constructed of load-waived, no-load and institutional share class mutual funds. Fees are earned based on a percentage of certain client assets.

(5) Inflows include new advisory account assets, contributions, dividends and interest.

(6) Outflows include closed advisory account assets, withdrawals, and client management fees.

(7) Market impact reflects gains and losses on portfolio investments.

Trust and Investment Client Assets Under Management We earn trust and investment management fees from managing and administering assets, including mutual funds, institutional separate accounts, personal trust, employee benefit trust and agency assets through our asset management, wealth and retirement businesses. Our asset management business is conducted by Wells Fargo Asset Management (WFAM), which offers Wells Fargo proprietary mutual funds and manages institutional separate accounts. Our wealth business manages assets for high net worth clients, and our retirement business

provides total retirement management, investments, and trust and custody solutions tailored to meet the needs of institutional clients. Substantially all of our trust and investment management fee income is earned from AUM where we have discretionary management authority over the investments and generate fees as a percentage of the market value of the AUM. Table 4f presents AUM activity for the second quarter and first half of 2016 and 2015.

Table 4f: WIM Trust and Investment – Assets Under Management

| | Quarter ended June 30, 2016 | | | | | Six months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in billions) | Mar 31, 2016 | Inflows (4) | Outflows (5) | Market impact (6) | Jun 30, 2016 | Dec 31, 2015 | Inflows (4) | Outflows (5) | Market impact (6) | Jun 30, 2016 |
| Assets managed by WFAM (1): | | | | | | | | | | |
| Money market funds (2) | $113.9 | — | (5.0) | — | 108.9 | 123.6 | — | (14.7) | — | 108.9 |
| Other assets managed | 367.1 | 28.8 | (26.4) | 5.4 | 374.9 | 366.1 | 55.9 | (54.9) | 7.8 | 374.9 |
| Assets managed by Wealth and Retirement (3) | 163.4 | 8.2 | (9.2) | 2.2 | 164.6 | 162.1 | 17.3 | (18.0) | 3.2 | 164.6 |
| Total assets under management | $644.4 | 37.0 | (40.6) | 7.6 | 648.4 | 651.8 | 73.2 | (87.6) | 11.0 | 648.4 |

| | Quarter ended June 30, 2015 | | | | | Six months ended June 30, 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2015 | Inflows (4) | Outflows (5) | Market impact (6) | Jun 30, 2015 | Dec 31, 2014 | Inflows (4) | Outflows (5) | Market impact (6) | Jun 30, 2015 |
| Assets managed by WFAM (1): | | | | | | | | | | |
| Money market funds (2) | $111.3 | — | (3.0) | — | 108.3 | 123.1 | — | (14.8) | — | 108.3 |
| Other assets managed | 381.4 | 25.9 | (27.8) | — | 379.5 | 372.6 | 52.5 | (51.0) | 5.4 | 379.5 |
| Assets managed by Wealth and Retirement (3) | 166.8 | 8.9 | (8.7) | (1.5) | 165.5 | 165.3 | 17.7 | (17.9) | 0.4 | 165.5 |
| Total assets under management | $659.5 | 34.8 | (39.5) | (1.5) | 653.3 | 661.0 | 70.2 | (83.7) | 5.8 | 653.3 |

(1) Assets managed by Wells Fargo Asset Management consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.

(2) Money Market fund activity is presented on a net inflow or net outflow basis, because the gross flows are not meaningful nor used by management as an indicator of performance.

(3) Includes $8.2 billion and $8.9 billion as of December 31, 2015 and 2014 and $7.6 billion and $7.8 billion as of June 30, 2016 and 2015, respectively, of client assets invested in proprietary funds managed by WFAM.

(4) Inflows include new managed account assets, contributions, dividends and interest.

(5) Outflows include closed managed account assets, withdrawals and client management fees.
(6) Market impact reflects gains and losses on portfolio investments.

## Balance Sheet Analysis

At June 30, 2016, our assets totaled $1.9 trillion, up $101.6 billion from December 31, 2015. The predominant areas of asset growth were in federal funds sold and other short-term investments, which increased $25.4 billion, investment securities, which increased $5.9 billion, and loans, which increased $40.6 billion (including $25.1 billion from the GE Capital transactions). Additionally, other assets increased $22.4 billion due to $5.9 billion in operating leases from the first quarter 2016 GE Capital transactions, higher receivables related to unsettled trading security transactions and higher fair values for derivative assets designated as hedging instruments due to decreasing interest rates. An increase of $44.4 billion in long-term debt (including debt issued to fund the GE Capital

transactions and debt issued that is expected to be eligible under proposed Total Loss Absorbing Capacity (TLAC) rules), deposit growth of $22.2 billion, an increase in short-term borrowings of $22.7 billion, and total equity growth of $8.8 billion from December 31, 2015, were the predominant sources that funded our asset growth in the first half of 2016. Equity growth benefited from $6.2 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, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| (in millions) | Amortized Cost | Net unrealized gain | Fair value | Amortized Cost | Net unrealized gain | Fair value |
| Available-for-sale securities: | | | | | | |
| Debt securities | $247,602 | 4,102 | 251,704 | 263,318 | 2,403 | 265,721 |
| Marketable equity securities | 868 | 434 | 1,302 | 1,058 | 579 | 1,637 |
| Total available-for-sale securities | 248,470 | 4,536 | 253,006 | 264,376 | 2,982 | 267,358 |
| Held-to-maturity debt securities | 100,420 | 3,657 | 104,077 | 80,197 | 370 | 80,567 |
| Total investment securities (1) | $348,890 | 8,193 | 357,083 | 344,573 | 3,352 | 347,925 |

(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 $5.9 billion from December 31, 2015, predominantly due to purchases of Federal agency mortgage-backed securities in our held-to-maturity portfolio. The increase in investment securities was partially offset by sales and pay-downs of Federal agency mortgage-backed securities and sales of U.S. Treasury securities in our available-for-sale portfolio.

The total net unrealized gains on available-for-sale securities were $4.5 billion at June 30, 2016, up from $3.0 billion at December 31, 2015, due to a decline in interest rates. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section in our 2015 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 $328 million in OTTI write-downs recognized in earnings in the first half of 2016, $91 million related to debt securities and $4 million related to marketable equity securities, which are included in available-for-sale securities. Another $233 million in OTTI write-downs were related to nonmarketable equity investments, which are included in other assets. OTTI write-downs recognized in earnings related to oil and gas investments totaled $153 million in the first half of 2016, of which $51 million related to investment securities and $102 million related to nonmarketable equity investments. 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 2015 Form

10-K and Note 4 (Investment Securities) to Financial Statements in this Report.
At June 30, 2016, investment securities included $56.2 billion of municipal bonds, of which 95.3% 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 5.6 years at June 30, 2016. Because 46% 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.

Balance Sheet Analysis (continued)

Table 6: Mortgage-Backed Securities Available for Sale

| (in billions) | Fair value | Net unrealized gain (loss) | Expected remaining maturity (in years) |
|---|---|---|---|
| At June 30, 2016 | | | |
| Actual | $115.8 | 3.6 | 4.7 |
| Assuming a 200 basis point: | | | |
| Increase in interest rates | 106.4 | (5.8) | 6.7 |
| Decrease in interest rates | 117.6 | 5.4 | 2.8 |

The weighted-average expected maturity of debt securities held-to-maturity was 5.4 years at June 30, 2016. See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

Loan Portfolios

Table 7 provides a summary of total outstanding loans by portfolio segment. Total loans increased $40.6 billion from December 31, 2015, predominantly due to growth in commercial and industrial, real estate mortgage and lease financing loans within the commercial loan portfolio segment, which included $25.1 billion of commercial and industrial loans and capital leases acquired from GE Capital.

Table 7: Loan Portfolios

| (in millions) | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Commercial | $494,538 | 456,583 |
| Consumer | 462,619 | 459,976 |
| Total loans | $957,157 | 916,559 |
| Change from prior year-end | $40,598 | 54,008 |

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, 2016 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| (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 | $101,026 | 197,113 | 25,719 | 323,858 | 91,214 | 184,641 | 24,037 | 299,892 |
| Real estate mortgage | 19,903 | 70,878 | 37,539 | 128,320 | 18,622 | 68,391 | 35,147 | 122,160 |
| Real estate construction | 8,454 | 13,626 | 1,307 | 23,387 | 7,455 | 13,284 | 1,425 | 22,164 |
| Total selected loans | $129,383 | 281,617 | 64,565 | 475,565 | 117,291 | 266,316 | 60,609 | 444,216 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Distribution of loans to changes in interest rates: | | | | | | | | |
| Loans at fixed interest rates | $19,814 | 30,478 | 24,703 | 74,995 | 16,819 | 27,705 | 23,533 | 68,057 |
| Loans at floating/variable interest rates | 109,569 | 251,139 | 39,862 | 400,570 | 100,472 | 238,611 | 37,076 | 376,159 |
| Total selected loans | $129,383 | 281,617 | 64,565 | 475,565 | 117,291 | 266,316 | 60,609 | 444,216 |

19

Deposits
Deposits increased $22.2 billion from December 31, 2015, to $1.25 trillion, reflecting continued broad-based growth in our consumer and small business banking deposits. Table 9 provides additional information regarding deposits. Information regarding

the impact of deposits on net interest income and a comparison of average deposit balances is provided in the "Earnings Performance – Net Interest Income" section and Table 1 earlier in this Report.

Table 9: Deposits

| ($ in millions) | Jun 30, 2016 | % of total deposits | | Dec 31, 2015 | % of total deposits | | % Change | |
|---|---|---|---|---|---|---|---|---|
| Noninterest-bearing | $361,934 | 29 | % | $351,579 | 29 | % | 3 | |
| Interest-bearing checking | 41,316 | 3 | | 40,115 | 3 | | 3 | |
| Market rate and other savings | 657,145 | 53 | | 651,563 | 54 | | 1 | |
| Savings certificates | 25,589 | 2 | | 28,614 | 2 | | (11 | ) |
| Other time and deposits | 60,858 | 5 | | 49,032 | 4 | | 24 | |
| Deposits in foreign offices (1) | 98,631 | 8 | | 102,409 | 8 | | (4 | ) |
| Total deposits | $1,245,473 | 100 | % | $1,223,312 | 100 | % | 2 | |

(1) Includes Eurodollar sweep balances of $63.5 billion and $71.1 billion at June 30, 2016, and December 31, 2015, respectively.

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 2015 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 (before 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, 2016 | | | December 31, 2015 | |
|---|---|---|---|---|---|
| ($ in billions) | Total balance | | Level 3 (1) | Total balance | Level 3 (1) |
| Assets carried at fair value (2) | $384.3 | | 26.4 | 384.2 | 27.6 |
| As a percentage of total assets | 20 | % | 1 | 21 | 2 |
| Liabilities carried at fair value | $32.4 | | 1.6 | 29.6 | 1.5 |
| As a percentage of total liabilities | 2 | % | * | 2 | * |

* Less than 1%.
(1) Before derivative netting adjustments.
(2) Level 3 assets at December 31, 2015, have been revised in accordance with our adoption of Accounting Standards Update 2015-07 (Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)). See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information.

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 $202.7 billion at June 30, 2016 compared with $193.9 billion at December 31, 2015. The increase was predominantly driven by a $6.2 billion increase in retained earnings from earnings net of dividends paid, and a $2.6 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 is 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, limited liability companies 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 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 2015 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements” section in our 2015 Form 10-K.

21

## Risk Management

Wells Fargo manages a variety of risks that can significantly affect our financial performance and our ability to meet the expectations of our customers, stockholders, regulators and other stakeholders. Among the risks that we manage are operational risk, credit risk, and asset/liability management risk, which includes interest rate risk, market risk, 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 2015 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 2015 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, 2016 | Dec 31, 2015 |
|---|---|---|
| Commercial: | | |
| Commercial and industrial | $323,858 | 299,892 |
| Real estate mortgage | 128,320 | 122,160 |
| Real estate construction | 23,387 | 22,164 |
| Lease financing | 18,973 | 12,367 |
| Total commercial | 494,538 | 456,583 |
| Consumer: | | |
| Real estate 1-4 family first mortgage | 277,162 | 273,869 |
| Real estate 1-4 family junior lien mortgage | 49,772 | 53,004 |
| Credit card | 34,137 | 34,039 |
| Automobile | 61,939 | 59,966 |
| Other revolving credit and installment | 39,609 | 39,098 |
| Total consumer | 462,619 | 459,976 |

| Total loans | $957,157 | 916,559 |
|---|---|---|

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 remained solid in second quarter 2016 as our loss rate remained low at 0.39%. We continued to benefit from improvements in the performance of our residential real estate portfolio, which was more than offset by losses in our oil and gas portfolio. In particular:

- Nonaccrual loans were $12.0 billion at June 30, 2016, up from $11.4 billion at December 31, 2015. Although commercial nonaccrual loans increased to $4.5 billion at June 30, 2016, compared with $2.4 billion at December 31, 2015, consumer nonaccrual loans declined to $7.5 billion at June 30, 2016, compared with $9.0 billion at December 31, 2015. The increase in commercial nonaccrual loans was largely driven by loans in our oil and gas portfolio. The decline in consumer nonaccrual loans, which reflects an improving housing market, partially offset the increase in commercial nonaccrual loans. Nonaccrual loans represented 1.25% of total loans at June 30, 2016, compared with 1.24% at December 31, 2015.
- Net charge-offs (annualized) as a percentage of average total loans increased to 0.39% in both the second quarter and first half of 2016, compared with 0.30% and 0.32%, respectively, for the same periods a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.29% and 0.49% in second quarter and 0.25% and 0.53% in the first half of 2016, respectively, compared with 0.06% and 0.53% in the second quarter and 0.05% and 0.56% in the first half of 2015.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $58 million and $730 million in our commercial and consumer portfolios, respectively, at June 30, 2016, compared with $114 million and $867 million at December 31, 2015.
- Our provision for credit losses was $1.1 billion and $2.2 billion in the second quarter and first half of 2016, respectively, compared with $300 million and $908 million, for the same periods a year ago.
- The allowance for credit losses increased to $12.7 billion, or 1.33% of total loans, at June 30, 2016 from $12.5 billion, or 1.37%, at December 31, 2015.

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

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. 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 at June 30, 2016, which included $1.0 billion from the GE Capital acquisitions, totaled $19.3 billion, compared with $20.0 billion at December 31, 2015, and $58.8 billion at December 31, 2008. Such loans are considered to be accruing due to the existence of the accretable yield amount, which represents the cash expected to be collected in excess of their carrying value, and not based on consideration given to contractual interest payments. The accretable yield at June 30, 2016, was $15.7 billion.

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. Since December 31, 2008, we have released $11.7 billion in nonaccretable difference, including $9.8 billion transferred from the nonaccretable difference to the accretable yield due to decreases in our initial estimate of loss on contractual amounts, and $1.9 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. The net result is a $10.0 billion reduction from December 31, 2008, through June 30, 2016, in our initial projected losses of $41.0 billion on all PCI loans acquired in the Wachovia acquisition. At June 30, 2016, $2.2 billion in nonaccretable difference, which included $308 million from the GE Capital acquisitions, remained to absorb losses on PCI loans.

For additional information on PCI loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K, and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

23

---

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 $342.8 billion, or 36% of total loans, at June 30, 2016. The annualized net charge-off rate for this portfolio was 0.45% and 0.40% in the second quarter and first half of 2016, respectively, compared with 0.11% and 0.10% for the same periods a year ago. At June 30, 2016, 1.04% of this portfolio was nonaccruing, compared with 0.44% at December 31, 2015, an increase of $2.2 billion. Also, $28.2 billion of this portfolio was internally classified as criticized in accordance with regulatory guidance at June 30, 2016, compared with $19.1 billion at December 31, 2015. The increase in criticized loans, which also includes the increase in nonaccrual loans, was due to the initial classification of loans and capital leases acquired from GE Capital, and to deterioration in the oil and gas portfolio. Based on preliminary evaluation and refinement of our initial classification of the criticized loans and leases acquired from GE Capital, we expect continued classification improvement.

Most 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 12 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $51.5 billion of foreign loans at June 30, 2016. Foreign loans totaled $13.9 billion within the investor category, $16.6 billion within the financial institutions category and $2.2 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 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 $16.6 billion of foreign loans in the financial institutions category were predominantly originated by our Global Financial Institutions (GFI) business.

The oil and gas loan portfolio totaled $17.1 billion, or 2% of total outstanding loans at June 30, 2016, compared with $17.4 billion, or 2% of total outstanding loans, at December 31, 2015. Unfunded loan commitments in the oil and gas loan portfolio totaled $22.0 billion at June 30, 2016. Approximately 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. The majority of the other oil and gas loans were to midstream companies. We proactively monitor our oil and gas loan portfolio and work with customers to address any emerging issues. Oil and gas nonaccrual loans increased to $2.6 billion at June 30, 2016, compared with $844 million at December 31, 2015, due to weaker borrower financial performance.

Table 12: Commercial and Industrial Loans and Lease Financing by Industry (1)

June 30, 2016

| (in millions) | Nonaccrual loans | Total portfolio | (2) | % of total loans | |
|---|---|---|---|---|---|
| Investors | $8 | 53,861 | | 6 | % |
| Financial institutions | 24 | 37,837 | | 4 | |
| Cyclical retailers | 61 | 24,572 | | 2 | |
| Oil and gas | 2,550 | 17,064 | | 2 | |
| Healthcare | 35 | 16,288 | | 2 | |
| Industrial equipment | 33 | 15,387 | | 2 | |
| Food and beverage | 98 | 15,005 | | 2 | |
| Real estate lessor | — | 14,884 | | 1 | |
| Technology | 61 | 11,999 | | 1 | |
| Transportation | 106 | 9,455 | | 1 | |
| Public administration | 8 | 9,188 | | 1 | |
| Business services | 33 | 8,772 | | 1 | |
| Other | 559 | 108,519 | (3) | 11 | |
| Total | $3,576 | 342,831 | | 36 | % |

(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 $1.1 billion 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 $6.8 billion.

Risk Management - Credit Risk Management (continued)

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 $8.7 billion of foreign CRE loans, totaled $151.7 billion, or 16% of total loans, at June 30, 2016, and consisted of $128.3 billion of mortgage loans and $23.4 billion of construction loans.
Table 13 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 CRE loans are in California, Texas, New York and Florida, which combined represented 49% of the total CRE

portfolio. By property type, the largest concentrations are office buildings at 28% and apartments at 16% of the portfolio. CRE nonaccrual loans totaled 0.6% of the CRE outstanding balance at June 30, 2016, compared with 0.7% at December 31, 2015. At June 30, 2016, we had $6.0 billion of criticized CRE mortgage loans, compared with $6.8 billion at December 31, 2015, and $514 million of criticized CRE construction loans, compared with $549 million at December 31, 2015.
At June 30, 2016, the recorded investment in PCI CRE loans totaled $516 million, down from $12.3 billion when acquired at December 31, 2008, reflecting principal payments, loan resolutions and write-downs.

Table 13: CRE Loans by State and Property Type

| | June 30, 2016 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $201 | 36,619 | | 11 | 4,403 | | 212 | 41,022 | | 4 | % |
| Texas | 46 | 9,489 | | — | 1,974 | | 46 | 11,463 | | 1 | |
| New York | 34 | 9,145 | | 1 | 2,148 | | 35 | 11,293 | | 1 | |
| Florida | 110 | 8,559 | | 1 | 2,039 | | 111 | 10,598 | | 1 | |
| North Carolina | 50 | 3,844 | | 10 | 964 | | 60 | 4,808 | | 1 | |
| Arizona | 34 | 3,989 | | 1 | 499 | | 35 | 4,488 | | * | |
| Washington | 52 | 3,610 | | — | 737 | | 52 | 4,347 | | * | |
| Georgia | 36 | 3,604 | | 6 | 563 | | 42 | 4,167 | | * | |
| Virginia | 10 | 2,897 | | — | 1,009 | | 10 | 3,906 | | * | |
| Illinois | 26 | 3,300 | | — | 400 | | 26 | 3,700 | | * | |
| Other | 273 | 43,264 | | 29 | 8,651 | | 302 | 51,915 | (2) | 5 | |
| Total | $872 | 128,320 | | 59 | 23,387 | | 931 | 151,707 | | 16 | % |
| By property: | | | | | | | | | | | |
| Office buildings | $280 | 39,972 | | — | 2,888 | | 280 | 42,860 | | 4 | % |
| Apartments | 28 | 15,405 | | 3 | 8,474 | | 31 | 23,879 | | 2 | |
| Industrial/warehouse | 135 | 15,033 | | — | 1,311 | | 135 | 16,344 | | 2 | |
| Retail (excluding shopping center) | 110 | 14,948 | | — | 817 | | 110 | 15,765 | | 2 | |
| Shopping center | 40 | 10,317 | | — | 1,380 | | 40 | 11,697 | | 1 | |
| Hotel/motel | 16 | 9,923 | | — | 1,510 | | 16 | 11,433 | | 1 | |
| Real estate - other | 95 | 8,498 | | — | 198 | | 95 | 8,696 | | 1 | |
| Institutional | 31 | 3,051 | | — | 902 | | 31 | 3,953 | | * | |
| Agriculture | 49 | 2,563 | | — | 11 | | 49 | 2,574 | | * | |
| 1-4 family structure | — | 3 | | 7 | 2,502 | | 7 | 2,505 | | * | |
| Other | 88 | 8,607 | | 49 | 3,394 | | 137 | 12,001 | | 1 | |

| Total | $872 | 128,320 | 59 | 23,387 | 931 | 151,707 | 16 % |
|---|---|---|---|---|---|---|---|

*Less than 1%.

(1) Includes a total of $516 million PCI loans, consisting of $446 million of real estate mortgage and $70 million of real estate construction, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(2) Includes 40 states; no state had loans in excess of $3.7 billion.

FOREIGN LOANS AND COUNTRY RISK EXPOSURE We classify loans for financial statement and certain regulatory purposes as foreign primarily based on whether the borrower's primary address is outside of the United States. At June 30, 2016, foreign loans totaled $60.7 billion, representing approximately 6% of our total consolidated loans outstanding, compared with $58.6 billion, or approximately 6% of total consolidated loans outstanding, at December 31, 2015. Foreign loans were approximately 3% of our consolidated total assets at June 30, 2016 and at December 31, 2015.

Our foreign country risk monitoring process incorporates frequent dialogue with our financial institution customers, counterparties and regulatory agencies, enhanced by centralized monitoring of macroeconomic and capital markets conditions in the respective countries. We establish exposure limits for each country through a centralized oversight process based on customer needs, and in consideration of relevant economic, political, social, legal, and transfer risks. We monitor exposures closely and adjust our country limits in response to changing conditions.

We evaluate our individual country risk exposure based on our assessment of ultimate risk, which is normally based on the country of residence of the guarantor or collateral location, and may be different from the reporting based on the borrower's primary address. Our largest single foreign country exposure on an ultimate risk basis at June 30, 2016, was the United Kingdom, which totaled $27.1 billion, or approximately 1% of our total assets, and included $4.0 billion of sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch. The Brexit vote did not have a material impact on our United Kingdom or other foreign exposure as of June 30, 2016. We will continue to monitor the relationship between the United Kingdom and the European Union and assess the related risks. Our exposure to Canada, our second largest foreign country exposure on an ultimate risk basis, totaled $17.9 billion at June 30, 2016, up $2.9 billion from December 31, 2015, predominantly due to the GE Capital acquisitions.

We conduct periodic stress tests of our significant country risk exposures, analyzing the direct and indirect impacts on the risk of loss from various macroeconomic and capital markets scenarios. We do not have significant exposure to foreign country risks because our foreign portfolio is relatively small. However, we have identified exposure to increased loss from U.S. borrowers associated with the potential impact of a regional or worldwide economic downturn on the U.S. economy. We mitigate these potential impacts on the risk of loss through our normal risk management processes which include active monitoring and, if necessary, the application of aggressive loss mitigation strategies.

Table 14 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, on an ultimate risk basis. Our exposure to Puerto Rico (considered part of U.S. exposure) is largely through automobile lending and was not material to our consolidated country risk exposure.

Risk Management - Credit Risk Management (continued)

Table 14: Select Country Exposures

| | June 30, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Lending (1) | | Securities (2) | | Derivatives and other (3) | | Total exposure | | |
| (in millions) | Sovereign | Non-sovereign | Sovereign | Non-sovereign | Sovereign | Non-sovereign | Sovereign | Non-sovereign (4) | Total |
| Top 20 country exposures: | | | | | | | | | |
| United Kingdom | $3,999 | 17,137 | 4 | 3,421 | — | 2,499 | 4,003 | 23,057 | 27,060 |
| Canada | 1 | 16,306 | — | 841 | — | 776 | 1 | 17,923 | 17,924 |
| Cayman Islands | — | 5,066 | — | — | — | 252 | — | 5,318 | 5,318 |
| Germany | 2,058 | 1,491 | — | 184 | — | 424 | 2,058 | 2,099 | 4,157 |
| Ireland | 17 | 3,530 | — | 154 | — | 118 | 17 | 3,802 | 3,819 |
| Bermuda | — | 3,374 | — | 81 | — | 181 | — | 3,636 | 3,636 |
| Netherlands | — | 1,935 | — | 422 | — | 95 | — | 2,452 | 2,452 |
| Brazil | — | 2,173 | — | (7) | — | 5 | — | 2,171 | 2,171 |
| India | — | 1,904 | — | 198 | — | 9 | — | 2,111 | 2,111 |
| Australia | — | 1,067 | — | 874 | — | 96 | — | 2,037 | 2,037 |
| France | — | 790 | — | 953 | — | 194 | — | 1,937 | 1,937 |
| China | — | 1,662 | (2) | 86 | 74 | 1 | 72 | 1,749 | 1,821 |
| South Korea | — | 1,515 | (12) | 95 | 3 | — | (9) | 1,610 | 1,601 |
| Switzerland | — | 1,512 | — | 4 | — | 38 | — | 1,554 | 1,554 |
| Turkey | — | 1,372 | — | 86 | — | — | — | 1,458 | 1,458 |
| Chile | — | 1,384 | — | 20 | — | 48 | — | 1,452 | 1,452 |
| Guernsey | — | 1,423 | — | — | — | 2 | — | 1,425 | 1,425 |
| Mexico | 257 | 1,025 | — | 12 | — | 5 | 257 | 1,042 | 1,299 |
| Jersey, C.I. | — | 772 | — | 214 | — | 29 | — | 1,015 | 1,015 |
| Luxembourg | — | 700 | — | 139 | — | 23 | — | 862 | 862 |
| Total top 20 country exposures | $6,332 | 66,138 | (10) | 7,777 | 77 | 4,795 | 6,399 | 78,710 | 85,109 |
| Eurozone exposure: | | | | | | | | | |
| Eurozone countries included in Top 20 above (5) | $2,075 | 8,446 | — | 1,852 | — | 854 | 2,075 | 11,152 | 13,227 |
| Austria | — | 620 | — | — | — | — | — | 620 | 620 |
| Spain | — | 349 | — | 91 | — | 3 | — | 443 | 443 |
| Belgium | — | 300 | — | 38 | — | 1 | — | 339 | 339 |
| Other Eurozone exposure (6) | 22 | 93 | — | 59 | — | 8 | 22 | 160 | 182 |
| Total Eurozone exposure | $2,097 | 9,808 | — | 2,040 | — | 866 | 2,097 | 12,714 | 14,811 |

(1) Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under the terms of the credit agreements. For the countries listed above, includes $16 million in PCI loans, predominantly to customers in Germany and the Netherlands, and $1.1 billion in defeased leases secured primarily by U.S. Treasury and government agency securities, or government guaranteed.

(2) Represents exposure on debt and equity securities of foreign issuers. Long and short positions are netted and net short positions are reflected as negative exposure.

(3) Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used to manage our U.S. and London-based cash credit trading businesses, which sometimes results in selling and purchasing protection on the identical reference entity. Generally, we do not use market instruments such as CDS to hedge the credit risk of our investment or loan positions, although we do use them to manage risk in our trading businesses. At June 30, 2016, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries was $2.1 billion, which was offset by the notional amount of CDS purchased of $2.2 billion. We did not have any CDS purchased or sold that reference pools of assets that contain sovereign debt or where the reference asset was solely the sovereign debt of a foreign country.

(4) For countries presented in the table, total non-sovereign exposure comprises $36.5 billion exposure to financial institutions and $43.8 billion to non-financial corporations at June 30, 2016.

(5) Consists of exposure to Germany, Ireland, Netherlands, France and Luxembourg included in Top 20.

(6) Includes non-sovereign exposure to Italy, Greece and Portugal in the amount of $96 million, $29 million and $21 million respectively. We had no sovereign debt exposure to these countries at June 30, 2016.

REAL ESTATE 1-4 FAMILY FIRST AND JUNIOR LIEN MORTGAGE LOANS Our real estate 1-4 family first and junior lien mortgage loans, as presented in Table 15, include loans we have made to customers and retained as part of our asset/liability management strategy, the Pick-a-Pay portfolio acquired from

Wachovia which is discussed later in this Report and other purchased loans, and loans included on our balance sheet as a result of consolidation of variable interest entities (VIEs).

Table 15: Real Estate 1-4 Family First and Junior Lien Mortgage Loans

| | June 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| (in millions) | Balance | % of portfolio | | Balance | % of portfolio | |
| Real estate 1-4 family first mortgage | $277,162 | 85 | % | $273,869 | 84 | % |
| Real estate 1-4 family junior lien mortgage | 49,772 | 15 | | 53,004 | 16 | |
| Total real estate 1-4 family mortgage loans | $326,934 | 100 | % | $326,873 | 100 | % |

The real estate 1-4 family mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 8% and 9% of total loans at June 30, 2016, and December 31, 2015, respectively. We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. The option ARMs we do have are included in the Pick-a-Pay portfolio which was acquired from Wachovia. Since our acquisition of the Pick-a-Pay loan portfolio at the end of 2008, the option payment portion of the portfolio has reduced from 86% to 38% at June 30, 2016, as a result of our modification activities and customers exercising their option to convert to fixed payments. For more information, see the “Pick-a-Pay Portfolio” section in this Report.

We continue to modify real estate 1-4 family mortgage loans to assist homeowners and other borrowers experiencing financial difficulties. For more information on our participation in the U.S. Treasury’s Making Home Affordable (MHA) programs, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2015 Form 10-K.

Part of our credit monitoring includes tracking delinquency, FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These credit risk indicators, which exclude government insured/guaranteed loans, continued to improve in second quarter 2016 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at June 30, 2016, totaled $6.7 billion, or 2% of total non-PCI mortgages, compared with $8.3 billion, or 3%, at December 31, 2015. Loans with FICO scores lower than 640 totaled $18.9 billion, or 6% of total non-PCI mortgages at June 30, 2016, compared with $21.1 billion, or 7%, at December 31, 2015. Mortgages with a LTV/CLTV greater than 100% totaled $12.3 billion at June 30, 2016, or 4% of total non-PCI mortgages, compared with $15.1 billion, or 5%, at December 31, 2015. Information regarding credit quality indicators, including PCI credit quality indicators, can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 16. Our real estate 1-4 family mortgage loans to borrowers in California represented approximately 12% of total loans at June 30, 2016, located mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 5% of total loans. We monitor changes in real estate values and underlying economic or

market conditions for all geographic areas of our real estate 1-4 family mortgage portfolio as part of our credit risk management process. Our underwriting and periodic review of loans secured by residential real estate collateral includes appraisals or estimates from automated valuation models (AVMs) to support property values. Additional information about AVMs and our policy for their use can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report and the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2015 Form 10-K.

Table 16: Real Estate 1-4 Family First and Junior Lien Mortgage Loans by State

| (in millions) | June 30, 2016 Real estate 1-4 family first mortgage | Real estate 1-4 family junior lien mortgage | Total real estate 1-4 family mortgage | % of total loans | |
|---|---|---|---|---|---|
| Real estate 1-4 family loans (excluding PCI): | | | | | |
| California | $91,494 | 13,570 | 105,064 | 11 | % |
| New York | 22,456 | 2,294 | 24,750 | 2 | |
| Florida | 13,948 | 4,531 | 18,479 | 2 | |
| New Jersey | 12,243 | 4,269 | 16,512 | 2 | |
| Virginia | 7,364 | 2,848 | 10,212 | 1 | |
| Texas | 8,319 | 810 | 9,129 | 1 | |
| Washington | 7,287 | 1,149 | 8,436 | 1 | |
| Pennsylvania | 5,682 | 2,615 | 8,297 | 1 | |
| North Carolina | 6,021 | 2,275 | 8,296 | 1 | |
| Other (1) | 64,078 | 15,360 | 79,438 | 8 | |
| Government insured/ guaranteed loans (2) | 20,580 | — | 20,580 | 2 | |
| Real estate 1-4 family loans (excluding PCI) | 259,472 | 49,721 | 309,193 | 32 | |
| Real estate 1-4 family PCI loans (3) | 17,690 | 51 | 17,741 | 2 | |
| Total | $277,162 | 49,772 | 326,934 | 34 | % |

(1) Consists of 41 states; no state had loans in excess of $7.1 billion.

(2) Represents loans whose repayments are predominantly insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

(3) Includes $12.3 billion in real estate 1-4 family mortgage PCI loans in California.

First Lien Mortgage Portfolio Our total real estate 1-4 family first lien mortgage portfolio increased $2.4 billion in second quarter 2016 and $3.3 billion in the first half of 2016, as we

Risk Management - Credit Risk Management (continued)

retained $16.2 billion and $28.0 billion in non-conforming originations, consisting of loans that exceed conventional conforming loan amount limits established by federal government-sponsored entities (GSEs), in the second quarter and first half of 2016, respectively.
The credit performance associated with our real estate 1-4 family first lien mortgage portfolio continued to improve in second quarter 2016, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average real estate 1-4 family first lien mortgage loans improved to 0.02% and 0.05% in the second quarter and first half of 2016, respectively, compared with 0.10% and 0.11% for the same

periods a year ago. Nonaccrual loans were $6.0 billion at June 30, 2016, compared with $7.3 billion at December 31, 2015. Improvement in the credit performance was driven by an improving housing environment. Real estate 1-4 family first lien mortgage loans originated after 2008, which generally utilized tighter underwriting standards, have resulted in minimal losses to date and were approximately 70% of our total real estate 1-4 family first lien mortgage portfolio as of June 30, 2016.
Table 17 shows certain delinquency and loss information for the first lien mortgage portfolio and lists the top five states by outstanding balance.

Table 17: First Lien Mortgage Portfolio Performance

| | Outstanding balance | | % of loans 30 days or more past due | | Loss (recovery) rate (annualized) quarter ended | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | Jun 30, 2016 | Dec 31, 2015 | Jun 30, 2016 | Dec 31, 2015 | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
| California | $91,494 | 88,367 | 1.56 % | 1.87 | (0.09) | (0.07) | (0.05) | (0.05) | (0.02) |
| New York | 22,456 | 20,962 | 2.37 | 3.07 | 0.11 | 0.12 | 0.08 | 0.13 | 0.14 |
| Florida | 13,948 | 14,068 | 4.10 | 5.14 | (0.19) | 0.03 | 0.02 | 0.16 | 0.23 |
| New Jersey | 12,243 | 11,825 | 4.51 | 5.68 | 0.42 | 0.44 | 0.33 | 0.38 | 0.27 |
| Texas | 8,319 | 8,153 | 2.42 | 2.80 | 0.09 | 0.10 | 0.02 | — | 0.02 |
| Other | 90,432 | 88,951 | 2.86 | 3.72 | 0.10 | 0.18 | 0.21 | 0.23 | 0.22 |
| Total | 238,892 | 232,326 | 2.46 % | 3.11 | 0.02 | 0.08 | 0.09 | 0.11 | 0.12 |
| Government insured/guaranteed loans | 20,580 | 22,353 | | | | | | | |
| PCI | 17,690 | 19,190 | | | | | | | |
| Total first lien mortgages | $277,162 | 273,869 | | | | | | | |

Pick a Pay Portfolio The Pick-a-Pay portfolio was one of the consumer residential first lien mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.
The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), and also includes loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The Pick-a-Pay portfolio is included in the consumer real estate 1-4 family

first mortgage class of loans throughout this Report. Table 18 provides balances by types of loans as of June 30, 2016, as a result of modification efforts, compared to the types of loans included in the portfolio at acquisition. Total adjusted unpaid principal balance of PCI Pick-a-Pay loans was $22.2 billion at June 30, 2016, compared with $61.0 billion at acquisition. Due to loan modification and loss mitigation efforts, the adjusted unpaid principal balance of option payment PCI loans has declined to 14% of the total Pick-a-Pay portfolio at June 30, 2016, compared with 51% at acquisition.

Table 18: Pick-a-Pay Portfolio – Comparison to Acquisition Date

December 31,

| (in millions) | June 30, 2016 Adjusted unpaid principal balance (1) | % of total | December 31, 2015 Adjusted unpaid principal balance (1) | % of total | December 31, 2008 Adjusted unpaid principal balance (1) | % of total |
|---|---|---|---|---|---|---|
| Option payment loans | $15,278 | 38 % | $16,828 | 39 % | $99,937 | 86 % |
| Non-option payment adjustable-rate and fixed-rate loans | 5,204 | 13 | 5,706 | 13 | 15,763 | 14 |
| Full-term loan modifications | 20,092 | 49 | 21,193 | 48 | — | — |
| Total adjusted unpaid principal balance | $40,574 | 100 % | $43,727 | 100 % | $115,700 | 100 % |
| Total carrying value | $35,966 | | 39,065 | | 95,315 | |

(1) Adjusted unpaid principal balance includes write-downs taken on loans where severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that indicate there will be a loss of contractually due amounts upon final resolution of the loan.

Table 19 reflects the geographic distribution of the Pick-a-Pay portfolio broken out between PCI loans and all other loans. The LTV ratio is a useful metric in evaluating future real estate 1-4 family first mortgage loan performance, including potential

charge-offs. Because PCI loans were initially recorded at fair value, including write-downs for expected credit losses, the ratio of the carrying value to the current collateral value will be lower compared with the LTV based on the adjusted unpaid principal

balance. For informational purposes, we have included both ratios for PCI loans in the following table.

Table 19: Pick-a-Pay Portfolio (1)

| | June 30, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | PCI loans | | | | | All other loans | | |
| (in millions) | Adjusted unpaid principal balance (2) | Current LTV ratio (3) | | Carrying value (4) | Ratio of carrying value to current value (5) | | Carrying value (4) | Ratio of carrying value to current value (5) | |
| California | $15,462 | 67 | % | $12,246 | 53 | % | $8,858 | 49 | % |
| Florida | 1,757 | 78 | | 1,327 | 57 | | 1,849 | 62 | |
| New Jersey | 726 | 81 | | 546 | 59 | | 1,223 | 68 | |
| New York | 506 | 75 | | 430 | 58 | | 606 | 65 | |
| Texas | 190 | 52 | | 169 | 46 | | 723 | 41 | |
| Other states | 3,590 | 77 | | 2,843 | 60 | | 5,146 | 63 | |
| Total Pick-a-Pay loans | $22,231 | 70 | | $17,561 | 54 | | $18,405 | 56 | |

(1) The individual states shown in this table represent the top five states based on the total net carrying value of the Pick-a-Pay loans at the beginning of 2016.

(2) Adjusted unpaid principal balance includes write-downs taken on loans where severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that indicate there will be a loss of contractually due amounts upon final resolution of the loan.

(3) The current LTV ratio is calculated as the adjusted unpaid principal balance divided by the collateral value. Collateral values are generally determined using automated valuation models (AVM) and are updated quarterly. AVMs are computer-based tools used to estimate market values of homes based on processing large volumes of market data including market comparables and price trends for local market areas.

(4) Carrying value does not reflect related allowance for loan losses but does reflect remaining purchase accounting adjustments and any charge-offs.

(5) The ratio of carrying value to current value is calculated as the carrying value divided by the collateral value.

In second quarter 2016, we completed over 900 proprietary and Home Affordability Modification Program (HAMP) Pick-a-Pay loan modifications. We have completed over 134,000 modifications since the Wachovia acquisition, resulting in over $6.1 billion of principal forgiveness to our Pick-a-Pay customers. There remains $12.7 million of conditional forgiveness, all of which has been charged off, that can be earned by borrowers through performance over a three-year period.

Due to better than expected performance observed on the PCI portion of the Pick-a-Pay portfolio compared with the original acquisition estimates, we have reclassified $7.1 billion from the nonaccretable difference to the accretable yield since acquisition. Our cash flows expected to be collected have been favorably affected by lower expected defaults and losses as a result of observed and forecasted economic strengthening, particularly in housing prices, and our loan modification efforts. These factors are expected to reduce the frequency and severity of defaults and keep these loans performing for a longer period, thus increasing future principal and interest cash flows. The resulting increase in the accretable yield will be realized over the remaining life of the portfolio, which is estimated to have a weighted-average remaining life of approximately 11.5 years at June 30, 2016. The weighted average remaining life decreased slightly from December 31, 2015 due to the passage of time. The accretable yield percentage at June 30, 2016, was 6.68%, up from 6.21% at the end of 2015 due to favorable changes in the expected timing and composition of cash flows resulting from improving credit and prepayment expectations. Fluctuations in the accretable yield are driven by changes in interest rate indices for variable rate PCI loans, prepayment assumptions, and expected principal and interest payments over the estimated life of the portfolio, which will be affected by the pace and degree of improvements in the U.S. economy and housing markets and projected lifetime performance resulting from loan

modification activity. Changes in the projected timing of cash flow events, including loan liquidations, modifications and short sales, can also affect the accretable yield and the estimated weighted-average life of the portfolio.

The predominant portion of our PCI loans is included in the Pick-a-Pay portfolio. For further information on the judgment involved in estimating expected cash flows for PCI loans, see the “Critical Accounting Policies – Purchased Credit-Impaired Loans” section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.
For further information on the Pick-a-Pay portfolio, including recast risk, deferral of interest and loan modifications, see the "Risk Management – Credit Risk Management – Pick-a-Pay Portfolio" section in our 2015 Form 10-K.

Risk Management - Credit Risk Management (continued)

Junior Lien Mortgage Portfolio The junior lien mortgage portfolio consists of residential mortgage lines and loans that are subordinate in rights to an existing lien on the same property. It is not unusual for these lines and loans to have draw periods, interest only payments, balloon payments, adjustable rates and similar features. Substantially all of our junior lien loan products are amortizing payment loans with fixed interest rates and repayment periods between five to 30 years.

We continuously monitor the credit performance of our junior lien mortgage portfolio for trends and factors that influence the frequency and severity of loss. We have observed that the severity of loss for junior lien mortgages is high and generally not affected by whether we or a third party own or service the related first lien mortgage, but the frequency of delinquency is typically lower when we own or service the first lien mortgage. In general, we have limited information available on the delinquency status of the third party owned or serviced senior lien where we also hold a junior lien. To capture this inherent loss content, our allowance process for junior lien mortgages considers the relative difference in loss experience for junior lien mortgages behind first lien mortgage loans we own or

service, compared with those behind first lien mortgage loans owned or serviced by third parties. In addition, our allowance process for junior lien mortgages that are current, but are in their revolving period, considers the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.

Table 20 shows certain delinquency and loss information for the junior lien mortgage portfolio and lists the top five states by outstanding balance. The decrease in outstanding balances since December 31, 2015, predominantly reflects loan paydowns. As of June 30, 2016, 14% of the outstanding balance of the junior lien mortgage portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. Of those junior lien mortgages with a CLTV ratio in excess of 100%, 2.59% were 30 days or more past due. CLTV means the ratio of the total loan balance of first lien mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 6% of the junior lien mortgage portfolio at June 30, 2016.

Table 20: Junior Lien Mortgage Portfolio Performance

| | Outstanding balance | | % of loans 30 days or more past due | | | Loss rate (annualized) quarter ended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | Jun 30, 2016 | Dec 31, 2015 | Jun 30, 2016 | | Dec 31, 2015 | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
| California | $13,570 | 14,554 | 1.83 | % | 2.03 | 0.07 | 0.27 | 0.12 | 0.21 | 0.27 |
| Florida | 4,531 | 4,823 | 2.23 | | 2.45 | 0.76 | 0.79 | 0.51 | 1.02 | 0.82 |
| New Jersey | 4,269 | 4,462 | 2.77 | | 3.06 | 1.10 | 0.84 | 0.77 | 1.23 | 1.02 |
| Virginia | 2,848 | 2,991 | 1.87 | | 2.05 | 0.87 | 0.80 | 0.77 | 0.73 | 0.75 |
| Pennsylvania | 2,615 | 2,748 | 2.09 | | 2.35 | 0.58 | 0.55 | 0.66 | 0.79 | 0.97 |
| Other | 21,888 | 23,357 | 1.97 | | 2.24 | 0.53 | 0.63 | 0.68 | 0.70 | 0.76 |
| Total | 49,721 | 52,935 | 2.02 | % | 2.27 | 0.49 | 0.57 | 0.52 | 0.64 | 0.66 |
| PCI | 51 | 69 | | | | | | | | |
| Total junior lien mortgages | $49,772 | 53,004 | | | | | | | | |

Our junior lien, as well as first lien, lines of credit products generally have a draw period of 10 years (with some up to 15 or 20 years) with variable interest rate and payment options during the draw period of (1) interest only or (2) 1.5% of outstanding principal balance plus accrued interest. During the draw period, the borrower has the option of converting all or a portion of the line from a variable interest rate to a fixed rate with terms including interest-only payments for a fixed period between three to seven years or a fully amortizing payment with a fixed period between five to 30 years. At the end of the draw period, a line of credit generally converts to an amortizing payment schedule with repayment terms of up to 30 years based on the balance at time of conversion. Certain lines and loans have been structured with a balloon payment, which requires full repayment of the outstanding balance at the end of the term period. The conversion of lines or loans to fully amortizing or balloon payoff may result in a significant payment increase, which can affect some borrowers' ability to repay the outstanding balance.

On a monthly basis, we monitor the payment characteristics of borrowers in our junior lien portfolio. In June 2016, approximately 48% of these borrowers paid only the minimum amount due and approximately 47% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due. For the borrowers with an interest only payment feature, approximately 36% paid only the

minimum amount due and approximately 60% paid more than the minimum amount due.

The lines that enter their amortization period may experience higher delinquencies and higher loss rates than the ones in their draw or term period. We have considered this increased inherent risk in our allowance for credit loss estimate. In anticipation of our borrowers reaching the end of their contractual commitment, we have created a program to inform, educate and help these borrowers transition from interest-only to fully-amortizing payments or full repayment. We monitor the performance of the borrowers moving through the program in an effort to refine our ongoing program strategy.

Table 21 reflects the outstanding balance of our portfolio of junior lien mortgages, including lines and loans, and senior lien lines segregated into scheduled end of draw or end of term periods and products that are currently amortizing, or in balloon repayment status. It excludes real estate 1-4 family first lien line reverse mortgages, which total $2.0 billion, because they are predominantly insured by the FHA, and it excludes PCI loans, which total $76 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

Table 21: Junior Lien Mortgage Line and Loan and Senior Lien Mortgage Line Portfolios Payment Schedule

| | | | Scheduled end of draw / term | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | Outstanding balance June 30, 2016 | Remainder of 2016 | 2017 | 2018 | 2019 | 2020 | 2021 and thereafter (1) | Amortizing |
| Junior lien lines and loans | $ 49,721 | 1,969 | 4,612 | 2,671 | 1,075 | 964 | 25,546 | 12,884 |
| First lien lines | 15,728 | 258 | 688 | 825 | 374 | 345 | 11,274 | 1,964 |
| Total (2)(3) | $ 65,449 | 2,227 | 5,300 | 3,496 | 1,449 | 1,309 | 36,820 | 14,848 |
| % of portfolios | 100 % | 3 | 8 | 5 | 2 | 2 | 56 | 24 |

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2026, with annual scheduled amounts through that date ranging from $2.5 billion to $8.4 billion and averaging $6.1 billion per year.

(2) Junior and first lien lines are mostly interest-only during their draw period. The unfunded credit commitments for junior and first lien lines totaled $67.2 billion at June 30, 2016.

(3) Includes scheduled end-of-term balloon payments for lines and loans totaling $82 million, $308 million, $388 million, $367 million, $395 million and $1.0 billion for 2016 2017, 2018, 2019, 2020, and 2021 and thereafter, respectively. Amortizing lines and loans include $127 million of end-of-term balloon payments, which are past due. At June 30, 2016, $488 million, or 5% of outstanding lines of credit that are amortizing, are 30 days or more past due compared to $768 million or 2% for lines in their draw period.

CREDIT CARDS Our credit card portfolio totaled $34.1 billion at June 30, 2016, which represented 4% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 3.25% for second quarter 2016, compared with 3.21% for second quarter 2015 and 3.20% for the first half of both 2016 and 2015.

AUTOMOBILE Our automobile portfolio, predominantly composed of indirect loans, totaled $61.9 billion at June 30, 2016. The net charge-off rate (annualized) for our automobile portfolio was 0.59% for second quarter 2016, compared with 0.48% for second quarter 2015 and 0.72% and 0.60% for the first half of 2016 and 2015, respectively. The increase in net charge-offs in 2016 as compared with 2015 was consistent with trends in the automobile lending industry.

OTHER REVOLVING CREDIT AND INSTALLMENT Other revolving credit and installment loans totaled $39.6 billion at June 30, 2016, and primarily included student and security-based loans. Student loans totaled $12.3 billion at June 30, 2016. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.32% for second quarter 2016, compared with 1.26% for second quarter 2015 and 1.37% and 1.29% for the first half of 2016 and 2015, respectively.

Risk Management - Credit Risk Management (continued)

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 22 summarizes nonperforming assets (NPAs) for each of the last four quarters. Total NPAs decreased $433 million from first quarter 2016 to $13.1 billion. Nonaccrual loans decreased $271 million from first quarter to $12.0 billion as an $809 million decrease in consumer nonaccruals, which included the sale of certain nonaccrual loans during second quarter, was partially offset by a $651 million increase in oil and gas nonaccruals. Foreclosed assets of $1.1 billion were down $162 million from first quarter 2016.

We generally place loans on nonaccrual status when:

- the full and timely collection of interest or principal becomes uncertain (generally based on an assessment of the borrower's financial condition and the adequacy of collateral, if any);
- they are 90 days (120 days with respect to real estate 1-4 family first and junior lien mortgages) past due for interest or principal, unless both well-secured and in the process of collection;
- part of the principal balance has been charged off;
- for junior lien mortgages, we have evidence that the related first lien mortgage may be 120 days past due or in the process of foreclosure regardless of the junior lien delinquency status; or
- consumer real estate and automobile loans are discharged in bankruptcy, regardless of their delinquency status.

Table 22: Nonperforming Assets (Nonaccrual Loans and Foreclosed Assets)

| | June 30, 2016 | | March 31, 2016 | | December 31, 2015 | | September 30, 2015 | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Balance | % of total loans | Balance | % of total loans | Balance | % of total loans | Balance | % of total loans |
| Nonaccrual loans: | | | | | | | | |
| Commercial: | | | | | | | | |
| Commercial and industrial | $3,464 | 1.07 % | $2,911 | 0.91 % | $1,363 | 0.45 % | $1,031 | 0.35 % |
| Real estate mortgage | 872 | 0.68 | 896 | 0.72 | 969 | 0.79 | 1,125 | 0.93 |
| Real estate construction | 59 | 0.25 | 63 | 0.27 | 66 | 0.30 | 151 | 0.70 |
| Lease financing | 112 | 0.59 | 99 | 0.52 | 26 | 0.21 | 29 | 0.24 |
| Total commercial | 4,507 | 0.91 | 3,969 | 0.81 | 2,424 | 0.53 | 2,336 | 0.52 |
| Consumer: | | | | | | | | |
| Real estate 1-4 family first mortgage (1) | 5,970 | 2.15 | 6,683 | 2.43 | 7,293 | 2.66 | 7,425 | 2.74 |
| Real estate 1-4 family junior lien mortgage | 1,330 | 2.67 | 1,421 | 2.77 | 1,495 | 2.82 | 1,612 | 2.95 |
| Automobile | 111 | 0.18 | 114 | 0.19 | 121 | 0.20 | 123 | 0.21 |
| Other revolving credit and installment | 45 | 0.11 | 47 | 0.12 | 49 | 0.13 | 41 | 0.11 |
| Total consumer | 7,456 | 1.61 | 8,265 | 1.80 | 8,958 | 1.95 | 9,201 | 2.02 |
| Total nonaccrual loans (2)(3)(4) | 11,963 | 1.25 | 12,234 | 1.29 | 11,382 | 1.24 | 11,537 | 1.28 |
| Foreclosed assets: | | | | | | | | |
| Government insured/guaranteed (5) | 321 | | 386 | | 446 | | 502 | |
| Non-government insured/guaranteed | 796 | | 893 | | 979 | | 1,265 | |
| Total foreclosed assets | 1,117 | | 1,279 | | 1,425 | | 1,767 | |
| Total nonperforming assets | $13,080 | 1.37 % | $13,513 | 1.43 % | $12,807 | 1.40 % | $13,304 | 1.47 % |
| Change in NPAs from prior quarter | $(433 ) | | 706 | | (497 ) | | (1,097 ) | |

(1) Includes MHFS of $155 million, $157 million, $177 million, and $96 million at June 30 and March 31, 2016, and December 31 and September 30, 2015, respectively.

(2)

Excludes PCI loans because they continue to earn interest income from accretable yield, independent of performance in accordance with their contractual terms.

(3) Real estate 1-4 family mortgage loans predominantly insured by the FHA or guaranteed by the VA and student loans predominantly guaranteed by agencies on behalf of the U.S. Department of Education under the Federal Family Education Loan Program are not placed on nonaccrual status because they are insured or guaranteed.

(4) See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for further information on impaired loans.

(5) Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. Both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Foreclosure of certain government guaranteed residential real estate mortgage loans that meet criteria specified by Accounting Standards Update (ASU) 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure, effective as of January 1, 2014 are excluded from this table and included in Accounts Receivable in Other Assets. For more information on the changes in foreclosures for government guaranteed residential real estate mortgage loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.

Table 23 provides an analysis of the changes in nonaccrual loans.

Table 23: Analysis of Changes in Nonaccrual Loans

| (in millions) | Quarter ended Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
|---|---|---|---|---|---|
| Commercial nonaccrual loans | | | | | |
| Balance, beginning of period | $3,969 | 2,424 | 2,336 | 2,522 | 2,192 |
| Inflows | 1,936 | 2,291 | 793 | 382 | 840 |
| Outflows: | | | | | |
| Returned to accruing | (32) | (34) | (44) | (26) | (20) |
| Foreclosures | (6) | (4) | (72) | (32) | (11) |
| Charge-offs | (420) | (317) | (243) | (135) | (117) |
| Payments, sales and other (1) | (940) | (391) | (346) | (375) | (362) |
| Total outflows | (1,398) | (746) | (705) | (568) | (510) |
| Balance, end of period | 4,507 | 3,969 | 2,424 | 2,336 | 2,522 |
| Consumer nonaccrual loans | | | | | |
| Balance, beginning of period | 8,265 | 8,958 | 9,201 | 9,921 | 10,318 |
| Inflows | 829 | 964 | 1,226 | 1,019 | 1,098 |
| Outflows: | | | | | |
| Returned to accruing | (546) | (584) | (646) | (676) | (668) |
| Foreclosures | (85) | (98) | (89) | (99) | (108) |
| Charge-offs | (167) | (203) | (204) | (228) | (229) |
| Payments, sales and other (1) | (840) | (772) | (530) | (736) | (490) |
| Total outflows | (1,638) | (1,657) | (1,469) | (1,739) | (1,495) |
| Balance, end of period | 7,456 | 8,265 | 8,958 | 9,201 | 9,921 |
| Total nonaccrual loans | $11,963 | 12,234 | 11,382 | 11,537 | 12,443 |

(1) Other outflows include the effects of VIE deconsolidations and adjustments for loans carried at fair value.

Typically, changes to nonaccrual loans period-over-period represent inflows for loans that are placed on nonaccrual status in accordance with our policy, offset by reductions for loans that are paid down, charged off, sold, foreclosed, or are no longer classified as nonaccrual as a result of continued performance and an improvement in the borrower's financial condition and loan repayment capabilities. Also, reductions can come from borrower repayments even if the loan remains on nonaccrual.

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by the following factors at June 30, 2016:

- 94% of total commercial nonaccrual loans and over 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 98% are secured by real estate and 77% have a combined LTV (CLTV) ratio of 80% or less.
- losses of $560 million and $2.5 billion have already been recognized on 17% of commercial nonaccrual loans and 49% of consumer nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due (except when required earlier by guidance issued by bank regulatory agencies), we transfer it to nonaccrual status. When the loan reaches 180 days past due, or is discharged in bankruptcy, it is our policy to write these loans down to net realizable value (fair value of collateral less estimated costs to sell), except for modifications in their trial period that are not written down as long as trial payments are made on time. Thereafter, we reevaluate each loan regularly and record additional write-downs if needed.
- 86% of commercial nonaccrual loans were current on interest, but were on nonaccrual status because the full or

timely collection of interest or principal had become uncertain.

•

the risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.

- $1.8 billion of consumer loans discharged in bankruptcy and classified as nonaccrual were 60 days or less past due, of which $1.6 billion were current.

We continue to work with our customers experiencing financial difficulty to determine if they can qualify for a loan modification so that they can stay in their homes. Under both our proprietary modification programs and the MHA programs, customers may be required to provide updated documentation, and some programs require completion of payment during trial periods to demonstrate sustained performance before the loan can be removed from nonaccrual status.

Risk Management - Credit Risk Management (continued)

Table 24 provides a summary of foreclosed assets and an analysis of changes in foreclosed assets.

Table 24: Foreclosed Assets

| (in millions) | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
|---|---|---|---|---|---|
| Summary by loan segment | | | | | |
| Government insured/guaranteed | $321 | 386 | 446 | 502 | 588 |
| PCI loans: | | | | | |
| Commercial | 124 | 142 | 152 | 297 | 305 |
| Consumer | 91 | 97 | 103 | 126 | 160 |
| Total PCI loans | 215 | 239 | 255 | 423 | 465 |
| All other loans: | | | | | |
| Commercial | 313 | 357 | 384 | 437 | 458 |
| Consumer | 268 | 297 | 340 | 405 | 447 |
| Total all other loans | 581 | 654 | 724 | 842 | 905 |
| Total foreclosed assets | $1,117 | 1,279 | 1,425 | 1,767 | 1,958 |
| Analysis of changes in foreclosed assets | | | | | |
| Balance, beginning of period | $1,279 | 1,425 | 1,767 | 1,958 | 2,329 |
| Net change in government insured/guaranteed (1) | (65) | (60) | (56) | (86) | (184) |
| Additions to foreclosed assets (2) | 281 | 290 | 327 | 325 | 300 |
| Reductions: | | | | | |
| Sales | (405) | (390) | (719) | (468) | (531) |
| Write-downs and gains (losses) on sales | 27 | 14 | 106 | 38 | 44 |
| Total reductions | (378) | (376) | (613) | (430) | (487) |
| Balance, end of period | $1,117 | 1,279 | 1,425 | 1,767 | 1,958 |

(1) Foreclosed government insured/guaranteed loans are temporarily transferred to and held by us as servicer, until reimbursement is received from FHA or VA. The net change in government insured/guaranteed foreclosed assets is made up of inflows from mortgages held for investment and MHFS, and outflows when we are reimbursed by FHA/VA. Transfers from government insured/guaranteed loans to foreclosed assets amounted to $45 million, $61 million, $46 million, $38 million and $24 million for the quarters ended June 30 and March 31, 2016, and December 31, September 30, and June 30, 2015, respectively.

(2) Predominantly include loans moved into foreclosure from nonaccrual status, PCI loans transitioned directly to foreclosed assets and repossessed automobiles.

Foreclosed assets at June 30, 2016, included $656 million of foreclosed residential real estate, of which 49% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining foreclosed assets balance of $461 million has been written down to estimated net realizable value. Foreclosed assets at June 30, 2016 decreased compared with December 31, 2015. Of the $1.1 billion in foreclosed assets at June 30, 2016, 50% have been in the foreclosed assets portfolio one year or less.

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 25: Troubled Debt Restructurings (TDRs)

| (in millions) | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
|---|---|---|---|---|---|
| Commercial: | | | | | |
| Commercial and industrial | $1,951 | 1,606 | 1,123 | 999 | 808 |
| Real estate mortgage | 1,324 | 1,364 | 1,456 | 1,623 | 1,740 |
| Real estate construction | 106 | 116 | 125 | 207 | 236 |
| Lease financing | 5 | 6 | 1 | 1 | 2 |
| Total commercial TDRs | 3,386 | 3,092 | 2,705 | 2,830 | 2,786 |
| Consumer: | | | | | |
| Real estate 1-4 family first mortgage | 15,518 | 16,299 | 16,812 | 17,193 | 17,692 |
| Real estate 1-4 family junior lien mortgage | 2,214 | 2,261 | 2,306 | 2,336 | 2,381 |
| Credit Card | 291 | 295 | 299 | 307 | 315 |
| Automobile | 92 | 97 | 105 | 109 | 112 |
| Other revolving credit and installment | 86 | 81 | 73 | 63 | 58 |
| Trial modifications | 364 | 380 | 402 | 421 | 450 |
| Total consumer TDRs (1) | 18,565 | 19,413 | 19,997 | 20,429 | 21,008 |
| Total TDRs | $21,951 | 22,505 | 22,702 | 23,259 | 23,794 |
| TDRs on nonaccrual status | $6,404 | 6,484 | 6,506 | 6,709 | 6,889 |
| TDRs on accrual status (1) | 15,547 | 16,021 | 16,196 | 16,550 | 16,905 |
| Total TDRs | $21,951 | 22,505 | 22,702 | 23,259 | 23,794 |

(1) TDR loans include $1.7 billion, $1.8 billion, $1.8 billion, $1.8 billion, and $1.9 billion at June 30 and March 31, 2016, and December 31, September 30, and June 30, 2015, respectively, of government insured/guaranteed loans that are predominantly insured by the FHA or guaranteed by the VA and accruing.

Table 25 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was $2.4 billion and $2.7 billion at June 30, 2016, and December 31, 2015, respectively. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs. In those situations where principal is forgiven, the entire amount of such forgiveness is immediately charged off to the extent not done so prior to the modification. We sometimes delay the timing on the repayment of a portion of principal (principal forbearance) and charge off the amount of forbearance if that amount is not considered fully collectible.

For more information on our nonaccrual policies when a restructuring is involved, see the "Risk Management – Credit Risk Management – Troubled Debt Restructurings (TDRs)" section in our 2015 Form 10-K.

Table 26 provides an analysis of the changes in TDRs. Loans modified more than once are reported as TDR inflows only in the period they are first modified. Other than resolutions such as foreclosures, sales and transfers to held for sale, we may remove loans held for investment from TDR classification, but only if they have been refinanced or restructured at market terms and qualify as a new loan.

Risk Management - Credit Risk Management (continued)

Table 26: Analysis of Changes in TDRs

| (in millions) | Quarter ended | | | | |
|---|---|---|---|---|---|
| | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
| Commercial: | | | | | |
| Balance, beginning of quarter | $3,092 | 2,705 | 2,830 | 2,786 | 2,866 |
| Inflows (1) | 797 | 866 | 474 | 573 | 372 |
| Outflows | | | | | |
| Charge-offs | (153) | (124) | (109) | (86) | (20) |
| Foreclosures | — | (1) | (64) | (30) | (5) |
| Payments, sales and other (2) | (350) | (354) | (426) | (413) | (427) |
| Balance, end of quarter | 3,386 | 3,092 | 2,705 | 2,830 | 2,786 |
| Consumer: | | | | | |
| Balance, beginning of quarter | 19,413 | 19,997 | 20,429 | 21,008 | 21,363 |
| Inflows (1) | 508 | 661 | 672 | 753 | 747 |
| Outflows | | | | | |
| Charge-offs | (38) | (67) | (73) | (79) | (71) |
| Foreclosures | (217) | (238) | (226) | (226) | (242) |
| Payments, sales and other (2) | (1,085) | (917) | (786) | (998) | (807) |
| Net change in trial modifications (3) | (16) | (23) | (19) | (29) | 18 |
| Balance, end of quarter | 18,565 | 19,413 | 19,997 | 20,429 | 21,008 |
| Total TDRs | $21,951 | 22,505 | 22,702 | 23,259 | 23,794 |

(1) Inflows include loans that both modify and resolve within the period as well as advances on loans that modified in a prior period.

(2) Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. It also includes $6 million of loans refinanced or restructured at market terms and qualifying as new loans and removed from TDR classification for the quarter ended December 31, 2015, while no loans were removed from TDR classification for the quarters ended June 30 and March 31, 2016, and September 30 and June 30, 2015.

(3) Net change in trial modifications includes: inflows of new TDRs entering the trial payment period, net of outflows for modifications that either (i) successfully perform and enter into a permanent modification, or (ii) did not successfully perform according to the terms of the trial period plan and are subsequently charged-off, foreclosed upon or otherwise resolved. Our experience is that substantially all of the mortgages that enter a trial payment period program are successful in completing the program requirements.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

Loans 90 days or more past due as to interest or principal are still accruing if they are (1) well-secured and in the process of collection or (2) real estate 1-4 family mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due. PCI loans are not included in past due and still accruing loans even though they are 90 days or more contractually past due. These PCI loans are considered to be accruing because they continue to earn interest from accretable yield, independent of performance in accordance with their contractual terms.

Excluding insured/guaranteed loans, loans 90 days or more past due and still accruing at June 30, 2016, were down $193 million, or 20%, from December 31, 2015, due to payoffs, modifications and other loss mitigation activities and credit

stabilization. Also, fluctuations from quarter to quarter are influenced by seasonality.

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages and the U.S. Department of Education for student loans under the Federal Family Education Loan Program (FFELP) were $11.6 billion at June 30, 2016, down from $13.4 billion at December 31, 2015, due to seasonally lower delinquencies.

Table 27 reflects non-PCI loans 90 days or more past due and still accruing by class for loans not government insured/guaranteed. For additional information on delinquencies by loan class, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 27: Loans 90 Days or More Past Due and Still Accruing

| (in millions) | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
|---|---|---|---|---|---|
| Loans 90 days or more past due and still accruing: | | | | | |
| Total (excluding PCI (1)): | $12,385 | 13,060 | 14,380 | 14,405 | 15,161 |
| Less: FHA insured/VA guaranteed (2)(3) | 11,577 | 12,233 | 13,373 | 13,500 | 14,359 |
| Less: Student loans guaranteed under the FFELP (4) | 20 | 24 | 26 | 33 | 46 |
| Total, not government insured/guaranteed | $788 | 803 | 981 | 872 | 756 |
| By segment and class, not government insured/guaranteed: | | | | | |
| Commercial: | | | | | |
| Commercial and industrial | $36 | 24 | 97 | 53 | 17 |
| Real estate mortgage | 22 | 8 | 13 | 24 | 10 |
| Real estate construction | — | 2 | 4 | — | — |
| Total commercial | 58 | 34 | 114 | 77 | 27 |
| Consumer: | | | | | |
| Real estate 1-4 family first mortgage (3) | 169 | 167 | 224 | 216 | 220 |
| Real estate 1-4 family junior lien mortgage (3) | 52 | 55 | 65 | 61 | 65 |
| Credit card | 348 | 389 | 397 | 353 | 304 |
| Automobile | 64 | 55 | 79 | 66 | 51 |
| Other revolving credit and installment | 97 | 103 | 102 | 99 | 89 |
| Total consumer | 730 | 769 | 867 | 795 | 729 |
| Total, not government insured/guaranteed | $788 | 803 | 981 | 872 | 756 |

(1) PCI loans totaled $2.4 billion, $2.7 billion, $2.9 billion, $3.2 billion, and $3.4 billion at June 30 and March 31, 2016 and December 31, September 30, and June 30, 2015, respectively.

(2) Represents loans whose repayments are predominantly insured by the FHA or guaranteed by the VA.

(3) Includes mortgage loans held for sale 90 days or more past due and still accruing.

(4) Represents loans whose repayments are predominantly guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP.

Risk Management - Credit Risk Management (continued)

NET CHARGE-OFFS

Table 28: Net Charge-offs

| | | | | | | | | | | Quarter ended |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jun 30, 2016 | | Mar 31, 2016 | | Dec 31, 2015 | | Sep 30, 2015 | | Jun 30, 2015 | |
| ($ in millions) | Net loan charge-offs | % of avg. loans(1) | Net loan charge-offs | % of avg. loans (1) | Net loan charge-offs | % of avg. loans (1) | Net loan charge-offs | % of avg. loans (1) | Net loan charge-offs | % of avg. loans (1) |
| Commercial: | | | | | | | | | | |
| Commercial and industrial | $368 | 0.46 % | $273 | 0.36 % | $215 | 0.29 % | $122 | 0.17 % | $81 | 0.12 % |
| Real estate mortgage | (20 ) | (0.06 ) | (29 ) | (0.10 ) | (19 ) | (0.06 ) | (23 ) | (0.08 ) | (15 ) | (0.05 ) |
| Real estate construction | (3 ) | (0.06 ) | (8 ) | (0.13 ) | (10 ) | (0.18 ) | (8 ) | (0.15 ) | (6 ) | (0.11 ) |
| Lease financing | 12 | 0.27 | 1 | 0.01 | 1 | 0.01 | 3 | 0.11 | 2 | 0.06 |
| Total commercial | 357 | 0.29 | 237 | 0.20 | 187 | 0.16 | 94 | 0.08 | 62 | 0.06 |
| Consumer: | | | | | | | | | | |
| Real estate 1-4 family first mortgage | 14 | 0.02 | 48 | 0.07 | 50 | 0.07 | 62 | 0.09 | 67 | 0.10 |
| Real estate 1-4 family junior lien mortgage | 62 | 0.49 | 74 | 0.57 | 70 | 0.52 | 89 | 0.64 | 94 | 0.66 |
| Credit card | 270 | 3.25 | 262 | 3.16 | 243 | 2.93 | 216 | 2.71 | 243 | 3.21 |
| Automobile | 90 | 0.59 | 127 | 0.85 | 135 | 0.90 | 113 | 0.76 | 68 | 0.48 |
| Other revolving credit and installment | 131 | 1.32 | 138 | 1.42 | 146 | 1.49 | 129 | 1.35 | 116 | 1.26 |
| Total consumer | 567 | 0.49 | 649 | 0.57 | 644 | 0.56 | 609 | 0.53 | 588 | 0.53 |
| Total | $924 | 0.39 % | $886 | 0.38 % | $831 | 0.36 % | $703 | 0.31 % | $650 | 0.30 % |

(1) Quarterly net charge-offs (recoveries) as a percentage of average respective loans are annualized.

Table 28 presents net charge-offs for second quarter 2016 and the previous four quarters. Net charge-offs in second quarter 2016 were $924 million (0.39% of average total loans outstanding) compared with $650 million (0.30%) in second quarter 2015.
The increase in commercial and industrial net charge-offs reflected higher oil and gas portfolio losses. Our commercial real estate portfolios were in a net recovery position. Total consumer net charge-offs decreased slightly from the prior year.

ALLOWANCE FOR CREDIT LOSSES The allowance for credit losses, which consists of the allowance for loan losses and the allowance for unfunded credit commitments, is management’s estimate of credit losses inherent in the loan portfolio and unfunded credit commitments at the balance sheet date, excluding loans carried at fair value. The detail of the changes in the allowance for credit losses by portfolio segment (including charge-offs and recoveries by loan class) is in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

We apply a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. Our estimation approach for the commercial portfolio reflects the estimated probability of default in accordance with the borrower's financial strength, and the severity of loss in the event of default, considering the quality of any underlying collateral. Probability of default and severity at the time of default are statistically derived through historical observations of defaults and losses after default within each credit risk rating. Our estimation approach for the consumer portfolio uses forecasted losses that represent our best estimate of inherent loss based on historical experience, quantitative and other mathematical techniques. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2015 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.
Table 29 presents the allocation of the allowance for credit losses by loan segment and class for the most recent quarter end and last four year ends.

Table 29: Allocation of the Allowance for Credit Losses (ACL)

| | Jun 30, 2016 | | | Dec 31, 2015 | | | Dec 31, 2014 | | | Dec 31, 2013 | | | Dec 31, 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | ACL | Loans as % of total loans | | ACL | Loans as % of total loans | | ACL | Loans as % of total loans | | ACL | Loans as % of total loans | | ACL | Loans as % of total loans | |
| Commercial: | | | | | | | | | | | | | | | |
| Commercial and industrial | $4,809 | 34 | % | $4,231 | 33 | % | $3,506 | 32 | % | $3,040 | 29 | % | $2,789 | 28 | % |
| Real estate mortgage | 1,183 | 13 | | 1,264 | 13 | | 1,576 | 13 | | 2,157 | 14 | | 2,284 | 13 | |
| Real estate construction | 1,258 | 3 | | 1,210 | 3 | | 1,097 | 2 | | 775 | 2 | | 552 | 2 | |
| Lease financing | 191 | 2 | | 167 | 1 | | 198 | 1 | | 131 | 1 | | 89 | 2 | |
| Total commercial | 7,441 | 52 | | 6,872 | 50 | | 6,377 | 48 | | 6,103 | 46 | | 5,714 | 45 | |
| Consumer: | | | | | | | | | | | | | | | |
| Real estate 1-4 family first mortgage | 1,543 | 29 | | 1,895 | 30 | | 2,878 | 31 | | 4,087 | 32 | | 6,100 | 31 | |
| Real estate 1-4 family junior lien mortgage | 980 | 5 | | 1,223 | 6 | | 1,566 | 7 | | 2,534 | 8 | | 3,462 | 10 | |
| Credit card | 1,471 | 4 | | 1,412 | 4 | | 1,271 | 4 | | 1,224 | 3 | | 1,234 | 3 | |
| Automobile | 662 | 6 | | 529 | 6 | | 516 | 6 | | 475 | 6 | | 417 | 6 | |
| Other revolving credit and installment | 652 | 4 | | 581 | 4 | | 561 | 4 | | 548 | 5 | | 550 | 5 | |
| Total consumer | 5,308 | 48 | | 5,640 | 50 | | 6,792 | 52 | | 8,868 | 54 | | 11,763 | 55 | |
| Total | $12,749 | 100 | % | $12,512 | 100 | % | $13,169 | 100 | % | $14,971 | 100 | % | $17,477 | 100 | % |

| | Jun 30, 2016 | | Dec 31, 2015 | Dec 31, 2014 | Dec 31, 2013 | Dec 31, 2012 |
|---|---|---|---|---|---|---|
| Components: | | | | | | |
| Allowance for loan losses | $11,664 | | 11,545 | 12,319 | 14,502 | 17,060 |
| Allowance for unfunded credit commitments | 1,085 | | 967 | 850 | 469 | 417 |
| Allowance for credit losses | $12,749 | | 12,512 | 13,169 | 14,971 | 17,477 |
| Allowance for loan losses as a percentage of total loans | 1.22 | % | 1.26 | 1.43 | 1.76 | 2.13 |
| Allowance for loan losses as a percentage of total net charge-offs (1) | 314 | | 399 | 418 | 322 | 189 |
| Allowance for credit losses as a percentage of total loans | 1.33 | | 1.37 | 1.53 | 1.82 | 2.19 |
| Allowance for credit losses as a percentage of total nonaccrual loans | 107 | | 110 | 103 | 96 | 85 |

(1) Total net charge-offs are annualized for quarter ended June 30, 2016.

In addition to the allowance for credit losses, there was $2.2 billion at June 30, 2016, and $1.9 billion at December 31, 2015, of nonaccretable difference to absorb losses for PCI loans, which totaled $19.3 billion at June 30, 2016. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with credit-related metrics for other financial institutions. Additionally, loans purchased at fair value, including loans from the GE Capital acquisitions, generally reflect a lifetime credit loss adjustment and therefore do not initially require additions to the allowance as is typically associated with loan growth. For additional information on PCI loans, see the “Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans” section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

The ratio of the allowance for credit losses to total nonaccrual loans may fluctuate significantly from period to period due to such factors as the mix of loan types in the portfolio, borrower credit strength and the value and marketability of collateral. Our nonaccrual loans consisted

primarily of real estate 1-4 family first and junior lien mortgage loans at June 30, 2016.

The allowance for credit losses increased $237 million, or 2%, from December 31, 2015, due to an increase in our commercial allowance reflecting deterioration in the oil and gas portfolio, and loan growth in the commercial, automobile and credit card portfolios, partially offset by continued improvement in the residential real estate portfolios. Total provision for credit losses was $1.1 billion in second quarter 2016, compared with $300 million in second quarter 2015. The increase in the provision for credit losses reflected deterioration in the oil and gas portfolio as well as the growth in the loan portfolios mentioned above.

We believe the allowance for credit losses of $12.7 billion at June 30, 2016, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. Approximately $1.6 billion of the allowance at June 30, 2016 was allocated to our oil and gas portfolio, compared with $1.2 billion at December 31, 2015. This represented 9.2% and 6.7% of total oil and gas loans outstanding at June 30, 2016, and December 31, 2015, respectively. However, the entire allowance is available to absorb credit losses inherent in the total loan

Risk Management - Credit Risk Management (continued)

portfolio. The allowance for credit losses is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our process for determining the allowance for credit losses is discussed in the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.

LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES

In connection with our sales and securitization of residential mortgage loans to various parties, we have established a mortgage repurchase liability, initially at fair value, related to various representations and warranties that reflect management's estimate of losses for loans for which we could have a repurchase obligation, whether or not we currently service those loans, based on a combination of factors. Our mortgage repurchase liability estimation process also incorporates a forecast of repurchase demands associated with mortgage insurance rescission activity.

Because we retain the servicing for substantially all of the mortgage loans we sell or securitize, we believe the quality of our residential mortgage loan servicing portfolio provides helpful information in evaluating our repurchase liability. Of the $1.6 trillion in the residential mortgage loan servicing portfolio at June 30, 2016, 95% was current and less than 2% was subprime at origination. Our combined delinquency and foreclosure rate on this portfolio was 4.65% at June 30, 2016, compared with 5.18% at December 31, 2015. Two percent of this portfolio is private label securitizations for which we originated the loans and, therefore have some repurchase risk.

The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at June 30, 2016, was $37 million, representing 185 loans, down from a year ago both in number of outstanding loans and in total dollar balances as we observed a decline in new demands and continued to work through the outstanding demands and mortgage insurance rescissions and resolve certain exposures.

Our liability for mortgage repurchases, included in "Accrued expenses and other liabilities" in our consolidated balance sheet, represents our best estimate of the probable loss that we expect to incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. The liability was $255 million at June 30, 2016, and $378 million at December 31, 2015. In second quarter 2016, we released $81 million, which increased net gains on mortgage loan origination/sales activities, compared with a release of $18 million in second quarter 2015. The release in second quarter 2016 was predominantly due to resolution of certain exposures in the quarter. We incurred net losses on repurchased loans and investor reimbursements totaling $19 million in second quarter 2016, compared with $11 million in second quarter 2015.

Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that are reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available

information, significant judgment, and a number of assumptions that are subject to change. The high end of this range of reasonably possible losses exceeded our recorded liability by $179 million at June 30, 2016, and was determined based upon modifying the assumptions (particularly to assume significant changes in investor repurchase demand practices) used in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions.

For additional information on our repurchase liability, see the "Risk Management – Credit Risk Management – Liability For Mortgage Loan Repurchase Losses" section in our 2015 Form 10-K and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

RISKS RELATING TO SERVICING ACTIVITIES In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations, GNMA-guaranteed mortgage securitizations of FHA-insured/VA-guaranteed mortgages and private label mortgage

securitizations, as well as for unsecuritized loans owned by institutional investors. In connection with our servicing activities we have entered into various settlements with federal and state regulators to resolve certain alleged servicing issues and practices. In general, these settlements required us to provide customers with loan modification relief, refinancing relief, and foreclosure prevention and assistance, as well as imposed certain monetary penalties on us.

In particular, in June 2015, we entered into an amendment to an April 2011 Consent Order with the Office of the Comptroller of the Currency (OCC) to address 15 of the 98 actionable items contained in the April 2011 Consent Order that were still considered open. This amendment required that we remediate certain activities associated with our mortgage loan servicing practices and allowed for the OCC to take additional supervisory action, including possible civil money penalties, if we did not comply with the terms of this amended Consent Order. In addition, this amendment prohibited us from acquiring new mortgage servicing rights or entering into new mortgage servicing contracts, other than mortgage servicing associated with originating mortgage loans or purchasing loans from correspondent clients in our normal course of business. Additionally, this amendment prohibited any new off-shoring of new mortgage servicing activities and required OCC approval to outsource or sub-service any new mortgage servicing activities. On May 25, 2016, the OCC announced that it had terminated the amended Consent Order and the underlying April 2011 Consent Order after determining that we were in compliance with their requirements. The termination of the orders ends the business restrictions affecting Wells Fargo that the OCC mandated in June 2015. The OCC also assessed a $70 million civil money penalty against us for previous violations of the orders. This penalty was accrued for in our financial statements in third quarter 2015 and was paid in second quarter 2016.

For additional information about the risks and various settlements related to our servicing activities, see the “Risk Management – Credit Risk Management – Risks Relating to Servicing Activities” section in our 2015 Form 10-K.

Asset/Liability Management
Asset/liability management involves evaluating, monitoring and managing interest rate risk, market risk, liquidity and funding. Primary oversight of interest rate risk and market risk resides with the Finance Committee of our Board of Directors (Board), which oversees the administration and effectiveness of financial risk management policies and processes used to assess and manage these risks. Primary oversight of liquidity and funding resides with the Risk Committee of the Board. At the management level we utilize a Corporate Asset/Liability Management Committee (Corporate ALCO), which consists of senior financial, risk, and business executives, to oversee these risks and report on them periodically to the Board's Finance Committee and Risk Committee as appropriate. Each of our principal lines of business has its own asset/liability management committee and process linked to the Corporate ALCO process. As discussed in more detail for trading activities below, we employ separate management level oversight specific to market risk.

INTEREST RATE RISK Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary.
We assess interest rate risk by comparing outcomes under various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. These simulations require assumptions regarding how changes in interest rates and related market conditions could influence drivers of earnings and balance sheet composition such as loan origination demand, prepayment speeds, deposit balances and mix, as well as pricing strategies.
Our risk measures include both net interest income sensitivity and interest rate sensitive noninterest income and expense impacts. We refer to the combination of these exposures as interest rate sensitive earnings. In general, the Company is positioned to benefit from higher interest rates. Currently, our profile is such that net interest income will benefit from higher interest rates as our assets reprice faster and to a greater degree than our liabilities, and, in response to lower market rates, our assets will reprice downward and to a greater degree than our liabilities. Our interest rate sensitive noninterest income and expense is largely driven by mortgage activity, and tends to move in the opposite direction of our net interest income. So, in response to higher interest rates, mortgage activity, including refinancing activity, generally declines. And in response to lower rates, mortgage activity generally increases. Mortgage results in our simulations are also impacted by the valuation of MSRs and related hedge positions. See the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in this Report for more information.
The degree to which these sensitivities offset each other is dependent upon the timing and magnitude of changes in interest rates, and the slope of the yield curve. During a transition to a higher or lower interest rate environment, a reduction or increase in interest-sensitive earnings from the mortgage banking business could occur quickly, while the benefit or detriment from balance sheet repricing could take more time to develop. For example, our lower rate scenarios (scenario 1 and scenario 2) in the following table measure a decline in interest rates versus our most likely scenario. Although the performance in these rate scenarios contain benefits from increased mortgage banking activity, the result is lower earnings relative to the most likely scenario over time given pressure on net interest income. The higher rate scenarios (scenario 3 and scenario 4) measure the impact of varying degrees of rising short-term and long-term

interest rates over the course of the forecast horizon relative to the most likely scenario, both resulting in positive earnings sensitivity.
For more information about the various causes of interest rate risk, see the "Risk Management–Asset/Liability Management–Interest Rate Risk" section in our 2015 Form 10-K.
As of June 30, 2016, our most recent simulations estimate earnings at risk over the next 24 months under a range of both lower and higher interest rates. The results of the simulations are summarized in Table 30, indicating cumulative net income after tax earnings sensitivity relative to the most likely earnings plan over the 24 month horizon (a positive range indicates a beneficial earnings sensitivity measurement relative to the most likely earnings plan and a negative range indicates a detrimental earnings sensitivity relative to the most likely earnings plan).
Table 30: Earnings Sensitivity Over 24 Month Horizon Relative to Most Likely Earnings Plan

| | Most likely | | Lower rates Scenario 1 | Scenario 2 | Higher rates Scenario 3 | Scenario 4 |
|---|---|---|---|---|---|---|
| Ending rates: | | | | | | |
| Federal funds | 1.89 | % | 0.25 | 1.64 | 2.09 | 5.25 |
| 10-year treasury (1) | 3.12 | | 1.80 | 2.62 | 3.62 | 6.10 |
| Earnings relative to most likely | N/A | | (2)-(3) | (1)-(2) | 0-5 | 0-5 |

(1) U.S. Constant Maturity Treasury Rate

We use the investment securities portfolio and exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. See the “Balance Sheet Analysis – Investment Securities” section in this Report for more information on the use of the available-for-sale and held-to-maturity securities portfolios. The notional or contractual amount, credit risk amount and fair value of the derivatives used to hedge our interest rate risk exposures as of June 30, 2016, and December 31, 2015, are presented in Note 12 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

- to convert the cash flows from selected asset and/or liability instruments/portfolios including investments, commercial loans and long-term debt, from fixed-rate payments to floating-rate payments, or vice versa; and
- to economically hedge our mortgage origination pipeline, funded mortgage loans and MSRs using interest rate swaps, swaptions, futures, forwards and options.

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For more information on mortgage banking interest rate and market risk, see the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in our 2015 Form 10-K.

While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in the value of ARM production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs. Additionally, hedge-carry income on our economic hedges for the MSRs may not continue at recent levels if the spread between short-term and long-term rates decreases or there are

Asset/Liability Management (continued)

other changes in the market for mortgage forwards that affect the implied carry.
The total carrying value of our residential and commercial MSRs was $11.7 billion at June 30, 2016, and $13.7 billion at December 31, 2015. The weighted-average note rate on our portfolio of loans serviced for others was 4.32% at June 30, 2016, and 4.37% at December 31, 2015. The carrying value of our total MSRs represented 0.68% of mortgage loans serviced for others at June 30, 2016, and 0.77% at December 31, 2015.

MARKET RISK – TRADING ACTIVITIES The Finance Committee of our Board of Directors reviews the acceptable market risk appetite for our trading activities. We engage in trading activities to accommodate the investment and risk management activities of our customers (which involves transactions that are recorded as trading assets and liabilities on our balance sheet), and to execute economic hedging to manage certain balance sheet risks. These activities largely occur within our Wholesale Banking businesses and to a lesser extent other divisions of the Company. All of our trading assets and liabilities, including securities, foreign exchange transactions, commodity transactions, and derivatives are carried at fair value. Income earned related to these trading activities include net interest income and changes in fair value related to trading assets and liabilities. Net interest income earned on trading assets and liabilities is reflected in the interest income and interest expense components of our income statement. Changes in fair value of trading assets and liabilities are reflected in net gains on trading activities, a component of noninterest income in our income statement.
Table 31 presents total revenue from trading activities.

Table 31: Net gains (losses) from Trading Activities

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | 2016 | 2015 | 2016 | 2015 |
| Interest income (1) | $572 | 483 | 1,168 | 928 |
| Less: Interest expense (2) | 83 | 83 | 172 | 180 |
| Net interest income | 489 | 400 | 996 | 748 |
| Noninterest income: | | | | |
| Net gains (losses) from trading activities (3): | | | | |
| Customer accommodation | 380 | 258 | 599 | 555 |
| Economic hedges and other (4) | (52) | (125) | (71) | (14) |
| Total net gains from trading activities | 328 | 133 | 528 | 541 |
| Total trading-related net interest and noninterest income | $817 | 533 | 1,524 | 1,289 |

(1) Represents interest and dividend income earned on trading securities.
(2) Represents interest and dividend expense incurred on trading securities we have sold but have not yet purchased.
(3) Represents realized gains (losses) from our trading activity and unrealized gains (losses) due to changes in fair value of our trading positions, attributable to the type of business activity.
(4) Excludes economic hedging of mortgage banking and asset/liability management activities, for which hedge results (realized and unrealized) are reported with the respective hedged activities.

Customer accommodation Customer accommodation activities are conducted to help customers manage their investment and risk management needs. We engage in market-making activities or act as an intermediary to purchase or sell financial instruments in anticipation of or in response to customer needs. This category also includes positions we use to manage our exposure to customer transactions.

In our customer accommodation trading, we serve as intermediary between buyer and seller. For example, we may purchase or sell a derivative to a customer who wants to manage interest rate risk exposure. We typically enter into offsetting derivative or security positions with a separate counterparty or exchange to manage our exposure to the derivative with our customer. We earn income on this activity based on the transaction price difference between the customer and offsetting derivative or security positions, which is reflected in the fair value changes of the positions

recorded in net gains on trading activities.
Customer accommodation trading also includes net gains related to market-making activities in which we take positions to facilitate customer order flow. For example, we may own securities recorded as trading assets (long positions) or sold securities we have not yet purchased, recorded as trading liabilities (short positions), typically on a short-term basis, to facilitate support of buying and selling demand from our customers. As a market maker in these securities, we earn income due to: (1) the difference between the price paid or received for the purchase and sale of the security (bid-ask spread), (2) the net interest income, and (3) the change in fair value of the long or short positions during the short-term period held on our balance sheet. Additionally, we may enter into separate derivative or security positions to manage our exposure related to our long or short security positions. Income earned on this type of market-making activity is reflected in the fair value changes of these positions recorded in net gains on trading activities.

Economic hedges and other  Economic hedges in trading are not designated in a hedge accounting relationship and exclude economic hedging related to our asset/liability risk management and mortgage banking risk management activities. Economic hedging activities include the use of trading securities to economically hedge risk exposures related to non-trading activities or derivatives to hedge risk exposures related to trading assets or trading liabilities. Economic hedges are unrelated to our customer accommodation activities. Other activities include financial assets held for investment purposes that we elected to carry at fair value with changes in fair value recorded to earnings in order to mitigate accounting measurement mismatches or avoid embedded derivative accounting complexities.

Proprietary trading  Proprietary trading consists of security or derivative positions executed for our own account based upon market expectations or to benefit from price differences between financial instruments and markets. Proprietary trading activity has been substantially restricted by the Dodd-Frank Act provisions known as the “Volcker Rule.” Accordingly, we reduced and have exited certain business activities as a result of the rule. As discussed within this section and the noninterest income section of our financial results, proprietary trading activity is insignificant to our business and financial results. For more details on the Volcker Rule, see the “Regulatory Reform” section in our 2015 Form 10-K.

Daily Trading-Related Revenue  Table 32 provides information on the distribution of daily trading-related revenues for the Company’s trading portfolio. This trading-related revenue is defined as the change in value of the trading assets and trading liabilities, trading-related net interest income, and trading-related intra-day gains and losses. Net trading-related revenue does not include activity related to long-term positions held for economic hedging purposes, period-end adjustments, and other

activity not representative of daily price changes driven by market factors.

Table 32: Distribution of Daily Trading-Related Revenues

Market risk is the risk of possible economic loss from adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity, commodity prices, mortgage rates, and market liquidity. Market risk is intrinsic to the Company's sales and trading, market making, investing, and risk management activities.
The Company uses value-at-risk (VaR) metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. VaR is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets.
Trading VaR is the measure used to provide insight into the market risk exhibited by the Company's trading positions. The

Company calculates Trading VaR for risk management purposes to establish line of business and Company-wide risk limits. Trading VaR is calculated based on all trading positions classified as trading assets or trading liabilities on our balance sheet.
Table 33 shows the Company's Trading General VaR by risk category. As presented in the table, average Trading General VaR was $21 million for the quarter ended June 30, 2016, compared with $18 million for the quarter ended March 31, 2016. The increase was primarily driven by changes in portfolio composition.

Table 33: Trading 1-Day 99% General VaR by Risk Category

| | Quarter ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | | | March 31, 2016 | | | |
| (in millions) | Period end | Average | Low | High | Period end | Average | Low | High |
| Company Trading General VaR Risk Categories | | | | | | | | |
| Credit | $16 | 15 | 12 | 18 | 16 | 16 | 14 | 18 |
| Interest rate | 15 | 10 | 5 | 19 | 11 | 11 | 6 | 19 |
| Equity | 14 | 15 | 11 | 19 | 14 | 14 | 11 | 16 |
| Commodity | 1 | 2 | 1 | 3 | 1 | 1 | 1 | 2 |
| Foreign exchange | 1 | 1 | — | 2 | 1 | 2 | 1 | 2 |
| Diversification benefit (1) | (27) | (22) | | | (23) | (26) | | |
| Company Trading General VaR | $20 | 21 | | | 20 | 18 | | |

(1) The period-end VaR was less than the sum of the VaR components described above, which is due to portfolio diversification. The diversification effect arises because the risks are not perfectly correlated causing a portfolio of positions to usually be less risky than the sum of the risks of the positions alone. The diversification benefit is not meaningful for low and high metrics since they may occur on different days.

Asset/Liability Management (continued)

Regulatory Market Risk Capital reflects U.S. regulatory agency risk-based capital regulations that are based on the Basel Committee Capital Accord of the Basel Committee on Banking Supervision. The Company must calculate regulatory capital under the Basel III market risk capital rule, which requires banking organizations with significant trading activities to adjust their capital requirements to reflect the market risks of those activities based on comprehensive and risk sensitive methods and models. The market risk capital rule is intended to cover the risk of loss in value of covered positions due to changes in market conditions.

Composition of Material Portfolio of Covered Positions The positions that are "covered" by the market risk capital rule are generally a subset of our trading assets and trading liabilities, specifically those held by the Company for the purpose of short-term resale or with the intent of benefiting from actual or expected short-term price movements, or to lock in arbitrage profits. Positions excluded from market risk regulatory capital treatment are subject to the credit risk capital rules applicable to the "non-covered" trading positions.
The material portfolio of the Company's "covered" positions is predominantly concentrated in the trading assets and trading liabilities managed within Wholesale Banking where the substantial portion of market risk capital resides. Wholesale Banking engages in the fixed income, traded credit, foreign exchange, equities, and commodities markets businesses. Other business segments hold smaller trading positions covered under the market risk capital rule.

Regulatory Market Risk Capital Components The capital required for market risk on the Company's "covered" positions is

determined by internally developed models or standardized specific risk charges. The market risk regulatory capital models are subject to internal model risk management and validation. The models are continuously monitored and enhanced in response to changes in market conditions, improvements in system capabilities, and changes in the Company's market risk exposure. The Company is required to obtain and has received prior written approval from its regulators before using its internally developed models to calculate the market risk capital charge.
Basel III prescribes various VaR measures in the determination of regulatory capital and RWAs. The Company uses the same VaR models for both market risk management purposes as well as regulatory capital calculations. For regulatory purposes, we use the following metrics to determine the Company's market risk capital requirements:

General VaR measures the risk of broad market movements such as changes in the level of credit spreads, interest rates, equity prices, commodity prices, and foreign exchange rates. General VaR uses historical simulation analysis based on 99% confidence level and a 10-day holding period.
Table 34 shows the General VaR measure categorized by major risk categories. Average 10-day Company Regulatory General VaR was $27 million for the quarter ended June 30, 2016, compared with $36 million for the quarter ended March 31, 2016. The decrease was primarily driven by changes in portfolio composition.

Table 34: Regulatory 10-Day 99% General VaR by Risk Category

| | Quarter ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | | | March 31, 2016 | | | |
| (in millions) | Period end | Average | Low | High | Period end | Average | Low | High |
| Wholesale Regulatory General VaR Risk Categories | | | | | | | | |
| Credit | $31 | 25 | 18 | 35 | 19 | 31 | 19 | 44 |
| Interest rate | 42 | 27 | 18 | 56 | 21 | 29 | 17 | 48 |
| Equity | 6 | 4 | 1 | 8 | 4 | 7 | 4 | 12 |
| Commodity | 8 | 6 | 3 | 11 | 3 | 2 | 1 | 4 |
| Foreign exchange | 1 | 3 | 1 | 9 | 2 | 2 | 1 | 5 |
| Diversification benefit (1) | (64 ) | (38 ) | | | (24 ) | (37 ) | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Wholesale Regulatory General VaR | $24 | 27 | 17 | 39 | 25 | 34 | 20 | 54 |
| Company Regulatory General VaR | 21 | 27 | 16 | 41 | 27 | 36 | 19 | 56 |

(1) The period-end VaR was less than the sum of the VaR components described above, which is due to portfolio diversification. The diversification benefit arises because the risks are not perfectly correlated causing a portfolio of positions to usually be less risky than the sum of the risks of the positions alone. The diversification benefit is not meaningful for low and high metrics since they may occur on different days.

Specific Risk measures the risk of loss that could result from factors other than broad market movements, or name-specific market risk. Specific Risk uses Monte Carlo simulation analysis based on a 99% confidence level and a 10-day holding period.

Total VaR (as presented in Table 35) is composed of General VaR and Specific Risk and uses the previous 12 months of historical market data in compliance with regulatory requirements.

Total Stressed VaR (as presented in Table 35) uses a historical period of significant financial stress over a continuous 12 month period using historically available market data and is composed

of Stressed General VaR and Stressed Specific Risk. Total Stressed VaR uses the same methodology and models as Total VaR.

Incremental Risk Charge (as presented in Table 35) captures losses due to both issuer default and migration risk at the 99.9% confidence level over the one-year capital horizon under the assumption of constant level of risk or a constant position assumption. The model covers non-securitized credit-sensitive trading products.
The Company calculates Incremental Risk by generating a portfolio loss distribution using Monte Carlo simulation, which

assumes numerous scenarios, where an assumption is made that the portfolio's composition remains constant for a one-year time horizon. Individual issuer credit grade migration and issuer default risk is modeled through generation of the issuer's credit rating transition based upon statistical modeling. Correlation between credit grade migration and default is captured by a multifactor proprietary model which takes into account industry classifications as well as regional effects. Additionally, the impact of market and issuer specific concentrations is reflected in the modeling framework by assignment of a higher charge for

portfolios that have increasing concentrations in particular issuers or sectors. Lastly, the model captures product basis risk; that is, it reflects the material disparity between a position and its hedge.
Table 35 provides information on Total VaR, Total Stressed VaR and the Incremental Risk Charge results for the quarter ended June 30, 2016. For the Incremental Risk Charge, the required capital for market risk at quarter end equals the quarter end results.

Table 35: Market Risk Regulatory Capital Modeled Components

| | Quarter ended June 30, 2016 | | | | June 30, 2016 | |
|---|---|---|---|---|---|---|
| (in millions) | Average | Low | High | Period end | Risk-based capital (1) | Risk-weighted assets (1) |
| Total VaR | $65 | 59 | 76 | 66 | 196 | 2,454 |
| Total Stressed VaR | 229 | 176 | 307 | 300 | 687 | 8,586 |
| Incremental Risk Charge | 261 | 216 | 299 | 276 | 276 | 3,449 |

(1) Results represent the risk-based capital and RWAs based on the VaR and Incremental Risk Charge models.

Securitized Products Charge Basel III requires a separate market risk capital charge for positions classified as a securitization or re-securitization. The primary criteria for classification as a securitization are whether there is a transfer of risk and whether the credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority. Covered trading securitizations positions include consumer and commercial asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), and collateralized loan and other debt obligations (CLO/CDO) positions. The securitization capital requirements are the greater of the capital requirements of the net long or short exposure, and are capped at the maximum loss that could be incurred on any given transaction.
Table 36 shows the aggregate net fair market value of securities and derivative securitization positions by exposure type that meet the regulatory definition of a covered trading securitization position at June 30, 2016, and December 31, 2015.

Table 36: Covered Securitization Positions by Exposure Type (Net Market Value)

| (in millions) | ABS | CMBS | RMBS | CLO/CDO |
|---|---|---|---|---|
| June 30, 2016 | | | | |
| Securitization exposure: | | | | |
| Securities | $651 | 261 | 457 | 613 |
| Derivatives | 8 | 4 | 2 | (12) |
| Total | $659 | 265 | 459 | 601 |
| December 31, 2015 | | | | |
| Securitization exposure: | | | | |
| Securities | $962 | 402 | 571 | 667 |
| Derivatives | 15 | 6 | 2 | (21) |
| Total | $977 | 408 | 573 | 646 |

Securitization Due Diligence and Risk Monitoring The market risk capital rule requires that the Company conduct due diligence on the risk of each position within three days of the purchase of a securitization position. The Company's due diligence seeks to provide an understanding of the features that would materially affect the performance of a securitization or re-securitization. The due diligence analysis is re-performed on a quarterly basis for each securitization and re-securitization position. The Company uses an automated solution to track the due diligence associated with securitization activity. The Company aims to manage the risks associated with securitization and re-securitization positions through the use of offsetting positions and portfolio diversification.

Standardized Specific Risk Charge For debt and equity positions that are not evaluated by the approved internal specific risk models, a regulatory prescribed standard specific risk charge is applied. The standard specific risk add-on for sovereign entities, public sector entities, and depository institutions is based on the Organization for Economic Co-operation and Development (OECD) country risk classifications (CRC) and the remaining contractual maturity of the position. These risk add-ons for debt positions range from 0.25% to 12%. The add-on for corporate debt is based on creditworthiness and the remaining contractual maturity of the position. All other types of debt positions are subject to an 8% add-on. The standard specific risk add-on for equity positions is generally 8%.

Comprehensive Risk Charge / Correlation Trading The market risk capital rule requires capital for correlation trading positions. The Company's remaining correlation trading exposure covered under the market risk capital rule matured in fourth quarter 2014.
Table 37 summarizes the market risk-based capital requirements charge and market RWAs in accordance with the Basel III market risk capital rule as of June 30, 2016, and December 31, 2015. The market RWAs are calculated as the sum of the components in the table below.

Asset/Liability Management (continued)

Table 37: Market Risk Regulatory Capital and RWAs

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (in millions) | Risk-based capital | Risk-weighted assets | Risk-based capital | Risk-weighted assets |
| Total VaR | $196 | 2,454 | 188 | 2,350 |
| Total Stressed VaR | 687 | 8,586 | 773 | 9,661 |
| Incremental Risk Charge | 276 | 3,449 | 309 | 3,864 |
| Securitized Products Charge | 448 | 5,602 | 616 | 7,695 |
| Standardized Specific Risk Charge | 1,202 | 15,027 | 1,048 | 13,097 |
| De minimis Charges (positions not included in models) | 8 | 89 | 19 | 243 |
| Total | $2,817 | 35,207 | 2,953 | 36,910 |

RWA Rollforward Table 38 depicts the changes in the market risk regulatory capital and RWAs under Basel III for the first half and second quarter of 2016.

Table 38: Analysis of Changes in Market Risk Regulatory Capital and RWAs

| (in millions) | Risk-based capital | Risk-weighted assets |
|---|---|---|
| Balance, December 31, 2015 | $2,953 | 36,910 |
| Total VaR | 8 | 104 |
| Total Stressed VaR | (86) | (1,075) |
| Incremental Risk Charge | (33) | (415) |
| Securitized Products Charge | (167) | (2,093) |
| Standardized Specific Risk Charge | 154 | 1,930 |
| De minimis Charges | (12) | (154) |
| Balance, June 30, 2016 | $2,817 | 35,207 |
| | | |
| Balance, March 31, 2016 | $2,817 | 35,213 |
| Total VaR | 6 | 80 |
| Total Stressed VaR | (6) | (83) |
| Incremental Risk Charge | (11) | (137) |
| Securitized Products Charge | (116) | (1,447) |
| Standardized Specific Risk Charge | 147 | 1,842 |
| De minimis Charges | (20) | (261) |
| Balance, June 30, 2016 | $2,817 | 35,207 |

The largest contributor to the changes to market risk regulatory capital and RWAs in second quarter and first half of 2016 were associated with changes in positions due to normal trading activity.

VaR Backtesting The market risk capital rule requires backtesting as one form of validation of the VaR model. Backtesting is a comparison of the daily VaR estimate with the actual clean profit and loss (clean P&L) as defined by the market risk capital rule. Clean P&L is the change in the value of the Company's covered trading positions that would have occurred had previous end-of-day covered trading positions remained unchanged (therefore, excluding fees, commissions, net interest income, and intraday trading gains and losses). The backtesting analysis compares the daily Total VaR for each of the trading days in the preceding 12 months with the net clean P&L. Clean P&L does not include credit adjustments and other activity not representative of daily price changes driven by market risk factors.

The clean P&L measure of revenue is used to evaluate the performance of the Total VaR and is not comparable to our actual daily trading net revenues, as reported elsewhere in this Report.

Any observed clean P&L loss in excess of the Total VaR is considered a market risk regulatory capital backtesting exception. The actual number of exceptions (that is, the number of business days for which the clean P&L losses exceed the corresponding 1-day, 99% Total VaR measure) over the preceding 12 months is used to determine the capital multiplier for the capital calculation. The number of actual backtesting exceptions is dependent on current market performance relative to historic market volatility in addition to model performance and assumptions. This capital multiplier increases from a minimum of three to a maximum of four, depending on the number of exceptions. No backtesting exceptions occurred over the preceding 12 months. Backtesting is also performed at granular levels within the Company.

Table 39 shows daily Total VaR (1-day, 99%) used for regulatory market risk capital backtesting for the 12 months ended June 30, 2016. The Company’s average Total VaR for second quarter 2016 was $23 million with a low of $21 million and a high of $27 million.

Table 39: Daily Total 1-Day 99% VaR Measure (Rolling 12 Months)
Market Risk Governance, Measurement, Monitoring and Model Risk Management We employ a well-defined and structured market risk governance process and market risk measurement process, which incorporates value-at-risk (VaR) measurements combined with sensitivity analysis and stress testing to help us monitor our market risk. These monitoring measurements require the use of market risk models, which we govern by our Corporate Model Risk policies and procedures. For more information on our governance, measurement, monitoring, and model risk management practices, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in our 2015 Form 10-K.

MARKET RISK – EQUITY INVESTMENTS We are directly and indirectly affected by changes in the equity markets. We make and manage direct equity investments in start-up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. We also invest in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by management and the Board. The Board's policy is to review business developments, key risks and historical returns for the private equity investment portfolio at least annually. Management reviews these investments at least quarterly and assesses them for possible OTTI. For nonmarketable investments, the analysis is based on facts and circumstances of each individual investment and the expectations for that investment's cash flows and capital needs, the viability of its business model and our exit strategy. Nonmarketable investments include private equity investments accounted for under the cost method, equity method and fair value option.
In conjunction with the March 2008 initial public offering (IPO) of Visa, Inc. (Visa), we received approximately 20.7 million shares of Visa Class B common stock, the class which was apportioned to member banks of Visa at the time of the IPO. To manage our exposure to Visa and realize the value of the appreciated Visa shares, we incrementally sold these shares

through a series of sales over the past few years, thereby eliminating this position as of September 30, 2015. As part of these sales, we agreed to compensate the buyer for any additional contributions to a litigation settlement fund for the litigation matters associated with the Class B shares we sold. Our exposure to this retained litigation risk has been updated quarterly and is reflected on our balance sheet. See Note 11 (Legal Actions) to Financial Statements in this Report for more information about the status of the associated litigation matters.
As part of our business to support our customers, we trade public equities, listed/OTC equity derivatives and convertible bonds. We have parameters that govern these activities. We also have marketable equity securities in the available-for-sale securities portfolio, including securities relating to our venture capital activities. We manage these investments within capital risk limits approved by management and the Board and monitored by Corporate ALCO and the Corporate Market Risk Committee. Gains and losses on these securities are recognized in net income when realized and periodically include OTTI charges.
Changes in equity market prices may also indirectly affect our net income by (1) the value of third party assets under management and, hence, fee income, (2) borrowers whose ability to repay principal and/or interest may be affected by the stock market, or (3) brokerage activity, related commission income and other business activities. Each business line monitors and manages these indirect risks.
Table 40 provides information regarding our marketable and nonmarketable equity investments as of June 30, 2016, and December 31, 2015.

Asset/Liability Management (continued)

Table 40: Nonmarketable and Marketable Equity Investments

| (in millions) | Jun 30, 2016 | Dec 31, 2015 |
|---|---|---|
| Nonmarketable equity investments: | | |
| Cost method: | | |
| Federal bank stock | $5,686 | 4,814 |
| Private equity | 1,481 | 1,626 |
| Auction rate securities | 558 | 595 |
| Total cost method | 7,725 | 7,035 |
| Equity method: | | |
| LIHTC (1) | 8,949 | 8,314 |
| Private equity | 3,521 | 3,300 |
| Tax-advantaged renewable energy | 1,538 | 1,625 |
| New market tax credit and other | 320 | 408 |
| Total equity method | 14,328 | 13,647 |
| Fair value (2) | 3,046 | 3,065 |
| Total nonmarketable equity investments (3) | $25,099 | 23,747 |
| Marketable equity securities: | | |
| Cost | $868 | 1,058 |
| Net unrealized gains | 434 | 579 |
| Total marketable equity securities (4) | $1,302 | 1,637 |

(1) Represents low income housing tax credit investments.

(2) Represents nonmarketable equity investments for which we have elected the fair value option. See Note 6 (Other Assets) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information.

(3) Included in other assets on the balance sheet. See Note 6 (Other Assets) to Financial Statements in this Report for additional information.

(4) Included in available-for-sale securities. See Note 4 (Investment Securities) to Financial Statements in this Report for additional information.

LIQUIDITY AND FUNDING The objective of effective liquidity management is to ensure that we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under periods of Wells Fargo-specific and/or market stress. To achieve this objective, the Board of Directors establishes liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. These guidelines are monitored on a monthly basis by the Corporate ALCO and on a quarterly basis by the Board of Directors. These guidelines are established and monitored for both the consolidated company and for the Parent on a stand-alone basis to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries.

Liquidity Standards On September 3, 2014, the FRB, OCC and FDIC issued a final rule that implements a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision (BCBS). The rule requires banking institutions, such as Wells Fargo, to hold high-quality liquid assets, such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash, in an amount equal to or greater than its projected net cash outflows during a 30-day stress period. A minimum LCR of 90 percent was required as of January 1, 2016, and will increase to 100 percent on January 1, 2017. These minimum requirements are applicable to the Company on a consolidated basis and to our insured depository institutions with total assets greater than $10 billion. In addition, the FRB finalized rules imposing enhanced liquidity management standards on large bank holding companies (BHC) such as Wells

Fargo, and has proposed a rule that would require large bank holding companies to publicly disclose on a quarterly basis certain quantitative and qualitative information regarding their LCR calculations.
The FRB, OCC and FDIC recently proposed a rule that would implement a stable funding requirement, the net stable funding ratio (NSFR), which would require large banking organizations, such as Wells Fargo, to maintain a sufficient amount of stable funding in relation to their assets, derivative exposures and commitments over a one-year horizon period. As proposed, the rule would become effective on January 1, 2018. The proposed rule is open for comments until August 5, 2016.

Liquidity Sources We maintain liquidity in the form of cash, cash equivalents and unencumbered high-quality, liquid securities. These assets make up our primary sources of liquidity which are presented in Table 41. Our cash is predominantly on deposit with the Federal Reserve. Securities included as part of our primary sources of liquidity are comprised of U.S. Treasury and federal agency debt, and mortgage-backed securities issued by federal agencies within our investment securities portfolio. We believe these securities provide quick sources of liquidity through sales or by pledging to obtain financing, regardless of market conditions. Some of these securities are within the held-to-maturity portion of our investment securities portfolio and as such are not intended for sale but may be pledged to obtain financing. Some of the legal entities within our consolidated group of companies are subject to various regulatory, tax, legal and other restrictions that can limit the transferability of their funds. We believe we maintain adequate liquidity for these entities in consideration of such funds transfer restrictions.

Table 41: Primary Sources of Liquidity

| | June 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| (in millions) | Total | Encumbered | Unencumbered | Total | Encumbered | Unencumbered |
| Interest-earning deposits | $231,210 | — | 231,210 | $220,409 | — | 220,409 |
| Securities of U.S. Treasury and federal agencies | 75,256 | 4,994 | 70,262 | 81,417 | 6,462 | 74,955 |
| Mortgage-backed securities of federal agencies (1) | 146,342 | 68,087 | 78,255 | 132,967 | 74,778 | 58,189 |
| Total | $452,808 | 73,081 | 379,727 | $434,793 | 81,240 | 353,553 |

(1) Included in encumbered securities at June 30, 2016, were securities with a fair value of $4.5 billion which were purchased in June 2016, but settled in July 2016.

In addition to our primary sources of liquidity shown in Table 41, liquidity is also available through the sale or financing of other securities including trading and/or available-for-sale securities, as well as through the sale, securitization or financing of loans, to the extent such securities and loans are not encumbered. In addition, other securities in our held-to-maturity portfolio, to the extent not encumbered, may be pledged to obtain financing. Deposits have historically provided a sizeable source of relatively low-cost funds. At June 30, 2016, deposits were 130% of total loans compared with 133% at December 31, 2015. Additional funding is provided by long-term debt and short-term borrowings.

Asset/Liability Management (continued)

Table 42 shows selected information for short-term borrowings, which generally mature in less than 30 days.

Table 42: Short-Term Borrowings

| | Quarter ended | | | | |
|---|---|---|---|---|---|
| (in millions) | Jun 30 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 | Jun 30, 2015 |
| Balance, period end | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | $104,812 | 92,875 | 82,948 | 74,652 | 71,439 |
| Commercial paper | 154 | 519 | 334 | 393 | 621 |
| Other short-term borrowings | 15,292 | 14,309 | 14,246 | 13,024 | 10,903 |
| Total | $120,258 | 107,703 | 97,528 | 88,069 | 82,963 |
| Average daily balance for period | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | $97,702 | 93,502 | 88,949 | 79,445 | 72,429 |
| Commercial paper | 326 | 442 | 414 | 484 | 2,433 |
| Other short-term borrowings | 13,820 | 13,913 | 13,552 | 10,428 | 9,637 |
| Total | $111,848 | 107,857 | 102,915 | 90,357 | 84,499 |
| Maximum month-end balance for period | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase (1) | $104,812 | 98,718 | 89,800 | 80,961 | 71,811 |
| Commercial paper (2) | 451 | 519 | 461 | 510 | 2,713 |
| Other short-term borrowings (3) | 15,292 | 14,593 | 14,246 | 13,024 | 10,903 |

(1) Highest month-end balance in each of the last five quarters was in June and February 2016, and October, August and May 2015.

(2) Highest month-end balance in each of the last five quarters was in April and March 2016, and November, July and April 2015.

(3) Highest month-end balance in each of the last five quarters was in June and February 2016, and December, September and June 2015.

We access domestic and international capital markets for long-term funding (generally greater than one year) through issuances of registered debt securities, private placements and asset-backed secured funding.

Long-Term Debt We issue long-term debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. Long-term debt of $243.9 billion at June 30, 2016, increased $44.4 billion from

December 31, 2015, including $15.2 billion in Parent issuances that are anticipated to be Total Loss Absorbing Capacity (TLAC) eligible. For more information regarding TLAC, see the "Capital Management – Other Regulatory Capital Matters" section in this Report. Table 43 provides the aggregate carrying value of long-term debt maturities (based on contractual payment dates) for the remainder of 2016 and the following years thereafter, as of June 30, 2016.

Table 43: Maturity of Long-Term Debt

| | June 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| (in millions) | Remaining 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total |
| Wells Fargo & Company (Parent Only) | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Senior notes | $7,451 | 13,199 | 7,821 | 6,557 | 13,394 | 53,683 | 102,105 |
| Subordinated notes | 2,425 | — | 589 | — | — | 26,847 | 29,861 |
| Junior subordinated notes | — | — | — | — | — | 1,820 | 1,820 |
| Total long-term debt - Parent | $9,876 | 13,199 | 8,410 | 6,557 | 13,394 | 82,350 | 133,786 |
| Wells Fargo Bank, N.A. and other bank entities (Bank) | | | | | | | |
| Senior notes | $8,193 | 8,969 | 25,261 | 19,204 | 11,011 | 5,183 | 77,821 |
| Subordinated notes | — | 1,334 | — | — | — | 5,789 | 7,123 |
| Junior subordinated notes | — | — | — | — | — | 327 | 327 |
| Securitizations and other bank debt | 1,997 | 4,144 | 1,851 | 592 | 573 | 10,906 | 20,063 |
| Total long-term debt - Bank | $10,190 | 14,447 | 27,112 | 19,796 | 11,584 | 22,205 | 105,334 |
| Other consolidated subsidiaries | | | | | | | |
| Senior notes | $— | 1,161 | 793 | 1,183 | — | 1,441 | 4,578 |
| Junior subordinated notes | — | — | — | — | — | 155 | 155 |
| Securitizations and other bank debt | — | 1 | 73 | — | — | — | 74 |
| Total long-term debt - Other consolidated subsidiaries | $— | 1,162 | 866 | 1,183 | — | 1,596 | 4,807 |
| Total long-term debt | $20,066 | 28,808 | 36,388 | 27,536 | 24,978 | 106,151 | 243,927 |

Parent  Under SEC rules, our Parent is classified as a “well-known seasoned issuer,” which allows it to file a registration statement that does not have a limit on issuance capacity. In May 2014, the Parent filed a registration statement with the SEC for the issuance of senior and subordinated notes, preferred stock and other securities. The Parent’s ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. The Parent is currently authorized by the Board to issue $60 billion in outstanding short-term debt and $170 billion in outstanding long-term debt. At June 30, 2016, the Parent had available $40.9 billion in short-term debt issuance authority and $34.7 billion in long-term debt issuance authority. The Parent’s debt issuance authority granted by the Board includes short-term and long-term debt issued to affiliates. During the first half of 2016, the Parent issued $14.4 billion of senior notes, of which $9.7 billion were registered with the SEC. The Parent issued $2.0 billion of subordinated notes during the first half of 2016, all of which were registered with the SEC. In addition, in July 2016, the Parent issued $8.3 billion of senior notes, $4.8 billion of which were registered with the SEC.
The Parent’s proceeds from securities issued were used for general corporate purposes, and, unless otherwise specified in the applicable prospectus or prospectus supplement, we expect the proceeds from securities issued in the future will be used for the same purposes. Depending on market conditions, we may purchase our outstanding debt securities from time to time in privately negotiated or open market transactions, by tender offer, or otherwise.

Wells Fargo Bank, N.A. Wells Fargo Bank, N.A. is authorized by its board of directors to issue $100 billion in outstanding short-term debt and $125 billion in outstanding long-term debt. At June 30, 2016, Wells Fargo Bank, N.A. had available $100 billion in short-term debt issuance authority and $40.6 billion in long-term debt issuance authority. In April 2015, Wells Fargo Bank, N.A. established a $100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $50 billion in outstanding short-term senior notes and $50 billion in

outstanding long-term senior or subordinated notes. At June 30, 2016, Wells Fargo Bank, N.A. had remaining issuance capacity under the bank note program of $50.0 billion in short-term senior notes and $41.0 billion in long-term senior or subordinated notes. During the first half of 2016, Wells Fargo Bank, N.A. issued $9.5 billion of unregistered senior notes under the bank note program. In addition, during the first half of 2016, Wells Fargo Bank, N.A. executed advances of $21.9 billion with the Federal Home Loan Bank of Des Moines, and as of June 30, 2016, Wells Fargo Bank, N.A. had outstanding advances of $59.0 billion across the Federal Home Loan Bank System. In July 2016, Wells Fargo Bank, N.A. executed an additional $4.7 billion in Federal Home Loan Bank advances.

Credit Ratings  Investors in the long-term capital markets, as well as other market participants, generally will consider, among other factors, a company’s debt rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a reduction of our credit rating; however, our debt securities do not contain credit rating covenants.
During second quarter 2016, DBRS confirmed all of the Company's ratings. Both the Parent and Wells Fargo Bank, N.A. remain among the top-rated financial firms in the U.S.
See the “Risk Management – Asset/Liability Management” section in this Report and the "Risk Factors" section in our 2015 Form 10-K for additional information regarding our credit ratings and the potential impact a credit rating downgrade would have on our liquidity and operations, as well as Note 12 (Derivatives) to Financial Statements in this Report for information regarding additional collateral and funding obligations required for certain derivative instruments in the event our credit ratings were to fall below investment grade.
The credit ratings of the Parent and Wells Fargo Bank, N.A. as of June 30, 2016, are presented in Table 44.

Table 44:  Credit Ratings as of June 30, 2016

| | Wells Fargo & Company | | Wells Fargo Bank, N.A. | |
|---|---|---|---|---|
| | Senior debt | Short-term | Long-term | Short-term |

| | | borrowings | deposits | borrowings |
|---|---|---|---|---|
| Moody's | A2 | P-1 | Aa1 | P-1 |
| S&P | A | A-1 | AA- | A-1+ |
| Fitch Ratings, Inc. | AA- | F1+ | AA+ | F1+ |
| DBRS | AA | R-1* | AA** | R-1** |

* middle ** high

FEDERAL HOME LOAN BANK MEMBERSHIP The Federal Home Loan Banks (the FHLBs) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. We are a member of the FHLBs based in Dallas, Des Moines and San Francisco. Each member of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of

the Federal Housing Finance Board. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

Capital Management (continued)

## Capital Management

We have an active program for managing capital through a comprehensive process for assessing the Company's overall capital adequacy. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily fund our capital needs through the retention of earnings net of dividends as well as the issuance of preferred stock and long and short-term debt. Retained earnings increased $6.2 billion from December 31, 2015, predominantly from Wells Fargo net income of $11.0 billion, less common and preferred stock dividends of $4.6 billion. During second quarter 2016, we issued 17.4 million shares of common stock. We also issued 46 million Depositary Shares, each representing a 1/1,000th interest in a share of the Company's newly issued Non-Cumulative Perpetual Class A Preferred Stock, Series X, for an aggregate public offering price of $1.2 billion. During second quarter 2016, we repurchased 44.8 million shares of common stock in open market transactions, private transactions and from employee benefit plans, at a cost of $2.2 billion. We also entered into a $750 million forward repurchase contract with an unrelated third party in July 2016 that is expected to settle in fourth quarter 2016 for approximately 16 million shares. For additional information about our forward repurchase agreements, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

### Regulatory Capital Guidelines

The Company and each of our insured depository institutions are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC. Risk-based capital (RBC) guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures as discussed below.

RISK-BASED CAPITAL AND RISK-WEIGHTED ASSETS The Company is subject to final and interim final rules issued by federal banking regulators to implement Basel III capital requirements for U.S. banking organizations. These rules are based on international guidelines for determining regulatory capital issued by the Basel Committee on Banking Supervision (BCBS). The federal banking regulators' capital rules, among other things, require on a fully phased-in basis:

- a minimum Common Equity Tier 1 (CET1) ratio of 9.0%, comprised of a 4.5% minimum requirement plus a capital conservation buffer of 2.5% and for us, as a global systemically important bank (G-SIB), a capital surcharge to be calculated annually, which is 2.0% based on our year-end 2014 data;
- a minimum tier 1 capital ratio of 10.5%, comprised of a 6.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a minimum total capital ratio of 12.5%, comprised of a 8.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a potential countercyclical buffer of up to 2.5% to be added to the minimum capital ratios, which is currently not in effect but could be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in systemic risk;
- a minimum tier 1 leverage ratio of 4.0%; and
- a minimum supplementary leverage ratio (SLR) of 5.0% (comprised of a 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) for large and internationally active bank holding companies (BHCs).

We were required to comply with the final Basel III capital rules beginning January 2014, with certain provisions subject to phase-in periods. The Basel III capital rules are scheduled to be fully phased in by the end of 2021. The Basel III capital rules contain two frameworks for calculating capital requirements, a Standardized Approach, which replaced Basel I, and an Advanced Approach applicable to certain institutions, including Wells Fargo. Accordingly, in the assessment of our capital adequacy, we must report the lower of our CET1, tier 1 and total capital ratios calculated under the Standardized Approach and under the Advanced Approach.

Because the Company has been designated as a G-SIB, we will also be subject to the FRB's rule implementing the additional capital surcharge of between 1.0-4.5% on G-SIBs. Under the rule, we must annually calculate our surcharge under two methods and use the higher of the two surcharges. The first method (method one) will consider our size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, consistent with a methodology developed by the BCBS and the Financial Stability Board (FSB). The second (method two) will use similar inputs, but will replace substitutability with use of short-term wholesale funding and will generally result in higher surcharges than the BCBS methodology. The phase-in period for the G-SIB surcharge began on January 1, 2016 and will become fully effective on January 1, 2019. Based on year-end 2014 data, our 2016 G-SIB surcharge under method two is 2.0% of the Company's RWAs, which is the higher of method one and method two. Because the G-SIB surcharge is calculated annually based on data that can differ over time, the amount of the surcharge is subject to change in future years. Under the Standardized Approach (fully phased-in), our CET1 ratio of 10.61% exceeded the minimum of 9.0% by 161 basis points at June 30, 2016.

The tables that follow provide information about our risk- based capital and related ratios as calculated under Basel III capital guidelines. For banking industry regulatory reporting purposes, we report our capital in accordance with Transition Requirements but are managing our capital based on a fully phased-in calculation. For information about our capital requirements calculated in accordance with Transition Requirements, see Note 19 (Regulatory and Agency Capital

Requirements) to Financial Statements in this Report.
Table 45 summarizes our CET1, tier 1 capital, total capital, risk-weighted assets and capital ratios on a fully phased-in basis at June 30, 2016 and December 31, 2015. As of June 30, 2016, our CET1 and tier 1 capital ratios were lower using RWAs calculated under the Standardized Approach.

Table 45: Capital Components and Ratios (Fully Phased-In) (1)

| (in millions) | | June 30, 2016 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Advanced Approach | | Standardized Approach | | Advanced Approach | | Standardized Approach | |
| Common Equity Tier 1 | (A) | $145,644 | | 145,644 | | 142,367 | | 142,367 | |
| Tier 1 Capital | (B) | 168,377 | | 168,377 | | 162,810 | | 162,810 | |
| Total Capital | (C) | 197,393 | | 208,579 | | 190,374 | | 200,750 | |
| Risk-Weighted Assets | (D) | 1,341,146 | | 1,372,940 | | 1,282,849 | | 1,321,703 | |
| Common Equity Tier 1 Capital Ratio | (A)/(D) | 10.86 | % | 10.61 | * | 11.10 | | 10.77 | * |
| Tier 1 Capital Ratio | (B)/(D) | 12.55 | | 12.26 | * | 12.69 | | 12.32 | * |
| Total Capital Ratio | (C)/(D) | 14.72 | * | 15.19 | | 14.84 | * | 15.19 | |

*Denotes the lowest capital ratio as determined under the Advanced and Standardized Approaches.

(1) Fully phased-in regulatory capital amounts, ratios and RWAs are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's capital position. See Table 46 for information regarding the calculation and components of CET1, tier 1 capital, total capital and RWAs, as well as the corresponding reconciliation of our regulatory capital amounts to total equity.

Capital Management (continued)

Table 46 provides information regarding the calculation and composition of our risk-based capital under the Advanced and Standardized Approaches at June 30, 2016 and December 31, 2015.

Table 46: Risk-Based Capital Calculation and Components

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (in millions) | Advanced Approach | Standardized Approach | Advanced Approach | Standardized Approach |
| Total equity | $202,661 | 202,661 | 193,891 | 193,891 |
| Adjustments: | | | | |
| Preferred stock | (24,830) | (24,830) | (22,214) | (22,214) |
| Additional paid-in capital on ESOP preferred stock | (150) | (150) | (110) | (110) |
| Unearned ESOP shares | 1,868 | 1,868 | 1,362 | 1,362 |
| Noncontrolling interests | (916) | (916) | (893) | (893) |
| Total common stockholders' equity | 178,633 | 178,633 | 172,036 | 172,036 |
| Adjustments: | | | | |
| Goodwill | (26,963) | (26,963) | (25,529) | (25,529) |
| Certain identifiable intangible assets (other than MSRs) | (3,356) | (3,356) | (3,167) | (3,167) |
| Other assets (1) | (2,110) | (2,110) | (2,074) | (2,074) |
| Applicable deferred tax liabilities (2) | 1,906 | 1,906 | 2,071 | 2,071 |
| Investment in certain subsidiaries and other | (2,466) | (2,466) | (970) | (970) |
| Common Equity Tier 1 (Fully Phased-In) | 145,644 | 145,644 | 142,367 | 142,367 |
| Effect of Transition Requirements | 980 | 980 | 1,880 | 1,880 |
| Common Equity Tier 1 (Transition Requirements) | $146,624 | 146,624 | 144,247 | 144,247 |
| | | | | |
| Common Equity Tier 1 (Fully Phased-In) | $145,644 | 145,644 | 142,367 | 142,367 |
| Preferred stock | 24,830 | 24,830 | 22,214 | 22,214 |
| Additional paid-in capital on ESOP preferred stock | 150 | 150 | 110 | 110 |
| Unearned ESOP shares | (1,868) | (1,868) | (1,362) | (1,362) |
| Other | (379) | (379) | (519) | (519) |
| Total Tier 1 capital (Fully Phased-In) (A) | 168,377 | 168,377 | 162,810 | 162,810 |
| Effect of Transition Requirements | 910 | 910 | 1,774 | 1,774 |
| Total Tier 1 capital (Transition Requirements) | $169,287 | 169,287 | 164,584 | 164,584 |
| | | | | |
| Total Tier 1 capital (Fully Phased-In) | $168,377 | 168,377 | 162,810 | 162,810 |
| Long-term debt and other instruments qualifying as Tier 2 | 27,716 | 27,716 | 25,818 | 25,818 |
| Qualifying allowance for credit losses (3) | 1,563 | 12,749 | 2,136 | 12,512 |
| Other | (263) | (263) | (390) | (390) |
| Total Tier 2 capital (Fully Phased-In) (B) | 29,016 | 40,202 | 27,564 | 37,940 |
| Effect of Transition Requirements | 1,822 | 1,822 | 3,005 | 3,005 |

| | | | | | |
|---|---|---|---|---|---|
| Total Tier 2 capital (Transition Requirements) | | $30,838 | 42,024 | 30,569 | 40,945 |
| Total qualifying capital (Fully Phased-In) | (A)+(B) | $197,393 | 208,579 | 190,374 | 200,750 |
| Total Effect of Transition Requirements | | 2,732 | 2,732 | 4,779 | 4,779 |
| Total qualifying capital (Transition Requirements) | | $200,125 | 211,311 | 195,153 | 205,529 |
| Risk-Weighted Assets (RWAs) (4)(5): | | | | | |
| Credit risk | | $1,019,664 | 1,337,733 | 989,639 | 1,284,793 |
| Market risk | | 35,207 | 35,207 | 36,910 | 36,910 |
| Operational risk | | 286,275 | N/A | 256,300 | N/A |
| Total RWAs (Fully Phased-In) | | $1,341,146 | 1,372,940 | 1,282,849 | 1,321,703 |
| Credit risk | | $1,000,247 | 1,319,415 | 969,972 | 1,266,238 |
| Market risk | | 35,207 | 35,207 | 36,910 | 36,910 |
| Operational risk | | 286,275 | N/A | 256,300 | N/A |
| Total RWAs (Transition Requirements) | | $1,321,729 | 1,354,622 | 1,263,182 | 1,303,148 |

(1) Represents goodwill and other intangibles on nonmarketable equity investments, which are included in other assets.

(2) Applicable deferred tax liabilities relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

(3) Under the Advanced Approach the allowance for credit losses that exceeds expected credit losses is eligible for inclusion in Tier 2 Capital, to the extent the excess allowance does not exceed 0.6% of Advanced credit RWAs, and under the Standardized Approach, the allowance for credit losses is includable in Tier 2 Capital up to 1.25% of Standardized credit RWAs, with any excess allowance for credit losses being deducted from total RWAs.

(4) RWAs calculated under the Advanced Approach utilize a risk-sensitive methodology, which relies upon the use of internal credit models based upon our experience with internal rating grades. Advanced Approach also includes an operational risk component, which reflects the risk of operating loss resulting from inadequate or failed internal processes or systems.

(5) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total RWAs.

Table 47 presents the changes in Common Equity Tier 1 under the Advanced Approach for the six months ended June 30, 2016.

Table 47: Analysis of Changes in Common Equity Tier 1

| (in millions) | |
|---|---|
| Common Equity Tier 1 (Fully Phased-In) at December 31, 2015 | 142,367 |
| Net income | 10,258 |
| Common stock dividends | (3,834 ) |
| Common stock issued, repurchased, and stock compensation-related items | (2,428 ) |
| Goodwill | (1,434 ) |
| Certain identifiable intangible assets (other than MSRs) | (189 ) |
| Other assets (1) | (36 ) |
| Applicable deferred tax liabilities (2) | (165 ) |
| Investment in certain subsidiaries and other | 1,105 |
| Change in Common Equity Tier 1 | 3,277 |
| Common Equity Tier 1 (Fully Phased-In) at June 30, 2016 | 145,644 |

(1) Represents goodwill and other intangibles on nonmarketable equity investments, which are included in other assets.

(2) Applicable deferred tax liabilities relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

Table 48 presents net changes in the components of RWAs under the Advanced and Standardized Approaches for the six months ended June 30, 2016.

Table 48: Analysis of Changes in RWAs

| (in millions) | Advanced Approach | Standardized Approach |
|---|---|---|
| RWAs (Fully Phased-In) at December 31, 2015 | $1,282,849 | 1,321,703 |
| Net change in credit risk RWAs | 30,025 | 52,940 |
| Net change in market risk RWAs | (1,703 ) | (1,703 ) |
| Net change in operational risk RWAs | 29,975 | N/A |
| Total change in RWAs | 58,297 | 51,237 |
| RWAs (Fully Phased-In) at June 30, 2016 | 1,341,146 | 1,372,940 |
| Effect of Transition Requirements | (19,417 ) | (18,318 ) |
| RWAs (Transition Requirements) at June 30, 2016 | $1,321,729 | 1,354,622 |

TANGIBLE COMMON EQUITY We also evaluate our business based on certain ratios that utilize tangible common equity. Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including goodwill and intangible assets associated with certain of our nonmarketable equity investments but excluding mortgage servicing rights), net of applicable deferred tax liabilities. These tangible common equity ratios are as follows:

- Tangible book value per common share, which represents tangible common equity divided by common shares outstanding.
- Return on average tangible common equity (ROTCE), which represents our annualized earnings contribution as a percentage of tangible common equity.

The methodology of determining tangible common equity may differ among companies. Management believes that tangible book value per common share and return on average tangible common equity, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. Table 49 provides a reconciliation of these non-GAAP financial measures to GAAP financial measures.

Table 49: Tangible Common Equity

| | | Balance at period end | | | Average balance | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Quarter ended | | | Quarter ended | | | Six months ended | |
| (in millions, except ratios) | | Jun 30, 2016 | Mar 31, 2016 | Jun 30, 2015 | Jun 30, 2016 | Mar 31, 2016 | Jun 30, 2015 | Jun 30, 2016 | Jun 30, 2015 |
| Total equity | | $202,661 | 198,504 | 190,676 | 201,003 | 196,586 | 190,382 | 198,795 | 189,520 |
| Adjustments: | | | | | | | | | |
| Preferred stock | | (24,830) | (24,051) | (21,649) | (24,091) | (23,963) | (21,847) | (24,027) | (21,316) |
| Additional paid-in capital on ESOP preferred stock | | (150) | (182) | (148) | (168) | (201) | (166) | (184) | (140) |
| Unearned ESOP shares | | 1,868 | 2,271 | 1,835 | 2,094 | 2,509 | 2,051 | 2,302 | 1,737 |
| Noncontrolling interests | | (916) | (1,008) | (1,118) | (984) | (904) | (1,154) | (944) | (1,101) |
| Total common stockholders' equity | (A) | 178,633 | 175,534 | 169,596 | 177,854 | 174,027 | 169,266 | 175,942 | 168,700 |
| Adjustments: | | | | | | | | | |
| Goodwill | | (26,963) | (27,003) | (25,705) | (27,037) | (26,069) | (25,705) | (26,553) | (25,705) |
| Certain identifiable intangible assets (other than MSRs) | | (3,356) | (3,814) | (3,807) | (3,600) | (3,407) | (3,957) | (3,503) | (4,115) |
| Other assets (1) | | (2,110) | (2,023) | (1,829) | (2,096) | (2,065) | (1,509) | (2,081) | (1,433) |
| Applicable deferred tax liabilities (2) | | 1,906 | 1,985 | 2,265 | 1,934 | 2,014 | 2,297 | 1,974 | 2,345 |
| Tangible common equity | (B) | $148,110 | $144,679 | $140,520 | 147,055 | 144,500 | 140,392 | 145,779 | 139,792 |
| Common shares outstanding | (C) | 5,048.5 | 5,075.9 | 5,145.2 | N/A | N/A | N/A | N/A | N/A |
| Net income applicable to common stock (3) | (D) | N/A | N/A | N/A | 5,173 | 5,085 | 5,363 | 10,258 | 10,824 |
| Book value per common share | (A)/(C) | $35.38 | 34.58 | 32.96 | N/A | N/A | N/A | N/A | N/A |
| Tangible book value per common share | (B)/(C) | 29.34 | 28.50 | 27.31 | N/A | N/A | N/A | N/A | N/A |
| Return on average common stockholders’ | (D)/(A) | N/A | N/A | N/A | 11.70% | 11.75 | 12.71 | 11.72 | 12.94 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| equity (ROE) | | | | | | | | | |
| Return on average tangible common equity (ROTCE) | (D)/(B) | N/A | N/A | N/A | 14.15 | 14.15 | 15.32 | 14.15 | 15.61 |

(1) Represents goodwill and other intangibles on nonmarketable equity investments, which are included in other assets.

(2) Applicable deferred tax liabilities relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

(3) Quarter and six months ended net income applicable to common stock is annualized for the respective ROE and ROTCE ratios.

SUPPLEMENTARY LEVERAGE RATIO In April 2014, federal banking regulators finalized a rule that enhances the SLR requirements for BHCs, like Wells Fargo, and their insured depository institutions. The SLR consists of Tier 1 capital divided by the Company's total leverage exposure. Total leverage exposure consists of the total average on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments and derivative exposures, less amounts permitted to be deducted from Tier 1 capital. The rule, which becomes effective on January 1, 2018, will require a covered BHC to maintain a SLR of at least 5.0% (comprised of the 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) to avoid restrictions on capital distributions and discretionary bonus payments. The rule will also require that all of our insured depository institutions maintain a SLR of 6.0% under applicable regulatory capital adequacy guidelines. In September 2014, federal banking regulators finalized additional changes to the SLR requirements to implement revisions to the Basel III leverage framework finalized by the BCBS in January 2014. These additional changes, among other things, modify the methodology for including off- balance sheet items, including credit derivatives, repo-style transactions and lines of credit, in the denominator of the SLR, and will become effective on January 1, 2018. At June 30, 2016, our SLR for the Company was 7.7% assuming full phase-in of the Advanced Approach capital framework. Based on our review, our current leverage levels would exceed the applicable requirements for each of our insured depository institutions as well. The fully phased-in SLR is considered a non-GAAP financial measure that is used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's leverage exposure. See Table 50 for information regarding the calculation and components of the SLR.

Table 50: Fully Phased-In SLR

| (in millions) | June 30, 2016 |
|---|---|
| Tier 1 capital | $168,377 |
| Total average assets | 1,862,084 |
| Less: deductions from Tier 1 capital | 31,145 |
| Total adjusted average assets | 1,830,939 |
| Adjustments: | |
| Derivative exposures | 51,502 |
| Repo-style transactions | 7,015 |
| Other off-balance sheet exposures | 299,250 |
| Total adjustments | 357,767 |
| Total leverage exposure | $2,188,706 |
| Supplementary leverage ratio | 7.7 % |

OTHER REGULATORY CAPITAL MATTERS In October 2015, the FRB proposed rules to address the amount of equity and unsecured long-term debt a U.S. G-SIB must hold to improve its resolvability and resiliency, often referred to as Total Loss Absorbing Capacity (TLAC). Under the proposed rules, U.S. G-SIBs would be required to have a minimum TLAC amount (consisting of CET1 capital and additional tier 1 capital issued directly by the top-tier or covered BHC plus eligible external long-term debt) equal to the greater of (i) 18% of RWAs and (ii) 9.5% of total leverage exposure (the denominator of the SLR calculation). Additionally, U.S. G-SIBs would be required to maintain a TLAC buffer equal to 2.5% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method one plus any applicable countercyclical buffer that would be added to the 18% minimum in order to avoid restrictions on capital

distributions and discretionary bonus payments. The proposed rules would also require U.S. G-SIBs to have a minimum amount of eligible unsecured long-term debt equal to the greater of (i) 6.0% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method two and (ii) 4.5% of the total leverage exposure. In addition, the proposed rules would impose certain restrictions on the operations and liabilities of the top-tier or covered BHC in order to further facilitate an orderly resolution, including prohibitions on the issuance of short-term debt to external investors and on entering into derivatives and certain other types of financial contracts with external counterparties. The proposed rules were open for comments until February 1, 2016. If the proposed rules are finalized as proposed, we may be required to issue additional long-term debt. We continue to evaluate the impact this proposal

will have on our consolidated financial statements.
In addition, as discussed in the “Risk Management – Asset/ Liability Management – Liquidity and Funding – Liquidity Standards” section in this Report, federal banking regulators have issued a final rule regarding the U.S. implementation of the Basel III LCR and a proposed rule regarding the NSFR.

Capital Planning and Stress Testing

Our planned long-term capital structure is designed to meet regulatory and market expectations. We believe that our long-term targeted capital structure enables us to invest in and grow our business, satisfy our customers' financial needs in varying environments, access markets, and maintain flexibility to return capital to our shareholders. Our long-term targeted capital structure also considers capital levels sufficient to exceed capital requirements including the G-SIB surcharge. Accordingly, based on the final Basel III capital rules under the lower of the Standardized or Advanced Approaches CET1 capital ratios, we currently target a long-term CET1 capital ratio at or in excess of 10%, which includes a 2% G-SIB surcharge. Our capital targets are subject to change based on various factors, including changes to the regulatory capital framework and expectations for large banks promulgated by bank regulatory agencies, planned capital actions, changes in our risk profile and other factors.
Under the FRB’s capital plan rule, large BHCs are required to submit capital plans annually for review to determine if the FRB has any objections before making any capital distributions. The rule requires updates to capital plans in the event of material changes in a BHC’s risk profile, including as a result of any significant acquisitions. The FRB assesses the overall financial condition, risk profile, and capital adequacy of BHCs while considering both quantitative and qualitative factors when evaluating capital plans.
Our 2016 CCAR, which was submitted on April 4, 2016, included a comprehensive capital plan supported by an assessment of expected sources and uses of capital over a given planning horizon under a range of expected and stress scenarios, similar to the process the FRB used to conduct the 2015 CCAR. As part of the 2016 CCAR, the FRB also generated a supervisory stress test, which assumed a sharp decline in the economy and significant decline in asset pricing using the information provided by the Company to estimate performance. The FRB reviewed the supervisory stress results both as required under the Dodd-Frank Act using a common set of capital actions for all large BHCs and by taking into account the Company’s proposed capital actions. The FRB published its supervisory stress test results as required under the Dodd-Frank Act on June 23, 2016. On June 29, 2016, the FRB notified us that it did not object to our capital plan included in the 2016 CCAR. On April 26, 2016, under the 2015

CCAR, the Company increased its quarterly common stock dividend to $0.38 per share, as approved by the Board.
In addition to CCAR, federal banking regulators also require stress tests to evaluate whether an institution has sufficient capital to continue to operate during periods of adverse economic and financial conditions. These stress testing requirements set forth the timing and type of stress test activities large BHCs and banks must undertake as well as rules governing stress testing controls, oversight and disclosure requirements. The rules also limit a large BHC's ability to make capital distributions to the extent its actual capital issuances were less than amounts indicated in its capital plan. As required under the FRB's stress testing rule, we must submit a mid-cycle stress test based on second quarter data and scenarios developed by the Company.

Securities Repurchases

From time to time the Board authorizes the Company to repurchase shares of our common stock. Although we announce when the Board authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Future stock repurchases may be private or open-market repurchases, including block transactions, accelerated or delayed block transactions, forward transactions, and similar transactions. Additionally, we may enter into plans to purchase stock that satisfy the conditions of Rule 10b5-1 of the Securities Exchange Act of 1934. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for employee benefit plans and acquisitions, market conditions (including the trading price of our stock), and regulatory and legal considerations, including the FRB's response to our capital plan and to changes in our risk profile.

In January 2016, the Board authorized the repurchase of 350 million shares of our common stock. At June 30, 2016, we had remaining authority to repurchase approximately 330 million shares, subject to regulatory and legal conditions. For more information about share repurchases during second quarter 2016, see Part II, Item 2 in this Report.

Historically, our policy has been to repurchase shares under the "safe harbor" conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.

In connection with our participation in the Capital Purchase Program (CPP), a part of the Troubled Asset Relief Program (TARP), we issued to the U.S. Treasury Department warrants to purchase 110,261,688 shares of our common stock with an original exercise price of $34.01 per share expiring on October 28, 2018. The terms of the warrants require the exercise price to be adjusted under certain circumstances when the Company's quarterly common stock dividend exceeds $0.34 per share, which began occurring in second quarter 2014. Accordingly, with each quarterly common stock dividend above $0.34 per share, we must calculate whether an adjustment to the exercise price is required by the terms of the warrants, including whether certain minimum thresholds have been met to trigger an adjustment, and notify the holders of any such change. The Board authorized the repurchase by the Company of up to $1 billion of the warrants. At June 30, 2016, there were 34,815,832 warrants outstanding, exercisable at $33.869 per share, and $452 million of unused warrant repurchase authority. Depending on market conditions, we may purchase from time to time additional warrants in privately negotiated or open market transactions, by tender offer or otherwise.

## Regulatory Reform

Since the enactment of the Dodd-Frank Act in 2010, the U.S. financial services industry has been subject to a significant increase in regulation and regulatory oversight initiatives. This increased regulation and oversight has substantially changed how most U.S. financial services companies conduct business and has increased their regulatory compliance costs.

The following supplements our discussion of the significant regulations and regulatory oversight initiatives that have affected or may affect our business contained in the "Regulatory Reform" and "Risk Factors" sections in our 2015 Form 10-K and the "Regulatory Reform" section in our 2016 First Quarter Report on Form 10-Q.

DEPOSIT INSURANCE ASSESSMENTS Our subsidiary banks, including Wells Fargo Bank, N.A., are members of the Deposit Insurance Fund (DIF) maintained by the FDIC. Through the DIF, the FDIC insures the deposits of our banks up to prescribed limits for each depositor and funds the DIF through assessments on member banks. To maintain the DIF, member institutions are assessed an insurance premium based on an assessment base and an assessment rate.

The Dodd-Frank Act gave the FDIC greater discretion to manage the DIF, changed the assessment base from domestic deposits to consolidated average assets less average tangible equity, and mandated a minimum Designated Reserve Ratio (reserve ratio or DRR) of 1.35%. The FDIC Board adopted a Restoration Plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act, and, in March 2016, issued a final rule to meet this DRR

level. The final rule imposes on insured depository institutions with $10 billion or more in assets, such as Wells Fargo, a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. The final rule is effective July 1, 2016, and the surcharge would be effective at that date or the first day of the calendar quarter after the DIF reserve ratio reaches 1.15% if the DIF reserve ratio has not reached 1.15% prior to July 1, 2016. The FDIC has not yet published the level of the DIF reserve ratio in order to determine if the surcharge will be effective in third quarter 2016. The surcharge is in addition to the base assessments paid by the affected institutions and could significantly increase the overall amount of their deposit insurance assessments. When this new surcharge becomes effective, based on our assessment base as of June 30, 2016, we estimate that, combined with the benefit of lower base assessment rates previously adopted by the FDIC, our overall deposit insurance assessment expense will temporarily increase by approximately $100 million per quarter. The FDIC expects the surcharge to be in effect for approximately two years, however, if the DIF reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the final rule provides that the FDIC will impose a shortfall assessment on any bank that was subject to the surcharge. In addition to ensuring that the DIF reserve ratio reaches the statutory minimum of 1.35% by September 30, 2020, the FDIC Board has also finalized a comprehensive, long-range plan for DIF management, whereby the DRR has been targeted at 2%.

## Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K) are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Five of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- the allowance for credit losses;
- PCI loans;
- the valuation of residential MSRs;
- the fair value of financial instruments; and
- income taxes.

Management and the Board's Audit and Examination Committee have reviewed and approved these critical accounting policies. These policies are described further in the "Financial Review – Critical Accounting Policies" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.

Current Accounting Developments (continued)

Current Accounting Developments

Table 51 provides accounting pronouncements applicable to us that have been issued by the FASB but are not yet effective.

Table 51: Current Accounting Developments – Issued Standards

| Standard | Description | Effective date and financial statement impact |
| --- | --- | --- |
| Accounting Standards Update (ASU or Update) 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments | The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires an expected credit loss model to determine the allowance for credit losses. The expected credit loss model estimates losses for the estimated life of the financial asset. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods. | The guidance is effective for us in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Early adoption is permitted beginning in first quarter 2019. We are evaluating the impact the Update will have on our consolidated financial statements. |
| ASU 2016-09 – Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting | The Update simplifies the accounting for share-based payment awards issued to employees, including recognition and classification of excess tax benefits and tax deficiencies in the statement of income and the statement of cash flows. The guidance also allows entities to elect an accounting policy to either estimate the number of award forfeitures or account for forfeitures as they occur. | The guidance is effective for us in first quarter 2017 with application varying by provision within the Update. Early adoption is permitted. We are evaluating the impact the Update will have on our consolidated financial statements. |
| ASU 2016-07 – Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting | The Update eliminates the requirement for companies to retroactively apply the equity method of accounting for investments when increases in ownership interests or degree of influence result in the adoption of the equity method. Under the new guidance, the equity method should be applied prospectively in the period in which the ownership changes occur. | The guidance is effective for us in first quarter 2017 with prospective application. Early adoption is permitted. We are evaluating the impact the Update will have on our consolidated financial statements. |
| ASU 2016-06 – Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments | The Update clarifies the criteria entities should use when evaluating whether embedded contingent put and call options in debt instruments should be separated from the debt instrument and accounted for separately as derivatives. The Update clarifies that companies should not consider whether the event that triggers the ability to exercise put or call options is related to interest rates or credit risk. | The guidance is effective for us in first quarter 2017 with modified retrospective application to debt instruments existing as of the beginning of the adoption period. Early adoption is permitted. We are evaluating the impact the Update will have on our consolidated financial statements. |
| ASU 2016-05 – Derivatives and Hedging (Topic 815): Effect of Derivative Contract | The Update clarifies that a change in the counterparty to a derivative instrument that has been designated as an accounting hedge does not require the hedging relationship to be dedesignated | The guidance is effective for us in first quarter 2017 with prospective or modified retrospective application. Early adoption is permitted. We are |

| | | |
|---|---|---|
| Novations on Existing Hedge Accounting Relationships | as long as all other hedge accounting criteria continue to be met. | evaluating the impact the Update will have on our consolidated financial statements. |
| ASU 2016-04 – Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products | The Update requires entities to recognize breakage for prepaid stored-value card liabilities (e.g. gift cards) provided the liabilities meet certain criteria. | The guidance is effective for us in first quarter 2018 with early adoption permitted. The guidance allows us to elect the transition method, permitting either a modified retrospective application with a cumulative-effect adjustment to the balance sheet as of the beginning of the adoption period or retrospective application to each period presented. We are evaluating the impact the Update will have on our consolidated financial statements. |

| Standard | Description | Effective date and financial statement impact |
| --- | --- | --- |
| ASU 2016-02 – Leases (Topic 842) | The Update requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. Lessor accounting is largely unchanged with lease financings and operating lease assets depending on the nature of the leases. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity or termination. | The guidance is effective for us in first quarter 2019 with modified retrospective application. Early adoption is permitted. We are evaluating the impact the Update will have on our consolidated financial statements. |
| ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities | The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. | The Update is effective for us in first quarter 2018 with prospective application to changes in guidance related to nonmarketable equity investments. The remaining amendments should be applied with a cumulative-effect adjustment to the balance sheet as of the beginning of the adoption period. Early application is only permitted for changes related to liabilities measured at fair value under the fair value option. Early adoption is prohibited for the remaining amendments. We are evaluating the impact of the Update on our consolidated financial statements. |
| ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates | The Update modifies the guidance companies use to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. | In August 2015, the FASB issued ASU 2015-14 (Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date), which defers the effective date of ASU 2014-09 to first quarter 2018. Early adoption is permitted in first quarter 2017. Our revenue is balanced between net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. We continue to evaluate the impact of the Update to our noninterest income and on our presentation and disclosures. We expect to adopt the Update in first quarter 2018 with a cumulative-effect adjustment to opening retained earnings. |

Forward-Looking Statements (continued)

Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make forward-looking statements in our other documents filed or furnished with the SEC, and our management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Forward-looking statements can be identified by words such as "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects," "target," "projects," "outlook," "forecast," "will," "may," "could," "should," "can" and sim future periods. In particular, forward-looking statements include, but are not limited to, statements we make about: (i) the future operating or financial performance of the Company, including our outlook for future growth; (ii) our noninterest expense and efficiency ratio; (iii) future credit quality and performance, including our expectations regarding future loan losses and allowance levels; (iv) the appropriateness of the allowance for credit losses; (v) our expectations regarding net interest income and net interest margin; (vi) loan growth or the reduction or mitigation of risk in our loan portfolios; (vii) future capital levels or targets and our estimated Common Equity Tier 1 ratio under Basel III capital standards; (viii) the performance of our mortgage business and any related exposures; (ix) the expected outcome and impact of legal, regulatory and legislative developments, as well as our expectations regarding compliance therewith; (x) future common stock dividends, common share repurchases and other uses of capital; (xi) our targeted range for return on assets and return on equity; (xii) the outcome of contingencies, such as legal proceedings; and (xiii) the Company's plans, objectives and strategies.

Forward-looking statements are not based on historical facts but instead represent our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of declines in housing prices, high unemployment rates, U.S. fiscal debt, budget and tax matters, geopolitical matters, and the overall slowdown in global economic growth;
- our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;
- the extent of our success in our loan modification efforts, as well as the effects of regulatory requirements or guidance regarding loan modifications;
- the amount of mortgage loan repurchase demands that we receive and our ability to satisfy any such demands without having to repurchase loans related thereto or otherwise indemnify or reimburse third parties, and the credit quality of or losses on such repurchased mortgage loans;
- negative effects relating to our mortgage servicing and foreclosure practices, as well as changes in industry standards or practices, regulatory or judicial requirements, penalties or fines, increased servicing and other costs or obligations, including loan modification requirements, or delays or moratoriums on foreclosures;
- our ability to realize our efficiency ratio target as part of our expense management initiatives, including as a result of business and economic cyclicality, seasonality, changes in our business composition and operating environment, growth in our businesses and/or acquisitions, and unexpected expenses relating to, among other things, litigation and regulatory matters;
- the effect of the current low interest rate environment or changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale;
-

significant turbulence or a disruption in the capital or financial markets, which could result in, among other things, reduced investor demand for mortgage loans, a reduction in the availability of funding or increased funding costs, and declines in asset values and/or recognition of other-than-temporary impairment on securities held in our investment securities portfolio;

- the effect of a fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;
- reputational damage from negative publicity, protests, fines, penalties and other negative consequences from regulatory violations and legal actions;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber attacks;
- the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- fiscal and monetary policies of the Federal Reserve Board; and
- the other risk factors and uncertainties described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or repurchases will depend on the earnings, cash requirements and financial condition of the Company, market conditions, capital requirements (including under Basel capital standards), common stock issuance requirements, applicable law and regulations (including federal securities laws and federal banking regulations), and other factors deemed relevant by the Company’s Board of Directors, and may be subject to regulatory approval or conditions.
For more information about factors that could cause actual results to differ materially from our expectations, refer to our reports filed with the Securities and Exchange Commission, including the discussion under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, as

filed with the Securities and Exchange Commission and available on its website at www.sec.gov.
Any forward-looking statement made by us speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it

is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

## Risk Factors

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. For a discussion of risk factors that

could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company, we refer you to the "Risk Factors" section in our 2015 Form 10-K.

## Controls and Procedures

### Disclosure Controls and Procedures

The Company's management evaluated the effectiveness, as of June 30, 2016, of the Company's disclosure controls and procedures. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

### Internal Control Over Financial Reporting

Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during second quarter 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Wells Fargo & Company and Subsidiaries
Consolidated Statement of Income (Unaudited)

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions, except per share amounts) | 2016 | 2015 | 2016 | 2015 |
| Interest income | | | | |
| Trading assets | $572 | 483 | 1,168 | 928 |
| Investment securities | 2,176 | 2,181 | 4,438 | 4,325 |
| Mortgages held for sale | 181 | 209 | 342 | 386 |
| Loans held for sale | 3 | 5 | 5 | 10 |
| Loans | 9,822 | 9,098 | 19,399 | 18,036 |
| Other interest income | 392 | 250 | 766 | 504 |
| Total interest income | 13,146 | 12,226 | 26,118 | 24,189 |
| Interest expense | | | | |
| Deposits | 332 | 232 | 639 | 490 |
| Short-term borrowings | 77 | 21 | 144 | 39 |
| Long-term debt | 921 | 620 | 1,763 | 1,224 |
| Other interest expense | 83 | 83 | 172 | 180 |
| Total interest expense | 1,413 | 956 | 2,718 | 1,933 |
| Net interest income | 11,733 | 11,270 | 23,400 | 22,256 |
| Provision for credit losses | 1,074 | 300 | 2,160 | 908 |
| Net interest income after provision for credit losses | 10,659 | 10,970 | 21,240 | 21,348 |
| Noninterest income | | | | |
| Service charges on deposit accounts | 1,336 | 1,289 | 2,645 | 2,504 |
| Trust and investment fees | 3,547 | 3,710 | 6,932 | 7,387 |
| Card fees | 997 | 930 | 1,938 | 1,801 |
| Other fees | 906 | 1,107 | 1,839 | 2,185 |
| Mortgage banking | 1,414 | 1,705 | 3,012 | |