

WELLS FARGO & COMPANY/MN  
Form 10-Q  
August 06, 2014

**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, 2014

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)

Edgar Filing: WELLS FARGO & COMPANY/MN - Form 10-Q

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 ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

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

Shares Outstanding

July 31, 2014

Common stock, \$1-2/3 par value  
5,220,407,047

---

FORM 10-Q			
CROSS-REFERENCE INDEX			
<b>PART</b>			
<b>I</b>	<b>Financial Information</b>		
Item			
1.	Financial Statements		
	Consolidated Statement of Income.....		
	Consolidated Statement of Comprehensive Income.....		
	Consolidated Balance Sheet.....		
	Consolidated Statement of Changes in Equity.....		
	Consolidated Statement of Cash Flows.....		
	Notes to Financial Statements		
	1 -	Summary of Significant Accounting Policies.....	
	2 -	Business Combinations.....	
	3 -	Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments.....	
	4 -	Investment Securities.....	
	5 -	Loans and Allowance for Credit Losses.....	
	6 -	Other Assets.....	
	7 -	Securitizations and Variable Interest Entities.....	
	8 -	Mortgage Banking Activities.....	
	9 -	Intangible Assets.....	
	10 -	Guarantees, Pledged Assets and Collateral.....	
	11 -		

		Legal Actions.....
	12 -	Derivatives.....
	13 -	Fair Values of Assets and Liabilities.....
	14 -	Preferred Stock.....
	15 -	Employee Benefits.....
	16 -	Earnings Per Common Share.....
	17 -	Other Comprehensive Income.....
	18 -	Operating Segments.....
	19 -	Regulatory and Agency Capital Requirements.....
Item 2.		Management's Discussion and Analysis of Financial Condition and Results of Operations (Financial Review)
		Summary Financial Data.....
		Overview.....
		Earnings Performance.....
		Balance Sheet Analysis.....
		Off-Balance Sheet Arrangements.....
		Risk Management.....
		Capital Management.....
		Regulatory Reform.....
		Critical Accounting Policies.....

	Current Accounting Developments.....
	Forward-Looking Statements.....
	Risk Factors.....
	Glossary of Acronyms.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Item 4.	Controls and Procedures.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<b>PART II</b>	<b>Other Information</b>
Item 1.	Legal Proceedings.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Item 1A.	Risk Factors.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Item 6.	Exhibits.....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	<b>Signature</b> .....
	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	<b>Exhibit Index</b> .....

PART I - FINANCIAL INFORMATION																			
<u>FINANCIAL REVIEW</u>																			
Summary Financial Data																			
					</														

(1)												
Wells Fargo net income applicable												
to common stock to average												
Wells Fargo common												
stockholders' equity (ROE)	<b>13.40</b>	14.35	14.02	(7)	(4)	<b>13.86</b>	13.81	-				
Efficiency ratio (2)	<b>57.9</b>	57.9	57.3	-	1	<b>57.9</b>	57.8	-				
Total revenue	\$ <b>21,066</b>	20,625	21,378	2	(1)	<b>41,691</b>	42,637	(2)				
Pre-tax pre-provision profit (PTPP) (3)	<b>8,872</b>	8,677	9,123	2	(3)	<b>17,549</b>	17,982	(2)				
Dividends declared per common share	<b>0.35</b>	0.30	0.30	17	17	<b>0.65</b>	0.55	18				
Average common shares outstanding	<b>5,268.4</b>	5,262.8	5,304.7	-	(1)	<b>5,265.6</b>	5,291.9	-				
Diluted average common shares outstanding	<b>5,350.8</b>	5,353.3	5,384.6	-	(1)	<b>5,353.2</b>	5,369.9	-				
Average loans (1)	\$ <b>831,043</b>	823,790	798,386	1	4	<b>827,436</b>	797,528	4				
Average assets (1)	<b>1,564,003</b>	1,525,905	1,427,150	2	10	<b>1,545,060</b>	1,415,105	9				
Average core deposits (4)	<b>991,727</b>	973,801	936,090	2	6	<b>982,814</b>	931,006	6				
Average retail core deposits (5)	<b>698,763</b>	690,643	666,043	1	5	<b>694,726</b>	664,487	5				
	<b>3.15</b> %	3.20	3.47	(2)	(9)	<b>3.17</b>	3.48	(9)				



Net interest margin (1)											
At Period End											
Investment securities	\$	279,069	270,327	249,439	3	12	279,069	249,439	12		
Loans (1)		828,942	826,443	799,867	-	4	828,942	799,867	4		
Allowance for loan losses		13,101	13,695	16,144	(4)	(19)	13,101	16,144	(19)		
Goodwill		25,705	25,637	25,637	-	-	25,705	25,637	-		
Assets (1)		1,598,874	1,546,707	1,438,456	3	11	1,598,874	1,438,456	11		
Core deposits (4)		1,007,485	994,185	941,158	1	7	1,007,485	941,158	7		
Wells Fargo stockholders equity		180,859	175,654	162,421	3	11	180,859	162,421	11		
Total equity		181,549	176,469	163,777	3	11	181,549	163,777	11		
Tier 1 capital (6)		151,679	147,549	132,969	3	14	151,679	132,969	14		
Total capital (6)		189,480	183,559	164,998	3	15	189,480	164,998	15		
Capital ratios:											
Total equity to assets (1)		11.35 %	11.41	11.39	-	-	11.35	11.39	-		
Risk-based capital (6):											
Tier 1 capital		12.72	12.63	12.12	1	5	12.72	12.12	5		
Total capital		15.89	15.71	15.03	1	6	15.89	15.03	6		
Tier 1 leverage (6)		9.86	9.84	9.63	-	2	9.86	9.63	2		
Common Equity Tier 1 (7)		11.31	11.36	10.71	-	6	11.31	10.71	6		
Common shares outstanding		5,249.9	5,265.7	5,302.2	-	(1)	5,249.9	5,302.2	(1)		
Book value per common share	\$	31.18	30.48	28.26	2	10	31.18	28.26	10		

Common stock price:												
High		53.05	49.97	41.74	6	27	53.05	41.74	27			
Low		46.72	44.17	36.19	6	29	44.17	34.43	28			
Period end		52.56	49.74	41.27	6	27	52.56	41.27	27			
Team members (active, full-time equivalent)		263,500	265,300	274,300	(1)	(4)	263,500	274,300	(4)			
(1) Financial information for certain periods prior to 2014 was revised to reflect our determination that certain factoring arrangements did not qualify as loans. Accordingly, we revised our commercial loan balances for year-end 2012 and each of the quarters in 2013 in order to present the Company's lending trends on a comparable basis over this period. This revision, which resulted in a reduction to total commercial loans and a corresponding decrease to other liabilities, did not impact the Company's consolidated net income or total cash flows. We reduced our commercial loans by \$3.5 billion, \$3.2 billion, \$2.1 billion, \$1.6 billion and \$1.2 billion at December 31, September 30, June 30, and March 31, 2013, and December 31, 2012, respectively, which represented less than 1% of total commercial loans and less than 0.5% of our total loan portfolio. Other affected financial information, including financial guarantees and financial ratios, has been appropriately revised to reflect this revision. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.												
(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) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).												
(5) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.												
(6) See Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.												
(7) See the "Capital Management" section in this Report for additional information.												

*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, 2013 (2013 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. When we refer to “legacy Wells Fargo,” we mean Wells Fargo excluding Wachovia Corporation (Wachovia). See the Glossary of Acronyms for terms used throughout this Report.*

## **Financial Review<sup>[1]</sup>**

### **Overview**

Wells Fargo & Company is a nationwide, diversified, community-based financial services company with \$1.6 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 9,000 locations, 12,500 ATMs and the internet (wellsfargo.com), and we have offices in 36 countries to support customers who conduct business in the global economy. With approximately 265,000 active, full-time equivalent team members, we serve one in three households in the United States and rank No. 29 on *Fortune’s* 2014 rankings of America’s largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at June 30, 2014.

We use our *Vision and Values* to guide us toward growth and success. Our vision is to satisfy all our customers’ financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America’s great companies. Important to our strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their financial needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles. We can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses.

We have six primary values, which are based on our vision and provide the foundation for everything we do. First, we value and support our people as a competitive advantage and strive to attract, develop, retain and motivate the most talented people we can find. Second, we strive for the highest ethical standards with our team members, our customers, our communities and our shareholders. Third, with respect to our customers, we strive to base our decisions and actions on what is right for them in everything we do. Fourth, for team members we strive to build and sustain a diverse and inclusive culture – one where they feel valued and respected for who they are as well as for the skills and experiences they bring to our company. Fifth, we also look to each of our team members to be leaders in establishing, sharing and communicating our vision. Sixth, we strive to make risk management a competitive

advantage by working hard to ensure that appropriate controls are in place to reduce risks to our customers, maintain and increase our competitive market position, and protect Wells Fargo's long-term safety, soundness and reputation.

## Financial Performance

Wells Fargo net income was \$5.7 billion in second quarter 2014 with diluted earnings per share (EPS) of \$1.01 as we continued our focus on creating long-term shareholder value through meeting our customers' financial needs including growing loans and deposits. Our results demonstrated our ability to consistently achieve strong financial performance across a variety of economic and interest-rate environments and the benefit of our diversified business model.

Compared with a year ago:

- our loans increased \$29.1 billion, or 4%, even with the planned runoff in our non-strategic/liquidating portfolios and a \$9.7 billion transfer of government guaranteed student loans at the end of the quarter to loans held for sale, and our core loan portfolio grew by \$51.3 billion, or 7%;
- our deposit franchise continued to generate solid deposit growth, with total deposits up \$97.0 billion, or 9%;
- our credit performance continued to improve with total net charge-offs down \$435 million, or 38%, and represented only 35 basis points (annualized) of average loans;
- noninterest expense was \$12.2 billion, down \$61 million, while we continued to invest in our businesses including strengthening our risk management infrastructure; and
- we continued to deepen our solid customer relationships across our company, with Retail Banking cross-sell of 6.17 products per household (May 2014); Wholesale Banking cross-sell of 7.2 products (March 2014); and Wealth, Brokerage and Retirement cross-sell of 10.44 products (May 2014).

## Balance Sheet and Liquidity

Our balance sheet continued to strengthen in second quarter 2014 with further core loan and deposit growth. We have been able to grow our loans on a year-over-year basis for 12 consecutive quarters (for the past nine quarters year-over-year loan growth has been 3% or greater) despite the planned runoff from our non-strategic/liquidating portfolios. Our non-strategic/liquidating loan portfolios decreased \$12.7 billion during the quarter and our core loan portfolio increased \$15.1 billion. Our investment securities increased by \$8.7 billion during the quarter, which reflected our purchases of U.S. Treasuries and federal agency debt.

Deposit growth remained strong with period-end deposits up \$39.4 billion, or 4%, from December 31, 2013. This increase reflected solid growth across both our commercial and consumer businesses. Average deposits have grown while deposit costs have declined for 15

---

[1] Financial information for certain periods prior to 2014 was revised to reflect our determination that certain factoring arrangements did not qualify as loans. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.



consecutive quarters. We grew our primary consumer checking customers by a net 4.6% from a year ago (May 2014 compared with May 2013). Our ability to grow primary customers is important to our results because these customers have more interactions with us, have higher cross-sell and are more than twice as profitable as non-primary customers.

## **Credit Quality**

Credit quality continued to improve in second quarter 2014 as losses remained at historically low levels, nonperforming assets (NPAs) continued to decrease and we continued to originate high quality loans, reflecting our long-term risk focus and the benefit from the improved housing market. Net charge-offs were \$717 million, or 0.35% (annualized) of average loans, in second quarter 2014, compared with \$1.2 billion a year ago (0.58%), a 38% year-over-year decrease in losses. Net losses in our commercial portfolio were only \$31 million, or 3 basis points of average commercial loans. Net consumer losses declined to 62 basis points from 101 basis points in second quarter 2013. Our commercial real estate portfolios were in a net recovery position for the sixth consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined \$390 million from a year ago, down 57%. The consumer loss levels reflected the positive momentum in the residential real estate market, with home values improving significantly in many markets, as well as lower default frequency.

Reflecting these improvements in our loan portfolios, our \$217 million provision for credit losses this quarter was \$435 million less than a year ago. This provision reflected a release of \$500 million from the allowance for credit losses, which was equal to the release a year ago. We continue to expect future allowance releases absent a significant deterioration in the economy, but expect a lower level of future releases as the rate of credit improvement slows and the loan portfolio continues to grow.

In addition to lower net charge-offs and provision expense, NPAs also improved and were down \$686 million, or 4%, from March 31, 2014, the seventh consecutive quarter of decline. Nonaccrual loans declined \$678 million from the prior quarter while foreclosed assets were down \$8 million.

## **Capital**

We continued to maintain strong capital ratios while returning more capital to shareholders, increasing total equity to \$181.5 billion at June 30, 2014, up \$5.1 billion from the prior quarter. In second quarter 2014, we increased our common stock dividend by 17% to \$0.35 per share and continued to reduce our common share count through the repurchase of 39.4 million common shares and the execution of a \$1 billion forward repurchase contract that settled in July 2014 for 19.5 million shares. In addition, in July 2014 we entered into a \$1.0 billion forward repurchase contract with an unrelated third party that is expected to settle in fourth quarter 2014 for approximately 21 million shares. We expect our share count to continue to decline in 2014 as a result of anticipated net share repurchases. Our net payout ratio (which is the ratio of (i) common stock dividends and share repurchases less issuances, divided by (ii) net income applicable to common stock) in second quarter 2014 was 66%, in line with our recent guidance of 55-75%.

We believe an important measure of our capital strength is the estimated Common Equity Tier 1 ratio under Basel III, using the Advanced Approach, fully phased-in, which increased to 10.14% in second quarter 2014.

Our regulatory capital ratios under Basel III (General Approach) remained strong with a total risk-based capital ratio of 15.89%, Tier 1 risk-based capital ratio of 12.72% and Tier 1 leverage ratio of 9.86% at June 30, 2014, compared with 15.71%, 12.63% and 9.84%, respectively, at March 31, 2014. See the “Capital Management” section in this Report for more information regarding our capital, including the calculation of common equity for regulatory purposes.

## **Earnings** **Performance**

---

-

Wells Fargo net income for second quarter 2014 was \$5.7 billion (\$1.01 diluted earnings per common share) compared with \$5.5 billion (\$0.98) for second quarter 2013. Net income for the first half of 2014 was \$11.6 billion (\$2.06) compared with \$10.7 billion (\$1.90) for the same period a year ago. Our second quarter 2014 earnings reflected continued execution of our business strategy and growth in many of our businesses. The key drivers of our financial performance in the second quarter and first half of 2014 were balanced net interest and fee income, diversified sources of fee income, a diversified loan portfolio and strong underlying credit performance.

Revenue, the sum of net interest income and noninterest income, was \$21.1 billion in second quarter 2014, compared with \$21.4 billion in second quarter 2013. Revenue for the first half of 2014 was \$41.7 billion, down 2% from the first half of 2013. The decrease in revenue for the second quarter and first half of 2014 from the same periods a year ago was primarily due to a decline in mortgage banking revenue, partially offset by an increase in deposit service charges, trust and investment fees, and market sensitive revenue (net gains from trading activities, debt securities and equity investments). Noninterest income represented 49% of revenue for the second quarter 2014 and first half of 2014 compared with 50% for the same periods a year ago. The drivers of our fee income can differ depending on the interest rate and economic environment. For example, net gains on mortgage loan origination/sales activities were 7% of our fee income in second quarter 2014, down from 23% in the same period a year ago when the refinance market was strong. Other businesses, such as equity investments, brokerage, and mortgage servicing, contributed more to fee income this quarter, demonstrating the benefit of our diversified business model.

### **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 asset portfolio and the cost of funding those assets. In addition, some sources of interest income, such as resolutions from purchased credit-impaired (PCI) loans, loan prepayment fees and collection of interest on nonaccrual loans, can vary from period to period. Net interest income growth has been challenged during the prolonged low interest rate environment as higher yielding loans and securities runoff have been replaced with lower yielding assets. The pace of this repricing has slowed in recent periods.

Net interest income on a taxable-equivalent basis was \$11.0 billion and \$21.8 billion in the second quarter and first half of 2014, up from \$10.9 billion and \$21.6 billion, respectively, for the same periods a year ago. The net interest margin was 3.15% and 3.17% for the second quarter and first half of 2014, down from 3.47% and 3.48% in the same periods a year ago. The increase in net interest income in the second quarter and first half of 2014 from the same periods a year ago was largely driven by reduced deposit costs and the maturing of higher yielding long-term debt. Growth in earning assets also improved net interest income as it offset the decrease in earning asset yields. The decline in net interest margin in second quarter and first half of 2014, compared with the same periods a year ago was



primarily driven by higher funding balances, including customer-driven deposit growth and actions we have taken in response to increased regulatory liquidity expectations which raised long-term debt and term deposits. This growth in funding increased cash and federal funds sold and other short-term investments which are dilutive to net interest margin although essentially neutral to net interest income.

Average earning assets increased \$138.5 billion in the second quarter and \$134.7 billion in the first half of 2014 from the same periods a year ago, as average federal funds sold and other short-term investments increased \$93.3 billion in the second quarter and \$92.8 billion in the first half of 2014 from the same periods a year ago, and average investment securities increased \$29.1 billion in the second quarter and \$30.4 billion in the first half of 2014 from the same periods a year ago. In addition, an increase in commercial and industrial loans contributed to \$32.7 billion and \$29.9 billion higher average loans in the second quarter and first half of 2014, respectively, compared with the same periods a year ago.

Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to \$991.7 billion in second quarter 2014 (\$982.8 billion in the first half of 2014), compared with \$936.1 billion in second quarter 2013 (\$931.0 billion in the first half of 2013), and funded 119% of average loans in second quarter 2014 (117% for the first half of 2014), compared with 117% the same period a year ago (117% for the first half of 2013). Average core deposits decreased to 71% of average earning assets in both the second quarter and first half of 2014, compared with 74% in second quarter 2013 and 75% for the first half of 2013. The cost of these deposits has continued to decline due to a sustained low interest rate environment and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 96% of our average core deposits are in checking and savings deposits, one of the highest industry percentages.

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

[illegible]

					Total held-to-maturity securities	22,132	2.28			126	-	-	-
					Total investment securities	263,894	3.51			2,315	234,806	3.77	2,214
Mortgages held for sale (4)						18,824	4.16			195	43,422	3.48	378
Loans held for sale (4)						157	2.55			1	177	7.85	4
Loans:													
Commercial:													
					Commercial and industrial	199,246	3.39			1,687	184,306	3.73	1,714
					Real estate mortgage	107,673	3.56			955	105,261	3.92	1,029
					Real estate construction	17,249	4.17			179	16,458	5.02	206
					Lease financing	11,824	5.70			169	12,338	6.66	206
					Foreign	48,847	2.39			290	42,242	2.23	235
					Total commercial	384,839	3.42			3,280	360,605	3.77	3,390
Consumer:													
					Real estate 1-4 family first mortgage	259,974	4.20			2,729	252,558	4.23	2,671
					Real estate 1-4 family junior lien mortgage	63,273	4.31			680	71,376	4.29	764
					Credit card	26,431	11.97			789	24,023	12.55	752
					Automobile	53,480	6.34			845	47,942	7.05	842
					Other revolving credit and installment	43,046	5.07			544	41,882	4.74	495
					Total consumer	446,204	5.02			5,587	437,781	5.05	5,524
					Total loans (4)	831,043	4.28			8,867	798,386	4.47	8,914
Other						4,535	5.74			65	4,151	5.55	57
					Total earning assets	\$ 1,402,570	3.43	%	\$	12,018	1,264,048	3.81	% \$ 12,027
<b>Funding sources</b>													
Deposits:													
					Interest-bearing checking	\$ 40,193	0.07	%	\$	7	40,422	0.06	% \$ 6
					Market rate and other savings	583,907	0.07			101	541,843	0.08	111
					Savings certificates	38,754	0.86			82	52,552	1.23	161
					Other time deposits	48,512	0.41			50	26,045	0.76	50
					Deposits in foreign offices	94,232	0.15			35	68,871	0.15	25
					Total interest-bearing deposits	805,598	0.14			275	729,733	0.19	353
Short-term borrowings						58,845	0.10			14	57,812	0.14	21
Long-term debt						159,233	1.56			620	125,496	2.02	632
Other liabilities						13,589	2.73			93	13,315	2.25	75
					Total interest-bearing liabilities	1,037,265	0.39			1,002	926,356	0.47	1,081
Portion of noninterest-bearing funding sources						365,305	-			-	337,692	-	-

						Total funding sources	\$	1,402,570	0.28			1,002		1,264,048	0.34			1,081
<b>Net interest margin and net interest income on</b>																		
						<b>a taxable-equivalent basis (5)</b>			3.15 %	\$	11,016				3.47 %	\$	10,946	
<b>Noninterest-earning assets</b>																		
Cash and due from banks							\$	15,956						16,214				
Goodwill								25,699						25,637				
Other								119,778						121,251				
						Total noninterest-earning assets	\$	161,433						163,102				
<b>Noninterest-bearing funding sources</b>																		
Deposits							\$	295,875						280,029				
Other liabilities								51,184						56,104				
Total equity								179,679						164,661				
Noninterest-bearing funding sources used to fund earning assets								(365,305)						(337,692)				
						Net noninterest-bearing funding sources	\$	161,433						163,102				
						Total assets	\$	1,564,003						1,427,150				
(1) Our average prime rate was 3.25% for the quarters ended June 30, 2014 and 2013, and 3.25% for the first six months of both 2014 and 2013. The average three-month London Interbank Offered Rate (LIBOR) was 0.23% and 0.28% for the quarters and six months ended June 30, 2014 and 2013, respectively.																		
(2) Yield/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 \$225 million and \$196 million for the quarters ended June 30, 2014 and 2013, respectively, and \$442 million and \$373 million for the first six months of 2014 and 2013, respectively, primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.																		

### Earnings Performance (continued)

[illegible]

					securities														
					Total investment securities														
						260,806	3.55				4,622		230,375	3.74				4,301	
Mortgages held for sale (4)						17,696	4.13				365		43,367	3.45				749	
Loans held for sale (4)						134	4.08				3		159	8.28				7	
Loans:																			
	Commercial:																		
		Commercial and industrial				196,570	3.41				3,328		183,715	3.74				3,414	
		Real estate mortgage				107,735	3.54				1,892		105,738	3.88				2,035	
		Real estate construction				17,065	4.27				361		16,508	4.93				404	
		Lease financing				11,879	5.92				352		12,381	6.72				416	
		Foreign				48,364	2.30				552		41,069	2.20				448	
			Total commercial			381,613	3.42				6,485		359,411	3.76				6,717	
Consumer:																			
		Real estate 1-4 family first mortgage				259,727	4.19				5,434		252,305	4.26				5,374	
		Real estate 1-4 family junior lien mortgage				64,122	4.31				1,372		72,715	4.29				1,548	
		Credit card				26,352	12.14				1,587		24,060	12.58				1,502	
		Automobile				52,642	6.42				1,676		47,258	7.12				1,668	
		Other revolving credit and installment				42,980	5.03				1,073		41,779	4.72				977	
			Total consumer			445,823	5.02				11,142		438,117	5.08				11,069	
			Total loans (4)			827,436	4.28				17,627		797,528	4.48				17,786	
Other						4,595	5.73				131		4,203	5.37				112	
					Total earning assets	\$ 1,383,546	3.46	%	\$	23,848		1,248,817	3.84	%	\$	23,857			
Funding sources																			
Deposits:																			
		Interest-bearing checking				\$ 38,506	0.07	%	\$	13		36,316	0.06	%	\$	11			
		Market rate and other savings				581,489	0.07			206		539,708	0.09			233			
		Savings certificates				39,639	0.87			171		53,887	1.23			328			
		Other time deposits				47,174	0.42			98		21,003	0.95			99			
		Deposits in foreign offices				92,650	0.14			66		69,968	0.15			51			
			Total interest-bearing deposits			799,458	0.14			554		720,882	0.20			722			
Short-term borrowings						56,686	0.10			27		56,618	0.16			44			
Long-term debt						156,528	1.59			1,239		126,299	2.11			1,329			
Other liabilities						13,226	2.72			180		12,467	2.24			140			
			Total interest-bearing liabilities			1,025,898	0.39			2,000		916,266	0.49			2,235			
Portion of noninterest-bearing funding sources						357,648	-			-		332,551	-			-			
					Total funding sources	\$ 1,383,546	0.29			2,000		1,248,817	0.36			2,235			

<b>Net interest margin and net interest income on</b>																			
<b>a taxable-equivalent basis</b>																			
<b>(5)</b>																			
<b>Noninterest-earning assets</b>																			
Cash and due from banks										\$									
Goodwill																			
Other																			
Total noninterest-earning assets										\$									
<b>Noninterest-bearing funding sources</b>																			
Deposits										\$									
Other liabilities																			
Total equity																			
Noninterest-bearing funding sources used to fund earning assets																			
Net noninterest-bearing funding sources										\$									
<b>Total assets</b>										\$									

Noninterest Income															
Table 2: Noninterest Income															
										Six months					
							Quarter ended June 30,		%		ended June 30,	%			
(in millions)							2014	2013	Change		2014	2013	Change		
Service charges on deposit accounts						\$	1,283	1,248	3	%	\$	2,498	2,462	1	%
Trust and investment fees:															
	Brokerage advisory, commissions and other fees						2,280	2,127	7			4,521	4,177	8	
	Trust and investment management						838	829	1			1,682	1,628	3	
	Investment banking						491	538	(9)			818	891	(8)	
	Total trust and investment fees						3,609	3,494	3			7,021	6,696	5	
Card fees							847	813	4			1,631	1,551	5	
Other fees:															
	Charges and fees on loans						342	387	(12)			709	771	(8)	
	Merchant processing fees						183	174	5			355	328	8	
	Cash network fees						128	125	2			248	242	2	
	Commercial real estate brokerage commissions						99	73	36			171	118	45	
	Letters of credit fees						92	102	(10)			188	211	(11)	
	All other fees						244	228	7			464	453	2	
	Total other fees						1,088	1,089	-			2,135	2,123	1	
Mortgage banking:															
	Servicing income, net						1,035	393	163			1,973	707	179	
	Net gains on mortgage loan origination/sales activities						688	2,409	(71)			1,260	4,889	(74)	
	Total mortgage banking						1,723	2,802	(39)			3,233	5,596	(42)	
Insurance							453	485	(7)			885	948	(7)	
Net gains from trading activities							382	331	15			814	901	(10)	
Net gains (losses) on debt securities							71	(54)	NM			154	(9)	NM	
Net gains from equity investments							449	203	121			1,296	316	310	
Lease income							129	225	(43)			262	355	(26)	
Life insurance investment income							138	142	(3)			270	287	(6)	
All other							103	(150)	NM			86	162	(47)	
						Total	\$	10,275	10,628	(3)		\$	20,285	21,388	(5)
NM - Not meaningful															



Noninterest income was \$10.3 billion and \$10.6 billion for second quarter 2014 and 2013, respectively, and \$20.3 billion and \$21.4 billion for the first half of 2014 and 2013, respectively. This income represented 49% of revenue for both the second quarter and first half of 2014, compared with 50% for the same periods a year ago. The decrease in noninterest income in the second quarter and first half of 2014 from the same periods a year ago reflected a decline in mortgage banking origination volume, partially offset by growth in many of our other businesses, including debit card, merchant card processing, small business lending, equipment finance, corporate trust, international, asset management, wealth management, retail brokerage, and retirement. Excluding mortgage banking, noninterest income increased \$726 million and \$1.3 billion in the second quarter and first half of 2014, respectively, from the same periods a year ago.

Service charges on deposit accounts increased \$35 million in second quarter 2014, or 3%, from second quarter 2013, and \$36 million in the first half of 2014, or 1%, from the first half of 2013, due to account growth, new product sales and continued customer adoption of overdraft services.

Brokerage advisory, commissions and other fees are received for providing services to full service and discount brokerage customers. Income from these brokerage-related activities include asset based fees, which are based on the market value of the customer's assets, and transactional commissions based on the number of transactions executed at the customer's direction. These fees increased to \$2.3 billion and \$4.5 billion in the second quarter and first half of 2014, respectively, from \$2.1 billion and \$4.2 billion for the same periods in 2013. The increase in brokerage income was predominantly due to higher asset-based fees as a result of higher market values and growth in assets under management, partially offset by a decrease in brokerage transaction revenue. Brokerage client assets totaled \$1.4 trillion at June 30, 2014, an increase from \$1.3 trillion at June 30, 2013.

We earn trust and investment management fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees increased to \$838 million and \$1.7 billion in the second quarter and first half of 2014, respectively, from \$829 million and \$1.6 billion for the same periods in 2013, primarily due to growth in assets under management reflecting higher market values. At June 30, 2014, these assets totaled \$2.5 trillion, an increase from \$2.3 trillion at June 30, 2013.

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 \$491

## Earnings Performance *(continued)*

million and \$818 million in the second quarter and first half of 2014, respectively, from \$538 million and \$891 million for the same periods a year ago, primarily due to lower syndication volume.

Card fees were \$847 million in second quarter 2014 compared with \$813 million in second quarter 2013 and \$1.6 billion in both the first half of 2014 and 2013. Card fees increased in second quarter 2014, compared with the same period a year ago, primarily due to account growth and increased purchase activity.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled \$1.7 billion in second quarter 2014 compared with \$2.8 billion in second quarter 2013, and totaled \$3.2 billion for the first half of 2014 compared with \$5.6 billion for the same period a year ago.

Net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for second quarter 2014 included a \$475 million net MSR valuation gain (\$835 million decrease in the fair value of the MSRs offset by a \$1.3 billion hedge gain) and for second quarter 2013 included a \$68 million net MSR valuation gain (\$1.9 billion increase in the fair value of the MSRs offset by a \$1.8 billion hedge loss). For the first half of 2014, net servicing income included an \$882 million net MSR valuation gain (\$1.3 billion decrease in the fair value of the MSRs offset by a \$2.2 billion hedge gain) and for the same period of 2013, included a \$197 million net MSR valuation gain (\$2.6 billion increase in the fair value of MSRs offset by a \$2.4 billion hedge loss). The increase in net MSR valuation gains in the second quarter and first half of 2014, compared with the same periods in 2013, was attributable to higher valuation adjustments, which reduced the value of MSRs in 2013 primarily associated with higher prepayments and increases in servicing and foreclosure costs. Our portfolio of loans serviced for others was \$1.88 trillion at June 30, 2014, and \$1.90 trillion at December 31, 2013. At June 30, 2014, the ratio of MSRs to related loans serviced for others was 0.80% compared with 0.88% at December 31, 2013. See the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section of this Report for additional information regarding our MSRs risks and hedging approach.

Net gains on mortgage loan origination/sale activities were \$688 million and \$1.3 billion in the second quarter and first half of 2014, respectively, down from \$2.4 billion and \$4.9 billion for the same periods a year ago. The year-over-year decreases for both periods were driven by lower margins and origination volumes. Mortgage loan originations were \$47 billion for second quarter 2014, of which 74% were for home purchases, compared with \$112 billion and 44% for the same period a year ago. Mortgage applications were \$72 billion and \$132 billion in the second quarter and first half of 2014, respectively, compared with \$146 billion and \$286 billion for the same periods a year ago. The real estate 1-4 family first mortgage unclosed pipeline was \$30 billion at June 30, 2014, and \$63 billion at June 30, 2013. For additional information about our mortgage banking activities and results, see the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For the first half of 2014, we released a net \$20 million from the repurchase liability, including \$26 million in second quarter 2014, compared with a provision of \$374 million for the first half of 2013, including \$65 million in second quarter 2013. For additional information about mortgage loan repurchases, see the “Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses” section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

We engage in trading activities primarily to accommodate the investment activities of our customers, execute economic hedging to manage certain of our balance sheet risks and for a very limited amount of proprietary trading

for our own account. Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were \$382 million and \$814 million in the second quarter and first half of 2014, respectively, while the same periods a year ago were \$331 million and \$901 million, respectively. The second quarter year-over-year increase was primarily driven by higher deferred compensation gains (offset in employee benefits expense). The first half year-over-year decrease was largely driven by lower trading from customer accommodation activity within our capital markets business. Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. Interest and fees related to proprietary trading are reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. For additional information about proprietary and other trading, see the “Risk Management – Asset and Liability Management – Market Risk – Trading Activities” section in this Report.

Net gains on debt and equity securities totaled \$520 million for second quarter 2014 and \$149 million for second quarter 2013 (\$1.5 billion and \$307 million for the first half of 2014 and 2013, respectively), net of other-than-temporary impairment (OTTI) write-downs of \$82 million and \$111 million for second quarter 2014 and 2013, respectively, and \$217 million and \$189 million for the first half of 2014 and 2013, respectively. Net gains from equity investments increased over the past year, reflecting our portfolio’s positive operating performance and the benefit of strong public and private equity markets.

All other income was \$103 million for second quarter 2014, compared with a \$150 million loss in second quarter 2013 and \$86 million for the first half of 2014, compared with \$162 million for the same period a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity accounting method, any of which can cause other income losses. Higher other income for second quarter 2014, compared with 2013, reflected a gain on sale of 40 insurance offices. Lower other income for the first half of 2014, compared with the same period a year ago, reflected lower income from equity method investments.

Noninterest Expense									
Table 3: Noninterest Expense									
							Six months		
		Quarter ended June 30,		%			ended June 30,	%	
(in millions)		2014	2013	Change			2014	2013	Change
Salaries	\$	3,795	3,768	1	%	\$	7,523	7,431	1 %
Commission and incentive compensation		2,445	2,626	(7)			4,861	5,203	(7)
Employee benefits		1,170	1,118	5			2,542	2,701	(6)
Equipment		445	418	6			935	946	(1)
Net occupancy		722	716	1			1,464	1,435	2
Core deposit and other intangibles		349	377	(7)			690	754	(8)
FDIC and other deposit assessments		225	259	(13)			468	551	(15)
Outside professional services		646	607	6			1,205	1,142	6
Outside data processing		259	235	10			500	468	7
Contract services		249	226	10			483	433	12

Travel and entertainment		<b>243</b>	229	6		<b>462</b>	442	5	
Operating losses		<b>364</b>	288	26		<b>523</b>	445	18	
Postage, stationery and supplies		<b>170</b>	184	(8)		<b>361</b>	383	(6)	
Advertising and promotion		<b>187</b>	183	2		<b>305</b>	288	6	
Foreclosed assets		<b>130</b>	146	(11)		<b>262</b>	341	(23)	
Telecommunications		<b>111</b>	125	(11)		<b>225</b>	248	(9)	
Insurance		<b>140</b>	143	(2)		<b>265</b>	280	(5)	
Operating leases		<b>54</b>	49	10		<b>104</b>	97	7	
All other		<b>490</b>	558	(12)		<b>964</b>	1,067	(10)	
Total	<b>\$</b>	<b>12,194</b>	12,255	-	<b>\$</b>	<b>24,142</b>	24,655	(2)	

Noninterest expense was \$12.2 billion in second quarter 2014, down slightly from \$12.3 billion a year ago, driven predominantly by lower personnel expenses (\$7.4 billion, down from \$7.5 billion a year ago) and lower Federal Deposit Insurance Corporation (FDIC) and other deposit assessments (\$225 million, down from \$259 million a year ago), partially offset by higher operating losses (\$364 million, up from \$288 million a year ago). For the first half of 2014, noninterest expense was down 2% from the same period a year ago, predominantly due to lower personnel expenses (\$14.9 billion, down from \$15.3 billion a year ago), lower FDIC and other deposit assessments (\$468 million, down from \$551 million a year ago), and lower foreclosed assets expense (\$262 million, down from \$341 million a year ago), partially offset by higher operating losses (\$523 million, up from \$445 million a year ago).

Personnel expenses, which include salaries, commissions, incentive compensation and employee benefits, were down \$102 million, or 1%, in second quarter 2014 compared with the same quarter last year, predominantly due to lower volume-related compensation and reduced staffing in our mortgage business. These decreases were partially offset by higher deferred compensation (offset in trading income), annual salary increases and increased staffing in some of our non-mortgage businesses. Personnel expenses were down \$409 million, or 3%, for the first half of 2014 compared with the same period in 2013, mostly due to lower volume-related compensation in our mortgage business and lower employee benefit costs, partially offset by annual salary increases.

FDIC and other deposit assessments were down 13% and 15% in the second quarter and first half of 2014, respectively, compared with the same periods a year ago, predominantly due to lower FDIC assessment rates related to improved credit performance and the Company's liquidity position.

Operating losses were up 26% and 18% in the second quarter and first half of 2014, respectively, compared with the same periods a year ago. The increase for both periods was primarily due to litigation accruals.

Foreclosed assets expense was down 11% in second quarter 2014 compared with the same quarter last year and down 23% in the first half of 2014 compared with the same period in 2013, reflecting lower expenses associated with foreclosed properties and lower write-downs, partially offset by lower gains on sale of foreclosed properties.

The Company continued to operate within its targeted efficiency ratio of 55 to 59%, with a ratio of 57.9% in second quarter 2014, compared with 57.3% in second quarter 2013. We expect to operate within our targeted efficiency ratio range of 55 to 59% in third quarter 2014.

Our effective tax rate was 33.4% and 34.2% for second quarter 2014 and 2013, respectively. Our effective tax rate was 30.7% in the first half of 2014, down from 33.1% in the first half of 2013. The lower effective tax rate in the first half of 2014 reflects a net \$423 million discrete tax benefit recognized in first quarter 2014 primarily from a reduction in the reserve for uncertain tax positions due to the resolution of prior period matters with state taxing authorities.

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles (GAAP). Table 4 and the following discussion present our results by operating segment. For a more complete 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.

30

Average loans		<b>505.4</b>	498.2	<b>308.1</b>	285.1	<b>51.0</b>	45.4	<b>(33.5)</b>	(30.3)	<b>831.0</b>	798.4
Average core deposits		<b>639.8</b>	623.0	<b>265.8</b>	230.5	<b>153.0</b>	146.4	<b>(66.9)</b>	(63.8)	<b>991.7</b>	936.1
<b>Six months ended June 30,</b>											
Revenue	\$	<b>25,199</b>	25,841	<b>11,526</b>	12,221	<b>7,018</b>	6,458	<b>(2,052)</b>	(1,883)	<b>41,691</b>	42,637
Provision (reversal of provision)											
for credit losses		<b>698</b>	2,025	<b>(142)</b>	(176)	<b>(33)</b>	33	<b>19</b>	(11)	<b>542</b>	1,871
Noninterest expense		<b>13,794</b>	14,590	<b>6,418</b>	6,274	<b>5,406</b>	5,181	<b>(1,476)</b>	(1,390)	<b>24,142</b>	24,655
Net income		<b>7,275</b>	6,169	<b>3,694</b>	4,049	<b>1,019</b>	771	<b>(369)</b>	(299)	<b>11,619</b>	10,690
Average loans		<b>505.2</b>	498.5	<b>305.0</b>	284.1	<b>50.5</b>	44.6	<b>(33.3)</b>	(29.7)	<b>827.4</b>	797.5
Average core deposits		<b>633.2</b>	621.1	<b>262.4</b>	227.3	<b>154.5</b>	147.9	<b>(67.3)</b>	(65.3)	<b>982.8</b>	931.0
(1) Includes corporate items not specific to a business segment and the elimination of certain items that are included in more than one business segment, substantially all of which represents products and services for wealth management customers provided in Community Banking stores.											

**Community Banking** offers a complete line of diversified financial products and services for consumers and small businesses. These products 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. through its Regional Banking and Wells Fargo Home Lending business units. Cross-sell of our products is an important part of our strategy to achieve our vision to satisfy all our customers' financial needs. Our retail bank household cross-sell was 6.17 products per household in May 2014, up from 6.14 in May 2013. We believe there is more opportunity for cross-sell as we continue to earn more business from our customers. Our goal is eight products per household, which is approximately one-half of our estimate of potential demand for an average U.S. household. In May 2014, one of every four of our retail banking households had eight or more of our products.

Community Banking had net income of \$3.4 billion, up \$186 million, or 6%, from second quarter 2013, and \$7.3 billion for the first half of 2014, up \$1.1 billion, or 18%, compared with the same period a year ago. Revenue of \$12.6 billion, decreased \$336 million, or 3%, from second quarter 2013, and was \$25.2 billion for the first half of 2014, a decrease of \$642 million, or 2%, compared with the same period last year. The decrease in revenue was due to lower mortgage banking revenue, partially offset by higher net interest income, and growth in multiple fee income categories including equity gains, card fees, trust and investment fees, and merchant card processing fees. Average core deposits increased \$16.8 billion, or 3%, from second quarter 2013 and \$12.1 billion, or 2%, from the first half of 2013. Primary consumer checking customers as of May 2014 (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) were up a net 4.6% from May 2013. Noninterest expense declined 3% from second quarter 2013 and 5% for the first half of 2013, largely driven by lower mortgage volume-related expenses and lower foreclosed assets expense, partially offset by higher operating

losses. The provision for credit losses was \$484 million lower than second quarter 2013, and \$1.3 billion lower than the first half of 2013, due to lower consumer real estate losses.

**Wholesale Banking** provides financial solutions to businesses across the United States and globally with annual sales generally in excess of \$20 million. Products and business segments include Middle Market Commercial Banking, Government and Institutional Banking, Corporate Banking, Commercial Real Estate, Treasury Management,

11

---



Wells Fargo Capital Finance, Insurance, International, Real Estate Capital Markets, Commercial Mortgage Servicing, Corporate Trust, Equipment Finance, Wells Fargo Securities, Principal Investments, Asset Backed Finance, and Asset Management. Wholesale Banking cross-sell was 7.2 products per relationship in second quarter 2014, up from 6.9 a year ago.

Wholesale Banking had net income of \$2.0 billion in second quarter 2014, down \$52 million, or 3%, from second quarter 2013. In the first half of 2014, net income of \$3.7 billion decreased \$355 million, or 9%, from the same period a year ago. The lower results for both second quarter and the first half of 2014 were driven by decreased revenues and increased expenses. Revenue declined \$189 million, or 3%, from second quarter of 2013 and \$695 million, or 6%, from the first half of 2013 on both lower net interest income and noninterest income. Net interest income declined as the income benefit of strong loan and deposit growth was more than offset by lower PCI resolution income. Noninterest income declined on lower market sensitive revenue driven by lower customer accommodation trading partially offset by the gain on the sale of 40 insurance offices and increased asset management fees. Average loans of \$308.1 billion in second quarter 2014 increased \$23.0 billion, or 8%, from second quarter 2013, driven by broad based growth across most customer segments. Average core deposits of \$265.8 billion increased \$35.3 billion, or 15%, from second quarter 2013 reflecting continued customer liquidity. Noninterest expense increased 1% from second quarter 2013 and 2% from the first half of 2013, primarily due to higher non-personnel expenses related to growth initiatives and increased compliance and regulatory requirements. The provision for credit losses remained in a net recovery position for the second quarter and first half of 2014 compared with the same periods for 2013, but the amount of reversal decreased \$69 million from second quarter 2013 and \$34 million from the first half of 2013 driven by lower net credit recoveries and lower allowance release.

**Wealth, Brokerage and Retirement** provides a full range of financial advisory services to clients using a planning approach to meet each client's financial needs. Wealth Management provides affluent and high net worth clients with a complete range of wealth management solutions, including financial planning, private banking, credit, investment management and fiduciary services. Abbot Downing, a Wells Fargo business, provides comprehensive wealth management services to ultra-high net worth families and individuals as well as endowments and foundations. Brokerage serves customers' advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the United States. Retirement is a national leader in providing institutional retirement and trust services (including 401(k) and pension plan record keeping) for businesses, retail retirement solutions for individuals, and reinsurance services for the life insurance industry. Wealth, Brokerage and Retirement cross-sell was 10.44 products per household in May 2014, up from 10.35 in May 2013.

Wealth, Brokerage and Retirement reported net income of \$544 million in second quarter 2014, up 25% from second quarter 2013. Net income for the first half of 2014 was \$1.0 billion, up 32% compared with the same period a year ago. Net income growth was driven by strong revenue and lower credit losses. Revenue increased 9% from both second quarter 2013 and from the first half of 2013, predominantly due to strong growth in asset-based fees and higher net interest income, partially offset by a decrease in brokerage transaction revenue. Average core deposits of \$153.0 billion in second quarter 2014 increased 5% from second quarter 2013. Noninterest expense for second quarter 2014 was up 6% from second quarter 2013 and up 4% from the first half of 2013 largely due to increased broker commissions and other expenses. Total provision for credit losses decreased \$44 million and \$66 million from the second quarter and first half of 2013, respectively, driven primarily by lower net charge-offs.



## Balance Sheet Analysis

At June 30, 2014, our assets totaled \$1.6 trillion, up \$75.4 billion from December 31, 2013. The predominant areas of asset growth were in federal funds sold and other short-term investments, which increased \$24.9 billion, investment securities, which increased \$14.7 billion, trading assets, which increased \$8.9 billion, and loans, which increased \$6.7 billion (\$16.4 billion excluding the transfer of \$9.7 billion of government guaranteed student loans to loans held for sale at June 30, 2014). Deposit growth of \$39.4 billion, an increase in long-term debt of \$14.9 billion, total equity growth of \$10.5 billion and an increase in short-term borrowings of \$8.0 billion from December 31, 2013, were the predominant sources that funded our asset growth for the first half of 2014. Equity growth benefited from \$7.6 billion in earnings net of dividends paid. The strength of our business model produced solid earnings and continued internal capital generation as reflected in our capital ratios, all of which improved from December 31, 2013. Tier 1 capital as a percentage of total risk-weighted assets increased to 12.72%, total capital increased to 15.89%, Tier 1 leverage increased to 9.86%, and Common Equity Tier 1 (General Approach) increased to 11.31% at June 30, 2014, compared with 12.33%, 15.43%, 9.60%, and 10.82%, respectively, at December 31, 2013.

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, 2014				December 31, 2013		
						Net				Net	
						unrealized	Fair			unrealized	Fair
(in millions)					Cost	gain	value		Cost	gain (loss)	value
Available-for-sale securities:											
	Debt securities			\$	238,809	7,037	245,846		246,048	2,574	248,622
	Marketable equity securities				1,935	1,180	3,115		2,039	1,346	3,385
		Total available-for-sale securities			240,744	8,217	248,961		248,087	3,920	252,007
Held-to-maturity debt securities					30,108	278	30,386		12,346	(99)	12,247
			Total investment securities (1)	\$	270,852	8,495	279,347		260,433	3,821	264,254
(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 \$14.7 billion from December 31, 2013, primarily due to purchases of U.S. Treasury securities for our held-to-maturity portfolio. The total net unrealized gains on available-for-sale securities were \$8.2 billion at June 30, 2014, up from net unrealized gains of \$3.9 billion at December 31, 2013, due primarily to a decrease in long-term interest rates and modest tightening of credit spreads.

The size and composition of the investment securities portfolio is largely dependent upon the Company's liquidity and interest rate risk management objectives. Our business generates assets and liabilities, such as loans, deposits and long-term debt, which have different maturities, yields, re-pricing, prepayment characteristics and other provisions that expose us to interest rate and liquidity risk. The available-for-sale securities portfolio consists primarily of liquid, high quality U.S. Treasury and federal agency debt, agency MBS, privately issued residential and commercial MBS, securities issued by U.S. states and political subdivisions, corporate debt securities, and highly rated collateralized loan obligations. Due to its highly liquid nature, the available-for-sale portfolio can be used to meet funding needs that arise in the normal course of business or due to market stress. Changes in our interest rate risk profile may occur due to changes in overall economic or market conditions, which could influence loan origination demand, prepayment speeds, or deposit balances and mix. In response, the available-for-sale securities portfolio can be rebalanced to meet the Company's interest rate risk management objectives. In addition to meeting liquidity and interest rate risk management objectives, the available-for-sale securities portfolio may provide yield enhancement over other short-term assets. See the "Risk Management – Asset/Liability Management" section in this Report for more information on liquidity and interest rate risk. The held-to-maturity securities portfolio consists primarily of high quality U.S. Treasury debt, agency MBS, ABS primarily collateralized by auto loans and leases, and collateralized loan obligations, where our intent is to hold these securities to maturity and collect the contractual cash flows. The held-to-maturity portfolio may also provide yield enhancement over short-term assets.

We analyze securities for OTTI quarterly or more often if a potential loss-triggering event occurs. Of the \$217 million in OTTI write-downs recognized in earnings in the first half of 2014, \$20 million related to debt securities and \$2 million related to marketable equity securities, which are each included in available-for-sale securities. Another \$195 million in OTTI write-downs was related to nonmarketable equity investments, which are included in other assets. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2013 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At June 30, 2014, investment securities included \$44.8 billion of municipal bonds, of which 89% 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 predominantly 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. Our municipal bond holdings are monitored as part of our ongoing impairment analysis.

The weighted-average expected maturity of debt securities available-for-sale was 6.9 years at June 30, 2014. Because 60% 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.

<b>Table 6: Mortgage-Backed Securities</b>						
						Expected
					Net	remaining
				Fair	unrealized	maturity
(in billions)				value	gain (loss)	(in years)
At June 30, 2014						
	Actual	\$	146.3		3.7	5.6
	Assuming a 200 basis point:					
	Increase in interest rates		132.3		(10.3)	7.1
	Decrease in interest rates		152.7		10.1	2.9

The weighted-average expected maturity of held-to-maturity debt securities was 6.0 years at June 30, 2014. See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

**Balance Sheet Analysis (continued)****Loan Portfolio**

Total loans were \$828.9 billion at June 30, 2014, up \$6.7 billion from December 31, 2013. This growth was reduced by the transfer of \$9.7 billion of government guaranteed student loans to loans held for sale at the end of the second quarter, which were previously included in the non-strategic/liquidating loan portfolio. Excluding this transfer, total loans would have increased \$16.4 billion from December 31, 2013. Table 7 provides a summary of total outstanding loans by non-strategic/liquidating and core loan portfolios. The decrease in the non-strategic/liquidating portfolios including the government guaranteed student loan transfer was \$15.5 billion, while loans in the core portfolio grew \$22.2 billion from December 31, 2013. Our core loan growth during the first half of 2014 included:

- a \$14.7 billion increase in the commercial segment predominantly due to growth in commercial and industrial and commercial real estate loans; and
- a \$7.5 billion increase in consumer loans, predominantly from growth in the nonconforming mortgage, automobile, credit card and other revolving credit and installment loan portfolios offset by a decrease in the real estate 1-4 family junior lien mortgage portfolio.

Additional information on the non-strategic and liquidating loan portfolios is included in Table 12 in the “Risk Management – Credit Risk Management” section in this Report.

<b>Table 7: Loan Portfolios</b>													
					<b>June 30, 2014</b>					<b>December 31, 2013</b>			
(in millions)						<b>Core</b>	<b>Liquidating</b>	<b>Total</b>			<b>Core</b>	<b>Liquidating</b>	<b>Total</b>
Commercial					\$	<b>389,905</b>	<b>1,499</b>	<b>391,404</b>			375,230	2,013	377,243
Consumer						<b>373,693</b>	<b>63,845</b>	<b>437,538</b>			366,190	78,853	445,043
	Total loans				\$	<b>763,598</b>	<b>65,344</b>	<b>828,942</b>			741,420	80,866	822,286

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 sensitivities of those loans to changes in interest rates.

<b>Table 8: Maturities for Selected Commercial Loan Categories</b>													

					June 30, 2014					December 31, 2013			
						After				After			
					Within	one year	After			Within	one year	After	
					one	through	five			one	through	five	
(in millions)					year	five years	years	Total		year	five years	years	Total
Selected loan maturities:													
	Commercial and industrial			\$	43,651	142,298	20,106	206,055		41,402	131,745	20,664	193,811
	Real estate mortgage				17,864	59,768	30,786	108,418		17,746	60,004	29,350	107,100
	Real estate construction				5,947	9,807	1,302	17,056		6,095	9,207	1,445	16,747
	Foreign				32,586	13,100	2,281	47,967		33,567	11,602	2,382	47,551
			Total selected loans	\$	100,048	224,973	54,475	379,496		98,810	212,558	53,841	365,209
Distribution of loans to													
	changes in interest rates:												
			Loans at fixed										
			interest rates	\$	13,230	25,131	18,039	56,400		14,896	23,891	14,684	53,471
			Loans at floating/variable										
			interest rates		86,818	199,842	36,436	323,096		83,914	188,667	39,157	311,738
			Total selected loans	\$	100,048	224,973	54,475	379,496		98,810	212,558	53,841	365,209

## Deposits

Deposits totaled \$1.1 trillion at both June 30, 2014, and December 31, 2013. Table 9 provides additional information regarding deposits. Deposit growth of \$39.4 billion from December 31, 2013, reflected continued customer-driven growth as well as liquidity-related issuances of term deposits. Information regarding the impact of deposits on net interest income and a comparison of average deposit balances is provided in “Earnings Performance – Net Interest Income” and Table 1 earlier in this Report. Total core deposits were \$1.0 trillion at June 30, 2014, up \$27.4 billion from \$980.1 billion at December 31, 2013.

<b>Table 9: Deposits</b>											
					% of				% of		
			June 30,	total			Dec. 31,	total			%
(\$ in millions)			2014	deposits			2013	deposits			Change
Noninterest-bearing	\$	308,097	28	%		\$	288,116	27	%		7
Interest-bearing checking		42,556	4				37,346	3			14
Market rate and other savings		563,788	50				556,763	52			1
Savings certificates		38,228	3				41,567	4			(8)
Foreign deposits (1)		54,816	5				56,271	5			(3)
Core deposits		1,007,485	90				980,063	91			3
Other time and savings deposits		69,815	6				64,477	6			8
Other foreign deposits		41,277	4				34,637	3			19
Total deposits	\$	1,118,577	100	%		\$	1,079,177	100	%		4
(1) Reflects Eurodollar sweep balances included in core deposits.											

## Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2013 Form 10-K for a description of our critical accounting policy related to fair value of financial instruments and a discussion of our fair value measurement techniques.

Table 10 presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs (excluding derivative netting adjustments), which are significant assumptions not observable in the market. 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, 2014					December 31, 2013			
				Total					Total		
(\$ in billions)			balance		Level 3 (1)			balance		Level 3 (1)	
Assets carried											
	at fair value		\$	363.9			34.9		353.1		37.2
As a percentage											
	of total assets			23		%	2		23		2
Liabilities carried											
	at fair value		\$	24.2			2.9		22.7		3.7
As a percentage of											
	total liabilities			2		%	*		2		*
*	Less than 1%.										
(1)	Excludes derivative netting adjustments.										

See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information on fair value measurements.

## Equity

Total equity was \$181.5 billion at June 30, 2014, compared with \$171.0 billion at December 31, 2013. The increase was predominantly driven by a \$7.6 billion increase in retained earnings from earnings net of dividends paid and a \$2.7 billion increase in cumulative other comprehensive income (OCI). The increase in OCI was primarily due to a \$4.3 billion (\$2.6 billion after tax) increase in net unrealized gains on our investment securities portfolio resulting from a decrease in long-term interest rates and modest tightening of credit spreads. See Note 4 (Investment Securities) to Financial Statements in this Report for additional information.

## **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, 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**

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 significant portion of these commitments are expected to expire without being used by the customer. For more information on lending commitments, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

## **Transactions with Unconsolidated Entities**

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

## **Guarantees and Certain Contingent Arrangements**

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

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

## **Derivatives**

We primarily use derivatives to manage exposure to market risk, including interest rate risk, credit risk and foreign currency risk, and to assist customers with their risk management objectives. Derivatives are recorded on the balance sheet at fair value and 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 2013 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements” section in our 2013 Form 10-K.

17

---

## **Risk Management**

-

Financial institutions must manage a variety of business risks that can significantly affect their financial performance. Among the key risks that we must manage are operational risks, credit risks, and asset/liability management risks, which include interest rate, market, and liquidity and funding risks. Our risk culture is strongly rooted in our *Vision and Values*, and in order to succeed in our mission of satisfying all 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 2013 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 processes or systems, or resulting from external events or third parties. 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 reportedly 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. Cybersecurity and the continued development and enhancement of our controls, processes and systems to protect our networks, computers, software, and data from attack, damage or unauthorized access remain a priority for Wells Fargo. See the "Risk Factors" section in our 2013 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**

Loans represent the largest component of assets on our balance sheet and their related credit risk is a significant risk we manage. 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). Table 11 presents our total loans outstanding by portfolio segment and class of financing receivable.

<b>Table 11: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable</b>									
							<b>June 30,</b>		<b>Dec. 31,</b>
							<b>2014</b>		<b>2013</b>
(in millions)									
<b>Commercial:</b>									
	Commercial and industrial					<b>\$</b>	<b>206,055</b>		193,811

	Real estate mortgage			<b>108,418</b>		107,100
	Real estate construction			<b>17,056</b>		16,747
	Lease financing			<b>11,908</b>		12,034
	Foreign (1)			<b>47,967</b>		47,551
	Total commercial			<b>391,404</b>		377,243
Consumer:						
	Real estate 1-4 family first mortgage			<b>260,104</b>		258,497
	Real estate 1-4 family junior lien mortgage			<b>62,455</b>		65,914
	Credit card			<b>27,215</b>		26,870
	Automobile			<b>54,095</b>		50,808
	Other revolving credit and installment			<b>33,669</b>		42,954
	Total consumer			<b>437,538</b>		445,043
	Total loans			<b>\$ 828,942</b>		822,286
(1)	Substantially all of our foreign loan portfolio is commercial loans. Loans are classified as foreign primarily based on whether the borrower's primary address is outside of the United States.					

**Risk Management – Credit Risk Management (*continued*)**

**Credit Quality Overview** Credit quality continued to improve during second quarter 2014 due in part to improving economic conditions, in particular the housing market, as well as our proactive credit risk management activities. The improvement occurred for both commercial and consumer portfolios as evidenced by their credit metrics:

- Nonaccrual loans decreased to \$2.8 billion and \$11.2 billion in our commercial and consumer portfolios, respectively, at June 30, 2014, from \$3.5 billion and \$12.2 billion at December 31, 2013. Nonaccrual loans represented 1.69% of total loans at June 30, 2014, compared with 1.91% at December 31, 2013.
- Net charge-offs (annualized) as a percentage of average total loans improved to 0.35% and 0.38% in second quarter and first half of 2014, respectively, compared with 0.58% and 0.65% respectively, for the same periods a year ago. The net charge-offs (annualized) in our commercial and consumer portfolios were 0.03% and 0.62% in second quarter and 0.02% and 0.68% in the first half of 2014, respectively, compared with 0.05% and 1.01% in second quarter, and 0.08% and 1.12%, respectively, in the first half of 2013.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing decreased to \$122 million and \$775 million in our commercial and consumer portfolios, respectively, at June 30, 2014, from \$143 million and \$902 million at December 31, 2013.

In addition to credit metric improvements, we continued to see improvement in various economic indicators such as home prices that influenced our evaluation of the allowance and provision for credit losses. Accordingly:

- Our provision for credit losses decreased to \$217 million in second quarter 2014 and \$542 million during the first half of 2014, compared with \$652 million and \$1.9 billion, respectively, for the same periods a year ago.
- The allowance for credit losses decreased to \$13.8 billion at June 30, 2014 from \$15.0 billion at December 31, 2013.

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

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

Table 12 identifies our non-strategic and liquidating loan portfolios, which have continued to decline since the 2008 merger with Wachovia. They consist primarily of the Pick-a-Pay mortgage portfolio and PCI loans acquired from Wachovia, certain portfolios from legacy Wells Fargo Home Equity and Wells Fargo Financial, and our Education Finance government guaranteed loan portfolio. We transferred the government guaranteed student loan portfolio to loans held for sale at the end of second quarter 2014.

The home equity portfolio of loans generated through third party channels is designated as liquidating. Additional information regarding this portfolio, as well as the liquidating PCI and Pick-a-Pay loan portfolios, is provided in the discussion of loan portfolios that follows.

Table 12: Non-Strategic and Liquidating Loan Portfolios								
				Outstanding balance				
					June 30,		December 31,	
(in millions)					2014		2013	2008
Commercial:								
	Legacy Wachovia commercial and industrial, CRE and foreign PCI loans (1)			\$	1,499		2,013	18,704
		Total commercial			1,499		2,013	18,704
Consumer:								
	Pick-a-Pay mortgage (1)				47,965		50,971	95,315
	Liquidating home equity				3,290		3,695	10,309
	Legacy Wells Fargo Financial indirect auto				85		207	18,221
	Legacy Wells Fargo Financial debt consolidation				12,169		12,893	25,299
	Education Finance - government guaranteed (2)				-		10,712	20,465
	Legacy Wachovia other PCI loans (1)				336		375	2,478
		Total consumer			63,845		78,853	172,087
			Total non-strategic and liquidating loan portfolios	\$	65,344		80,866	190,791
(1)	Net of purchase accounting adjustments related to PCI loans.							
(2)	The change from prior quarter was predominantly due to the transfer of government guaranteed student loans to held for sale.							

**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 totaled \$25.0 billion at June 30, 2014, down from \$26.7 billion and \$58.8 billion at December 31, 2013 and 2008, respectively. Such loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments. For additional information on PCI loans, see the “Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans” section in our 2013 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

During the first half of 2014, we recognized as income \$32 million released from the nonaccretable difference related to commercial PCI loans due to payoffs and other resolutions. We also transferred \$2.1 billion from the nonaccretable difference to the accretable yield for PCI loans with improving credit-related cash flows and recovered \$37 million primarily related to reversals of write-downs in excess of the respective loan resolution realized losses. Our cash flows expected to be collected have been favorably affected since the Wachovia acquisition by lower than expected defaults and losses as a result of observed economic strengthening, particularly in housing prices, and by our loan modification efforts. See the “Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in this Report for additional information. Table 13 provides an analysis of changes in the nonaccretable difference.

<b>Table 13: Changes in Nonaccretable Difference for PCI Loans</b>					
				Other	
(in millions)	Commercial	Pick-a-Pay	consumer	Total	
Balance, December 31, 2008	\$ 10,410	26,485	4,069	40,964	
Addition of nonaccretable difference due to acquisitions	213	-	-	213	
Release of nonaccretable difference due to:					
Loans resolved by settlement with borrower (1)	(1,512)	-	-	(1,512)	
Loans resolved by sales to third parties (2)	(308)	-	(85)	(393)	
Reclassification to accretable yield for loans with improving credit-related cash flows (3)	(1,605)	(3,897)	(823)	(6,325)	
Use of nonaccretable difference due to:					
Losses from loan resolutions and write-downs (4)	(6,933)	(17,884)	(2,961)	(27,778)	
<b>Balance, December 31, 2013</b>	<b>265</b>	<b>4,704</b>	<b>200</b>	<b>5,169</b>	
<b>Addition of nonaccretable difference due to acquisitions</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>13</b>	
<b>Release of nonaccretable difference due to:</b>					
<b>Loans resolved by settlement with borrower (1)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>(18)</b>	
<b>Loans resolved by sales to third parties (2)</b>	<b>(14)</b>	<b>-</b>	<b>-</b>	<b>(14)</b>	
<b>Reclassification to accretable yield for loans with improving credit-related cash flows (3)</b>	<b>(103)</b>	<b>(1,954)</b>	<b>(19)</b>	<b>(2,076)</b>	
<b>Use of nonaccretable difference due to:</b>					



	<b>Net recoveries (losses) from loan resolutions and write-downs (4)</b>		(3)	21	19	37
<b>Balance, June 30, 2014</b>		\$	140	2,771	200	3,111
<b>Balance, March 31, 2014</b>		\$	145	4,704	212	5,061
<b>Addition of nonaccretable difference due to acquisitions</b>			13	-	-	13
<b>Release of nonaccretable difference due to:</b>						
	<b>Loans resolved by settlement with borrower (1)</b>		(13)	-	-	(13)
	<b>Loans resolved by sales to third parties (2)</b>		-	-	-	-
	<b>Reclassification to accretable yield for loans with improving credit-related cash flows (3)</b>		(2)	(1,954)	(10)	(1,966)
<b>Use of nonaccretable difference due to:</b>						
	<b>Net recoveries (losses) from loan resolutions and write-downs (4)</b>		(3)	21	(2)	16
<b>Balance, June 30, 2014</b>		\$	140	2,771	200	3,111
(1)	Release of the nonaccretable difference for settlement with borrower, on individually accounted PCI loans, increases interest income in the period of settlement. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases for settlements with borrowers due to pool accounting for those loans, which assumes that the amount received approximates the pool performance expectations.					
(2)	Release of the nonaccretable difference as a result of sales to third parties increases noninterest income in the period of the sale.					
(3)	Reclassification of nonaccretable difference to accretable yield will result in increased interest income as a prospective yield adjustment over the remaining life of the loan or pool of loans.					
(4)	Write-downs to net realizable value of PCI loans are absorbed by the nonaccretable difference when 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. Also includes foreign exchange adjustments related to underlying principal for which the nonaccretable difference was established.					

**Risk Management – Credit Risk Management (continued)**

Since December 31, 2008, we have released \$10.3 billion in nonaccretable difference, including \$8.4 billion transferred from the nonaccretable difference to the accretable yield 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 \$8.6 billion reduction from December 31, 2008, through June 30, 2014, in our initial projected losses of \$41.0 billion on all PCI loans.

At June 30, 2014, the allowance for credit losses on certain PCI loans was \$8 million. The allowance is to absorb credit-related decreases in cash flows expected to be collected and primarily relates to individual PCI commercial loans. Table 14 analyzes the actual and projected loss results on PCI loans since acquisition through June 30, 2014.

For additional information on PCI loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2013 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 14: Actual and Projected Loss Results on PCI Loans Since Acquisition of Wachovia										
								Other		
(in millions)						Commercial	Pick-a-Pay	consumer	Total	
Release of nonaccretable difference due to:										
	Loans resolved by settlement with borrower (1)				\$	1,530	-	-	1,530	
	Loans resolved by sales to third parties (2)					322	-	85	407	
	Reclassification to accretable yield for loans with improving credit-related cash flows (3)					1,708	5,851	842	8,401	
	Total releases of nonaccretable difference due to better than expected losses					3,560	5,851	927	10,338	
Provision for losses due to credit deterioration (4)							(1,622)	-	(108)	(1,730)
			Actual and projected losses on PCI loans less than originally expected			\$	1,938	5,851	819	8,608
(1)	Release of the nonaccretable difference for settlement with borrower, on individually accounted PCI loans, increases interest income in the period of settlement. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases for settlements with borrowers due to pool accounting for those loans, which assumes that the amount received approximates the pool performance expectations.									
(2)	Release of the nonaccretable difference as a result of sales to third parties increases noninterest income in the period of the sale.									
(3)	Reclassification of nonaccretable difference to accretable yield will result in increased interest income as a prospective yield adjustment over the remaining life of the loan or pool of loans.									
(4)	Provision for additional losses is recorded as a charge to income when it is estimated that the cash flows expected to be collected for a PCI loan or pool of loans may not support full realization of the carrying value.									



**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. Table 15 summarizes commercial and industrial loans and lease financing by industry with the related nonaccrual totals. 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 and doubtful categories.

The commercial and industrial loans and lease financing portfolio, which totaled \$218.0 billion, or 26% of total loans, at June 30, 2014, generally experienced credit improvement in second quarter 2014. The annualized net charge-off rate for this portfolio was 0.10% in second quarter 2014, up slightly from 0.09% in first quarter 2014, and down from 0.19% in second quarter 2013. At June 30, 2014, 0.33% of this portfolio was nonaccruing compared with 0.37% at December 31, 2013. In addition, \$15.3 billion of this portfolio was rated as criticized in accordance with regulatory guidance at June 30, 2014, compared with \$15.5 billion at December 31, 2013.

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

<b>Table 15: Commercial and Industrial Loans and Lease Financing by Industry</b>						
						June 30, 2014
						% of
		Nonaccrual	Total			total
(in millions)		loans	portfolio	(1)		loans
Investors	\$	12	21,289		3	%
Oil and gas		42	15,411		2	
Food and beverage		9	13,460		2	
Cyclical retailers		26	13,001		1	
Financial institutions		35	11,783		1	
Healthcare		37	11,640		1	
Real estate lessor		21	11,541		1	
Industrial equipment		7	11,453		1	

Public administration			16	7,283		1	
Technology			53	7,180		1	
Business services			28	6,383		1	
Transportation			4	6,286		1	
Other			431	81,253	(2)	10	
	Total	\$	721	217,963		26	%

(1) Includes \$192 million PCI loans, which are considered to be accruing due to the existence of the accretible yield and not based on consideration given to contractual interest payments.

(2) No other single category had loans in excess of \$5.0 billion.

At the time of any modification of terms or extensions of maturity, we evaluate whether the loan should be classified as a TDR, and account for it accordingly. For more information on TDRs, see “Troubled Debt Restructurings” later in this section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

**Risk Management – Credit Risk Management (continued)**

**Commercial Real Estate (CRE)** The CRE portfolio totaled \$125.5 billion, or 15% of total loans, at June 30, 2014, and consisted of \$108.4 billion of mortgage loans and \$17.1 billion of construction loans. Table 16 summarizes CRE loans by state and property type with the related nonaccrual totals. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of combined CRE loans are in California (29% of the total CRE portfolio) and in Texas and Florida (8% in each state). By property type, the largest concentrations are office buildings at 28% and apartments at 13% of the portfolio. CRE nonaccrual loans totaled 1.6% of the CRE outstanding balance at June 30, 2014, compared with 2.2% at December 31, 2013. At June 30, 2014, we had \$9.6 billion of criticized CRE mortgage loans, down from \$11.8 billion at December 31, 2013, and \$1.4 billion of criticized CRE construction loans, down from \$2.0 billion at December 31, 2013.

At June 30, 2014, the recorded investment in PCI CRE loans totaled \$1.3 billion, down from \$12.3 billion when acquired at December 31, 2008, reflecting principal payments, loan resolutions and write-downs.

Table 16: CRE Loans by State and Property Type													
			June 30, 2014										
			Real estate mortgage			Real estate construction			Total			% of	
			Nonaccrual	Total		Nonaccrual	Total		Nonaccrual	Total		total	
(in millions)			loans	portfolio	(1)	loans	portfolio	(1)	loans	portfolio	(1)	loans	
By state:													
California			\$	437	32,655		23	3,653		460	36,308		4 %
Texas				107	8,713		1	1,656		108	10,369		1
Florida				248	8,397		22	1,510		270	9,907		1
New York				45	5,813		5	1,178		50	6,991		1
North Carolina				118	4,060		11	890		129	4,950		1
Arizona				90	3,782		5	423		95	4,205		1
Washington				28	3,378		1	483		29	3,861		1
Virginia				50	2,775		5	1,078		55	3,853		*
Georgia				121	3,116		34	441		155	3,557		*
Colorado				33	2,865		6	550		39	3,415		*
Other				525	32,864		126	5,194		651	38,058	(2)	5
	Total	\$	1,802	108,418		239	17,056		2,041	125,474		15 %	
By property:													
Office buildings			\$	458	32,845		-	2,041		458	34,886		4 %
Apartments				91	11,545		2	5,183		93	16,728		2
Industrial/warehouse				293	12,122		-	842		293	12,964		2
Retail (excluding shopping center)				239	11,744		2	858		241	12,602		2
Real estate - other				231	10,671		4	370		235	11,041		1
Hotel/motel				83	8,433		-	915		83	9,348		1
Shopping center				109	7,856		-	924		109	8,780		1

Institutional		77	3,315		-	365		77	3,680		1	
Land (excluding 1-4 family)		6	93		66	2,807		72	2,900		*	
Agriculture		36	2,283		-	25		36	2,308		*	
Other		179	7,511		165	2,726		344	10,237		1	
Total	\$	1,802	108,418		239	17,056		2,041	125,474		15	%
*	Less than 1%.											
(1)	Includes a total of \$1.3 billion PCI loans, consisting of \$1.0 billion of real estate mortgage and \$305 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 \$3.3 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, 2014, foreign loans totaled \$48.0 billion, representing approximately 6% of our total consolidated loans outstanding, compared with \$47.6 billion, or approximately 6% of total consolidated loans outstanding, at December 31, 2013. Foreign loans were approximately 3% of our consolidated total assets at June 30, 2014 and at December 31, 2013.

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 on an ultimate country of risk basis, which is normally based on the country of residence of the guarantor or collateral location, and is 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, 2014, was the United Kingdom, which totaled \$22.3 billion, or approximately 1% of our total assets, and included \$3.5 billion of sovereign claims. Our United Kingdom sovereign claims arise primarily from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch.

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 17 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, on an ultimate risk basis.



[illegible]

Top 20 above (5)											
Austria		73	396	-	-	-	2	73	398	471	
Belgium		-	137	-	26	-	7	-	170	170	
Italy		-	65	-	97	-	-	-	162	162	
Other Eurozone exposure (6)		23	34	-	27	21	1	44	62	106	
Total Eurozone exposure	\$	239	6,701	-	2,678	21	245	260	9,624	9,884	
(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 \$203 million in PCI loans, predominantly to customers in Germany and the United Kingdom, and \$1.3 billion in defeased leases secured largely by U.S. Treasury and government agency securities, or government guaranteed.										
(2)	Represents issuer exposure on cross-border debt and equity securities.										
(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, 2014, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries was \$4.1 billion, which was offset by the notional amount of CDS purchased of \$4.2 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 \$28.9 billion exposure to financial institutions and \$35.1 billion to non-financial corporations at June 30, 2014.										
(5)	Consists of exposure to Germany, Netherlands, France, Ireland, Luxembourg and Spain included in Top 20.										
(6)	Includes non-sovereign exposure to Portugal and Greece in the amount of \$51 million and \$2 million respectively, and less than \$1 million to Cyprus. We had no sovereign debt exposure to these countries at June 30, 2014.										

**Real Estate 1-4 Family FIRST AND JUNIOR LIEN Mortgage Loans** Our real estate 1-4 family first and junior lien mortgage loans primarily include loans we have made to customers and retained as part of our asset/liability management strategy. These loans, as presented in Table 18, include the Pick-a-Pay portfolio acquired from Wachovia which is discussed later in this Report. These loans also include other purchased loans and loans included on our balance sheet as a result of consolidation of variable interest entities (VIEs).

Table 18: Real Estate 1-4 Family First and Junior Lien Mortgage Loans													
							June 30, 2014				December 31, 2013		
								% of				% of	
(in millions)							Balance	portfolio			Balance	portfolio	
Real estate 1-4 family first mortgage													
	Core portfolio					\$	199,841	62	%	\$	194,488	60	%
	Non-strategic and liquidating loan portfolios:												
		Pick-a-Pay mortgage					47,965	15			50,971	16	
		Other PCI and liquidating first mortgage					12,298	4			13,038	4	
			Total non-strategic and liquidating loan portfolios				60,263	19			64,009	20	
				Total real estate 1-4 family first mortgage loans			260,104	81			258,497	80	
Real estate 1-4 family junior lien mortgage													
	Core portfolio						58,969	18			62,001	19	
	Non-strategic and liquidating loan portfolios						3,486	1			3,913	1	
				Total real estate 1-4 family junior lien mortgage loans			62,455	19			65,914	20	
					Total real estate 1-4 family mortgage loans	\$	322,559	100	%	\$	324,411	100	%

The 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 14% and 15% of total loans at June 30, 2014 and December 31, 2013, 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 and are part of our liquidating loan portfolios. 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 42% at June 30, 2014, 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 2013 Form 10-K.

Part of our credit monitoring includes tracking delinquency, FICO scores and 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 2014 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at June 30, 2014, totaled \$10.9 billion, or 4%, of total non-PCI mortgages, compared with \$11.9 billion, or 4%, at December 31, 2013. Loans with FICO scores lower than 640 totaled \$28.5 billion at June 30, 2014, or 10% of total non-PCI mortgages, compared with \$31.5 billion, or 10%, at December 31, 2013. Mortgages with a LTV/CLTV greater than 100% totaled \$27.4 billion at June 30, 2014, or 9% of total non-PCI mortgages, compared with \$34.3 billion, or 11%, at December 31, 2013. Information regarding credit risk indicators, including PCI credit risk 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 19. Our real estate 1-4 family mortgage loans to borrowers in California represented approximately 13% of total loans at June 30, 2014, located mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 4% of total loans. 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. 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. 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 2013 Form 10-K.

**Risk Management – Credit Risk Management (continued)**

Table 19: Real Estate 1-4 Family First and Junior Lien Mortgage Loans by State									
				June 30, 2014					
				Real estate	Real estate	Total real			
				1-4 family	1-4 family	estate 1-4	% of		
				first	junior lien	family	total		
(in millions)				mortgage	mortgage	mortgage	loans		
Real estate 1-4 family									
	loans (excluding PCI):								
California		\$		75,973	17,291	93,264	11	%	
Florida				14,600	5,615	20,215	3		
New York				15,806	2,722	18,528	2		
New Jersey				10,497	4,920	15,417	2		
Virginia				7,055	3,391	10,446	1		
Pennsylvania				5,912	3,031	8,943	1		
Texas				7,898	894	8,792	1		
North Carolina				6,001	2,710	8,711	1		
Georgia				4,881	2,472	7,353	1		
Other (2)				62,146	19,297	81,443	10		
Government insured/									
	guaranteed loans (3)			26,447	-	26,447	3		
	Total		\$	237,216	62,343	299,559	36	%	
Real estate 1-4									
	family PCI loans:								
California		\$		15,686	29	15,715	2	%	
Florida				1,755	18	1,773	-		
New Jersey				863	15	878	-		
Other (1)				4,584	50	4,634	1		
	Total		\$	22,888	112	23,000	3	%	
		Total	\$	260,104	62,455	322,559	39	%	

\* Less than 1%.

(1) Consists of 45 states; no state had loans in excess of \$553 million.

(2) Consists of 41 states; no state had loans in excess of \$7.2 billion.

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

**First Lien Mortgage Portfolio** The credit performance associated with our real estate 1-4 family first lien mortgage portfolio continued to improve in second quarter 2014, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average total loans improved to 0.21% and 0.24% in the second quarter and first half of 2014, respectively, compared with 0.52% and 0.61%, respectively, for the same periods a year ago. Nonaccrual loans were \$9.0 billion at June 30, 2014, compared with \$9.8 billion at December 31, 2013. Improvement in the credit performance was driven by both an improving economic and housing environment and declining balances in non-strategic and liquidating loans, which have been replaced with higher quality assets originated after 2008 utilizing tighter underwriting standards. Real estate 1-4 family first lien mortgage loans originated after 2008 have resulted in minimal losses to date and are approximately 55% of our total real estate 1-4 family first lien mortgage portfolio as of June 30, 2014.

In second quarter 2014, we continued to grow our real estate 1-4 family first lien mortgage portfolio through the retention of high-quality non-conforming mortgages. Substantially all non-conforming loans originated in second quarter 2014 were classified as non-conforming due to the loan amount exceeding conventional conforming loan amount limits established by the GSEs. Our total real estate 1-4 family first lien mortgage portfolio increased \$626 million in second quarter 2014 and \$1.6 billion in the first half of 2014. The growth in this portfolio has been largely offset by runoff in our real estate 1-4 family first lien mortgage non-strategic and liquidating portfolios. Excluding this runoff, our core real estate 1-4 family first lien mortgage portfolio increased \$2.6 billion in second quarter 2014 and \$5.4 billion in the first half of 2014 as we retained \$11.0 billion and \$19.2 billion in non-conforming originations in the second quarter and first half of 2014, respectively.

**Pick a Pay Portfolio** The Pick-a-Pay portfolio was one of the consumer residential first 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 20 provides balances by types of loans as of June 30, 2014, 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 \$27.6 billion at June 30, 2014, compared with \$61.0 billion at acquisition. Primarily due to modification efforts, the adjusted unpaid principal balance of option payment PCI loans has declined to 16% of the total Pick-a-Pay portfolio at June 30, 2014, compared with 51% at acquisition.

[illegible]

Pick-a-Pay loans may have fixed or adjustable rates with payment options that include a minimum payment, an interest-only payment or fully amortizing payment (both 15 and 30 year options). Total interest deferred due to negative amortization on Pick-a-Pay loans was \$736 million at June 30, 2014, and \$902 million at December 31, 2013. Approximately 94% of the Pick-a-Pay customers making a minimum payment in June 2014 did not defer interest, compared with 93% in December 2013.

Deferral of interest on a Pick-a-Pay loan may continue as long as the loan balance remains below a pre-defined principal cap, which is based on the percentage that the current loan balance represents to the original loan balance. A significant portion of the Pick-a-Pay portfolio has a cap of 125% of the original loan balance. Most of the Pick-a-Pay loans on which there is a deferred interest balance re-amortize (the monthly payment amount is reset or “recast”) on the earlier of the date when the loan balance reaches its principal cap, or generally the 10-year anniversary of the loan. After a recast, the customers’ new payment terms are reset to the amount necessary to repay the balance over the remainder of the original loan term.

Due to the terms of the Pick-a-Pay portfolio, there is little recast risk in the near term where borrowers will have a payment change over 7.5%. Based on assumptions of a flat rate environment, if all eligible customers elect the minimum payment option 100% of the time and no balances prepay, we would expect the following balances of loans to recast based on reaching the principal cap and also experiencing a payment change over the annual 7.5% reset: \$25 million for the remainder of 2014, \$54 million in 2015 and \$24 million in 2016. In addition, in a flat rate environment, we would expect the following balances of loans to start fully amortizing due to reaching their recast anniversary date and also having a payment change over the annual 7.5% reset: \$117 million for the remainder of 2014, \$358 million in 2015 and \$410 million in 2016. In second quarter 2014, the amount of loans reaching their recast anniversary date and also having a payment change over the annual 7.5% reset was \$22 million.

Table 21 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.

28



## Risk Management – Credit Risk Management (continued)

Table 21: Pick-a-Pay Portfolio (1)												
		June 30, 2014										
			PCI loans							All other loans		
							Ratio of				Ratio of	
			Adjusted				carrying				carrying	
			unpaid	Current			value to				value to	
			principal	LTV			Carrying	current			Carrying	
							value				value	
(in millions)			balance (2)	ratio (3)			value (4)	(5)			value	
											(5)	
California		\$	19,078	85	%	\$	15,673	69	%	\$	12,317	
Florida			2,253	94			1,705	66			2,561	
New Jersey			953	85			832	67			1,650	
New York			585	80			534	66			753	
Texas			250	67			222	59			998	
Other states			4,483	86			3,698	69			7,022	
	Total Pick-a-Pay loans	\$	27,602			\$	22,664			\$	25,301	
(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 2014.											
(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, which does not reflect the allowance for loan losses, includes remaining purchase accounting adjustments, which, for PCI loans may include the nonaccretable difference and the accretable yield and, for all other loans, an adjustment to mark the loans to a market yield at date of merger less any subsequent charge-offs.											
(5)	The ratio of carrying value to current value is calculated as the carrying value divided by the collateral value.											

To maximize return and allow flexibility for customers to avoid foreclosure, we have in place several loss mitigation strategies for our Pick-a-Pay loan portfolio. We contact customers who are experiencing financial difficulty and may in certain cases modify the terms of a loan based on a customer's documented income and other circumstances.

We also have taken steps to work with customers to refinance or restructure their Pick-a-Pay loans into other loan products. For customers at risk, we offer combinations of term extensions of up to 40 years (from 30 years), interest

rate reductions, forbearance of principal, and, in certain cases we may offer principal forgiveness to customers with substantial property value declines based on affordability needs.

In second quarter 2014, we completed more than 1,200 proprietary and Home Affordability Modification Program (HAMP) Pick-a-Pay loan modifications. We have completed more than 126,800 modifications since the Wachovia acquisition, resulting in \$6.0 billion of principal forgiveness to our Pick-a-Pay customers as well as an additional \$123 million of conditional forgiveness that can be earned by borrowers through performance over a three year period.

Due to better than expected performance observed on the Pick-a-Pay PCI portfolio compared with the original acquisition estimates, we have reclassified \$5.9 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 12.1 years at June 30, 2014. The weighted average remaining life decreased slightly from December 31, 2013 due to updated expectations for prepayments. The accretable yield percentage at June 30, 2014, was 4.98%, unchanged from the end of 2013. The accretable yield balance increased to \$17.6 billion during second quarter 2014 as a result of a \$2.0 billion reclassification from the nonaccretable difference due to favorable changes in the expected timing and composition of cash flows resulting from improving credit and prepayment expectations. Accordingly, the accretable yield percentage is expected to be 6.15% for third quarter 2014. 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 2013 Form 10-K.

**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. The majority 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 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, we use the experience of our junior lien mortgages behind delinquent first liens that are owned or serviced by us adjusted for any observed differences in delinquency and loss rates associated with junior lien mortgages behind third party first mortgages. We incorporate this inherent loss content into our allowance for loan losses. Our allowance process for junior liens ensures appropriate consideration of the relative difference in loss experience for junior liens 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 liens that are current, but are in their revolving period, appropriately reflects the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.

Table 22 summarizes delinquency and loss rates for our junior lien mortgages by the holder of the first lien.

Table 22: Junior Lien Mortgage Portfolios Performance by Holder of 1st Lien (1)																
								% of loans				Loss rate				
								two payments				(annualized)				
				Outstanding balance				or more past due				quarter ended				
					<b>June 30,</b>	Dec. 31,		<b>June 30,</b>		Dec. 31,		<b>June 30,</b>	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
(in millions)					<b>2014</b>	2013		<b>2014</b>		2013		<b>2014</b>	2014	2013	2013	2013
Junior lien mortgages behind:																
	Wells Fargo owned or															
		serviced first lien			<b>\$ 30.787</b>	32.681		<b>2.21</b>	%	2.37		<b>1.08</b>	1.16	1.34	1.59	2.07

	Third party first lien		<b>31,556</b>	33,110		<b>2.46</b>		2.53		<b>0.96</b>	1.23	1.35	1.58	1.95
	Total junior lien mortgages		<b>\$ 62,343</b>	65,791		<b>2.33</b>		2.45		<b>1.02</b>	1.20	1.35	1.58	2.01
(1)	Excludes PCI loans because their losses were generally reflected in PCI accounting adjustments at the date of acquisition.													

We monitor the number of borrowers paying the minimum amount due on a monthly basis. In June 2014, approximately 94% of our borrowers with a junior lien mortgage outstanding balance paid the minimum amount due or more, including approximately 47% who paid only the minimum amount due.

**Risk Management – Credit Risk Management (continued)**

Table 23 shows the credit attributes of the core and liquidating junior lien mortgage portfolios and lists the top five states by outstanding balance for the core portfolio. Loans to California borrowers represent the largest state concentration in each of these portfolios. The decrease in outstanding balances since December 31, 2013 primarily reflects loan paydowns and charge-offs. As of June 30, 2014, 24% 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%. CLTV means the ratio of the total loan balance of first 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 11% of the junior lien mortgage portfolio at June 30, 2014.

<b>Table 23: Junior Lien Mortgage Portfolios (1)</b>												
						% of loans two payments			Loss rate (annualized)			
				Outstanding balance		or more past due			quarter ended			
				June 30,	Dec. 31,	June 30,	Dec. 31,	June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
(in millions)				2014	2013	2014	2013	2014	2014	2013	2013	2013
<b>Core portfolio</b>												
California	\$	16,167	17,003	1.96	%	2.03	0.47	0.67	0.86	1.20	1.68	
Florida		5,510	5,811	2.84		3.16	1.23	1.86	1.85	2.12	2.82	
New Jersey		4,837	5,019	3.26		3.43	1.45	1.49	1.50	1.81	1.68	
Virginia		3,256	3,378	1.98		2.02	0.86	0.87	0.93	0.93	1.26	
Pennsylvania		3,018	3,137	2.52		2.64	1.24	1.01	0.96	1.17	1.43	
Other		26,181	27,653	2.04		2.18	1.05	1.15	1.34	1.43	1.87	
Total		58,969	62,001	2.22		2.35	0.94	1.09	1.23	1.42	1.84	
<b>Liquidating portfolio</b>												
		3,374	3,790	4.32		4.10	2.46	2.94	3.20	4.12	4.65	
Total core and liquidating portfolios	\$	62,343	65,791	2.33		2.45	1.02	1.20	1.35	1.58	2.01	
(1) Excludes PCI loans because their losses were generally reflected in PCI accounting adjustments at the date of acquisition.												

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.

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 24 reflects the outstanding balance of our portfolio of junior lien 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 \$2.4 billion, because they are predominantly insured by the FHA, and it excludes PCI loans, which total \$145 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

[illegible]

	Junior loans within the term period predominantly represent principal and interest products that require a balloon payment upon the end of the loan term. Amortizing junior loans include \$60 million of balloon loans that have reached end of term and are now past due.
(3)	Lines in their draw period are predominantly interest-only. The unfunded credit commitments for junior and first lien lines totaled \$71.7 billion at June 30, 2014.
(4)	Includes scheduled end-of-term balloon payments totaling \$399 million, \$557 million, \$438 million, \$541 million, \$570 million and \$2.6 billion for 2014, 2015, 2016, 2017, 2018, 2019 and thereafter, respectively. Amortizing lines include \$157 million of end-of-term balloon payments, which are past due. At June 30, 2014, \$318 million, or 7% of outstanding lines of credit that are amortizing, are 30 or more days past due compared to \$1.3 billion, or 2% for lines in their draw period.

**Credit Cards** Our credit card portfolio totaled \$27.2 billion at June 30, 2014, which represented 3% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 3.20% for second quarter 2014, compared with 3.90% for second quarter 2013 and 3.39% and 3.93% for the first half of 2014 and 2013, respectively.

**AUTOMobile** Our automobile portfolio, predominantly composed of indirect loans, totaled \$54.1 billion at June 30, 2014. The net charge-off rate (annualized) for our automobile portfolio was 0.35% for second quarter 2014, compared with 0.35% for second quarter 2013 and 0.52% and

0.50% for the first half of 2014 and 2013, respectively.

**Other revolving Credit and installment** Other revolving credit and installment loans totaled \$33.7 billion at June 30, 2014, and primarily included student and security-based margin loans. Student loans totaled \$11.6 billion at June 30, 2014. Government guaranteed student loans of \$9.7 billion were transferred to loans held for sale at June 30, 2014. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.22% for second quarter 2014, compared with 1.38% for second quarter 2013 and 1.26% and 1.38% for the first half of 2014 and 2013, respectively.

**Risk Management – Credit Risk Management (continued)**

**nonperforming assets (Nonaccrual Loans and Foreclosed assets)** Table 25 summarizes nonperforming assets (NPAs) for each of the last four quarters. 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 (including loans discharged in bankruptcy);
- 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
- performing consumer loans are discharged in bankruptcy, regardless of their delinquency status.

Table 25: Nonperforming Assets (Nonaccrual Loans and Foreclosed Assets)

Table 2: Nonperforming Assets (Nonaccrual Loans and Foreclosed Assets)																		
						June 30, 2014			March 31, 2014			December 31, 2013			September 30, 2013			
						% of			% of			% of			% of			
						total			total			total			total			
(\$ in millions)						Balance	loans		Balance	loans		Balance	loans		Balance	loans		
Nonaccrual loans:																		
Commercial:																		
		Commercial and industrial	\$	693	0.34	%	\$	630	0.32	%	\$	738	0.38	%	\$	809	0.43	%
		Real estate mortgage		1,802	1.66			2,030	1.88			2,252	2.10			2,496	2.36	
		Real estate construction		239	1.40			296	1.78			416	2.48			517	3.15	
		Lease financing		28	0.24			31	0.26			29	0.24			17	0.15	
		Foreign		36	0.08			40	0.08			40	0.08			47	0.10	
		Total commercial (1)		2,798	0.71			3,027	0.79			3,475	0.92			3,886	1.05	
Consumer:																		
		Real estate 1-4 family																
		first mortgage (2)		9,026	3.47			9,357	3.61			9,799	3.79			10,450	4.10	
		Real estate 1-4 family																
		junior lien		1,964	3.14			2,072	3.24			2,188	3.32			2,333	3.45	



[illegible]



Table 26 provides an analysis of the changes in nonaccrual loans.

<b>Table 26: Analysis of Changes in Nonaccrual Loans</b>										
										Quarter ended
						June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
(in millions)						2014	2014	2013	2013	2013
<b>Commercial nonaccrual loans</b>										
Balance, beginning of quarter					\$	3,027	3,475	3,886	4,455	5,242
Inflows						433	367	520	490	557
Outflows:										
Returned to accruing						(81)	(98)	(67)	(192)	(128)
Foreclosures						(32)	(79)	(34)	(77)	(120)
Charge-offs						(120)	(116)	(191)	(150)	(193)
Payments, sales and other (1)						(429)	(522)	(639)	(640)	(903)
Total outflows						(662)	(815)	(931)	(1,059)	(1,344)
Balance, end of quarter						2,798	3,027	3,475	3,886	4,455
<b>Consumer nonaccrual loans</b>										
Balance, beginning of quarter						11,623	12,193	13,007	13,460	14,284
Inflows						1,673	1,650	1,691	2,015	2,071
Outflows:										
Returned to accruing						(1,107)	(1,104)	(953)	(997)	(1,156)
Foreclosures						(132)	(146)	(162)	(167)	(95)
Charge-offs						(348)	(400)	(437)	(480)	(651)
Payments, sales and other (1)						(535)	(570)	(953)	(824)	(993)
Total outflows						(2,122)	(2,220)	(2,505)	(2,468)	(2,895)
Balance, end of quarter						11,174	11,623	12,193	13,007	13,460
Total nonaccrual loans					\$	13,972	14,650	15,668	16,893	17,915
(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, transferred to foreclosed properties, 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, 2014:

- 96% of total commercial nonaccrual loans and 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 98% are secured by real estate and 68% have a combined LTV (CLTV) ratio of 80% or less.
- losses of \$751 million and \$3.7 billion have already been recognized on 31% of commercial nonaccrual loans and 55% of consumer nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due (except when required earlier by the Interagency or OCC Guidance), 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.
- 68% of commercial nonaccrual loans were current on interest.
- the risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.
- \$2.2 billion of consumer loans discharged in bankruptcy and classified as nonaccrual were 60 days or less past due, of which \$2.0 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. In addition, for loans in foreclosure in certain states, including New York, New Jersey and Florida, the foreclosure timeline has significantly increased due to backlogs in an already complex process. Therefore, loans remain on nonaccrual status for longer periods.

Table 27 provides a summary and an analysis of changes in foreclosed assets.

Table 27: Foreclosed Assets										
						June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
(in millions)						2014	2014	2013	2013	2013
Summary by loan segment										
Government insured/guaranteed (1)					\$	2,359	2,302	2,093	1,781	1,026
PCI loans:										
	Commercial					457	461	497	559	597
	Consumer					208	177	149	125	127
		Total PCI loans				665	638	646	684	724
All other loans:										
	Commercial					634	736	759	944	1,012

	Consumer			<b>449</b>	439	439	393	378
	Total all other loans			<b>1,083</b>	1,175	1,198	1,337	1,390
	Total foreclosed assets		\$	<b>4,107</b>	4,115	3,937	3,802	3,140
<b>Analysis of changes in foreclosed assets</b>								
	Balance, beginning of quarter		\$	<b>4,115</b>	3,937	3,802	3,140	3,350
	Net change in government insured/guaranteed (1)(2)			<b>57</b>	209	312	755	57
	Additions to foreclosed assets (3)			<b>421</b>	448	428	459	406
	Reductions:							
	Sales			<b>(493)</b>	(490)	(823)	(545)	(647)
	Write-downs and gains (losses) on sales			<b>7</b>	11	218	(7)	(26)
	Total reductions			<b>(486)</b>	(479)	(605)	(552)	(673)
	Balance, end of quarter		\$	<b>4,107</b>	4,115	3,937	3,802	3,140
(1)	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. Foreclosed assets in the latter half of 2013 were elevated due to an increase in completed foreclosures, as enhancements to loan modification programs and an FHA foreclosure moratorium, which previously slowed new foreclosures, were resolved. The increase in balance at June 30, 2014, reflects a continued slowdown in processing the elevated levels of foreclosed properties through the HUD conveyance requirements as a result of industry resource constraints to deal with the elevated levels, as well as other factors, including an increase in foreclosures in states with longer redemption periods, longer occupant evacuation periods, increased maintenance required for aging foreclosures and longer repair authorization periods.							
(2)	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 \$654 million, \$801 million, \$892 million, \$1.3 billion, and \$639 million for the quarter ended June 30 and March 31, 2014 and December 31, September 30 and June 30, 2013, respectively.							
(3)	Predominantly include loans moved into foreclosure from nonaccrual status, PCI loans transitioned directly to foreclosed assets and repossessed automobiles.							

**Risk Management – Credit Risk Management (*continued*)**

Foreclosed assets at June 30, 2014, included \$3.0 billion of foreclosed residential real estate that had collateralized commercial and consumer loans, of which 79% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining foreclosed assets balance of \$1.1 billion has been written down to estimated net realizable value. Foreclosed assets at June 30, 2014 have increased slightly, compared with December 31, 2013. At June 30, 2014, 69% of foreclosed assets of \$4.1 billion have been in the foreclosed assets portfolio one year or less.

Given the industry resource constraints and other factors affecting our ability to meet HUD conveyance requirements, we anticipate continuing to hold an elevated level of foreclosed assets on our balance sheet.

35

---

TROUBLED DEBT RESTRUCTURINGS (TDRs)										
Table 28: Troubled Debt Restructurings (TDRs)										
						June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
(in millions)						2014	2014	2013	2013	2013
Commercial TDRs										
	Commercial and industrial				\$	948	1,081	1,032	1,153	1,238
	Real estate mortgage					2,179	2,233	2,248	2,457	2,605
	Real estate construction					391	454	475	598	680
	Lease financing					5	6	8	9	11
	Foreign					2	7	2	2	17
		Total commercial TDRs				3,525	3,781	3,765	4,219	4,551
Consumer TDRs										
	Real estate 1-4 family first mortgage					18,582	19,043	18,925	18,974	19,093
	Real estate 1-4 family junior lien mortgage					2,463	2,460	2,468	2,399	2,408
	Credit Card					379	399	431	455	477
	Automobile					151	169	189	212	246
	Other revolving credit and installment					38	34	33	32	29
	Trial modifications					469	593	650	717	716
		Total consumer TDRs (1)				22,082	22,698	22,696	22,789	22,969
			Total TDRs		\$	25,607	26,479	26,461	27,008	27,520
TDRs on nonaccrual status					\$	7,638	7,774	8,172	8,609	9,030
TDRs on accrual status (1)						17,969	18,705	18,289	18,399	18,490
			Total TDRs		\$	25,607	26,479	26,461	27,008	27,520
(1)	TDR loans include \$2.2 billion, \$2.6 billion, \$2.5 billion, \$2.4 billion and \$2.5 billion at June 30, and March 31, 2014, and December 31, September 30, June 30 and March 31, 2013, respectively, of government insured/guaranteed loans that are predominantly insured by the FHA or guaranteed by the VA and are accruing.									

Table 28 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was \$4.0 billion and \$4.5 billion at June 30, 2014 and December 31, 2013, 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.

Our nonaccrual policies are generally the same for all loan types when a restructuring is involved. We re-underwrite loans at the time of restructuring to determine whether there is sufficient evidence of sustained repayment capacity

based on the borrower's documented income, debt to income ratios, and other factors. Loans lacking sufficient evidence of sustained repayment capacity at the time of modification are charged down to the fair value of the collateral, if applicable. For an accruing loan that has been modified, if the borrower has demonstrated performance under the previous terms and the underwriting process shows the capacity to continue to perform under the restructured terms, the loan will generally remain in accruing status. Otherwise, the loan will be placed in nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments, or equivalent, inclusive of consecutive payments made prior to modification. Loans will also be placed on nonaccrual, and a corresponding charge-off is recorded to the loan balance, when we believe that principal and interest contractually due under the modified agreement will not be collectible.

Table 29 provides an analysis of the changes in TDRs. Loans that may be 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 29: Analysis of Changes in TDRs										
								Quarter ended		
						June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
(in millions)						2014	2014	2013	2013	2013
<b>Commercial TDRs</b>										
Balance, beginning of quarter		\$				3,781	3,765	4,219	4,551	4,818
Inflows						276	442	292	534	468
Outflows										
Charge-offs						(28)	(23)	(44)	(24)	(24)
Foreclosures						(8)	(3)	(16)	(16)	(26)
Payments, sales and other (1)						(496)	(400)	(686)	(826)	(685)
Balance, end of quarter						3,525	3,781	3,765	4,219	4,551
<b>Consumer TDRs</b>										
Balance, beginning of quarter						22,698	22,696	22,789	22,969	22,889
Inflows						1,003	1,104	1,248	1,282	1,352
Outflows										
Charge-offs						(139)	(157)	(155)	(183)	(241)
Foreclosures						(283)	(325)	(417)	(519)	(240)
Payments, sales and other (1)						(1,073)	(563)	(701)	(761)	(785)
Net change in trial modifications (2)						(124)	(57)	(68)	1	(6)
Balance, end of quarter						22,082	22,698	22,696	22,789	22,969
Total TDRs		\$				25,607	26,479	26,461	27,008	27,520
(1)	Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. It also includes \$1 million, \$29 million and \$40 million of loans refinanced or restructured as new loans and removed from TDR classification for the quarters ended March 31, 2014, and September 30 and June 30, 2013, respectively. No loans were removed from TDR classification for the quarters ended June 30, 2014 and December 31, 2013, as a result of being refinanced or restructured as new loans.									
(2)	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 most 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, 2014, were down \$148 million, or 14%, from December 31, 2013, due to payoffs, modifications and other loss mitigation activities, decline in non-strategic and liquidating portfolios, and credit stabilization.

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 \$17.7 billion at June 30, 2014, down from \$22.2 billion at December 31, 2013. The decrease since December 31, 2013, reflected the effects of modification activities and improving delinquency trends.

Table 30 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 30: Loans 90 Days or More Past Due and Still Accruing										
						June 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013
(in millions)						2014	2014	2013	2013	2013
Loans 90 days or more past due and still accruing:										
	Total (excluding PCI (1)):				\$	18,582	21,215	23,219	22,181	22,197
	Less: FHA insured/VA guaranteed (2)(3)					16,978	19,405	21,274	20,214	20,112
	Less: Student loans guaranteed under the FFELP (4)					707	860	900	917	931
	Total, not government insured/guaranteed				\$	897	950	1,045	1,050	1,154
By segment and class, not government insured/guaranteed:										
	Commercial:									
	Commercial and industrial				\$	51	11	11	125	37
	Real estate mortgage					53	13	35	40	175
	Real estate construction					16	69	97	1	4
	Foreign					2	2	-	1	-
	Total commercial					122	95	143	167	216
	Consumer:									

		Real estate 1-4 family first mortgage (3)		<b>311</b>	333	354	383	476
		Real estate 1-4 family junior lien mortgage (3)		<b>70</b>	88	86	89	92
		Credit card		<b>266</b>	308	321	285	263
		Automobile		<b>48</b>	41	55	48	32
		Other revolving credit and installment		<b>80</b>	85	86	78	75
		Total consumer		<b>775</b>	855	902	883	938
			<b>Total, not government insured/guaranteed</b>	<b>\$ 897</b>	950	1,045	1,050	1,154
(1)	PCI loans totaled \$4.0 billion, \$4.3 billion, \$4.5 billion, \$4.9 billion, and \$5.4 billion at June 30 and March 31, 2014 and December 31, September 30, and June 30, 2013, respectively.							
(2)	Represents loans whose repayments are predominantly insured by the FHA or guaranteed by the VA.							
(3)	Includes mortgages 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. In second quarter 2014, all government guaranteed student loans were transferred to loans held for sale.							

38

## Transactions with Unconsolidated Entities

	credit																		
	and installment	132	1.22			137	1.29			161	1.50			154	1.46			145	1.38
Total consumer		686	0.62			820	0.75			910	0.82			956	0.86			1,108	1.01
	Total	\$ 717	0.35	%	\$	825	0.41	%	\$	963	0.47	%	\$	975	0.48	%	\$	1,152	0.58
(1) Quarterly net charge-offs (recoveries) as a percentage of average respective loans are annualized.																			

Table 31 presents net charge-offs for second quarter 2014 and the previous four quarters. Net charge-offs in second quarter 2014 were \$717 million (0.35% of average total loans outstanding) compared with \$1.2 billion (0.58%) in second quarter 2013.

Due to higher dollar amounts associated with individual commercial and industrial and CRE loans, loss recognition tends to be irregular and varies more, compared with consumer loan portfolios. We continued to have improvement in our residential real estate secured portfolios.

**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 over the loss emergence period. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2013 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 32 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 32: Allocation of the Allowance for Credit Losses (ACL)**[illegible]

[illegible]

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. Over one-half of nonaccrual loans were real estate 1-4 family first and junior lien mortgage loans at June 30, 2014.

We believe the allowance for credit losses of \$13.8 billion at June 30, 2014, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. 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. We continue to expect future allowance releases absent a significant deterioration in the economy, but expect a lower level of future releases as the rate of credit improvement slows and the loan portfolio continues to grow. 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



**Risk Management – Credit Risk Management (continued)**

Significant Accounting Policies) to Financial Statements in our 2013 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 most 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 \$1.8 trillion in the residential mortgage loan servicing portfolio at June 30, 2014, 94% was current and less than 2% was subprime at origination. Our combined delinquency and foreclosure rate on this portfolio was 5.64% at June 30, 2014, compared with 5.56% at March 31, 2014, and 6.40% at December 31, 2013. Three 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, 2014, was down from a year ago both in number of outstanding loans and in total dollar balances as we continued to work through the new demands and mortgage insurance rescissions and as we announced settlements with both FHLMC and FNMA in 2013, that resolved substantially all repurchase liabilities associated with loans sold to FHLMC prior to January 1, 2009, and loans sold to FNMA that were originated prior to January 1, 2009. Demands from private investors declined from December 31, 2013, primarily due to settlements with two private investors in first quarter 2014 that resolved many of the increased demands we experienced from 2012 through 2013, with a significant increase experienced in fourth quarter 2013.

Table 33 provides the number of unresolved repurchase demands and mortgage insurance rescissions.

<b>Table 33: Unresolved Repurchase Demands and Mortgage Insurance Rescissions</b>											
			Government						Mortgage insurance		
			sponsored entities			Private			rescissions with no		
			(1)						demand (2)		
									Total		
			Number	Original		Number	Original		Number	Original	
			of	loan		of	loan		of	loan	
(\$ in				balance			balance				
millions)			loans	(3)		loans	(3)		loans		balance
											(3)
<b>2014</b>											
<b>June 30,</b>			<b>678</b>	<b>\$ 149</b>		<b>362</b>	<b>\$ 80</b>		<b>305</b>	<b>\$ 66</b>	<b>1345 \$ 295</b>
March 31,			599	126		391	89		409	90	1,399 305
<b>2013</b>											

December 31,	674		124		2,260		497		394		87		3,328		708
September 30,	4,422		958		1,240		264		385		87		6,047		1,309
June 30,	6,313		1,413		1,206		258		561		127		8,080		1,798
March 31,	5,910		1,371		1,278		278		652		145		7,840		1,794
(1)	Includes unresolved repurchase demands of 14 and \$3 million, 25 and \$3 million, 42 and \$6 million, 1,247 and \$225 million, and 942 and \$190 million at June 30 and March 31, 2014, and December 31, September 30, and June 30, 2013, respectively, received from investors on mortgage servicing rights acquired from other originators. We generally have the right of recourse against the seller and may be able to recover losses related to such repurchase demands subject to counterparty risk associated with the seller.														
(2)	As part of our representations and warranties in our loan sales contracts, we typically represent to GSEs and private investors that certain loans have mortgage insurance to the extent there are loans that have loan to value ratios in excess of 80% that require mortgage insurance. If the mortgage insurance is rescinded by the mortgage insurer due to a claim of breach of a contractual representation or warranty, the lack of insurance may result in a repurchase demand from an investor. Similar to repurchase demands, we evaluate mortgage insurance rescission notices for validity and appeal for reinstatement if the rescission was not based on a contractual breach. When investor demands are received due to lack of mortgage insurance, they are reported as unresolved repurchase demands based on the applicable investor category for the loan (GSE or private).														
(3)	While the original loan balances related to these demands are presented above, the establishment of the repurchase liability is based on a combination of factors, such as our appeals success rates, reimbursement by correspondent and other third party originators, and projected loss severity, which is driven by the difference between the current loan balance and the estimated collateral value less costs to sell the property.														

Table 34 summarizes the changes in our mortgage repurchase liability. We incurred net losses on repurchased loans and investor reimbursements totaling \$7 million in second quarter 2014, compared with \$160 million a year ago.

<b>Table 34: Changes in Mortgage Repurchase Liability</b>												
						Quarter ended						Six months ended
						June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,		June 30,
(in millions)						2014	2014	2013	2013	2013		2014
Balance, beginning of period	\$					799	899	1,421	2,222	2,317		899
	Provision for repurchase losses:											
	Loan sales					12	10	16	28	40		22
	Change in estimate (1)					(38)	(4)	10	-	25		(42)
	Total additions (reductions)					(26)	6	26	28	65		(20)
	Losses (2)					(7)	(106)	(548)	(829)	(160)		(113)
Balance, end of period	\$					766	799	899	1,421	2,222		766
(1)	Results from changes in investor demand and mortgage insurer practices, credit deterioration and changes in the financial stability of correspondent lenders.											
(2)	Quarter ended September 30, 2013, reflect \$746 million as a result of the agreement with FHLMC that resolves substantially all repurchase liabilities related to loans sold to FHLMC prior to January 1, 2009. Quarter ended December 31, 2013, reflects \$508 million as a result of the agreement with FNMA that substantially resolves all repurchase liabilities related to loans sold to FNMA that were originated prior to January 1, 2009.											

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 \$766 million at June 30, 2014 and \$2.2 billion at June 30, 2013. In second quarter 2014, we released \$26 million, which increased net gains on mortgage loan origination/sales activities, compared with a provision of \$65 million for second quarter 2013. The release in second quarter 2014 was primarily due to a re-estimation of our liability based on recently observed trends.

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 in excess of our recorded liability was \$975 million at June 30, 2014, 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” and the “Critical Accounting Policies Liability for Mortgage Loan Repurchase Losses” sections in our 2013 Form 10-K and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

**Risk Management – Credit Risk Management (*continued*)**

**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 require 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, on February 28, 2013, we entered into amendments to the April 2011 Consent Order with both the Office of the Comptroller of the Currency (OCC) and the FRB, which effectively ceased the Independent Foreclosure Review program created by such Consent Order and replaced it with an accelerated remediation process to be administered by the OCC and the FRB. We are required to meet the commitment to provide foreclosure prevention actions on \$1.2 billion of loans under this accelerated remediation process by January 7, 2015. As of April 30, 2014, we believe we reported sufficient foreclosure prevention actions to the monitor of the accelerated remediation process to meet the \$1.2 billion commitment, but are awaiting monitor approval.

On February 9, 2012, a federal/state settlement was announced among the DOJ, HUD, the Department of the Treasury, the Department of Veteran Affairs, the Federal Trade Commission, the Executive Office of the U.S. Trustee, the Consumer Financial Protection Bureau, a task force of Attorneys General, Wells Fargo, and four other servicers related to investigations of mortgage industry servicing and foreclosure practices. Under the terms of this settlement, which will remain in effect for three and a half years (subject to a trailing review period) we have agreed to the following programmatic commitments, consisting of three components totaling approximately \$5.3 billion:

- Consumer Relief Program commitment of \$3.4 billion
- Refinance Program commitment of \$900 million
- Foreclosure Assistance Program of \$1 billion

Additionally and simultaneously, the OCC and FRB announced the imposition of civil money penalties of \$83 million and \$87 million, respectively, pursuant to the Consent Orders. While still subject to FRB confirmation, we believe the civil money obligations were satisfied through payments made under the Foreclosure Assistance Program to the federal government and participating states for their use to address the impact of foreclosure challenges as they determine and which may include direct payments to consumers.

As announced on March 18, 2014, we have successfully fulfilled our commitments under both the Consumer Relief (and state-level sub-commitments) and the Refinance Programs in accordance with the terms of our commitments.

For additional information about the risks and various settlements related to our servicing activities see “Risk Management – Credit Risk Management – Risks Relating to Servicing Activities” in our 2013 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 these risks 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. 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. 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. Market risk, in its broadest sense, refers to the possibility that losses will result from the impact of adverse changes in market rates and prices on our trading and non-trading portfolios and financial instruments.

**Interest Rate Risk** Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We are subject to interest rate risk because:

- assets and liabilities may mature or reprice at different times (for example, if assets reprice faster than liabilities and interest rates are generally falling, earnings will initially decline);
- assets and liabilities may reprice at the same time but by different amounts (for example, when the general level of interest rates is falling, we may reduce rates paid on checking and savings deposit accounts by an amount that is less than the general decline in market interest rates);
- short-term and long-term market interest rates may change by different amounts (for example, the shape of the yield curve may affect new loan yields and funding costs differently);
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (for example, if long-term mortgage interest rates decline sharply, MBS held in the investment securities portfolio may prepay significantly earlier than anticipated, which could reduce portfolio income); or
- interest rates may also have a direct or indirect effect on loan demand, collateral values, credit losses, mortgage origination volume, the fair value of MSRs and other financial instruments, the value of the pension liability and other items affecting earnings.

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, primarily refinancing activity, generally declines. And in response to lower rates, mortgage activity generally increases. Mortgage results are also impacted by the valuation of MSRs and related hedge positions. See the “Risk 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 initially measure a decline in long-term interest rates versus our most likely scenario. Although the performance in these rate scenarios contain initial benefit 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.

As of June 30, 2014, 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 35, 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).

**Risk Management – Asset/Liability Management (continued)**

<b>Table 35: Earnings Sensitivity Over 24 Month Horizon Relative to Most Likely Earnings Plan</b>										
				Most		Lower rates			Higher rates	
				likely		Scenario 1	Scenario 2		Scenario 3	Scenario 4
Ending rates:										
	Federal funds			1.50	%	0.25	0.75		2.00	4.75
	10-year treasury (1)			3.64		1.70	3.07		4.14	5.75
Earnings relative to										
	most likely			N/A		(4)-(5)	%	(2)-(3)	0 - 5	>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, 2014, and December 31, 2013, 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 a major portion of our 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 MSR's 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 a discussion of mortgage banking interest rate and market risk, see pages 85-87 of our 2013 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 ARM's. Additionally, hedge-carry income on our economic hedges for the MSR's may not continue if the spread between short-term and long-term rates decreases, we shift composition of the hedge to more interest rate swaps, or there are other changes in the market for mortgage forwards that affect the implied carry.

The total carrying value of our residential and commercial MSR's was \$15.1 billion at June 30, 2014, and \$16.8 billion at December 31, 2013. The weighted-average note rate on our portfolio of loans serviced for others was 4.49% at June 30, 2014, and 4.52% at December 31, 2013. The carrying value of our total MSR's represented 0.80% of mortgage loans serviced for others at June 30, 2014, and 0.88% at December 31, 2013.



**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 primarily to accommodate the investment and risk management activities of our customers, execute economic hedging to manage certain balance sheet risks and, to a very limited degree, for proprietary trading for our own account. These activities primarily occur within our Wholesale businesses and include entering into transactions with our customers that are recorded as trading assets and liabilities on our balance sheet. 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 36 presents total revenue from trading activities.

<b>Table 36: Income from Trading Activities</b>										
										Six months
										ended June 30,
						Quarter ended June 30,				ended June 30,
(in millions)						2014	2013		2014	2013
Interest income (1)					\$	407	340		781	667
Less: Interest expense (2)						93	75		180	140
Net interest income						314	265		601	527
Noninterest income:										
Net gains from trading										
activities (3):										
Customer accommodation						242	337		602	804
Economic hedges and other (4)						142	(11)		208	88
Proprietary trading						(2)	5		4	9
Total net trading gains						382	331		814	901
Total trading-related net interest										
and noninterest income					\$	696	596		1,415	1,428
(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.

For the majority of 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

45

---

from our customers. As 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. Collectively, income earned on this type of market-making activity is reflected in the fair value changes of these positions recorded in net gain 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 substantially all 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 are exiting certain business activities in anticipation of the rule’s compliance date. 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 this Report and in our 2013 Form 10-K.

*Daily Trading Revenue* Table 37 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.

**Risk Management – Asset/Liability Management (*continued*)**

**Table 37: Distribution of Daily Trading-Related Revenues**

*Market risk* is the risk of adverse changes in the fair value of the trading portfolios and financial instruments held by the Company due to changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity, and commodity prices. Market risk is intrinsic to the Company's sales and trading, market making, investing, and risk management activities.

The Company uses VaR metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. These market risk measures are monitored at both the business unit level and at aggregated levels on a daily basis. Our corporate market risk management function aggregates and monitors all exposures to ensure risk measures are within our established risk appetite. Changes to the market risk profile are analyzed and reported on a daily basis. The Company monitors various market risk exposure measures from a variety of perspectives, which include line of business, product, risk type, and legal entity.

Value-at-Risk (VaR) is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets. The VaR measures assume that historical changes in market values (historical simulation analysis) are representative of the potential future outcomes and measure the expected loss over a given time interval (for example, 1 day or 10 days) within a given confidence level. Our historical simulation analysis approach uses historical changes of the risk factors from each trading day in the previous 12 months. The risk drivers of each trading position associated with interest rates, credit spreads, foreign exchange rates, and equity and commodity prices are updated on a daily basis. We measure and report VaR for a 1-day holding period at a 99% confidence level. This means that we would expect to incur single day losses greater than predicted by VaR estimates for the measured positions one time in every 100 trading days. We treat data from all historical periods as equally relevant and consider using data for the previous 12 months as appropriate for determining VaR. We believe using a 12-month look back period helps ensure the Company's VaR is responsive to current market conditions.

VaR measurement between different financial institutions is not readily comparable due to modeling and assumption differences from company to company. VaR measures are more useful when interpreted as an indication of trends rather than an absolute measure to be compared across financial institutions.

VaR models are subject to limitations which include, but are not limited to, the use of historical changes in market factors that may not accurately reflect future changes in market factors, and the inability to predict market liquidity in extreme market conditions. All limitations such as model inputs, model assumptions, and calculation methodology risk are monitored by the Corporate Market Risk Group and the Corporate Model Risk Group.

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 risk limits. Trading VaR is calculated based on all trading positions classified as trading assets or trading liabilities on our balance sheet.

Table 38 shows the results of the Company's Trading VaR by risk category. As presented in the table, average Trading VaR was \$24 million for the quarter ended June 30, 2014, compared with \$23 million for the quarter ended March 31, 2014. The increase was primarily driven by changes in portfolio composition.

[illegible]

**Sensitivity Analysis** Given the inherent limitations of the VaR models, the Company uses other measures, including sensitivity analysis, to measure and monitor risk. Sensitivity analysis is the measure of exposure to a single risk factor, such as a 0.01% increase in interest rates or a 1% increase in equity prices. We conduct and monitor sensitivity on interest rates, credit spreads, volatility, equity, commodity, and foreign exchange exposure. Sensitivity analysis complements VaR as it provides an indication of risk relative to each factor irrespective of historical market moves.

**Stress Testing** While VaR captures the risk of loss due to adverse changes in markets using recent historical market data, stress testing captures the Company's exposure to extreme but low probability market movements. Stress scenarios estimate the risk of losses based on management's assumptions of abnormal but severe market movements such as severe credit spread widening or a large decline in equity prices. These scenarios assume that the market moves happen instantaneously and no repositioning or hedging activity takes place to mitigate losses as events unfold (a conservative approach since experience demonstrates otherwise).

An inventory of scenarios is maintained representing both historical and hypothetical stress events that affect a broad range of market risk factors with varying degrees of correlation and differing time horizons. Hypothetical scenarios assess the impact of large movements in financial variables on portfolio values. Typical examples include a 100 basis point increase across the yield curve or a 10% decline in stock market indexes. Historical scenarios utilize an event-driven approach: the stress scenarios are based on plausible but rare events, and the analysis addresses how these events might affect the risk factors relevant to a portfolio.

The Company's stress testing framework is also used in calculating results in support of the Federal Reserve Board's Comprehensive Capital Analysis & Review (CCAR) and internal stress tests. Stress scenarios are regularly reviewed and updated to address potential market events or concerns. For more detail on the CCAR process, see the "Capital Management" section in this Report.

*Regulatory Market Risk Capital* is based on the Basel Committee Capital Accord. Prior to January 1, 2013, U.S. banking regulators' market risk capital requirements were subject to Basel I and thereafter based on Basel 2.5. Effective January 1, 2014, the Company must calculate regulatory capital based on the Basel III market risk capital rule, which integrated Basel 2.5, and requires banking organizations with significant trading activities to adjust their capital requirements to better account for the market risks of those activities.

*Composition of Material Portfolio of Covered Positions* The market risk capital rule substantially modified the determination of market risk RWA, and implemented a more risk-sensitive methodology for the risks inherent in certain "covered" trading 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.

The material portfolio of the Company's "covered" positions is predominantly concentrated in the trading assets and trading liabilities managed within Wholesale Banking, which is the predominant contributor to the Company's overall VaR. Wholesale Banking engages in the fixed income, traded credit, foreign exchange, equities, and commodities markets businesses. Other business segments hold small additional trading positions covered under the market risk capital rule.

Table 39 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, 2014, and in accordance with the Basel 2.5 market risk capital rule as of December 31, 2013.

**Risk Management – Asset/Liability Management (continued)**

<b>Table 39: Market Risk Regulatory Capital and RWAs</b>									
					<b>June 30, 2014</b>		<b>December 31, 2013</b>		
					<b>Risk-</b>	<b>Risk-</b>	<b>Risk-</b>	<b>Risk-</b>	
					<b>based</b>	<b>weighted</b>	<b>based</b>	<b>weighted</b>	
					<b>capital</b>	<b>assets</b>	<b>capital</b>	<b>assets</b>	
(in millions)									
Total VaR				\$	208	2,600	252	3,149	
Total Stressed VaR					1,167	14,589	921	11,512	
Incremental Risk Charge					308	3,852	393	4,913	
Securitized Products Charge					729	9,107	633	7,913	
Standardized Specific Risk Charge					1,270	15,879	583	7,289	
De minimus Charges					61	755	125	1,563	
Total				\$	3,743	46,782	2,907	36,339	

RWA Rollforward Table 40 depicts the changes in the market risk regulatory capital and RWAs under Basel III for the first half and second quarter of 2014.

<b>Table 40: Analysis of Changes in Market Risk Regulatory Capital and RWAs</b>									
					<b>Risk-</b>		<b>Risk-</b>		
					<b>based</b>		<b>weighted</b>		
					<b>capital</b>		<b>assets</b>		
(in millions)									
Balance, December 31, 2013				\$	2,907	36,339			
Total VaR					(44)	(549)			
Total Stressed VaR					246	3,077			
Incremental Risk Charge					(85)	(1,061)			
Securitized Products Charge					96	1,194			
Standardized Specific Risk Charge					687	8,590			
De minimus Charges					(64)	(808)			
Balance, June 30, 2014				\$	3,743	46,782			
Balance, March 31, 2014				\$	3,850	48,127			
Total VaR					35	436			
Total Stressed VaR					108	1,351			
Incremental Risk Charge					(68)	(840)			
Securitized Products Charge					(70)	(883)			
Standardized Specific Risk Charge					(18)	(225)			
De minimus Charges					(94)	(1,184)			



Balance, June 30, 2014				\$	3,743		46,782

The increase in standardized specific risk charge for risk-based capital and RWAs in the first half of 2014 resulted primarily from a change during the quarter ended March 31, 2014, in positions now subject to standardized specific risk charges. All changes to market risk regulatory capital and RWAs in the quarter ended June 30, 2014, were associated with changes in positions due to normal trading activity.

*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 risk-weighted assets. The Company uses the same VaR models for both market risk management purposes as well as regulatory capital calculations. For regulatory purposes, market risk uses the following metrics to determine the Company's 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 time horizon.

Table 41 shows the General VaR measure categorized by major risk categories. Average 10-day General VaR was \$58 million for the quarter ended June 30, 2014, compared with \$48 million for the quarter ended March 31, 2014.

[illegible]



**Risk Management – Asset/Liability Management (*continued*)**

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

Total VaR (as presented in Table 42) is composed of General VaR and Specific Risk and uses the previous 12 months of historical market data to comply with regulatory requirements.

Table 42: Total VaR						