WELLS FARGO & COMPANY/MN
Form 10-Q
August 04, 2017

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, 2017

Commission file number 001-2979

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Yes o No þ

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

	Shares Outstanding July 26, 2017
Common stock, $1-2/3 par value	4,963,944,641

FORM 10-Q
CROSS-REFERENCE INDEX

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

($ in millions, except per share amounts)	Quarter ended Jun 30, 2017	Mar 31, 2017	Jun 30, 2016	% Change Jun 30, 2017 from Mar 31, 2017	Jun 30, 2016	Six months ended Jun 30, 2017	Jun 30, 2016	% Change
For the Period								
Wells Fargo net income	$5,810	5,457	5,558	6 %	5	$11,267	11,020	2 %
Wells Fargo net income applicable to common stock	5,404	5,056	5,173	7	4	10,460	10,258	2
Diluted earnings per common share	1.07	1.00	1.01	7	6	2.07	2.00	4
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	1.21 %	1.15	1.20	5	1	1.18 %	1.20	(2)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	11.95	11.54	11.70	4	2	11.75	11.72	—
Return on average tangible common equity (ROTCE) (1)	14.26	13.85	14.15	3	1	14.06	14.15	(1)
Efficiency ratio (2)	61.1	62.7	58.1	(3)	5	61.9	58.4	6
Total revenue	$22,169	22,002	22,162	1	—	$44,171	44,357	—
Pre-tax pre-provision profit (PTPP) (3)	8,628	8,210	9,296	5	(7)	16,838	18,463	(9)
Dividends declared per common share	0.380	0.380	0.380	—	—	0.760	0.755	1
Average common shares outstanding	4,989.9	5,008.6	5,066.9	—	(2)	4,999.2	5,071.3	(1)
Diluted average common shares outstanding	5,037.7	5,070.4	5,118.1	(1)	(2)	5,054.8	5,129.8	(1)
Average loans	$956,879	963,645	950,751	(1)	1	$960,243	938,986	2
Average assets	1,927,079	1,931,041	1,862,084	—	3	1,929,049	1,840,980	5
Average total deposits	1,301,195	1,299,191	1,236,658	—	5	1,300,198	1,228,044	6
Average consumer and small business banking deposits (4)	760,149	758,754	726,359	—	5	759,455	720,598	5
Net interest margin	2.90 %	2.87	2.86	1	1	2.89 %	2.88	—
At Period End								
Investment securities	$409,594	407,560	353,426	—	16	$409,594	353,426	16
Loans	957,423	958,405	957,157	—	—	957,423	957,157	—
	11,073	11,168	11,664	(1)	(5)	11,073	11,664	(5)

Allowance for loan losses								
Goodwill	26,573	26,666	26,963	—	(1)	26,573	26,963	(1)
Assets	1,930,871	1,951,564	1,889,235	(1)	2	1,930,871	1,889,235	2
Deposits	1,305,830	1,325,444	1,245,473	(1)	5	1,305,830	1,245,473	5
Common stockholders' equity	181,428	178,388	178,633	2	2	181,428	178,633	2
Wells Fargo stockholders' equity	205,230	201,500	201,745	2	2	205,230	201,745	2
Total equity	206,145	202,489	202,661	2	2	206,145	202,661	2
Tangible common equity (1)	152,064	148,850	148,110	2	3	152,064	148,110	3
Capital ratios (5)(6):								
Total equity to assets	10.68 %	10.38	10.73	3	—	10.68 %	10.73	—
Risk-based capital:								
Common Equity Tier 1	11.87	11.52	10.82	3	10	11.87	10.82	10
Tier 1 capital	13.68	13.27	12.50	3	9	13.68	12.50	9
Total capital	16.91	16.41	15.14	3	12	16.91	15.14	12
Tier 1 leverage	9.28	9.07	9.25	2	—	9.28	9.25	—
Common shares outstanding	4,966.8	4,996.7	5,048.5	(1)	(2)	4,966.8	5,048.5	(2)
Book value per common share (7)	$36.53	35.70	35.38	2	3	$36.53	35.38	3
Tangible book value per common share (1) (7)	30.62	29.79	29.34	3	4	30.62	29.34	4
Common stock price:								
High	56.60	59.99	51.41	(6)	10	59.99	53.27	13
Low	50.84	53.35	44.50	(5)	14	50.84	44.50	14
Period end	55.41	55.66	47.33	—	17	55.41	47.33	17
Team members (active, full-time equivalent)	270,600	272,800	267,900	(1)	1	270,600	267,900	1

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

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

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

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

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

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

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

Overview (continued)

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K).

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

Financial Review

Overview

Wells Fargo & Company is a diversified, community-based financial services company with $1.93 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,500 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 42 countries and territories to support customers who conduct business in the global economy. With approximately 271,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 25 on Fortune's 2017 rankings of America's largest corporations. We ranked third in assets and second in the market value of our common stock among all U.S. banks at June 30, 2017.

We use our Vision and Values to guide us toward growth and success. Our vision is to satisfy our customers' financial needs, help them succeed financially, be recognized as the premier financial services company in our markets, and be one of America's great companies. We aspire to create deep and enduring relationships with our customers by providing them with an exceptional experience and by understanding their needs and delivering the most relevant products, services, advice, and guidance.

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

In keeping with our primary values and risk management priorities, we announced six new long-term goals for the Company in March 2017, which entail becoming the leader in the following areas:

- Customer service and advice – provide best-in-class service and guidance to our customers to help them reach their financial goals.
- Team member engagement – be a company where people matter, teamwork is rewarded, everyone feels respected and empowered to speak up, diversity and inclusion are embraced, and "how" our work gets done is just as important as getting the work done.
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- Innovation – create new kinds of lasting value for our customers and businesses by using innovative technologies and moving quickly to bring about change.
- Risk management – desire to set the global standard in managing all forms of risk.
- Corporate citizenship – make better every community in which we live and do business.
- Shareholder value – earn the confidence of shareholders by maximizing long-term value.

Over the past several months, our Board of Directors (Board) has undertaken a series of significant actions to enhance Board oversight and governance. The actions the Board has taken to date, many of which reflect the feedback we received from our investors and other stakeholders, include separating the roles of Chairman of the Board and Chief Executive Officer, amending Wells Fargo's By-Laws to require that the Chairman be an independent director, adding two new independent directors in February 2017, and amending Board committee charters to enhance oversight of conduct risk. The Board recognizes that there is still work to be done and, in response to feedback received at our annual stockholders meeting in April 2017, the Board is engaging in an ongoing comprehensive review of its structure, composition and practices. This review is expected to result in actions in third quarter 2017, which will be publicly announced at that time. As has been our practice, we will continue our engagement efforts with our investors and other stakeholders.

Sales Practices Matters

As we have previously reported, on September 8, 2016, we announced settlements with the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Office of the Los Angeles City Attorney, and entered into consent orders with the CFPB and the OCC, in connection with allegations that some of our retail customers received products and services they did not request. As a result, it remains our top priority to rebuild trust through a comprehensive action plan that includes making things right for our customers, team members, and other stakeholders, and to build a better Company for the future.

The job of rebuilding trust in Wells Fargo is a long-term effort – one requiring our commitment and perseverance. As we move forward, Wells Fargo has a specific action plan in place focused on reaching out to stakeholders who may have been affected by improper retail banking sales practices, including our

communities, our customers, our regulators, our team members, and our investors.
Our priority of rebuilding trust has included the following additional actions, which have been focused on identifying potential financial harm and customer remediation:

Identifying Potential Financial Harm

- In the fall of 2016, the Board and management undertook an enterprise-wide review of sales practices issues. This review is ongoing.
- A third-party consulting firm performed an initial review of accounts opened from May 2011 to mid-2015 to identify financial harm stemming from potentially unauthorized accounts.
- We expanded the time periods of this review to cover the entire consent order period of January 2011 through September 2016, and to perform a voluntary review of accounts from 2009 to 2010. We expect to complete this expanded review process and commence remaining remediation for these additional periods by the end of third quarter 2017.
- As part of this expanded review process, we also expect to complete the review and validation of the number of potentially unauthorized accounts previously identified by the third-party consulting firm, including refinements to the practices and methodologies previously used to determine such number and to remediate sales practices related matters. We expect that our review of the expanded time periods, which adds over three years to the initial review period of approximately four years (May 2011 to mid-2015), and our review and validation efforts for the initial review period, may lead to a significant increase in the identified number of potentially unauthorized accounts. However, we do not expect any incremental customer remediation costs as a result of these efforts to have a significant financial impact on the Company.

Customer Remediation

- We refunded $3.26 million to customers under the stipulated judgment with the Los Angeles City Attorney and under the CFPB and OCC consent orders, covering the period from May 2011 to mid-2015.
- As of May 31, 2017, we had paid $1.8 million in additional payments to customers nationwide through our ongoing complaints process and free mediation services that were put in place in connection with the sales practices matters.
- On July 9, 2017, we announced updates to the settlement agreement for a class-action lawsuit concerning improper retail sales practices. With the court’s preliminary approval of the settlement agreement, Wells Fargo and the plaintiffs are preparing to issue notices that will provide information about the process for making claims. We expect this settlement to resolve substantially all claims in other similar pending class actions that allege unauthorized accounts were opened in customers’ names or that customers were enrolled in certain products or services without their consent. The settlement class covers the period from May 1, 2002 to April 20, 2017, and includes funds to ensure that each customer who was affected by improper retail sales practices has an opportunity for remediation.
- We are working to complete the requirements of our regulatory consent orders, which include a review by an independent consultant to determine the “root cause” of the sales practices issues and the implementation of an action plan that addresses the findings of the independent review. The independent consultant's report, which is regulatory supervisory information that cannot be publicly disclosed, is expected to be completed in third quarter 2017.

For additional information regarding sales practices matters, including related legal matters, see the “Risk Factors” section in our 2016 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

Additional Efforts to Rebuild Trust

Our priority of rebuilding trust has also included an effort to identify other areas or instances where customers may have experienced financial harm. We are working with our regulatory agencies in this effort. As part of this effort, we are focused on the following key areas:

- Practices concerning the origination, servicing, and/or collection of indirect consumer auto loans, including related insurance products. For example:
- The Company recently announced a plan to remediate customers who may have been financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf (based on an understanding by the vendor that the borrowers’ insurance had lapsed). The

plan currently consists of approximately $64 million in cash remediation and $16 million in account adjustments. The Company discontinued the CPI placement program in September 2016.

- The Company has identified certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements between the dealer and, by assignment, the lender, which may result in refunds to customers in certain states.
- Policies and procedures regarding the circumstances in which the Company required customers to pay fees for the extension of interest rate lock periods for residential mortgages.
- Practices related to certain consumer “add-on” products (e.g., identity theft and debt protection), including those products that are subject to an OCC consent order entered into in May 2015.
- Procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the Company detected suspected fraudulent activity (by third-parties or account holders) that affected those accounts.

For more information, see the “Risk Factors” section in our 2016 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

This effort to identify similar instances in which customers may have experienced harm is ongoing, and it is possible that we may identify other areas of potential concern.

Financial Performance

Wells Fargo net income was $5.8 billion in second quarter 2017 with diluted earnings per common share (EPS) of $1.07, compared with $5.6 billion and $1.01, respectively, a year ago. We have now generated quarterly earnings of more than $5 billion for 19 consecutive quarters, which reflected the ability of our diversified business model and risk discipline to generate consistent financial performance during a period that included market volatility and economic uncertainty. We remain focused on meeting the financial needs of our customers and on investing in our businesses so we may continue to meet the evolving needs of our customers in the future.

Overview (continued)

Compared with a year ago:

- revenue was $22.2 billion, stable compared with a year ago, with record net interest income in second quarter 2017, up 6% from a year ago;
- average loans of $956.9 billion increased $6.1 billion, or 1%;
- total deposits were $1.3 trillion, up $60.4 billion, or 5%;
- our credit results improved with a net charge-off rate of 0.27% (annualized) of average loans and we had a $100 million release from the allowance for credit losses; and
- we returned $3.4 billion to shareholders through common stock dividends and net share repurchases, which was the eighth consecutive quarter of returning more than $3 billion.

Balance Sheet and Liquidity

Our balance sheet remained strong during second quarter 2017 with high levels of liquidity and capital. Our total assets were $1.93 trillion at June 30, 2017. Investment securities reached $409.6 billion, with approximately $37 billion of gross purchases during second quarter 2017, largely offset by runoff and the sale of approximately $15 billion of lower-yielding short-duration securities. Loans were down $10.2 billion, or 1%, from December 31, 2016, largely due to a decline in junior lien mortgage and automobile loans.

Average deposits in second quarter 2017 reached a record $1.30 trillion, up $64.5 billion, or 5%, from second quarter 2016. Our average deposit cost in second quarter 2017 was 21 basis points, up 10 basis points from a year ago, which reflected an increase in commercial deposit rates. We successfully grew our primary consumer checking customers (i.e., customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) by 0.7% (May 2017 compared with May 2016).

Credit Quality

Solid overall credit results continued in second quarter 2017 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $655 million, or 0.27% (annualized) of average loans, in second quarter 2017, compared with $924 million a year ago (0.39%). The decrease in net charge-offs in second quarter 2017, compared with a year ago, was driven by lower losses in the oil and gas portfolio and increased recoveries in the commercial portfolio. Our total oil and gas loan exposure of $48.3 billion, which includes unfunded commitments and loans outstanding, was down 14% from a year ago.

Our commercial portfolio net charge-offs were $75 million, or 6 basis points of average commercial loans, in second quarter 2017, compared with net charge-offs of $357 million, or 29 basis points, a year ago. Net consumer credit losses increased to 51 basis points of average consumer loans in second quarter 2017 from 49 basis points in second quarter 2016. Our commercial real estate portfolios were in a net recovery position for the 18th consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined $96 million, or 126%, from a year ago, reflecting the benefit of the continued improvement in the housing market and our continued focus on originating high quality loans. Approximately 76% of the consumer first mortgage portfolio outstanding at June 30, 2017, was originated after 2008, when more stringent underwriting standards were implemented.

The allowance for credit losses as of June 30, 2017, decreased $603 million compared with a year ago and decreased $394 million from December 31, 2016. The allowance coverage for total loans was 1.27% at June 30, 2017, compared with 1.33% a year ago and 1.30% at December 31, 2016. The allowance covered 4.6 times annualized second quarter net charge-offs, compared with 3.4 times a year ago. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our provision for loan losses was $555 million in second quarter 2017, down from $1.1 billion a year ago, primarily reflecting improvement in the oil and gas portfolio.

Nonperforming assets decreased $827 million, or 8%, from March 31, 2017, with improvement across our consumer and commercial portfolios and lower foreclosed assets. Nonperforming assets were only 1.03% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased $703 million from the prior quarter partially due to a $321 million decrease in commercial nonaccruals. In addition, foreclosed assets were down $124 million from the prior quarter.

Capital

Our financial performance in second quarter 2017 resulted in strong capital generation, which increased total equity to a record $206.1 billion at June 30, 2017, up $5.6 billion from December 31, 2016. We returned $3.4 billion to shareholders in second quarter 2017 through common stock dividends and net share repurchases and our net payout ratio (which is the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock) was 63%, up from 61% in the prior quarter, and within our targeted range of 55-75%. We continued to reduce our common shares outstanding through the repurchase of 43.0 million common shares in the quarter. We also entered into a $1 billion forward repurchase contract with an unrelated third party in July 2017 that is expected to settle in fourth quarter 2017 for approximately 19 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2017.

We believe an important measure of our capital strength is the Common Equity Tier 1 ratio under Basel III, fully phased-in, which was 11.59% at June 30, 2017. Likewise, our other regulatory capital ratios remained strong. We also received a non-objection to our 2017 Capital Plan submission from the Federal Reserve. See the “Capital Management” section in this Report for more information regarding our capital, including the calculation of our regulatory capital amounts.

Earnings Performance

Wells Fargo net income for second quarter 2017 was $5.8 billion ($1.07 diluted earnings per common share), compared with $5.6 billion ($1.01 diluted per share) for second quarter 2016. Net income for the first half of 2017 was $11.3 billion ($2.07), compared with $11.0 billion ($2.00) for the same period a year ago. We generated revenue growth across many of our businesses. Our financial performance in the first half of 2017, compared with the same period a year ago, benefited from a $1.4 billion increase in net interest income and a $1.0 billion decrease in our provision for credit losses, offset by a $1.6 billion decrease in noninterest income and a $1.4 billion increase in noninterest expense. In the first half of 2017, net interest income represented 56% of revenue, compared with 53% for the same period in 2016. Noninterest income was $19.4 billion in the first half of 2017, representing 44% of revenue, compared with $21.0 billion (47%) in the first half of 2016.

Revenue, the sum of net interest income and noninterest income, was $22.2 billion in the second quarter of both 2017 and 2016. Revenue for the first half of 2017 was $44.2 billion, compared with $44.4 billion for the first half of 2016. The decrease in revenue for the first half of 2017, compared with the same period in 2016, was due to a decline in noninterest income, partially offset by an increase in interest income from loans and investment securities.

Earnings Performance (continued)

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid on deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 1 to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

While the Company believes that it has the ability to increase net interest income over time, net interest income and the net interest margin in any one period can be significantly affected by a variety of factors including the mix and overall size of our earning assets portfolio and the cost of funding those assets. In addition, some variable sources of interest income, such as resolutions from purchased credit-impaired (PCI) loans, loan fees and collection of interest on nonaccrual loans, can vary from period to period. Net interest income and net interest margin growth has been challenged during the prolonged low interest rate environment as higher yielding loans and securities have run off and been replaced with lower yielding assets.

Net interest income on a taxable-equivalent basis was $12.8 billion and $25.4 billion in the second quarter and first half of 2017, respectively, compared with $12.0 billion and $24.0 billion for the same periods a year ago. The net interest margin was 2.90% and 2.89% for the second quarter and first half of 2017, respectively, up from 2.86% and 2.88% for the same periods a year ago. The increase in net interest income in the second quarter and first half of 2017 from the same periods a year ago resulted from an increase in interest income, partially offset by an increase in interest expense on funding sources. The increase in interest income was driven by balance growth in earning assets and the benefit of higher interest rates, offset by lower variable income. Interest expense on funding sources increased in the second quarter and first half of 2017, compared with the same periods a year ago, with a significant portion due to growth and repricing of long-term debt. Deposit interest expense was also higher, predominantly due to an increase in wholesale pricing resulting from higher interest rates.

The increase in net interest margin in the second quarter and first half of 2017, compared with the same periods a year ago, was primarily due to repricing benefits of earning assets from higher interest rates exceeding the repricing costs of deposits and market based funding sources.

Average earning assets increased $82.4 billion and $101.9 billion in the second quarter and first half of 2017, respectively, compared with the same periods a year ago, as average loans increased $6.1 billion in the second quarter and $21.3 billion in the first half of 2017, average investment securities increased $67.5 billion in second quarter 2017 and $68.6 billion in the first half of 2017, and average trading assets increased $16.7 billion in the second quarter and $15.0 billion in the first half of 2017, compared with the same periods a year ago. In addition, average federal funds sold and other short-term investments decreased $12.2 billion and $6.6 billion in the second quarter and first half of 2017, respectively, compared with the same periods a year ago.

Deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Deposits include noninterest-bearing deposits, interest-bearing checking, market rate and other savings, savings certificates, other time deposits, and deposits in foreign offices. Average deposits of $1.30 trillion in both the second quarter and first half of 2017, increased compared with $1.24 trillion and $1.23 trillion for the same periods a year ago, and represented 136% of average loans in second quarter 2017 (135% in the first half of 2017), compared with 130% in second quarter 2016 (131% in the first half of 2016). Average deposits remained stable at 74% and 73% of average earning assets in the second quarter and first half of 2017, respectively, compared with 73% and 74% for the same periods a year ago.

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

	Quarter ended June 30,							
				2017				2016
(in millions)	Average balance	Yields/ rates		Interest income/ expense	Average balance	Yields/ rates		Interest income/ expense
Earning assets								
Federal funds sold, securities purchased under resale agreements and other short-term investments	$281,619	0.99	%	$698	293,783	0.49	%	$359
Trading assets	98,086	2.95		722	81,380	2.86		582
Investment securities (3):								
Available-for-sale securities:								
Securities of U.S. Treasury and federal agencies	18,099	1.53		69	31,525	1.56		123
Securities of U.S. states and political subdivisions	53,492	4.03		540	52,201	4.24		553
Mortgage-backed securities:								
Federal agencies	132,032	2.63		868	92,010	2.53		583
Residential and commercial	12,586	5.55		175	19,571	5.44		266
Total mortgage-backed securities	144,618	2.89		1,043	111,581	3.04		849
Other debt and equity securities	48,962	3.87		472	53,301	3.48		461
Total available-for-sale securities	265,171	3.21		2,124	248,608	3.20		1,986
Held-to-maturity securities:								
Securities of U.S. Treasury and federal agencies	44,701	2.19		244	44,671	2.19		243
Securities of U.S. states and political subdivisions	6,270	5.29		83	2,155	5.41		29
Federal agency and other mortgage-backed securities	83,116	2.44		507	35,057	1.90		166
Other debt securities	2,798	2.34		16	4,077	1.92		20
Total held-to-maturity securities	136,885	2.49		850	85,960	2.14		458
Total investment securities	402,056	2.96		2,974	334,568	2.93		2,444
Mortgages held for sale (4)	19,758	3.94		195	20,140	3.60		181
Loans held for sale (4)	210	6.95		4	239	4.83		3
Loans:								
Commercial:								
Commercial and industrial – U.S.	273,073	3.70		2,521	270,862	3.45		2,328
Commercial and industrial – Non U.S.	56,426	2.86		402	51,201	2.35		300
Real estate mortgage	131,293	3.68		1,206	126,126	3.41		1,069
Real estate construction	25,271	4.10		259	23,115	3.49		200
Lease financing	19,058	4.82		230	18,930	5.12		242
Total commercial	505,121	3.67		4,618	490,234	3.39		4,139
Consumer:								
Real estate 1-4 family first mortgage	275,108	4.08		2,805	275,854	4.01		2,765
Real estate 1-4 family junior lien mortgage	43,602	4.78		521	50,609	4.37		551
Credit card	34,868	12.18		1,059	33,368	11.52		956
Automobile	59,112	5.43		800	61,149	5.66		860
Other revolving credit and installment	39,068	6.13		596	39,537	5.91		581
Total consumer	451,758	5.13		5,781	460,517	4.98		5,713
Total loans (4)	956,879	4.36		10,399	950,751	4.16		9,852
Other	10,713	2.00		54	6,014	2.30		35
Total earning assets	$1,769,321	3.41	%	$15,046	1,686,875	3.20	%	$13,456
Funding sources								
Deposits:								

Interest-bearing checking	$48,465	0.41 %	$50	39,772	0.13 %	$13
Market rate and other savings	683,014	0.13	214	658,944	0.07	110
Savings certificates	22,599	0.30	17	26,246	0.35	23
Other time deposits	57,158	1.43	203	61,170	0.85	129
Deposits in foreign offices	123,684	0.65	199	97,525	0.23	57
Total interest-bearing deposits	934,920	0.29	683	883,657	0.15	332
Short-term borrowings	95,763	0.69	164	111,848	0.28	78
Long-term debt	249,518	2.05	1,278	236,156	1.56	921
Other liabilities	20,981	2.05	108	16,336	2.06	83
Total interest-bearing liabilities	1,301,182	0.69	2,233	1,247,997	0.45	1,414
Portion of noninterest-bearing funding sources	468,139	—	—	438,878		—
Total funding sources	$1,769,321	0.51	2,233	1,686,875	0.34	1,414
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.90 %	$12,813		2.86 %	$12,042
Noninterest-earning assets						
Cash and due from banks	$18,171			18,818		
Goodwill	26,664			27,037		
Other	112,923			129,354		
Total noninterest-earning assets	$157,758			175,209		
Noninterest-bearing funding sources						
Deposits	$366,275			353,001		
Other liabilities	53,654			60,083		
Total equity	205,968			201,003		
Noninterest-bearing funding sources used to fund earning assets	(468,139)			(438,878)		
Net noninterest-bearing funding sources	$157,758			175,209		
Total assets	$1,927,079			1,862,084		

(1) Our average prime rate was 4.05% and 3.50% for the quarters ended June 30, 2017 and 2016, respectively, and 3.92% and 3.50% for the first half of 2017 and 2016, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 1.21% and 0.64% for the quarters ended June 30, 2017 and 2016, respectively, and 1.14% and 0.63% for the first half of 2017 and 2016, respectively.

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

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

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

(5) Includes taxable-equivalent adjustments of $330 million and $309 million for the quarters ended June 30, 2017 and 2016, respectively, and $648 million and $599 million for the first half of 2017 and 2016, respectively, predominantly related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

(in millions)	Six months ended June 30, Average balance	Yields/ rates		2017 Interest income/ expense	Average balance	Yields/ rates		2016 Interest income/ expense
Earning assets								
Federal funds sold, securities purchased under resale agreements and other short-term investments	$282,687	0.88	%	$1,230	289,240	0.49	%	$703
Trading assets	95,937	2.87		1,377	80,922	2.94		1,187
Investment securities (3):								
Available-for-sale securities:								
Securities of U.S. Treasury and federal agencies	21,547	1.53		164	33,000	1.58		259
Securities of U.S. states and political subdivisions	52,873	4.03		1,066	51,357	4.24		1,088
Mortgage-backed securities:								
Federal agencies	144,257	2.61		1,879	94,216	2.67		1,258
Residential and commercial	13,514	5.43		367	20,199	5.32		537
Total mortgage-backed securities	157,771	2.85		2,246	114,415	3.14		1,795
Other debt and equity securities	49,787	3.73		924	53,430	3.34		890
Total available-for-sale securities	281,978	3.13		4,400	252,202	3.20		4,032
Held-to-maturity securities:								
Securities of U.S. Treasury and federal agencies	44,697	2.20		487	44,667	2.19		487
Securities of U.S. states and political subdivisions	6,271	5.30		166	2,155	5.41		58
Federal agency and other mortgage-backed securities	67,538	2.46		831	31,586	2.16		341
Other debt securities	3,062	2.34		35	4,338	1.92		42
Total held-to-maturity securities	121,568	2.51		1,519	82,746	2.25		928
Total investment securities	403,546	2.94		5,919	334,948	2.97		4,960
Mortgages held for sale (4)	19,825	3.82		379	19,005	3.60		342
Loans held for sale (4)	161	6.08		5	260	3.97		5
Loans:								
Commercial:								
Commercial and industrial – U.S.	273,905	3.65		4,957	264,295	3.42		4,505
Commercial and industrial – Non U.S.	55,890	2.80		775	50,354	2.23		558
Real estate mortgage	131,868	3.62		2,370	124,432	3.41		2,109
Real estate construction	24,933	3.91		484	22,859	3.55		403
Lease financing	19,064	4.88		465	16,989	4.95		420
Total commercial	505,660	3.61		9,051	478,929	3.35		7,995
Consumer:								
Real estate 1-4 family first mortgage	275,293	4.05		5,571	275,288	4.03		5,547
Real estate 1-4 family junior lien mortgage	44,439	4.69		1,036	51,423	4.38		1,122
Credit card	35,151	12.07		2,105	33,367	11.56		1,919
Automobile	60,304	5.45		1,628	60,631	5.66		1,708
Other revolving credit and installment	39,396	6.07		1,186	39,348	5.95		1,165
Total consumer	454,583	5.09		11,526	460,057	5.00		11,461
Total loans (4)	960,243	4.31		20,577	938,986	4.16		19,456
Other	8,801	2.37		104	5,910	2.18		65
Total earning assets	$1,771,200	3.36	%	$29,591	1,669,271	3.21	%	$26,718
Funding sources								

Deposits:							
Interest-bearing checking	$49,569	0.35 %	$87	39,242	0.12 %	$24
Market rate and other savings	683,591	0.11	371	655,247	0.07	217
Savings certificates	23,030	0.29	34	27,063	0.40	54
Other time deposits	56,043	1.37	381	59,688	0.80	236
Deposits in foreign offices	122,946	0.57	347	97,604	0.22	108
Total interest-bearing deposits	935,179	0.26	1,220	878,844	0.15	639
Short-term borrowings	97,149	0.58	279	109,853	0.27	145
Long-term debt	254,627	1.94	2,461	226,519	1.56	1,763
Other liabilities	18,905	2.12	200	16,414	2.10	172
Total interest-bearing liabilities	1,305,860	0.64	4,160	1,231,630	0.44	2,719
Portion of noninterest-bearing funding sources	465,340		—	437,641	—	—
Total funding sources	$1,771,200	0.47	4,160	1,669,271	0.33	2,719
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.89 %	$25,431		2.88 %	$23,999
Noninterest-earning assets						
Cash and due from banks	$18,437			18,407		
Goodwill	26,668			26,553		
Other	112,744			126,749		
Total noninterest-earning assets	$157,849			171,709		
Noninterest-bearing funding sources						
Deposits	$365,019			349,200		
Other liabilities	54,291			61,355		
Total equity	203,879			198,795		
Noninterest-bearing funding sources used to fund earning assets	(465,340)			(437,641)		
Net noninterest-bearing funding sources	$157,849			171,709		
Total assets	$1,929,049			1,840,980		

9

Noninterest Income

Table 2: Noninterest Income

(in millions)	Quarter ended June 30, 2017	2016	% Change	Six months ended June 30, 2017	2016	% Change
Service charges on deposit accounts	$1,276	1,336	(4)%	$2,589	2,645	(2)%
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,329	2,291	2	4,653	4,530	3
Trust and investment management	837	835	—	1,666	1,650	1
Investment banking	463	421	10	880	752	17
Total trust and investment fees	3,629	3,547	2	7,199	6,932	4
Card fees	1,019	997	2	1,964	1,938	1
Other fees:						
Charges and fees on loans	325	317	3	632	630	—
Cash network fees	134	138	(3)	260	269	(3)
Commercial real estate brokerage commissions	102	86	19	183	203	(10)
Letters of credit fees	76	83	(8)	150	161	(7)
Wire transfer and other remittance fees	112	101	11	219	193	13
All other fees	153	181	(15)	323	383	(16)
Total other fees	902	906	—	1,767	1,839	(4)
Mortgage banking:						
Servicing income, net	400	360	11	856	1,210	(29)
Net gains on mortgage loan origination/sales activities	748	1,054	(29)	1,520	1,802	(16)
Total mortgage banking	1,148	1,414	(19)	2,376	3,012	(21)
Insurance	280	286	(2)	557	713	(22)
Net gains from trading activities	237	328	(28)	676	528	28
Net gains on debt securities	120	447	(73)	156	691	(77)
Net gains from equity investments	188	189	(1)	591	433	36
Lease income	493	497	(1)	974	870	12
Life insurance investment income	145	149	(3)	289	303	(5)
All other	249	333	(25)	250	1,053	(76)
Total	$9,686	10,429	(7)	$19,388	20,957	(7)

Noninterest income was $9.7 billion and $19.4 billion for the second quarter and first half of 2017, respectively, compared with $10.4 billion and $21.0 billion for the same periods a year ago. This income represented 44% of revenue for both the second quarter and first half of 2017, compared with 47% for the same periods a year ago. The decline in noninterest income in the second quarter and first half of 2017, compared with the same periods a year ago, was driven by lower net gains on debt securities, and lower mortgage banking income. Noninterest income in the first half of 2017 also reflected lower insurance income due to the divestiture of our crop insurance business in first quarter 2016, and lower all other noninterest income due to unfavorable net hedge ineffectiveness accounting results, but benefited from higher trust and investment fees, net gains on equity investments, deferred compensation plan investment results (offset in employee benefits expense), and lease income related to the GE Capital business acquisitions in 2016.

Brokerage advisory, commissions and other fees are received for providing full-service and discount brokerage services predominantly to retail brokerage clients. Income from these brokerage-related activities include asset-based fees for advisory accounts, which are based on the market value of the client's assets, and transactional commissions based on the number and size of transactions executed at the client's direction. These fees were $2.33 billion and $4.65 billion in the second quarter and first half of 2017, respectively, compared with $2.29 billion and

$4.53 billion for the same periods in 2016. The increase in both periods was due to higher asset-based fees, partially offset by lower transactional commission revenue. Retail brokerage client assets totaled $1.6 trillion at June 30, 2017, compared with $1.5 trillion at June 30, 2016, with all retail brokerage services provided by our Wealth and Investment Management (WIM) operating segment. For additional information on retail brokerage client assets, see the discussion and Tables 4d and 4e in the "Operating Segment Results – Wealth and Investment Management – Retail Brokerage Client Assets" section in this Report.
We earn trust and investment management fees from managing and administering assets, including mutual funds, institutional separate accounts, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fee income is primarily from client assets under management (AUM) for which the fees are determined based on a tiered scale relative to the market value of the AUM. AUM consists of assets for which we have investment management discretion. Our AUM totaled $663.2 billion at June 30, 2017, compared with $649.1 billion at June 30, 2016, with substantially all of our AUM managed by our WIM operating segment. Additional information regarding our WIM operating segment AUM is provided in Table 4f and the related discussion in the "Operating Segment Results – Wealth and Investment Management – Trust and Investment Client Assets Under

Management" section in this Report. In addition to AUM we have client assets under administration (AUA) that earn various administrative fees which are generally based on the extent of the services provided to administer the account. Our AUA totaled $1.7 trillion at June 30, 2017, compared with $1.6 trillion at June 30, 2016. Trust and investment management fees increased slightly to $837 million and $1.67 billion in the second quarter and first half of 2017, respectively, from $835 million and $1.65 billion for the same periods in 2016 due to growth in management fees for investment advice on mutual funds, and corporate trust fees.

We earn investment banking fees from underwriting debt and equity securities, arranging loan syndications, and performing other related advisory services. Investment banking fees increased to $463 million and $880 million in the second quarter and first half of 2017, respectively, from $421 million and $752 million for the same periods in 2016, due to an increase in advisory services, and equity originations.

Card fees were $1.0 billion and $2.0 billion in the second quarter and first half of 2017, respectively, compared with $997 million and $1.9 billion for the same periods a year ago, predominantly due to an increase in debit card purchase activity.

Other fees decreased to $902 million and $1.77 billion in the second quarter and first half of 2017, respectively, from $906 million and $1.84 billion for the same periods in 2016, driven by lower all other fees. All other fees were $153 million and $323 million in the second quarter and first half of 2017, respectively, compared with $181 million and $383 million for the same periods in 2016, driven by lower hedge fund fees, merchant-related services, and the impact of the sale of our global fund services business in fourth quarter 2016. Commercial real estate brokerage commissions increased to $102 million in second quarter 2017, compared with $86 million in second quarter 2016, driven by higher sales and other property-related activities, but decreased to $183 million in the first half of 2017, compared with $203 million for the same period a year ago, driven by lower sales and other property-related activities including financing and advisory services.

Mortgage banking noninterest income, consisting of net servicing income and net gains on mortgage loan origination/sales activities, totaled $1.1 billion and $2.4 billion in the second quarter and first half of 2017, respectively, compared with $1.4 billion and $3.0 billion for the same periods a year ago.

In addition to servicing fees, net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income of $400 million for second quarter 2017 included a $71 million net MSR valuation gain ($360 million decrease in the fair value of the MSRs and a $431 million hedge gain). Net servicing income of $360 million for second quarter 2016 included a $154 million net MSR valuation gain ($824 million decrease in the fair value of the MSRs and a $978 million hedge gain). For the first half of 2017, net servicing income of $856 million included a $173 million net MSR valuation gain ($186 million decrease in the fair value of the MSRs and a $359 million hedge gain), and for the same period in 2016 net servicing income of $1.2 billion included a $652 million net MSR valuation gain ($1.8 billion decrease in the fair value of the MSRs and a $2.4 billion hedge gain). Net servicing income decreased for the first half of 2017, compared with the same period a year ago, due to lower net MSR valuation gains. The decrease in net MSR valuation gains in the first half of 2017, compared with the same period in 2016, was primarily

attributable to MSR valuation adjustments in the first quarter of 2016 that reflected a reduction in forecasted prepayments due to updated economic, customer data attributes, and mortgage market rate inputs as well as higher actual prepayments experienced in second quarter 2017.

Our portfolio of mortgage loans serviced for others was $1.66 trillion at June 30, 2017 and $1.68 trillion at December 31, 2016. At both June 30, 2017 and December 31, 2016, the ratio of combined residential and commercial MSRs to related loans serviced for others was 0.85%. See the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in this Report for additional information regarding our MSRs risks and hedging approach.

Net gains on mortgage loan origination/sales activities was $748 million and $1.5 billion in the second quarter and first half of 2017, respectively, compared with $1.1 billion and $1.8 billion for the same periods a year ago. The decrease in the second quarter and first half of 2017, compared with the same periods a year ago, was due to lower held for sale funding volume and production margins. Total mortgage loan originations were $56 billion and $100 billion for the second quarter and first half of 2017, respectively, compared with $63 billion and $107 billion for the same periods a year ago. The production margin on residential held-for-sale mortgage originations, which represents net gains on residential mortgage loan origination/sales activities divided by total residential held-for-sale mortgage originations, provides a measure of the profitability of our residential mortgage origination activity. Table 2a presents the information used in determining the production margin.

Table 2a: Selected Mortgage Production Data

		Quarter ended June 30,			Six months ended June 30,	
		2017		2016	2017	2016
Net gains on mortgage loan origination/sales activities (in millions):						
Residential	(A)	$521		744	1,090	1,276
Commercial		81		72	182	143
Residential pipeline and unsold/repurchased loan management (1)		146		238	248	383
Total		$748		1,054	1,520	1,802
Residential real estate originations (in billions):						
Held-for-sale	(B)	$42		46	76	77
Held-for-investment		14		17	24	30
Total		$56		63	100	107
Production margin on residential held-for-sale mortgage originations	(A)/(B)	1.24	%	1.66	1.44	1.67

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

The production margin was 1.24% and 1.44% for the second quarter and first half of 2017, respectively, compared with 1.66% and 1.67% for the same periods in 2016. The decline in production margin in the second quarter and first half of 2017 was attributable to lower margins in both our retail and correspondent production channels as well as a shift to more correspondent origination volume, which has a lower production margin. Mortgage applications were $83 billion and $142 billion for the second quarter and first half of 2017, respectively,

11

compared with $95 billion and $172 billion for the same periods a year ago. The 1-4 family first mortgage unclosed pipeline was $34 billion at June 30, 2017, compared with $47 billion at June 30, 2016. For additional information about our mortgage banking activities and results, see the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For the first half of 2017, we had a net $39 million release to the repurchase liability, compared with a net $93 million release for the first half of 2016. 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.

Insurance income was $280 million and $557 million in the second quarter and first half of 2017, respectively, compared with $286 million and $713 million in the same periods a year ago. The decrease was driven by the divestiture of our crop insurance business in first quarter 2016.

Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $237 million and $676 million in the second quarter and first half of 2017, respectively, compared with $328 million and $528 million in the same periods a year ago. The decrease in second quarter 2017, compared with second quarter 2016, was predominantly driven by lower customer accommodation trading activity, partially offset by higher deferred compensation plan investment results (offset in employee benefits expense) and higher economic hedge income. The increase in the first half of 2017, compared with the same period in 2016, was predominantly driven by higher deferred compensation plan investment results (offset in employee benefits expense). Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. For additional information about trading activities, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in this Report.

Net gains on debt and equity securities totaled $308 million and $747 million for the second quarter and first half of 2017, respectively, compared with $636 million and $1.1 billion in the second quarter and first half of 2016, after other-than-temporary impairment (OTTI) write-downs of $73 million and $202 million for the second quarter and first half of 2017, respectively, compared with $130 million and $328 million for the same periods in 2016. The decreases in net gains on debt and equity securities for the second quarter and first half of 2017, compared with the same periods a year ago, primarily reflected lower net gains from debt securities.

Lease income was $493 million and $974 million in the second quarter and first half of 2017, respectively, compared with $497 million and $870 million for the same periods a year ago. The increase in the first half of 2017, compared with the same period a year ago, was predominantly driven by the GE Capital business acquisitions completed in the first quarter of 2016, partially offset by lower gains on early leveraged lease terminations.

All other income was $249 million and $250 million in the second quarter and first half of 2017, respectively, compared with $333 million and $1.1 billion for the same periods a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, the results of certain economic hedges, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity method, any of which can cause decreases and net losses in other income. The decrease in other income in the first half of 2017, compared with the same period a year ago, was predominantly due to net hedge ineffectiveness results, the gain from the sale of our crop insurance business in first quarter 2016, and a gain from the sale of our health benefits services business in second quarter 2016, partially offset by a $309 million gain from the sale of a Pick-a-Pay PCI loan portfolio in second quarter 2017 and higher income from equity method investments. Hedge ineffectiveness was driven by changes in ineffectiveness recognized on interest rate swaps used to hedge our exposure to interest rate risk on long-term debt and cross-currency swaps, cross-currency interest rate swaps and forward contracts used to hedge our exposure to foreign currency risk and interest rate risk involving non-U.S. dollar denominated long-term debt. The portion of the hedge ineffectiveness recognized was partially offset by the results of certain economic hedges and, accordingly, we recognized a net hedge benefit of $21 million for second quarter 2017 and a net hedge loss of $172 million for the first half of 2017, compared with a net hedge benefit of $56 million and $435 million for the same periods a year ago. For additional information about derivatives used as part of our asset/liability management, see Note 12 (Derivatives) to Financial Statements in this Report.

Earnings Performance (continued)

Noninterest Expense

Table 3: Noninterest Expense

	Quarter ended June 30,		%	Six months ended June 30,		%
(in millions)	2017	2016	Change	2017	2016	Change
Salaries	$4,343	4,099	6 %	$8,604	8,135	6 %
Commission and incentive compensation	2,499	2,604	(4)	5,224	5,249	—
Employee benefits	1,308	1,244	5	2,994	2,770	8
Equipment	529	493	7	1,106	1,021	8
Net occupancy	706	716	(1)	1,418	1,427	(1)
Core deposit and other intangibles	287	299	(4)	576	592	(3)
FDIC and other deposit assessments	328	255	29	661	505	31
Outside professional services	1,029	769	34	1,833	1,352	36
Operating losses	350	334	5	632	788	(20)
Operating leases	334	352	(5)	679	587	16
Contract services	349	283	23	674	565	19
Outside data processing	236	225	5	456	433	5
Travel and entertainment	171	193	(11)	350	365	(4)
Postage, stationery and supplies	134	153	(12)	279	316	(12)
Advertising and promotion	150	166	(10)	277	300	(8)
Telecommunications	91	94	(3)	182	186	(2)
Foreclosed assets	52	66	(21)	138	144	(4)
Insurance	24	22	9	48	133	(64)
All other	621	499	24	1,202	1,026	17
Total	$13,541	12,866	5	$27,333	25,894	6

NM - Not meaningful

Noninterest expense was $13.5 billion in second quarter 2017, up 5% from $12.9 billion a year ago, driven by higher outside professional and contract services, personnel expenses, FDIC expense, and other expense. In the first half of 2017, noninterest expense was $27.3 billion, up 6% from the same period a year ago, due to higher personnel expenses, outside professional and contract services, FDIC expense, operating lease expense and other expense, partially offset by lower operating losses and insurance expense.

Personnel expenses, which include salaries, commissions, incentive compensation, and employee benefits, were up $203 million, or 3%, in second quarter 2017 compared with the same quarter last year, and up $668 million, or 4%, in the first half of 2017 compared with the same period a year ago. The increase in both periods was due to annual salary increases and staffing growth in technology and risk management. The increase in the first half of 2017 was also driven by higher deferred compensation costs (offset in trading revenue).

FDIC and other deposit assessments were up 29% and 31% in the second quarter and first half of 2017, compared with the same periods a year ago, due to an increase in deposit assessments as a result of a temporary surcharge which became effective on July 1, 2016. The FDIC expects the surcharge to be in effect for approximately two years.

Outside professional and contract services expense was up 31% in both the second quarter and first half of 2017, compared with the same periods a year ago. The increase in both periods reflected higher project and technology spending on regulatory and compliance related initiatives, as well as higher legal expense related to sales practices matters.

Operating losses were up 5% in second quarter 2017 and down 20% in the first half of 2017, compared with the same periods in 2016, predominantly due to litigation accruals for various legal matters.

Operating lease expense was down 5% in second quarter 2017 and up 16% in the first half of 2017, compared with the same periods a year ago, predominantly due to depreciation expense on the leases acquired from GE Capital.
Insurance expense was up 9% in second quarter 2017, compared with the same period a year ago, predominantly driven by our reinsurance business, and down 64% in the first half of 2017, compared with the same period a year ago, predominantly driven by the sale of our crop insurance business in first quarter 2016.
All other noninterest expense was up 24% and 17%, in the second quarter and first half of 2017, respectively, compared with the same periods a year ago, largely driven by higher donations expense. All other noninterest expense in second quarter 2017 included a $94 million contribution to the Wells Fargo Foundation.
The efficiency ratio was 61.1% in second quarter 2017, compared with 58.1% in second quarter 2016.

Income Tax Expense

Our effective tax rate was 27.7% and 32.3% for second quarter 2017 and 2016, respectively, and was 27.5% in the first half of 2017, down from 32.1% in the first half of 2016. The effective tax rate for the first half of 2017 included discrete tax benefits associated with stock compensation activity subject to ASU 2016-09 accounting guidance adopted in first quarter 2017, and the tax benefits associated with our agreement to sell Wells Fargo Insurance Services USA (and related businesses) in second quarter 2017. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for additional information about ASU 2016-09.

Operating Segment Results

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth and Investment Management (WIM). These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles (GAAP). Commencing in second quarter 2016, operating segment results reflect a shift in expenses between the personnel and other expense categories as a result of the

movement of support staff from the Wholesale Banking and WIM segments into a consolidated organization within the Community Banking segment. Since then personnel expenses associated with the transferred support staff have been allocated from Community Banking back to the Wholesale Banking and WIM segments through other expense. Table 4 and the following discussion present our results by operating segment. For additional description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results – Highlights

(income/expense in millions,	Community Banking		Wholesale Banking		Wealth and Investment Management		Other (1)		Consolidated Company	
average balances in billions)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Quarter ended June 30,										
Revenue	$12,289	12,204	6,951	7,284	4,182	3,919	(1,253)	(1,245)	22,169	22,162
Provision (reversal of provision) for credit losses	623	689	(65)	385	7	2	(10)	(2)	555	1,074
Noninterest expense	7,223	6,648	4,078	4,036	3,075	2,976	(835)	(794)	13,541	12,866
Net income (loss)	2,993	3,179	2,388	2,073	682	584	(253)	(278)	5,810	5,558
Average loans	$477.2	485.7	464.9	451.4	71.7	66.7	(56.9)	(53.0)	956.9	950.8
Average deposits	727.2	703.7	463.0	425.8	188.2	182.5	(77.2)	(75.3)	1,301.2	1,236.7
Six months ended June 30,										
Revenue	$24,382	24,818	13,989	14,242	8,375	7,773	(2,575)	(2,476)	44,171	44,357
Provision (reversal of provision) for credit losses	1,269	1,409	(108)	748	3	(12)	(4)	15	1,160	2,160
Noninterest expense	14,444	13,484	8,303	8,004	6,281	6,018	(1,695)	(1,612)	27,333	25,894
Net income (loss)	6,002	6,475	4,503	3,994	1,305	1,096	(543)	(545)	11,267	11,020
Average loans	$479.9	485.0	465.6	440.6	71.2	65.4	(56.5)	(52.0)	960.2	939.0
Average deposits	722.2	693.3	464.5	426.9	191.9	183.5	(78.4)	(75.7)	1,300.2	1,228.0

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

Earnings Performance (continued)

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including checking and savings accounts, credit and debit cards, and automobile, student, mortgage, home equity and small business lending, as well as referrals to Wholesale Banking and WIM business partners. The Community Banking segment

also includes the results of our Corporate Treasury activities net of allocations in support of the other operating segments and results of investments in our affiliated venture capital partnerships. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

	Quarter ended June 30,			Six months ended June 30,		
(in millions, except average balances which are in billions)	2017	2016	% Change	2017	2016	% Change
Net interest income	$7,548	7,379	2 %	$15,175	14,847	2 %
Noninterest income:						
Service charges on deposit accounts	724	773	(6)	1,465	1,526	(4)
Trust and investment fees:						
Brokerage advisory, commissions and other fees (1)	452	455	(1)	896	905	(1)
Trust and investment management (1)	216	204	6	434	409	6
Investment banking (2)	(20)	(50)	60	(47)	(69)	32
Total trust and investment fees	648	609	6	1,283	1,245	3
Card fees	925	907	2	1,793	1,759	2
Other fees	395	366	8	790	738	7
Mortgage banking	1,040	1,325	(22)	2,145	2,833	(24)
Insurance	16	—	NM	28	2	NM
Net gains (losses) from trading activities	19	(60)	132	69	(87)	179
Net gains on debt securities	184	394	(53)	286	613	(53)
Net gains from equity investments (3)	169	164	3	536	339	58
Other income of the segment	621	347	79	812	1,003	(19)
Total noninterest income	4,741	4,825	(2)	9,207	9,971	(8)
Total revenue	12,289	12,204	1	24,382	24,818	(2)
Provision for credit losses	623	689	(10)	1,269	1,409	(10)
Noninterest expense:						
Personnel expense	4,985	4,662	7	10,166	9,280	10
Equipment	507	466	9	1,058	959	10
Net occupancy	517	521	(1)	1,041	1,031	1
Core deposit and other intangibles	111	129	(14)	223	257	(13)
FDIC and other deposit assessments	185	148	25	376	294	28
Outside professional services	549	264	108	891	449	98
Operating losses	298	292	2	559	699	(20)
Other expense of the segment	71	166	(57)	130	515	(75)
Total noninterest expense	7,223	6,648	9	14,444	13,484	7
Income before income tax expense and noncontrolling interests	4,443	4,867	(9)	8,669	9,925	(13)

Income tax expense	1,404	1,667	(16)	2,531	3,364	(25)
Net income from noncontrolling interests (4)	46	21	119	136	86	58
Net income	$2,993	3,179	(6)	$6,002	6,475	(7)
Average loans	$477.2	485.7	(2)	$479.9	485.0	(1)
Average deposits	727.2	703.7	3	722.2	693.3	4

NM - Not meaningful

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

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

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

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

Community Banking reported net income of $3.0 billion, down $186 million, or 6%, from second quarter 2016, and $6.0 billion for the first half of 2017, down $473 million, or 7%, compared with the same period a year ago. First half 2017 results included a discrete tax benefit of $172 million, largely associated with stock compensation activity subject to the adoption of accounting guidance in first quarter 2017. Revenue of $12.3 billion increased $85 million, or 1%, from second quarter 2016, and was $24.4 billion for the first half of 2017, a decrease of $436 million, or 2%, compared with the same period last year. The increase from second quarter 2016 was primarily due to the gain on the sale of a Pick-a-Pay PCI loan portfolio, higher net interest income, deferred compensation plan investments (offset in employee benefits expense), and card fees, partially offset by lower mortgage banking revenue and gains on sales of debt securities. The decrease from the first half of 2016 was primarily due to lower mortgage revenue, gains on sales of debt securities, and other income driven by net hedge ineffectiveness accounting

related to our long-term debt hedging results, partially offset by higher net interest income and gains on equity investments. Average loans of $477.2 billion in second quarter 2017 decreased $8.5 billion, or 2%, from second quarter 2016, and average loans of $479.9 billion in the first half of 2017 decreased $5.1 billion, or 1%, from the first half of 2016. Average deposits increased $23.5 billion, or 3%, from second quarter 2016 and $28.9 billion, or 4%, from the first half of 2016. Primary consumer checking customers (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) as of May 2017 were up 0.7% from May 2016. Noninterest expense increased 9% from second quarter 2016 and 7% from the first half of 2016. The increase from second quarter 2016 was driven by higher personnel expenses mainly due to the impact of annual salary increases and increased personnel, including the movement of certain support functions from our other operating segments into the Community Banking operating segment, and higher professional services driven by increased project spending. The increase from the first half of 2016 was primarily due to higher personnel expenses, including deferred compensation plan expense (offset in trading revenue), and higher professional services, partially offset by lower other expense and operating losses. The provision for credit losses decreased $66 million from second quarter 2016 and $140 million from the first half of 2016 mostly due to an improvement in the consumer lending portfolio, primarily consumer real estate, compared with the same periods a year ago.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $5 million. Products and businesses include Business Banking, Commercial Real Estate, Corporate Banking, Financial Institutions Group, Government and Institutional Banking, Insurance, Middle Market Banking, Principal Investments, Treasury Management, Wells Fargo Commercial Capital, and Wells Fargo Securities. Table 4b provides additional financial information for Wholesale Banking.

Table 4b: Wholesale Banking

	Quarter ended June 30,			Six months ended June 30,		
(in millions, except average balances which are in billions)	2017	2016	% Change	2017	2016	% Change
Net interest income	$4,278	3,919	9 %	$8,426	7,667	10 %
Noninterest income:						
Service charges on deposit accounts	552	563	(2)	1,123	1,118	—
Trust and investment fees:						
Brokerage advisory, commissions and other fees	82	94	(13)	166	185	(10)
Trust and investment management	131	123	7	260	234	11
Investment banking	484	471	3	929	821	13
Total trust and investment fees	697	688	1	1,355	1,240	9
Card fees	93	89	4	170	178	(4)
Other fees	506	538	(6)	974	1,098	(11)
Mortgage banking	110	90	22	233	181	29
Insurance	256	286	(10)	512	711	(28)
Net gains from trading activities	168	344	(51)	458	551	(17)
Net gains (losses) on debt securities	(64)	52	NM	(130)	77	NM
Net gains from equity investments	16	26	(38)	52	92	(43)
Other income of the segment	339	689	(51)	816	1,329	(39)
Total noninterest income	2,673	3,365	(21)	5,563	6,575	(15)
Total revenue	6,951	7,284	(5)	13,989	14,242	(2)
Provision (reversal of provision) for credit losses	(65)	385	NM	(108)	748	NM
Noninterest expense:						
Personnel expense	1,618	1,783	(9)	3,441	3,757	(8)
Equipment	14	16	(13)	30	37	(19)
Net occupancy	110	116	(5)	220	234	(6)
Core deposit and other intangibles	103	95	8	208	185	12
FDIC and other deposit assessments	120	88	36	238	174	37
Outside professional services	293	276	6	541	490	10
Operating losses	6	38	(84)	12	75	(84)
Other expense of the segment	1,814	1,624	12	3,613	3,052	18
Total noninterest expense	4,078	4,036	1	8,303	8,004	4
Income before income tax expense and noncontrolling interests	2,938	2,863	3	5,794	5,490	6
Income tax expense	559	795	(30)	1,305	1,514	(14)

Net loss from noncontrolling interests	(9)	(5)	(80)	(14)	(18)	22
Net income	$2,388	2,073	15	$4,503	3,994	13
Average loans	$464.9	451.4	3	$465.6	440.6	6
Average deposits	463.0	425.8	9	464.5	426.9	9

NM – Not meaningful

Wholesale Banking reported net income of $2.4 billion in second quarter 2017, up $315 million, or 15%, from second quarter 2016. In the first half of 2017, net income of $4.5 billion increased $509 million, or 13%, from the same period a year ago. Net income results in second quarter 2017 included a tax benefit resulting from our agreement to sell Wells Fargo Insurance Services USA and related businesses. Revenue decreased $333 million, or 5%, from second quarter 2016 and $253 million, or 2%, from the first half of 2016 as increased net interest income was more than offset by lower noninterest income. Net interest income increased $359 million, or 9%, from second quarter 2016 and $759 million, or 10%, from the first half of 2016 driven by strong loan growth, which included the benefit from the GE Capital business acquisitions in 2016, and rising interest rates. Noninterest income decreased $692 million, or 21%, from second quarter 2016 due primarily to the second quarter 2016 gain on the sale of our health benefits services business as well as lower

customer accommodation trading and principal investing gains. Noninterest income decreased $1.0 billion, or 15%, from the first half of 2016 primarily due to the first quarter 2016 sale of our crop insurance business, which resulted in lower insurance and gain on sale income, and the second quarter 2016 gain on the sale of our health benefits services business, as well as lower gains on debt securities and customer accommodation trading. The decreases in noninterest income from the first half of 2016 were partially offset by higher investment banking fees as well as higher lease income related to the GE Capital business acquisitions. Average loans of $464.9 billion in second quarter 2017 increased $13.5 billion, or 3%, from second quarter 2016, and average loans of $465.6 billion in the first half of 2017 increased $25.0 billion, or 6%, from the first half of 2016. Average loan growth was driven by broad-based growth in asset backed finance, business banking, capital finance, commercial real estate, global banking, government and institutional banking

Earnings Performance (continued)

and middle market banking, as well as the GE Capital business acquisitions in 2016. Average deposits of $463.0 billion increased $37.2 billion, or 9%, from second quarter 2016 and $37.6 billion, or 9%, from the first half of 2016 reflecting growth in corporate banking, commercial real estate, corporate trust and financial institutions. Noninterest expense increased $42 million, or 1%, from second quarter 2016 and $299 million, or 4%, from the first half of 2016, substantially due to the GE Capital business acquisitions and higher expense related to growth initiatives, compliance and regulatory requirements. The provision for credit losses decreased $450 million from second quarter 2016 and $856 million from the first half of 2016 driven by improvement in the oil and gas portfolio.

Wealth and Investment Management provides a full range of personalized wealth management, investment and retirement products and services to clients across U.S. based businesses including Wells Fargo Advisors, The Private Bank, Abbot Downing, Wells Fargo Institutional Retirement and Trust, and Wells Fargo Asset Management. We deliver financial planning, private banking, credit, investment management and fiduciary services to high-net worth and ultra-high-net worth individuals and families. We also serve clients' brokerage needs, supply retirement and trust services to institutional clients and provide investment management capabilities delivered to global institutional clients through separate accounts and the Wells Fargo Funds. Table 4c provides additional financial information for WIM.

Table 4c: Wealth and Investment Management

	Quarter ended June 30,			Six months ended June 30,		
(in millions, except average balances which are in billions)	2017	2016	% Change	2017	2016	% Change
Net interest income	$1,127	932	21 %	$2,201	1,875	17 %
Noninterest income:						
Service charges on deposit accounts	5	5	—	10	10	—
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,255	2,208	2	4,500	4,362	3
Trust and investment management	713	718	(1)	1,420	1,430	(1)
Investment banking (1)	(1)	(1)	—	(2)	(1)	(100)
Total trust and investment fees	2,967	2,925	1	5,918	5,791	2
Card fees	2	2	—	3	3	—
Other fees	4	5	(20)	9	9	—
Mortgage banking	(3)	(2)	(50)	(5)	(4)	(25)
Insurance	22	—	NM	42	—	NM
Net gains from trading activities	50	44	14	149	64	133
Net gains on debt securities	—	1	NM	—	1	NM
Net gains (losses) from equity investments	3	(1)	400	3	2	50
Other income of the segment	5	8	(38)	45	22	105
Total noninterest income	3,055	2,987	2	6,174	5,898	5
Total revenue	4,182	3,919	7	8,375	7,773	8
Provision (reversal of provision) for credit losses	7	2	250	3	(12)	125
Noninterest expense:						
Personnel expense	1,980	1,911	4	4,085	3,936	4
Equipment	9	13	(31)	20	28	(29)
Net occupancy	108	109	(1)	215	221	(3)

Core deposit and other intangibles	73	75	(3)	145	150	(3)
FDIC and other deposit assessments	39	31	26	79	62	27
Outside professional services	193	236	(18)	415	427	(3)
Operating losses	48	6	700	65	18	261
Other expense of the segment	625	595	5	1,257	1,176	7
Total noninterest expense	3,075	2,976	3	6,281	6,018	4
Income before income tax expense and noncontrolling interests	1,100	941	17	2,091	1,767	18
Income tax expense	417	358	16	779	672	16
Net income (loss) from noncontrolling interests	1	(1)	200	7	(1)	800
Net income	$682	584	17	$1,305	1,096	19
Average loans	$71.7	66.7	7	$71.2	65.4	9
Average deposits	188.2	182.5	3	191.9	183.5	5

NM – Not meaningful

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

WIM reported net income of $682 million in second quarter 2017, up $98 million from second quarter 2016. Net income for the first half of 2017 was $1.3 billion, up $209 million, or 19%, compared with the same period a year ago. Revenue was up $263 million, or 7%, from second quarter 2016 and up $602 million, or 8%, from the first half of 2016, due to increases in both net interest income and noninterest income. Net interest income increased 21% from second quarter 2016 and 17% from the first half of 2016, due to higher interest rates and growth in investment securities and loan balances. Noninterest income increased 2% from second quarter 2016 and 5% from the first half of 2016 substantially driven by higher asset-based fees and

deferred compensation plan investments (offset in employee benefits expense), partially offset by lower brokerage transaction revenue. Asset-based fees were up primarily due to higher brokerage advisory account client assets driven by higher market valuations and positive net flows. Average loans of $71.7 billion in second quarter 2017 increased 7% from second quarter 2016. Average loans in the first half of 2017 increased 9% from the same period a year ago. Average loan growth was driven by growth in non-conforming mortgage loans. Average deposits in second quarter 2017 of $188.2 billion increased 3% from second quarter 2016. Average deposits in the first half of 2017 increased 5% from the same period a year ago. Noninterest expense was up

3% from second quarter 2016 and up 4% from the first half of 2016, due to higher broker commissions mainly due to higher brokerage revenue, higher non-personnel expenses, and higher deferred compensation plan expense (offset in trading revenue). Total provision for credit losses increased $5 million from second quarter 2016 and increased $15 million from the first half of 2016 driven by loan growth, and higher net charge-offs in the first half of 2017 compared with the first half of 2016.
The following discussions provide additional information for client assets we oversee in our retail brokerage advisory and trust and investment management business lines.

Retail Brokerage Client Assets Brokerage advisory, commissions and other fees are received for providing full-service and discount brokerage services predominantly to retail

brokerage clients. Offering advisory account relationships to our brokerage clients is an important component of our broader strategy of meeting their financial needs. Although a majority of our retail brokerage client assets are in accounts that earn brokerage commissions, the fees from those accounts generally represent transactional commissions based on the number and size of transactions executed at the client's direction. Fees earned from advisory accounts are asset-based and depend on changes in the value of the client's assets as well as the level of assets resulting from inflows and outflows. A majority of our brokerage advisory, commissions and other fee income is earned from advisory accounts. Table 4d shows advisory account client assets as a percentage of total retail brokerage client assets at June 30, 2017 and 2016.

Table 4d: Retail Brokerage Client Assets

	June 30,	
(in billions)	2017	2016
Retail brokerage client assets	$1,575.9	1,455.4
Advisory account client assets	502.5	443.7
Advisory account client assets as a percentage of total client assets	32 %	30

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

and are affected by investment performance as well as asset inflows and outflows. For the second quarter and first half of 2017 and 2016, the average fee rate by account type ranged from 80 to 120 basis points. Table 4e presents retail brokerage advisory account client assets activity by account type for the second quarter and first half of 2017 and 2016.

Table 4e: Retail Brokerage Advisory Account Client Assets

	Quarter ended					Six months ended				
(in billions)	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
June 30, 2017										
Client directed (4)	$163.3	8.3	(9.6)	1.8	163.8	159.1	20.3	(21.2)	5.6	163.8
Financial advisor directed (5)	126.2	6.9	(6.2)	4.8	131.7	115.7	16.3	(12.2)	11.9	131.7
Separate accounts (6)	133.7	6.3	(6.0)	3.7	137.7	125.7	14.5	(12.2)	9.7	137.7
	66.9	2.9	(2.7)	2.2	69.3	63.3	6.7	(5.7)	5.0	69.3

Mutual fund advisory (7)										
Total advisory client assets	$490.1	24.4	(24.5	)12.5	502.5	463.8	57.8	(51.3	)32.2	502.5
June 30, 2016										
Client directed (4)	$155.3	9.3	(9.0	)2.9	158.5	154.7	18.2	(18.2	)3.8	158.5
Financial advisor directed (5)	97.4	7.8	(4.8	)3.8	104.2	91.9	15.1	(8.8	)6.0	104.2
Separate accounts (6)	113.5	7.3	(5.2	)3.3	118.9	110.4	13.0	(10.0	)5.5	118.9
Mutual fund advisory (7)	62.0	2.0	(2.9	)1.0	62.1	62.9	3.9	(5.9	)1.2	62.1
Total advisory client assets	$428.2	26.4	(21.9	)11.0	443.7	419.9	50.2	(42.9	)16.5	443.7

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

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

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

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

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

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

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

Earnings Performance (continued)

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

provides total retirement management, investments, and trust and custody solutions tailored to meet the needs of institutional clients. Substantially all of our trust and investment management fee income is earned from AUM where we have discretionary management authority over the investments and generate fees as a percentage of the market value of the AUM. Table 4f presents AUM activity for the second quarter and first half of 2017 and 2016.

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

	Quarter ended					Six months ended				
(in billions)	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
June 30, 2017										
Assets managed by WFAM (4):										
Money market funds (5)	$96.7	—	(2.0)	—	94.7	102.6	—	(7.9)	—	94.7
Other assets managed	384.4	34.2	(33.4)	7.3	392.5	379.6	63.6	(67.6)	16.9	392.5
Assets managed by Wealth and Retirement (6)	173.5	10.0	(11.0)	3.1	175.6	168.5	19.4	(20.4)	8.1	175.6
Total assets under management	$654.6	44.2	(46.4)	10.4	662.8	650.7	83.0	(95.9)	25.0	662.8
June 30, 2016										
Assets managed by WFAM (4):										
Money market funds (5)	$113.9	—	(5.0)	—	108.9	123.6	—	(14.7)	—	108.9
Other assets managed	367.1	28.8	(26.4)	5.4	374.9	366.1	55.9	(54.9)	7.8	374.9
Assets managed by Wealth and Retirement (6)	163.4	8.2	(9.2)	2.2	164.6	162.1	17.3	(18.0)	3.2	164.6
Total assets under management	$644.4	37.0	(40.6)	7.6	648.4	651.8	73.2	(87.6)	11.0	648.4

(1) Inflows include new managed account assets, contributions, dividends and interest.
(2) Outflows include closed managed account assets, withdrawals and client management fees.
(3) Market impact reflects gains and losses on portfolio investments.
(4) Assets managed by WFAM consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.

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

(6) Includes $5.7 billion and $7.6 billion as of June 30, 2017 and 2016, respectively, of client assets invested in proprietary funds managed by WFAM.

Balance Sheet Analysis

At June 30, 2017, our assets totaled $1.93 trillion, up $756 million from December 31, 2016. Asset growth was predominantly driven by growth in held-to-maturity investment securities, which increased $40.8 billion, partially offset by a $39.2 billion decrease in available-for-sale investment securities and a $10.2 billion decrease in loans. Total equity growth of $5.6 billion from December 31, 2016, was the predominant source that funded our asset growth from December 31, 2016.

Equity growth benefited from $6.4 billion in earnings net of dividends paid.
The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and changes in our asset mix is included in the "Earnings Performance – Net Interest Income" and "Capital Management" sections and Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

Investment Securities

Table 5: Investment Securities – Summary

	June 30, 2017			December 31, 2016		
(in millions)	Amortized Cost	Net unrealized gain (loss)	Fair value	Amortized Cost	Net unrealized gain (loss)	Fair value
Available-for-sale securities:						
Debt securities	$267,476	698	268,174	309,447	(2,294)	307,153
Marketable equity securities	614	414	1,028	706	505	1,211
Total available-for-sale securities	268,090	1,112	269,202	310,153	(1,789)	308,364
Held-to-maturity debt securities	140,392	(2)	140,390	99,583	(428)	99,155
Total investment securities (1)	$408,482	1,110	409,592	409,736	(2,217)	407,519

(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 $1.6 billion from December 31, 2016, predominantly due to purchases of federal agency mortgage-backed securities partially offset by sales and paydowns on other security classes including securities of U.S. treasury and federal agencies, commercial mortgage-backed securities, corporate debt securities and collateralized debt obligations.

The total net unrealized gains on available-for-sale securities were $1.1 billion at June 30, 2017, up from net unrealized losses of $1.8 billion at December 31, 2016, primarily due to lower long-term interest rates, tighter credit spreads and the transfer of available-for-sale securities to held-to-maturity. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section in our 2016 Form 10-K. Also, see the "Risk Management – Asset/Liability Management" section in this Report for information on our use of investments to manage liquidity and interest rate risk.

We analyze securities for other-than-temporary impairment (OTTI) quarterly or more often if a potential loss-triggering event occurs. Of the $202 million in OTTI write-downs recognized in earnings in the first half of 2017, $100 million related to debt securities, $4 million related to marketable equity securities, which are included in available-for-sale securities, and $98 million related to nonmarketable equity investments, which are included in other assets. OTTI write-downs recognized in earnings related to oil and gas investments totaled $58 million in the first half of 2017, of which $22 million related to investment securities and $36 million related to nonmarketable equity investments. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At June 30, 2017, investment securities included $58.3 billion of municipal bonds, of which 95.5% were rated "A-" or better based largely 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. The credit quality of our municipal bond holdings are monitored as part of our ongoing impairment analysis.

The weighted-average expected maturity of debt securities available-for-sale was 6.7 years at June 30, 2017. The expected remaining maturity is shorter than the remaining contractual maturity for the 55% of this portfolio that is MBS because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effects of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available-for-sale portfolio are shown in Table 6.

Table 6: Mortgage-Backed Securities Available for Sale

(in billions)	Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At June 30, 2017			
Actual	$148.7	0.2	6.7
Assuming a 200 basis point:			
Increase in interest rates	132.8	(15.7)	8.5
Decrease in interest rates	155.0	6.5	2.9

The weighted-average expected maturity of debt securities held-to-maturity was 6.8 years at June 30, 2017. 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 Portfolios

Table 7 provides a summary of total outstanding loans by portfolio segment. Total loans decreased $10.2 billion from December 31, 2016, driven by a continued decline in junior lien

mortgage loans, as well as an expected decline in automobile loans as continued proactive steps to tighten underwriting standards resulted in lower origination volume.

Table 7: Loan Portfolios

(in millions)	June 30, 2017	December 31, 2016
Commercial	$505,901	506,536
Consumer	451,522	461,068
Total loans	$957,423	967,604
Change from prior year-end	$(10,181)	51,045

A discussion of average loan balances and a comparative detail of average loan balances is included in Table 1 under "Earnings Performance – Net Interest Income" earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the "Risk Management – Credit Risk Management" section in this Report. Period-end balances and other loan related

information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

Table 8: Maturities for Selected Commercial Loan Categories

	June 30, 2017				December 31, 2016			
(in millions)	Within one year	After one year through five years	After five years	Total	Within one year	After one year through five years	After five years	Total
Selected loan maturities:								
Commercial and industrial	$98,198	207,201	25,714	331,113	105,421	199,211	26,208	330,840
Real estate mortgage	21,818	66,665	41,794	130,277	22,713	68,928	40,850	132,491
Real estate construction	10,877	13,087	1,373	25,337	9,576	13,102	1,238	23,916
Total selected loans	$130,893	286,953	68,881	486,727	137,710	281,241	68,296	487,247
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$18,632	28,857	26,229	73,718	19,389	29,748	26,859	75,996
Loans at floating/variable interest rates	112,261	258,096	42,652	413,009	118,321	251,493	41,437	411,251
Total selected loans	$130,893	286,953	68,881	486,727	137,710	281,241	68,296	487,247

Deposits

Deposits were $1.3 trillion at June 30, 2017, down $249 million from December 31, 2016, reflecting lower wealth and commercial deposits, partially offset by growth in retail deposits and Treasury institutional certificates of deposit. Table 9 provides additional

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

Table 9: Deposits

($ in millions)	Jun 30, 2017	% of total deposits	Dec 31, 2016	% of total deposits	% Change
Noninterest-bearing	$372,766	28 %	$375,967	29 %	(1)
Interest-bearing checking	47,080	4	49,403	4	(5)
Market rate and other savings	680,971	52	687,846	52	(1)
Savings certificates	22,225	2	23,968	2	(7)
Other time and deposits	61,666	5	52,649	4	17
Deposits in foreign offices (1)	121,122	9	116,246	9	4
Total deposits	$1,305,830	100 %	$1,306,079	100 %	—

(1) Includes Eurodollar sweep balances of $75.4 billion and $74.8 billion at June 30, 2017, and December 31, 2016, respectively.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2016 Form 10-K for a description of our critical accounting policy related to fair value of financial instruments and a discussion of our fair value measurement techniques.

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

Table 10: Fair Value Level 3 Summary

	June 30, 2017		December 31, 2016	
($ in billions)	Total balance	Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$402.8	24.2	436.3	23.5
As a percentage of total assets	21 %	1	23	1
Liabilities carried at fair value	$28.5	1.9	30.9	1.7
As a percentage of total liabilities	2 %	*	2	*

* Less than 1%.

(1) Before derivative netting adjustments.

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

Equity

Total equity was $206.1 billion at June 30, 2017, compared with $200.5 billion at December 31, 2016. The increase was predominantly driven by a $6.4 billion increase in retained earnings from earnings net of dividends paid, partially offset by a net reduction in common stock due to repurchases.

Off-Balance Sheet Arrangements

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

Commitments to Lend and Purchase Securities

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

Transactions with Unconsolidated Entities

In the normal course of business, we enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts, limited liability companies or partnerships that are established for a limited purpose. Generally, SPEs are formed in connection with securitization transactions and are considered variable interest entities (VIEs). 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 arrangements. For more information on guarantees and certain contingent arrangements, see Note 10 (Guarantees, Pledged Assets and Collateral) to Financial Statements in this Report.

Derivatives

We use derivatives to manage exposure to market risk, including interest rate risk, credit risk and foreign currency risk, and to assist customers with their risk management objectives. Derivatives are recorded on the balance sheet at fair value, and volume can be measured in terms of the notional amount, which is generally not exchanged but is used only as the basis on which interest and other payments are determined. The notional amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. For more information on derivatives, see Note 12 (Derivatives) to Financial Statements in this Report.

Other Commitments

We also have other off-balance sheet transactions, including obligations to make rental payments under noncancelable operating leases and commitments to purchase certain debt and equity securities. Our operating lease obligations are discussed in Note 7 (Premises, Equipment, Lease Commitments and Other Assets) to Financial Statements in our 2016 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements – Contractual Cash Obligations” section in our 2016 Form 10-K.

Risk Management

Wells Fargo manages a variety of risks that can significantly affect our financial performance and our ability to meet the expectations of our customers, stockholders, regulators and other stakeholders. Among the risks that we manage are conduct risk, operational risk, credit risk, and asset/liability management related risks, which include interest rate risk, market risk, liquidity risk, and funding related risks. We operate under a Board-level approved risk framework which outlines our company-wide approach to risk management and oversight, and describes the structures and practices employed to manage current and emerging risks inherent to Wells Fargo. For more information about how we manage these risks, see the "Risk Management" section in our 2016 Form 10-K. The discussion that follows provides an update regarding these risks.

Conduct Risk Management

Our Board oversees the alignment of team member conduct to the Company's risk appetite (which the Board approves annually) and culture as reflected in our Vision and Values and Code of Ethics and Business Conduct. The Board's Risk Committee has primary oversight responsibility for enterprise-wide conduct risk, while certain other Board committees have primary oversight responsibility for specific components of conduct risk.

At the management level, several committees have primary oversight responsibility for key elements of conduct risk, including internal investigations, sales practices oversight, complaints oversight, and ethics oversight. These management-level committees have escalation and informational reporting paths to the relevant Board committee.

Our Office of Ethics, Oversight and Integrity, which reports to our Chief Risk Officer and has an informational reporting path to the Board's Risk Committee, is responsible for fostering and promoting an enterprise-wide culture of prudent conduct risk management and compliance with internal directives, rules, regulations, and regulatory expectations throughout the Company and to provide assurance that the Company's internal operations and its treatment of customers and other external stakeholders are safe and sound, fair, and ethical.

Operational Risk Management

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

Information security is a significant operational risk for financial institutions such as Wells Fargo, and includes the risk of losses resulting from cyber attacks. Wells Fargo and other financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. Cyber attacks have also focused on targeting the infrastructure of the internet, causing the widespread unavailability of websites and degrading website performance. Wells Fargo has not experienced any material losses relating to these or other cyber attacks. Addressing cybersecurity risks is a priority for Wells Fargo, and we continue to develop and enhance our controls, processes and systems in order to protect our networks, computers, software and data from attack, damage or unauthorized access. We are

also proactively involved in industry cybersecurity efforts and working with other parties, including our third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cybersecurity threats. See the "Risk Factors" section in our 2016 Form 10-K for additional information regarding the risks associated with a failure or breach of our operational or security systems or infrastructure, including as a result of cyber attacks.

Credit Risk Management

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

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

(in millions)	Jun 30, 2017	Dec 31, 2016
Commercial:		
Commercial and industrial	$331,113	330,840
Real estate mortgage	130,277	132,491
Real estate construction	25,337	23,916
Lease financing	19,174	19,289
Total commercial	505,901	506,536
Consumer:		
Real estate 1-4 family first mortgage	276,566	275,579
Real estate 1-4 family junior lien mortgage	42,747	46,237
Credit card	35,305	36,700
Automobile	57,958	62,286
Other revolving credit and installment	38,946	40,266
Total consumer	451,522	461,068
Total loans	$957,423	967,604

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

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

Our credit risk management oversight process is governed centrally, but provides for decentralized management and accountability by our lines of business. Our overall credit process

includes comprehensive credit policies, disciplined credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process.
A key to our credit risk management is adherence to a well-controlled underwriting process, which we believe is appropriate for the needs of our customers as well as investors who purchase the loans or securities collateralized by the loans.
Credit Quality Overview Credit quality improved in second quarter 2017, as our loss rate improved to 0.27% (annualized) of average total loans. We continued to benefit from improvements in the performance of our residential real estate portfolio as well as reduced losses in our oil and gas portfolio. In particular:

- Nonaccrual loans were $9.1 billion at June 30, 2017, down from $10.4 billion at December 31, 2016. Commercial nonaccrual loans declined to $3.4 billion at June 30, 2017, compared with $4.1 billion at December 31, 2016, and consumer nonaccrual loans declined to $5.7 billion at June 30, 2017, compared with $6.3 billion at December 31, 2016. The decline in consumer nonaccrual loans reflected an improved housing market, while the decline in commercial nonaccrual loans was predominantly driven by loans in our oil and gas portfolio. Nonaccrual loans represented 0.95% of total loans at June 30, 2017, compared with 1.07% at December 31, 2016.
- Net charge-offs (annualized) as a percentage of average total loans decreased to 0.27% and 0.31% in the second quarter and first half of 2017, respectively, compared with 0.39% in the same periods a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.06% and 0.51% in the second quarter and 0.09% and 0.55% in the first half of 2017, respectively, compared with 0.29% and 0.49% in the second quarter and 0.25% and 0.53% in the first half of 2016.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $54 million and $789 million in our commercial and consumer portfolios, respectively, at June 30, 2017, compared with $64 million and $908 million at December 31, 2016.
- Our provision for credit losses was $555 million and $1.2 billion in the second quarter and first half of 2017, respectively, compared with $1.1 billion and $2.2 billion for the same periods a year ago.
- The allowance for credit losses totaled $12.1 billion, or 1.27% of total loans, at June 30, 2017, down from $12.5 billion, or 1.30%, at December 31, 2016.

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

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are PCI loans. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. The carrying value of PCI loans at June 30, 2017, totaled $14.3 billion, compared with $16.7 billion at December 31, 2016, and $58.8 billion at December 31, 2008. The decrease from December 31, 2016, was due in part to higher prepayment trends observed in our Pick-a-Pay PCI portfolio, as home price appreciation and the resulting reduction in loan to collateral value ratios enabled more borrowers to qualify for refinancing options, as well as the sale of $569 million of Pick-a-Pay PCI loans in second quarter 2017. PCI loans are considered to be accruing due to the existence of the accretable yield amount, which represents the cash expected to be collected in excess of their carrying value, and not based on consideration given to contractual interest payments. The accretable yield at June 30, 2017, was $9.4 billion.
A nonaccretable difference is established for PCI loans to absorb losses expected on the contractual amounts of those loans in excess of the fair value recorded at the date of acquisition. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. Since December 31, 2008, we have released $13.3 billion in nonaccretable difference, including $11.3 billion transferred from the nonaccretable difference to the accretable yield due to decreases in our initial estimate of loss on contractual amounts, and $2.0 billion released to

income through loan resolutions. Also, we have provided $1.7 billion for losses on certain PCI loans or pools of PCI loans that have had credit-related decreases to cash flows expected to be collected. The net result is an $11.6 billion reduction from December 31, 2008, through June 30, 2017, in our initial projected losses of $41.0 billion on all PCI loans acquired in the Wachovia acquisition. At June 30, 2017, $649 million in nonaccretable difference remained to absorb losses on PCI loans.

For additional information on PCI loans, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans – Pick-a-Pay Portfolio” section in this Report, Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K, and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

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

The commercial and industrial loans and lease financing portfolio totaled $350.3 billion, or 37% of total loans, at June 30, 2017. The annualized net charge-off rate for this portfolio was 0.10% and 0.15% in the second quarter and first half of 2017, respectively, compared with 0.45% and 0.40% for the same periods a year ago. At June 30, 2017, 0.78% of this portfolio was nonaccruing, compared with 0.95% at December 31, 2016, reflecting a decrease of $610 million in nonaccrual loans, predominantly due to improvement in the oil and gas portfolio. Also, $20.3 billion of the commercial and industrial loan and lease financing portfolio was internally classified as criticized in accordance with regulatory guidance at June 30, 2017, compared with $24.0 billion at December 31, 2016. The decrease in criticized loans, which also includes the decrease in nonaccrual loans, was mostly due to improvement in the oil and gas portfolio.

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

Table 12 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $58.9 billion of foreign loans at June 30, 2017. Foreign loans totaled $18.8 billion within the investor category, $15.8 billion within the financial institutions category and $1.4 billion within the oil and gas category.

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

We provide financial institutions with a variety of relationship focused products and services, including loans supporting short-term trade finance and working capital needs. The $15.8 billion of foreign loans in the financial institutions category were predominantly originated by our Financial Institutions business.

The oil and gas loan portfolio totaled $12.7 billion, or 1% of total outstanding loans at June 30, 2017, compared with $14.8 billion, or 2% of total outstanding loans, at December 31, 2016. Unfunded loan commitments in the oil and gas loan portfolio totaled $22.9 billion at June 30, 2017. Almost half of our oil and gas loans were to businesses in the exploration and production (E&P) sector. Most of these E&P loans are secured by oil and/or gas reserves and have underlying borrowing base arrangements which include regular (typically semi-annual) “redeterminations” that consider refinements to borrowing structure and prices used to determine borrowing limits. The majority of the other oil and gas loans were to midstream companies. We proactively monitor our oil and gas loan portfolio and work with customers to address any emerging issues. Oil and gas nonaccrual loans decreased to $1.8 billion at June 30, 2017, compared with $2.4 billion at December 31, 2016, due to improved portfolio performance.

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

	June 30, 2017		
(in millions)	Nonaccrual	Total (2)	% of

	loans	portfolio		total loans	
Investors	$7	61,744		6	%
Financial institutions	2	38,160		4	
Cyclical retailers	84	26,987		3	
Food and beverage	10	16,523		2	
Healthcare	27	16,277		2	
Industrial equipment	189	14,984		2	
Real estate lessor	9	14,775		2	
Technology	48	13,451		1	
Oil and gas	1,823	12,723		1	
Transportation	135	9,516		1	
Public administration	58	9,349		1	
Business services	27	8,451		1	
Other	302	107,347	(3)	11	
Total	$2,721	350,287		37	%

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

(2) Includes $131 million of PCI loans, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(3) No other single industry had total loans in excess of $6.9 billion.

Risk Management - Credit Risk Management (continued)

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided among special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $8.9 billion of foreign CRE loans, totaled $155.6 billion, or 16% of total loans, at June 30, 2017, and consisted of $130.3 billion of mortgage loans and $25.3 billion of construction loans.

Table 13 summarizes CRE loans by state and property type with the related nonaccrual totals. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of CRE loans are in California, New York, Texas and Florida, which combined represented 49% of the total CRE portfolio. By property type, the largest concentrations are office buildings at 28% and apartments at 16% of the portfolio. CRE nonaccrual loans totaled 0.4% of the CRE outstanding balance at June 30, 2017, compared with 0.5% at December 31, 2016. At June 30, 2017, we had $4.9 billion of criticized CRE mortgage loans, compared with $5.4 billion at December 31, 2016, and $320 million of criticized CRE construction loans, compared with $461 million at December 31, 2016.

At June 30, 2017, the recorded investment in PCI CRE loans totaled $132 million, down from $12.3 billion when acquired at December 31, 2008, reflecting principal payments, loan resolutions and write-downs.

Table 13: CRE Loans by State and Property Type

	June 30, 2017							
	Real estate mortgage		Real estate construction		Total			
(in millions)	Nonaccrual loans	Total portfolio (1)	Nonaccrual loans	Total portfolio (1)	Nonaccrual loans	Total portfolio (1)	% of total loans	
By state:								
California	$132	37,277	—	4,747	132	42,024	4	%
New York	29	9,935	—	2,932	29	12,867	1	
Texas	96	9,393	—	2,378	96	11,771	1	
Florida	36	8,103	1	1,875	37	9,978	1	
North Carolina	31	4,055	6	857	37	4,912	1	
Arizona	26	4,020	—	609	26	4,629	*	
Georgia	19	3,555	1	860	20	4,415	*	
Washington	19	3,546	—	866	19	4,412	*	
Virginia	12	3,395	—	864	12	4,259	*	
Illinois	5	3,756	—	350	5	4,106	*	
Other	225	43,242	26	8,999	251	52,241 (2)	5	
Total	$630	130,277	34	25,337	664	155,614	16	%
By property:								
Office buildings	$126	39,975	—	3,326	126	43,301	5	%
Apartments	24	15,741	—	9,300	24	25,041	3	
Retail (excluding shopping center)	93	17,236	—	709	93	17,945	2	
Industrial/warehouse	135	14,832	—	1,887	135	16,719	2	
Shopping center	24	11,469	—	1,274	24	12,743	1	
Hotel/motel	8	10,388	4	1,630	12	12,018	1	
Real estate - other	97	7,360	—	168	97	7,528	1	
Institutional	30	3,080	—	1,392	30	4,472	*	
Agriculture	32	2,586	—	17	32	2,603	*	
1-4 family structure	—	10	7	2,520	7	2,530	*	
Other	61	7,600	23	3,114	84	10,714	1	
Total	$630	130,277	34	25,337	664	155,614	16	%

* Less than 1%.

(1) Includes a total of $132 million PCI loans, consisting of $119 million of real estate mortgage and $13 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 $3.6 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, 2017, foreign loans totaled $68.3 billion, representing approximately 7% of our total consolidated loans outstanding, compared with $65.7 billion, or approximately 7% of total consolidated loans outstanding, at December 31, 2016. Foreign loans were approximately 4% of our consolidated total assets at June 30, 2017 and 3% at December 31, 2016.

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

We evaluate our individual country risk exposure based on our assessment of the borrower’s ability to repay, which gives consideration for allowable transfers of risk such as guarantees and collateral and may be different from the reporting based on the borrower’s primary address. Our largest single foreign country exposure based on our assessment of risk at June 30, 2017, was the United Kingdom, which totaled $26.8 billion, or approximately 1% of our total assets, and included $4.8 billion of sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch. The United Kingdom officially announced its intention to leave the European Union (Brexit) on March 29, 2017, starting the two-year negotiation process leading to its departure. We continue to conduct assessments and are executing our implementation plans to ensure we can continue to prudently serve our customers post-Brexit.

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 credit exposure 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 seek to mitigate these potential impacts on the risk of loss through our normal risk management processes which include active monitoring and, if necessary, the application of aggressive loss mitigation strategies.

Table 14 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, based on our assessment of risk, which gives consideration to the country of any guarantors and/or underlying collateral. Our exposure to Puerto Rico (considered part of U.S. exposure) is largely through automobile lending and was not material to our consolidated country exposure. We do not expect Puerto Rico's recent bankruptcy announcement to significantly impact these exposures.

Risk Management - Credit Risk Management (continued)

Table 14: Select Country Exposures- June 30, 2017

	Lending (1)		Securities (2)		Derivatives and other (3)		Total exposure		
(in millions)	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign (4)	Total
Top 20 country exposures:									
United Kingdom	$4,752	19,840	4	1,646	—	587	4,756	22,073	26,829
Canada	23	17,875	118	137	—	608	141	18,620	18,761
Cayman Islands	—	6,098	—	—	—	159	—	6,257	6,257
Germany	2,790	1,334	39	16	4	374	2,833	1,724	4,557
Ireland	—	3,597	—	100	—	111	—	3,808	3,808
Bermuda	—	2,819	—	173	—	198	—	3,190	3,190
Netherlands	—	2,375	21	361	2	160	23	2,896	2,919
China	—	2,577	(2)	152	19	45	17	2,774	2,791
India	200	1,865	—	168	—	—	200	2,033	2,233
Australia	—	1,407	—	654	—	49	—	2,110	2,110
Luxembourg	—	1,232	—	640	—	68	—	1,940	1,940
Brazil	—	1,901	—	38	—	—	—	1,939	1,939
Guernsey	—	1,879	—	(2)	—	3	—	1,880	1,880
Switzerland	—	1,246	—	(18)	—	140	—	1,368	1,368
Mexico	149	1,123	1	4	—	6	150	1,133	1,283
Chile	—	1,272	—	10	1	—	1	1,282	1,283
South Korea	—	1,207	6	54	1	2	7	1,263	1,270
France	—	847	—	154	—	159	—	1,160	1,160
Japan	315	675	6	62	—	99	321	836	1,157
Jersey, Channel Islands	—	671	—	236	—	17	—	924	924
Total top 20 country exposures	$8,229	71,840	193	4,585	27	2,785	8,449	79,210	87,659
Eurozone exposure:									
Eurozone countries included in Top 20 above (5)	$2,790	9,385	60	1,271	6	872	2,856	11,528	14,384
Austria	—	581	—	(1)	—	1	—	581	581
Spain	—	309	—	46	—	21	—	376	376
Belgium	—	295	—	(19)	—	1	—	277	277
Other Eurozone exposure (6)	23	223	—	44	—	—	23	267	290
Total Eurozone exposure	$2,813	10,793	60	1,341	6	895	2,879	13,029	15,908

(1) Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under the terms of the credit agreements. For the countries listed above, includes $16 million in PCI loans to customers in Germany and the Netherlands, and $753 million in defeased leases secured primarily by U.S. Treasury and government agency securities.

(2)

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

(3) Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used for market making activities in the U.S. and London based trading businesses, which sometimes results in selling and purchasing protection on the identical reference entities. 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, 2017, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries was $316 million, which was offset by the notional amount of CDS purchased of $404 million. 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 $32.9 billion exposure to financial institutions and $47.8 billion to non-financial corporations at June 30, 2017.

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

(6) Includes non-sovereign exposure to Italy, Portugal, and Greece in the amount of $132 million, $27 million and $3 million, respectively. We had no sovereign debt exposure in these countries at June 30, 2017.

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

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

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

	June 30, 2017			December 31, 2016		
(in millions)	Balance	% of portfolio		Balance	% of portfolio	
Real estate 1-4 family first mortgage	$276,566	87	%	$275,579	86	%
Real estate 1-4 family junior lien mortgage	42,747	13		46,237	14	
Total real estate 1-4 family mortgage loans	$319,313	100	%	$321,816	100	%

The real estate 1-4 family mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 6% and 7% of total loans at June 30, 2017, and December 31, 2016, respectively. We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. The option ARMs we do have are included in the Pick-a-Pay portfolio which was acquired from Wachovia. Since our acquisition of the Pick-a-Pay loan portfolio at the end of 2008, the option payment portion of the portfolio has reduced from 86% to 37% at June 30, 2017, as a result of our modification and loss mitigation efforts. 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 modification programs, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2016 Form 10-K.

Part of our credit monitoring includes tracking delinquency, current FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These credit risk indicators, which exclude government insured/guaranteed loans, continued to improve in second quarter 2017 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at June 30, 2017, totaled $5.0 billion, or 2% of total non-PCI mortgages, compared with $5.9 billion, or 2%, at December 31, 2016. Loans with FICO scores lower than 640 totaled $13.1 billion, or 4% of total non-PCI mortgages at June 30, 2017, compared with $16.6 billion, or 5%, at December 31, 2016. Mortgages with a LTV/CLTV greater than 100% totaled $7.8 billion at June 30, 2017, or 3% of total non-PCI mortgages, compared with $8.9 billion, or 3%, at December 31, 2016. Information regarding credit quality indicators, including PCI credit quality indicators, can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 16. Our real estate 1-4 family mortgage loans (including PCI loans) to borrowers in California represented approximately 12% of total loans at June 30, 2017, located mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 5% of total loans. We monitor changes in real estate values and underlying economic or market conditions for all geographic areas of our real estate 1-4 family mortgage portfolio as part of

our credit risk management process. Our underwriting and periodic review of loans secured by residential real estate collateral includes appraisals or estimates from automated valuation models (AVMs) to support property values. Additional information about AVMs and our policy for their use can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report and the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2016 Form 10-K.

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

	June 30, 2017			
(in millions)		Real estate	Total real	% of

	Real estate 1-4 family first mortgage	1-4 family junior lien mortgage	estate 1-4 family mortgage	total loans	
Real estate 1-4 family loans (excluding PCI):					
California	$96,603	11,516	108,119	11	%
New York	25,145	2,058	27,203	3	
Florida	13,411	3,948	17,359	2	
New Jersey	12,831	3,809	16,640	2	
Virginia	7,718	2,519	10,237	1	
Texas	8,688	763	9,451	1	
Washington	8,240	945	9,185	1	
North Carolina	6,054	1,994	8,048	1	
Pennsylvania	5,667	2,345	8,012	1	
Other (1)	64,641	12,819	77,460	8	
Government insured/ guaranteed loans (2)	13,589	—	13,589	1	
Real estate 1-4 family loans (excluding PCI)	262,587	42,716	305,303	32	
Real estate 1-4 family PCI loans (3)	13,979	31	14,010	1	
Total	$276,566	42,747	319,313	33	%

(1) Consists of 41 states; no state had loans in excess of $7.0 billion.

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

(3) Includes $9.5 billion in real estate 1-4 family mortgage PCI loans in California.

Risk Management - Credit Risk Management (continued)

First Lien Mortgage Portfolio Our total real estate 1-4 family first lien mortgage portfolio increased $1.9 billion in second quarter 2017 and $987 million in the first half of 2017, as non-conforming loan growth was partially offset by a decline in Pick-a-Pay loan balances. We retained $13.2 billion and $22.4 billion in non-conforming originations, consisting of loans that exceed conventional conforming loan amount limits established by federal government-sponsored entities (GSEs) in the second quarter and first half of 2017, respectively.

The credit performance associated with our real estate 1-4 family first lien mortgage portfolio continued to improve in second quarter 2017, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average real estate 1-4 family first lien mortgage loans improved

to a net recovery of 0.02% and 0.01% in the second quarter and first half of 2017, respectively, compared with a net charge-off of 0.02% and 0.05% for the same periods a year ago. Nonaccrual loans were $4.4 billion at June 30, 2017, compared with $5.0 billion at December 31, 2016. Improvement in the credit performance was driven by an improving housing environment. Real estate 1-4 family first lien mortgage loans originated after 2008, which generally utilized tighter underwriting standards, have resulted in minimal losses to date and were approximately 76% of our total real estate 1-4 family first lien mortgage portfolio as of June 30, 2017.

Table 17 shows certain delinquency and loss information for the first lien mortgage portfolio and lists the top five states by outstanding balance.

Table 17: First Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
(in millions)	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
California	$96,603	94,015	1.00 %	1.21	(0.08)	(0.05)	(0.08)	(0.08)	(0.09)
New York	25,145	23,815	1.67	1.97	0.02	0.06	0.04	0.07	0.11
Florida	13,411	13,737	3.11	3.62	(0.18)	(0.08)	(0.18)	(0.04)	(0.19)
New Jersey	12,831	12,669	2.89	3.66	0.17	0.22	0.21	0.37	0.42
Texas	8,688	8,584	1.89	2.19	—	(0.01)	(0.01)	0.06	0.09
Other	92,320	91,136	2.09	2.51	0.01	0.05	0.06	0.10	0.10
Total	248,998	243,956	1.71	2.07	(0.03)	0.01	—	0.03	0.02
Government insured/guaranteed loans	13,589	15,605							
PCI	13,979	16,018							
Total first lien mortgages	$276,566	275,579							

Pick-a-Pay Portfolio The Pick-a-Pay portfolio was one of the consumer residential first lien mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.

The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), and also includes loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The Pick-a-Pay portfolio is included in the consumer real estate 1-4 family

first mortgage class of loans throughout this Report. Table 18 provides balances by types of loans as of June 30, 2017, 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 $18.1 billion at June 30, 2017, compared with $61.0 billion at acquisition. Due to loan modification and loss mitigation efforts, the adjusted unpaid principal balance of option payment PCI loans has declined to 14% of the total Pick-a-Pay portfolio at June 30, 2017, compared with 51% at acquisition.

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

December 31,

(in millions)	June 30, 2017 Adjusted unpaid principal balance (1)	% of total		2016 Adjusted unpaid principal balance (1)	% of total		2008 Adjusted unpaid principal balance (1)	% of total	
Option payment loans	$12,099	37	%	$13,618	37	%	$99,937	86	%
Non-option payment adjustable-rate and fixed-rate loans	4,148	13		4,630	13		15,763	14	
Full-term loan modifications	16,589	50		18,598	50		—	—	
Total adjusted unpaid principal balance	$32,836	100	%	$36,846	100	%	$115,700	100	%
Total carrying value	$28,696			32,292			95,615		

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

31

Table 19 reflects the geographic distribution of the Pick-a-Pay portfolio broken out between PCI loans and all other loans. The LTV ratio is a useful metric in evaluating future real estate 1-4 family first mortgage loan performance, including potential charge-offs. Because PCI loans were initially recorded at fair value, including write-downs for expected credit losses, the ratio

of the carrying value to the current collateral value will be lower compared with the LTV based on the adjusted unpaid principal balance. For informational purposes, we have included both ratios for PCI loans in the following table.

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

	June 30, 2017					
	PCI loans				All other loans	
(in millions)	Adjusted unpaid principal balance (2)	Current LTV ratio (3)	Carrying value (4)	Ratio of carrying value to current value (5)	Carrying value (4)	Ratio of carrying value to current value (5)
California	$12,263	63 %	$9,511	48 %	$7,077	45 %
Florida	1,540	70	1,146	51	1,502	56
New Jersey	609	77	447	56	995	63
New York	458	70	360	51	497	60
Texas	141	49	108	37	598	38
Other	3,057	70	2,308	52	4,147	57
Total Pick-a-Pay loans	$18,068	65	$13,880	49	$14,816	51

(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 2017.

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

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

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

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

Since the Wachovia acquisition, we have completed over 137,500 proprietary and Home Affordability Modification Program (HAMP) Pick-a-Pay loan modifications, including over 600 modifications in second quarter 2017. Pick-a-Pay loan modifications have resulted in over $6.1 billion of principal forgiveness since December 31, 2008. We have also provided interest rate reductions and loan term extensions to enable sustainable homeownership for our Pick-a-Pay customers. As a result of these loss mitigation programs, approximately 71% of our Pick-a-Pay PCI adjusted unpaid principal balance as of June 30, 2017 has been modified.

The predominant portion of our PCI loans is included in the Pick-a-Pay portfolio. We regularly evaluate our estimates, of cash flows expected to be collected on our PCI loans. Our cash flows expected to be collected have been favorably affected over time by lower expected defaults and losses as a result of observed and forecasted economic strengthening, particularly in housing prices, and our loan modification efforts. When we periodically update our cash flow estimates we have historically expected that the credit-stressed borrower characteristics and distressed collateral values associated with our Pick-a-Pay PCI loans would limit the ability of these borrowers to prepay their loans, thus increasing the future expected weighted-average life of the portfolio since acquisition. However, the higher prepayment trend that emerged in our Pick-a-Pay PCI loans portfolio in the prior year, which we attribute to the benefits of home price appreciation has continued to result in more loan (unpaid principal balance) to value ratios reaching an important industry refinancing inflection point of below 80%. As a result, we have continued to experience an increased level of borrowers qualifying for products to refinance their loans which may not have previously been available to them. Therefore, during first quarter 2017, we revised our Pick-a-Pay PCI loan cash flow estimates to reflect our expectation that the modified portion of the portfolio will have higher prepayments over the remainder of

its life. The increase in expected prepayments in the first quarter and passage of time lowered our estimated weighted-average life to approximately 6.4 years at June 30, 2017, from 7.4 years at December 31, 2016. During second quarter 2017, we sold $569 million of Pick-a-Pay PCI loans that resulted in a gain of $309 million. Also, the accretable yield balance related to our Pick-a-Pay PCI loan portfolio declined $916 million ($946 million for all PCI loans) during second quarter 2017, driven by realized accretion of $348 million ($374 million for all PCI loans), $309 million from the gain on sale of the Pick-a-Pay PCI loans in second quarter 2017 and a $259 million reduction in expected interest cash flows resulting from the loan sale. The accretable yield percentage for Pick-a-Pay PCI loans for second quarter 2017 was 9.47%, up from 8.22% for fourth quarter 2016, due to an increase in the amount of accretable yield relative to the shortened weighted-average life. Due to the sale of the Pick-a-Pay PCI loans in second quarter 2017, we expect the accretable yield percentage to be 9.32% for third quarter 2017.

Since acquisition, due to better than expected performance observed on the PCI portion of the Pick-a-Pay portfolio compared with the original acquisition estimates, we have reclassified $8.7 billion from the nonaccretable difference to the accretable yield. 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.

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

Risk Management - Credit Risk Management (continued)

and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.
For further information on the Pick-a-Pay portfolio, including recast risk, deferral of interest and loan modifications, see the "Risk Management – Credit Risk Management – Pick-a-Pay Portfolio" section in our 2016 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. Junior lien loan products are mostly amortizing payment loans with fixed interest rates and repayment periods between five to 30 years.
We continuously monitor the credit performance of our junior lien mortgage portfolio for trends and factors that influence the frequency and severity of loss. We have observed that the severity of loss for junior lien mortgages is high and generally not affected by whether we or a third party own or service the related first lien mortgage, but the frequency of delinquency is typically lower when we own or service the first lien mortgage. In general, we have limited information available on the delinquency status of the third party owned or serviced senior lien where we also hold a junior lien. To capture this inherent loss content, our allowance process for junior lien

mortgages considers the relative difference in loss experience for junior lien mortgages behind first lien mortgage loans we own or service, compared with those behind first lien mortgage loans owned or serviced by third parties. In addition, our allowance process for junior lien mortgages that are current, but are in their revolving period, considers the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.
Table 20 shows certain delinquency and loss information for the junior lien mortgage portfolio and lists the top five states by outstanding balance. The decrease in outstanding balances since December 31, 2016, predominantly reflects loan paydowns. As of June 30, 2017, 11% of the outstanding balance of the junior lien mortgage portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. Of those junior lien mortgages with a CLTV ratio in excess of 100%, 2.60% were 30 days or more past due. CLTV means the ratio of the total loan balance of first lien mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 4% of the junior lien mortgage portfolio at June 30, 2017. For additional information on consumer loans by LTV/CLTV, see Table 5.12 in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.
Table 20: Junior Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
(in millions)	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
California	$11,516	12,539	1.82 %	1.86	(0.42)	(0.37)	(0.18)	(0.13)	0.07
Florida	3,948	4,252	2.19	2.17	(0.10)	0.30	0.47	0.56	0.76
New Jersey	3,809	4,031	2.59	2.79	0.44	1.06	1.36	0.96	1.10
Virginia	2,519	2,696	1.94	1.97	0.17	0.48	0.67	0.55	0.87
Pennsylvania	2,345	2,494	1.94	2.07	0.29	0.67	1.01	0.75	0.58
Other	18,579	20,189	1.97	2.09	0.05	0.28	0.39	0.51	0.53
Total	42,716	46,201	2.00	2.09	(0.03)	0.21	0.38	0.40	0.49
PCI	31	36							
Total junior lien mortgages	$42,747	46,237							

33

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

On a monthly basis, we monitor the payment characteristics of borrowers in our junior lien portfolio. In June 2017, approximately 48% of these borrowers paid only the minimum amount due and approximately 46% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due. For the borrowers with an

interest only payment feature, approximately 33% paid only the minimum amount due and approximately 62% paid more than the minimum amount due.

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

Table 21 reflects the outstanding balance of our portfolio of junior lien mortgages, including lines and loans, and senior lien lines segregated into scheduled end of draw or end of term periods and products that are currently amortizing, or in balloon repayment status. It excludes real estate 1-4 family first lien line reverse mortgages, which total $151 million, because they are predominantly insured by the FHA, and it excludes PCI loans, which total $55 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

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

		Scheduled end of draw / term						
(in millions)	Outstanding balance June 30, 2017	Remainder of 2017	2018	2019	2020	2021	2022 and thereafter (1)	Amortizing
Junior lien lines and loans	$ 42,716	1,371	1,941	822	747	1,474	22,866	13,495
First lien lines	14,265	221	621	305	281	633	10,120	2,084
Total (2)(3)	$ 56,981	1,592	2,562	1,127	1,028	2,107	32,986	15,579
% of portfolios	100 %	3	4	2	2	4	58	27

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2026, with annual scheduled amounts through that date ranging from $4.4 billion to $7.5 billion and averaging $6.3 billion per year.

(2) Junior and first lien lines are mostly interest-only during their draw period. The unfunded credit commitments for junior and first lien lines totaled $63.9 billion at June 30, 2017.

(3) Includes scheduled end-of-term balloon payments for lines and loans totaling $109 million, $284 million, $292 million, $320 million, $504 million and $302 million for 2017, 2018, 2019, 2020, 2021, and 2022 and thereafter, respectively. Amortizing lines and loans include $104 million of end-of-term balloon payments, which are past due. At June 30, 2017, $501 million, or 4% of outstanding lines of credit that are amortizing, are 30 days or more past due compared to $631 million or 2% for lines in their draw period.

CREDIT CARDS Our credit card portfolio totaled $35.3 billion at June 30, 2017, which represented 4% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 3.67% for second quarter

2017, compared with 3.25% for second quarter 2016 and 3.61% and 3.20% for the first half of 2017 and 2016, respectively, principally from portfolio growth and seasoning of newer vintages.

AUTOMOBILE Our automobile portfolio, predominantly composed of indirect loans, totaled $58.0 billion at June 30, 2017. The net charge-off rate (annualized) for our automobile portfolio was 0.86% for second quarter 2017, compared with 0.59% for second quarter 2016 and 0.98% and 0.72% for the first half of 2017 and 2016, respectively. The increase in net charge-offs in 2017, compared with 2016, was due to increased loss severities and was consistent with trends in the automobile lending industry.

OTHER REVOLVING CREDIT AND INSTALLMENT Other revolving credit and installment loans totaled $38.9 billion at June 30, 2017, and primarily included student and securities-based loans. Our private student loan portfolio totaled $12.2 billion at June 30, 2017. All remaining student loans guaranteed by agencies on behalf of the U.S. Department of Education under the Federal Family Education Loan Program (FFELP) were sold as of March 31, 2017. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.58% for second quarter 2017, compared with 1.32% for second quarter 2016 and 1.59% and 1.29% for the first half of 2017 and 2016, respectively.

Risk Management - Credit Risk Management (continued)

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 22 summarizes nonperforming assets (NPAs) for each of the last four quarters. Total NPAs decreased $827 million from first quarter to $9.8 billion with improvement across our consumer and commercial portfolios. Nonaccrual loans decreased $703 million from first quarter to $9.1 billion reflecting declines across all major commercial asset classes, as well as continued lower consumer real estate nonaccruals. Foreclosed assets of $781 million were down $124 million from first quarter 2017.

We generally place loans on nonaccrual status when:

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

Credit card loans are not placed on nonaccrual status, but are generally fully charged off when the loan reaches 180 days past due.

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

	June 30, 2017		March 31, 2017		December 31, 2016		September 30, 2016	
($ in millions)	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans
Nonaccrual loans:								
Commercial:								
Commercial and industrial	$2,632	0.79 %	$2,898	0.88 %	$3,216	0.97 %	$3,331	1.03 %
Real estate mortgage	630	0.48	672	0.51	685	0.52	780	0.60
Real estate construction	34	0.13	40	0.16	43	0.18	59	0.25
Lease financing	89	0.46	96	0.50	115	0.60	92	0.49
Total commercial	3,385	0.67	3,706	0.73	4,059	0.80	4,262	0.86
Consumer:								
Real estate 1-4 family first mortgage (1)	4,413	1.60	4,743	1.73	4,962	1.80	5,310	1.91
Real estate 1-4 family junior lien mortgage	1,095	2.56	1,153	2.60	1,206	2.61	1,259	2.62
Automobile	104	0.18	101	0.17	106	0.17	108	0.17
Other revolving credit and installment	59	0.15	56	0.14	51	0.13	47	0.12
Total consumer	5,671	1.26	6,053	1.34	6,325	1.37	6,724	1.45
Total nonaccrual loans (2)(3)(4)	9,056	0.95	9,759	1.02	10,384	1.07	10,986	1.14
Foreclosed assets:								
Government insured/guaranteed (5)	149		179		197		282	
Non-government insured/guaranteed	632		726		781		738	
Total foreclosed assets	781		905		978		1,020	
Total nonperforming assets	$9,837	1.03 %	$10,664	1.11 %	$11,362	1.17 %	$12,006	1.25 %
Change in NPAs from prior quarter	$(827)		(698)		(644)		(1,074)	

(1) Includes MHFS of $140 million, $145 million, $149 million, and $150 million at June 30 and March 31, 2017, and December 31 and September 30, 2016, respectively.

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

(3) Real estate 1-4 family mortgage loans predominantly insured by the FHA or guaranteed by the VA and student loans largely guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP are not placed on nonaccrual status because they are insured or guaranteed. All remaining student loans guaranteed under the FFELP were sold as of March 31, 2017.

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

(5) Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. However, both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Foreclosure of certain government guaranteed residential real estate mortgage loans that meet criteria specified by Accounting Standards Update (ASU) 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure, effective as of January 1, 2014 are excluded from this table and included in Accounts Receivable in Other Assets. For more information on the changes in foreclosures for government guaranteed residential real estate mortgage loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.

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

Table 23: Analysis of Changes in Nonaccrual Loans

(in millions)	Quarter ended Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Commercial nonaccrual loans					
Balance, beginning of period	$3,706	4,059	4,262	4,507	3,969
Inflows	704	945	951	1,180	1,936
Outflows:					
Returned to accruing	(61)	(133)	(59)	(80)	(32)
Foreclosures	(15)	(1)	(15)	(1)	(6)
Charge-offs	(116)	(202)	(292)	(290)	(420)
Payments, sales and other	(833)	(962)	(788)	(1,054)	(940)
Total outflows	(1,025)	(1,298)	(1,154)	(1,425)	(1,398)
Balance, end of period	3,385	3,706	4,059	4,262	4,507
Consumer nonaccrual loans					
Balance, beginning of period	6,053	6,325	6,724	7,456	8,265
Inflows	676	814	863	868	829
Outflows:					
Returned to accruing	(425)	(428)	(410)	(597)	(546)
Foreclosures	(72)	(81)	(59)	(85)	(85)
Charge-offs	(117)	(151)	(158)	(192)	(167)
Payments, sales and other	(444)	(426)	(635)	(726)	(840)
Total outflows	(1,058)	(1,086)	(1,262)	(1,600)	(1,638)
Balance, end of period	5,671	6,053	6,325	6,724	7,456
Total nonaccrual loans	$9,056	9,759	10,384	10,986	11,963

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

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by the following factors at June 30, 2017:

- 96% of total commercial nonaccrual loans and 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 97% are secured by real estate and 81% have a combined LTV (CLTV) ratio of 80% or less.
- losses of $448 million and $2.0 billion have already been recognized on 14% of commercial nonaccrual loans and 46% of consumer nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due (except when required earlier by guidance issued by bank regulatory agencies), we transfer it to nonaccrual status. When the loan reaches 180 days past due, or is discharged in bankruptcy, it is our policy to write these loans down to net realizable value (fair value of collateral less estimated costs to sell), except for modifications in their trial period that are not written down as long as trial payments are made on time. Thereafter, we reevaluate each loan regularly and record additional write-downs if needed.
- 90% of commercial nonaccrual loans were current on interest, but were on nonaccrual status because the full or timely collection of interest or principal had become uncertain.
- the remaining risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.
- $1.5 billion of consumer loans discharged in bankruptcy and classified as nonaccrual were 60 days or less past due, of which $1.4 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 Making Home Affordable (MHA) programs, customers may be required to provide updated documentation, and some programs require completion of payment during trial periods to demonstrate sustained performance before the loan can be removed from nonaccrual status.

Risk Management - Credit Risk Management (continued)

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

Table 24: Foreclosed Assets

(in millions)	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Summary by loan segment					
Government insured/guaranteed	$ 149	179	197	282	321
PCI loans:					
Commercial	79	84	91	98	124
Consumer	67	80	75	88	91
Total PCI loans	146	164	166	186	215
All other loans:					
Commercial	259	275	287	298	313
Consumer	227	287	328	254	268
Total all other loans	486	562	615	552	581
Total foreclosed assets	$ 781	905	978	1,020	1,117
Analysis of changes in foreclosed assets (1)					
Balance, beginning of period	$ 905	978	1,020	1,117	1,279
Net change in government insured/guaranteed (2)	(30)	(18)	(85)	(39)	(65)
Additions to foreclosed assets (3)	233	288	405	261	281
Reductions:					
Sales	(330)	(307)	(296)	(421)	(405)
Write-downs and gains (losses) on sales	3	(36)	(66)	102	27
Total reductions	(327)	(343)	(362)	(319)	(378)
Balance, end of period	$ 781	905	978	1,020	1,117

(1) During fourth quarter 2016, we evaluated a population of foreclosed properties that were previously security for FHA insured loans, and made the decision to retain some of the properties as foreclosed real estate, thereby foregoing the FHA insurance claim. Accordingly, the loans for which we decided not to file a claim are reported as additions to foreclosed assets rather than included as net change in government insured/guaranteed foreclosures.

(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 generally made up of inflows from mortgages held for investment and MHFS, and outflows when we are reimbursed by FHA/VA.

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

Foreclosed assets at June 30, 2017, included $434 million of foreclosed residential real estate, of which 34% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining foreclosed assets balance of $347 million has been written down to estimated net realizable value. Of the $781 million in foreclosed assets at June 30, 2017, 52% have been in the foreclosed assets portfolio one year or less.

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 25: Troubled Debt Restructurings (TDRs)

(in millions)	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Commercial:					
Commercial and industrial	$2,629	2,484	2,584	2,445	1,951
Real estate mortgage	1,024	1,090	1,119	1,256	1,324
Real estate construction	62	73	91	95	106
Lease financing	21	8	6	8	5
Total commercial TDRs	3,736	3,655	3,800	3,804	3,386
Consumer:					
Real estate 1-4 family first mortgage	13,141	13,680	14,134	14,761	15,518
Real estate 1-4 family junior lien mortgage	1,975	2,027	2,074	2,144	2,214
Credit Card	316	308	300	294	291
Automobile	85	80	85	89	92
Other revolving credit and installment	118	107	101	93	86
Trial modifications	215	261	299	348	364
Total consumer TDRs (1)	15,850	16,463	16,993	17,729	18,565
Total TDRs	$19,586	20,118	20,793	21,533	21,951
TDRs on nonaccrual status	$5,637	5,819	6,193	6,429	6,404
TDRs on accrual status (1)	13,949	14,299	14,600	15,104	15,547
Total TDRs	$19,586	20,118	20,793	21,533	21,951

(1) TDR loans include $1.4 billion, $1.5 billion, $1.5 billion, $1.6 billion, and $1.7 billion at June 30 and March 31, 2017, and December 31, September 30 and June 30, 2016, respectively, of government insured/guaranteed loans that are predominantly insured by the FHA or guaranteed by the VA and accruing.

Table 25 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was $1.9 billion and $2.2 billion at June 30, 2017, and December 31, 2016, 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. When we delay the timing on the repayment of a portion of principal (principal forbearance), we charge off the amount of forbearance if that amount is not considered fully collectible.

For more information on our nonaccrual policies when a restructuring is involved, see the “Risk Management – Credit Risk Management – Troubled Debt Restructurings (TDRs)” section in our 2016 Form 10-K.

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

Risk Management - Credit Risk Management (continued)

Table 26: Analysis of Changes in TDRs

(in millions)	Quarter ended Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Commercial:					
Balance, beginning of quarter	$3,655	3,800	3,804	3,386	3,092
Inflows (1)	730	642	615	914	797
Outflows					
Charge-offs	(59)	(108)	(120)	(76)	(153)
Foreclosures	(12)	—	(13)	(2)	—
Payments, sales and other (2)	(578)	(679)	(486)	(418)	(350)
Balance, end of quarter	3,736	3,655	3,800	3,804	3,386
Consumer:					
Balance, beginning of quarter	16,463	16,993	17,729	18,565	19,413
Inflows (1)	444	517	513	542	508
Outflows					
Charge-offs	(51)	(51)	(48)	(65)	(38)
Foreclosures	(159)	(179)	(166)	(230)	(217)
Payments, sales and other (2)	(801)	(779)	(987)	(1,067)	(1,085)
Net change in trial modifications (3)	(46)	(38)	(48)	(16)	(16)
Balance, end of quarter	15,850	16,463	16,993	17,729	18,565
Total TDRs	$19,586	20,118	20,793	21,533	21,951

(1) Inflows include loans that modify, even if they resolve within the period as well as advances on loans that modified in a prior period.

(2) Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. It also includes $4 million of loans refinanced or restructured at market terms and qualifying as new loans and removed from TDR classification for the quarter ended December 31, 2016, while no loans were removed from TDR classification for the quarters ended June 30 and March 31, 2017, and September 30 and June 30, 2016.

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

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 when 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, 2017, were down $129 million, or 13%, from December 31, 2016, due to payoffs, modifications and other loss mitigation activities and credit

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

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages were $8.9 billion at June 30, 2017, down from $10.9 billion at December 31, 2016, due to improving credit trends. All remaining student loans guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP were sold as of March 31, 2017.

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

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

(in millions)	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Total (excluding PCI (1)):	$ 9,716	10,525	11,858	12,068	12,385
Less: FHA insured/VA guaranteed (2)(3)	8,873	9,585	10,883	11,198	11,577
Less: Student loans guaranteed under the FFELP (4)	—	—	3	17	20
Total, not government insured/guaranteed	$ 843	940	972	853	788
By segment and class, not government insured/guaranteed:					
Commercial:					
Commercial and industrial	$ 42	88	28	47	36
Real estate mortgage	2	11	36	4	22
Real estate construction	10	3	—	—	—
Total commercial	54	102	64	51	58
Consumer:					
Real estate 1-4 family first mortgage (3)	145	149	175	171	169
Real estate 1-4 family junior lien mortgage (3)	44	42	56	54	52
Credit card	411	453	452	392	348
Automobile	91	79	112	81	64
Other revolving credit and installment	98	115	113	104	97
Total consumer	789	838	908	802	730
Total, not government insured/guaranteed	$ 843	940	972	853	788

(1) PCI loans totaled $1.5 billion, $1.8 billion, $2.0 billion, $2.2 billion, and $2.4 billion at June 30 and March 31, 2017 and December 31, September 30, and June 30, 2016, 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 largely guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP. All remaining student loans guaranteed under the FFELP were sold as of March 31, 2017.

Risk Management - Credit Risk Management (continued)

NET CHARGE-OFFS

Table 28: Net Charge-offs

	Jun 30, 2017		Mar 31, 2017		Dec 31, 2016		Sep 30, 2016		Quarter ended Jun 30, 2016	
($ in millions)	Net loan charge-offs	% of avg. loans(1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)
Commercial:										
Commercial and industrial	$78	0.10 %	$171	0.21 %	$256	0.31 %	$259	0.32 %	$368	0.46 %
Real estate mortgage	(6)	(0.02)	(25)	(0.08)	(12)	(0.04)	(28)	(0.09)	(20)	(0.06)
Real estate construction	(4)	(0.05)	(8)	(0.15)	(8)	(0.13)	(18)	(0.32)	(3)	(0.06)
Lease financing	7	0.15	5	0.11	15	0.32	2	0.04	12	0.27
Total commercial	75	0.06	143	0.11	251	0.20	215	0.17	357	0.29
Consumer:										
Real estate 1-4 family first mortgage	(16)	(0.02)	7	0.01	(3)	—	20	0.03	14	0.02
Real estate 1-4 family junior lien mortgage	(4)	(0.03)	23	0.21	44	0.38	49	0.40	62	0.49
Credit card	320	3.67	309	3.54	275	3.09	245	2.82	270	3.25
Automobile	126	0.86	167	1.10	166	1.05	137	0.87	90	0.59
Other revolving credit and installment	154	1.58	156	1.60	172	1.70	139	1.40	131	1.32
Total consumer	580	0.51	662	0.59	654	0.56	590	0.51	567	0.49
Total	$655	0.27 %	$805	0.34 %	$905	0.37 %	$805	0.33 %	$924	0.39 %

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

Table 28 presents net charge-offs for second quarter 2017 and the previous four quarters. Net charge-offs in second quarter 2017 were $655 million (0.27% of average total loans outstanding) compared with $924 million (0.39%) in second quarter 2016.

The decrease in commercial and industrial net charge-offs from second quarter 2016, reflected continued improvement in our oil and gas portfolio. Our commercial real estate portfolios were in a net recovery position. Total consumer net charge-offs increased slightly from the prior year due to an increase in credit card, automobile and other revolving credit and installment losses, partially offset by a decrease in residential real estate net charge-offs.

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

We apply a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. Our estimation approach for the commercial portfolio reflects the estimated probability of default in accordance with the borrower's financial strength, and the severity of loss in the event of default, considering the quality of any underlying collateral. Probability of default and severity at the time of default are statistically derived through historical observations of defaults and losses after default within each credit risk rating. Our estimation approach for the consumer portfolio uses forecasted losses that represent our best estimate of inherent loss based on historical experience, quantitative and other mathematical techniques. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2016 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 29 presents the allocation of the allowance for credit losses by loan segment and class for the most recent quarter end and last four year ends.

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

	Jun 30, 2017			Dec 31, 2016			Dec 31, 2015			Dec 31, 2014			Dec 31, 2013		
(in millions)	ACL	Loans as % of total loans		ACL	Loans as % of total loans		ACL	Loans as % of total loans		ACL	Loans as % of total loans		ACL	Loans as % of total loans	
Commercial:															
Commercial and industrial	$4,178	34	%	$4,560	34	%	$4,231	33	%	$3,506	32	%	$3,040	29	%
Real estate mortgage	1,269	14		1,320	14		1,264	13		1,576	13		2,157	14	
Real estate construction	1,276	3		1,294	2		1,210	3		1,097	2		775	2	
Lease financing	238	2		220	2		167	1		198	1		131	1	
Total commercial	6,961	53		7,394	52		6,872	50		6,377	48		6,103	46	
Consumer:															
Real estate 1-4 family first mortgage	1,180	29		1,270	29		1,895	30		2,878	31		4,087	32	
Real estate 1-4 family junior lien mortgage	690	4		815	5		1,223	6		1,566	7		2,534	8	
Credit card	1,851	4		1,605	4		1,412	4		1,271	4		1,224	3	
Automobile	786	6		817	6		529	6		516	6		475	6	
Other revolving credit and installment	678	4		639	4		581	4		561	4		548	5	
Total consumer	5,185	47		5,146	48		5,640	50		6,792	52		8,868	54	
Total	$12,146	100	%	$12,540	100	%	$12,512	100	%	$13,169	100	%	$14,971	100	%

	Jun 30, 2017		Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Components:						
Allowance for loan losses	$11,073		11,419	11,545	12,319	14,502
Allowance for unfunded credit commitments	1,073		1,121	967	850	469
Allowance for credit losses	$12,146		12,540	12,512	13,169	14,971
Allowance for loan losses as a percentage of total loans	1.16	%	1.18	1.26	1.43	1.76
Allowance for loan losses as a percentage of total net charge-offs (1)	421		324	399	418	322
Allowance for credit losses as a percentage of total loans	1.27		1.30	1.37	1.53	1.82
Allowance for credit losses as a percentage of total nonaccrual loans	134		121	110	103	96

(1) Total net charge-offs are annualized for quarter ended June 30, 2017.

In addition to the allowance for credit losses, there was $649 million at June 30, 2017, and $954 million at December 31, 2016, of nonaccretable difference to absorb losses for PCI loans, which totaled $14.3 billion at June 30, 2017. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with credit-related metrics for other financial institutions. Additionally, loans purchased at fair value, including loans from the GE Capital business acquisitions, generally reflect a lifetime credit loss adjustment and therefore do not initially require additions to the allowance as is typically associated with loan growth. For additional information on PCI loans, see the "Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans" section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

primarily of real estate 1-4 family first and junior lien mortgage loans at June 30, 2017.

The allowance for credit losses decreased $394 million, or 3%, from December 31, 2016, due to a decrease in our commercial allowance reflecting credit quality improvement, including in the oil and gas portfolio, as well as improvement in our residential real estate and automobile portfolios, partially offset by increased allowance in the credit card portfolio. Total provision for credit losses was $555 million in second quarter 2017, compared with $1.1 billion in second quarter 2016, reflecting the same changes mentioned above for the allowance for credit losses.

We believe the allowance for credit losses of $12.1 billion at June 30, 2017, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. Approximately $959 million of the allowance at June 30, 2017, was allocated to our oil and gas portfolio, compared with $1.3 billion at December 31, 2016. This represented 7.5% and 8.5% of total oil and gas loans outstanding at June 30, 2017, and December 31, 2016, respectively. However, the entire allowance is available to absorb credit losses inherent in the total loan portfolio. The allowance for credit losses is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our process for determining the allowance for credit losses is discussed in the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 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 typically retain the servicing for 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 $1.5 trillion in the residential mortgage loan servicing portfolio at June 30, 2017, 96% was current and less than 1% was subprime at origination. Our combined delinquency and foreclosure rate on this portfolio was 4.14% at June 30, 2017, compared with 4.83% at December 31, 2016. Two percent of this portfolio is private label securitizations for which we originated the loans and, therefore have some repurchase risk.

The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at June 30, 2017, was $121 million, representing 562 loans, up from a year ago both in number of outstanding loans and in total dollar balances. The increase was predominantly due to private investor demands we expect to resolve with minimal repurchase risk.

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 $178 million at June 30, 2017, and $229 million at December 31, 2016. In second quarter 2017, we released $39 million, which increased net gains on mortgage loan origination/sales activities, compared with a release of $81 million in second quarter 2016. The release in second quarter 2017 was due to a re-estimation of our liability based on recently observed trends. We incurred net losses on repurchased loans and investor reimbursements totaling $5 million in second quarter 2017, compared with $19 million in second quarter 2016.

Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that are reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available information, significant judgment, and a number of assumptions that are subject to change. The high end of this range of reasonably possible losses exceeded our recorded liability by $167 million at June 30, 2017, and was determined based upon modifying the assumptions (particularly to assume significant changes in investor repurchase demand practices) used in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions.

For additional information on our repurchase liability, see the "Risk Management – Credit Risk Management – Liability For Mortgage Loan Repurchase Losses" section in our 2016 Form 10-K and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

RISKS RELATING TO SERVICING ACTIVITIES In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations, GNMA-guaranteed mortgage securitizations of FHA-insured/VA-guaranteed mortgages and private label mortgage securitizations, as well as for unsecuritized loans owned by institutional investors. In connection with our servicing activities, we have entered into various settlements with federal and state regulators to resolve certain alleged servicing issues and practices. In general, these settlements required us to provide customers with loan modification relief, refinancing relief, and foreclosure prevention and assistance, as well as imposed certain monetary penalties on us.

For additional information about the risks and various settlements related to our servicing activities, see the “Risk Management – Credit Risk Management – Risks Relating to Servicing Activities” section in our 2016 Form 10-K.

Asset/Liability Management

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

INTEREST RATE RISK Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We 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 net interest income 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 drivers of earnings and balance sheet composition such as loan originations, prepayment speeds on loans and investment securities, deposit flows and mix, as well as pricing strategies.

Currently, our profile is such that we project net interest income will benefit modestly from higher interest rates as our assets would reprice faster and to a greater degree than our liabilities, while in the case of lower interest rates, our assets would reprice downward and to a greater degree than our liabilities.

As of June 30, 2017, our most recent simulations estimate net interest income sensitivity over the next two years under a range of both lower and higher interest rates. Measured impacts from standardized ramps (gradual changes) and shocks

(instantaneous changes) are summarized in Table 30, indicating net interest income sensitivity relative to the Company's base net interest income plan. Ramp scenarios assume interest rates move gradually in parallel across the yield curve relative to the base scenario in year one, and the full amount of the ramp is held as a constant differential to the base scenario in year two. The following describes the simulation assumptions for the scenarios presented in Table 30:

- Simulations are dynamic and reflect anticipated growth across assets and liabilities.
- Other macroeconomic variables that could be correlated with the changes in interest rates are held constant.
- Mortgage prepayment and origination assumptions vary across scenarios and reflect only the impact of the higher or lower interest rates.
- Our base scenario deposit forecast incorporates mix changes consistent with the base interest rate trajectory. Deposit mix is modeled to be the same as in the base scenario across the alternative scenarios. In higher rate scenarios,

customer activity that shifts balances into higher-yielding products could reduce expected net interest income.

- We hold the size of the projected investment securities portfolio constant across scenarios.

Table 30: Net Interest Income Sensitivity Over Next Two-Year Horizon Relative to Base Expectation

($ in billions)	Base	Lower Rates 100 bps Ramp Parallel Decrease	Higher Rates 100 bps Instantaneous Parallel Increase	200 bps Ramp Parallel Increase
First Year of Forecasting Horizon				
Net Interest Income Sensitivity to Base Scenario		$(0.9) - (0.4)	1.1 - 1.6	0.9 - 1.4
Key Rates at Horizon End				
Fed Funds Target	1.89%	0.89	2.89	3.89
10-year CMT (1)	3.04	2.04	4.04	5.04
Second Year of Forecasting Horizon				
Net Interest Income Sensitivity to Base Scenario		$(1.5) - (1.0)	1.4 - 1.9	1.8 - 2.3
Key Rates at Horizon End				
Fed Funds Target	2.50%	1.50	3.50	4.50
10-year CMT (1)	3.55	2.55	4.55	5.55

(1) U.S. Constant Maturity Treasury Rate

The sensitivity results above do not capture interest rate sensitive noninterest income and expense impacts. Our interest rate sensitive noninterest income and expense is primarily driven by mortgage activity, and may move in the opposite direction of our net interest income. Typically, in response to higher interest rates, mortgage activity, primarily refinancing activity, generally declines. And in response to lower interest rates, mortgage activity generally increases. Mortgage results are also impacted by the valuation of MSRs and related hedge positions. See the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in this Report for more information.

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-

Asset/Liability Management (continued)

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, 2017, and December 31, 2016, are presented in Note 12 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

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

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For more information on mortgage banking interest rate and market risk, see the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in our 2016 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 LIBOR index-based financial instruments used as economic hedges for such ARMs. Additionally, hedge-carry income on our economic hedges for the MSRs may not continue at recent levels if the spread between short-term and long-term rates decreases or there are other changes in the market for mortgage forwards that affect the implied carry.

The total carrying value of our residential and commercial MSRs was $14.2 billion at June 30, 2017, and $14.4 billion at December 31, 2016. The weighted-average note rate on our portfolio of loans serviced for others was 4.23% at June 30, 2017, and 4.26% at December 31, 2016. The carrying value of our total MSRs represented 0.85% of mortgage loans serviced for others at both June 30, 2017 and December 31, 2016.

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

Table 31 presents total revenue from trading activities.

Table 31: Net Gains (Losses) from Trading Activities

	Quarter ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Interest income (1)	$710	572	$1,353	1,168
Less: Interest expense (2)	108	83	200	172
Net interest income	602	489	1,153	996
Noninterest income:				
Net gains (losses) from trading activities (3):				
Customer accommodation	187	380	532	599
Economic hedges and other (4)	50	(52)	144	(71)

Total net gains from trading activities	237	328	676	528
Total trading-related net interest and noninterest income	$839	817	$1,829	1,524

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

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

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

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

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

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

Market Risk Market risk is the risk of possible economic loss from adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity, commodity prices, mortgage rates, and market liquidity. Market risk is intrinsic to the Company's sales and trading, market making, investing, and risk management activities. The Company uses value-at-risk (VaR) metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. VaR is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets. For more information on VaR, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in our 2016 Form 10-K.

Trading VaR is the measure used to provide insight into the market risk exhibited by the Company's trading positions. The
Company calculates Trading VaR for risk management purposes to establish line of business and Company-wide risk limits. Trading VaR is calculated based on all trading positions classified as trading assets or other liabilities, derivative assets or derivative liabilities on our balance sheet.

Asset/Liability Management (continued)

Table 33 shows the Company's Trading General VaR by risk category. As presented in the table, average Company Trading General VaR was $29 million for the quarter ended June 30, 2017, compared with $26 million for the quarter ended March 31,

2017. The increase was primarily driven by changes in portfolio composition.

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

	Quarter ended							
	June 30, 2017				March 31, 2017			
(in millions)	Period end	Average	Low	High	Period end	Average	Low	High
Company Trading General VaR Risk Categories								
Credit	$23	29	23	36	27	25	19	30
Interest rate	10	20	10	27	22	18	13	23
Equity	10	11	9	14	10	12	9	17
Commodity	1	1	1	2	1	1	1	2
Foreign exchange	1	1	0	1	1	1	0	1
Diversification benefit (1)	(29)	(33)			(35)	(31)		
Company Trading General VaR	$16	29			26	26		

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

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

Composition of Material Portfolio of Covered Positions The positions that are "covered" by the market risk capital rule are generally a subset of our trading assets, and derivative assets and liabilities, specifically those held by the Company for the purpose of short-term resale or with the intent of benefiting from actual or expected short-term price movements, or to lock in arbitrage profits. Positions excluded from market risk regulatory capital treatment are subject to the credit risk capital rules applicable to the "non-covered" trading positions.

The material portfolio of the Company's "covered" positions is mostly concentrated in the trading assets, and derivative assets and liabilities within Wholesale Banking where the substantial portion of market risk capital resides. Wholesale Banking engages in the fixed income, traded credit, foreign exchange, equities, and commodities markets businesses. Other business segments hold smaller trading positions covered under the market risk capital rule.

Regulatory Market Risk Capital Components The capital required for market risk on the Company's "covered" positions is determined by internally developed models or standardized specific risk charges. The market risk regulatory capital models are subject to internal model risk management and validation. The models are continuously monitored and enhanced in response to changes in market conditions, improvements in system capabilities, and changes in the Company's market risk exposure. The Company is required to obtain and has received prior written approval from its regulators before using its internally developed models to calculate the market risk capital charge.

Basel III prescribes various VaR measures in the determination of regulatory capital and RWAs. The Company uses the same VaR models for both market risk management purposes as well as regulatory capital calculations. For regulatory purposes, we use the following metrics to determine the Company's market risk capital requirements:

General VaR measures the risk of broad market movements such as changes in the level of credit spreads, interest rates, equity prices, commodity prices, and foreign exchange rates. General VaR uses historical simulation analysis based on 99% confidence level and a 10-day holding period.

Table 34 shows the General VaR measure categorized by major risk categories. Average 10-day Company Regulatory General VaR was $30 million for the quarter ended June 30, 2017, compared with $26 million for the quarter ended March 31,

2017. The increase was primarily driven by changes in portfolio composition.

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

	Quarter ended							
	June 30, 2017				March 31, 2017			
(in millions)	Period end	Average	Low	High	Period end	Average	Low	High
Wholesale Regulatory General VaR Risk Categories								
Credit	$60	72	57	93	69	67	52	81
Interest rate	17	39	17	71	47	38	25	50
Equity (1)	6	4	2	7	4	4	1	7
Commodity	11	4	3	11	3	4	2	6
Foreign exchange	8	6	3	29	7	6	4	10
Diversification benefit (2)	(71)	(96)			(103)	(94)		
Wholesale Regulatory General VaR	$31	29	24	37	27	25	16	37
Company Regulatory General VaR	35	30	25	40	27	26	17	38

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

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

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

Total Stressed VaR (as presented in Table 35) uses a historical period of significant financial stress over a continuous 12 month period using historically available market data and is composed of Stressed General VaR and Stressed Specific Risk. Total Stressed VaR uses the same methodology and models as Total VaR.

Incremental Risk Charge (as presented in Table 35) captures losses due to both issuer default and migration risk at the 99.9% confidence level over the one-year capital horizon under the assumption of constant level of risk or a constant position assumption. The model covers non-securitized credit-sensitive trading products.

The Company calculates Incremental Risk by generating a portfolio loss distribution using Monte Carlo simulation, which assumes numerous scenarios, where an assumption is made that the portfolio’s composition remains constant for a one-year time horizon. Individual issuer credit grade migration and issuer default risk is modeled through generation of the issuer’s credit rating transition based upon statistical modeling. Correlation between credit grade migration and default is captured by a multifactor proprietary model which takes into account industry classifications as well as regional effects. Additionally, the impact of market and issuer specific concentrations is reflected in the modeling framework by assignment of a higher charge for portfolios that have increasing concentrations in particular issuers or sectors. Lastly, the model captures product basis risk; that is, it reflects the material disparity between a position and its hedge.

Table 35 provides information on Total VaR, Total Stressed VaR and the Incremental Risk Charge results for the quarter ended June 30, 2017. Incremental Risk Charge uses the higher of the quarterly average or the quarter end result. For second quarter 2017, the required capital for market risk equals the quarter end results.

Table 35: Market Risk Regulatory Capital Modeled Components

	Quarter ended June 30, 2017				June 30, 2017	
(in millions)	Average	Low	High	Period end	Risk-based capital (1)	Risk-weighted assets (1)
Total VaR	$51	45	57	53	152	1,898
Total Stressed VaR	300	235	368	284	899	11,235
Incremental Risk Charge	26	20	40	30	30	375

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

Securitized Products Charge Basel III requires a separate market risk capital charge for positions classified as a securitization or re-securitization. The primary criteria for classification as a securitization are whether there is a transfer of risk and whether the credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of

seniority. Covered trading securitizations positions include consumer and commercial asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), and collateralized loan and other debt obligations (CLO/CDO) positions. The securitization capital requirements are the greater of the capital requirements

Asset/Liability Management (continued)

of the net long or short exposure, and are capped at the maximum loss that could be incurred on any given transaction. Table 36 shows the aggregate net fair market value of securities and derivative securitization positions by exposure type that meet the regulatory definition of a covered trading securitization position at June 30, 2017, and December 31, 2016.

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

(in millions)	ABS	CMBS	RMBS	CLO/CDO
June 30, 2017				
Securitization exposure:				
Securities	$961	306	630	782
Derivatives	3	(2)	1	(3)
Total	$964	304	631	779
December 31, 2016				
Securitization exposure:				
Securities	$801	397	911	791
Derivatives	3	4	1	(8)
Total	$804	401	912	783

Securitization Due Diligence and Risk Monitoring The market risk capital rule requires that the Company conduct due diligence on the risk of each securitization position within three days of its purchase. The Company's due diligence seeks to provide an understanding of the features that would materially affect the performance of a securitization or re-securitization. The due diligence analysis is re-performed on a quarterly basis for each

securitization and re-securitization position. The Company uses an automated solution to track the due diligence associated with securitization activity. The Company aims to manage the risks associated with securitization and re-securitization positions through the use of offsetting positions and portfolio diversification.

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

Comprehensive Risk Charge / Correlation Trading The market risk capital rule requires capital for correlation trading positions. The Company's remaining correlation trading exposure covered under the market risk capital rule matured in fourth quarter 2014.

Table 37 summarizes the market risk-based capital requirements charge and market RWAs in accordance with the Basel III market risk capital rule as of June 30, 2017, and December 31, 2016. The market RWAs are calculated as the sum of the components in the table below.

Table 37: Market Risk Regulatory Capital and RWAs

	June 30, 2017		December 31, 2016	
(in millions)	Risk-based capital	Risk-weighted assets	Risk-based capital	Risk-weighted assets
Total VaR	$152	1,898	247	3,091
Total Stressed VaR	899	11,235	1,135	14,183
Incremental Risk Charge	30	375	217	2,710

Securitized Products Charge	622	7,779	561	7,007
Standardized Specific Risk Charge	1,315	16,437	1,357	16,962
De minimis Charges (positions not included in models)	8	103	11	147
Total	$3,026	37,827	3,528	44,100

RWA Rollforward Table 38 depicts the changes in the market risk regulatory capital and RWAs under Basel III for the first half and second quarter of 2017.

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

(in millions)	Risk-based capital	Risk-weighted assets
Balance, December 31, 2016	$3,528	44,100
Total VaR	(95)	(1,192)
Total Stressed VaR	(236)	(2,948)
Incremental Risk Charge	(187)	(2,335)
Securitized Products Charge	62	772
Standardized Specific Risk Charge	(42)	(525)
De minimis Charges	(4)	(45)
Balance, June 30, 2017	$3,026	37,827
Balance, March 31, 2017	$3,421	42,759
Total VaR	(63)	(782)
Total Stressed VaR	(159)	(1,989)
Incremental Risk Charge	(147)	(1,837)
Securitized Products Charge	53	663
Standardized Specific Risk Charge	(14)	(178)
De minimis Charges	(65)	(809)
Balance, June 30, 2017	$3,026	37,827

The largest contributor to the changes to market risk regulatory capital and RWAs in the first half of 2017 was associated with changes in positions due to normal trading activity.

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

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

Table 39 shows daily Total VaR (1-day, 99%) used for regulatory market risk capital backtesting for the 12 months ended June 30, 2017. The Company's average Total VaR for second quarter 2017 was $24 million with a low of $18 million and a high of $34 million. The decrease in Total 1-day VaR in second quarter 2017 was attributable to a decline in modeled Specific Risk.

Asset/Liability Management (continued)

Table 39: Daily Total 1-Day 99% VaR Measure (Rolling 12 Months)

Market Risk Governance, Measurement, Monitoring and Model Risk Management We employ a well-defined and structured market risk governance process and market risk measurement process, which incorporates value-at-risk (VaR) measurements combined with sensitivity analysis and stress testing to help us monitor our market risk. These monitoring measurements require the use of market risk models, which we govern by our Corporate Model Risk policies and procedures. For more information on our governance, measurement, monitoring, and model risk management practices, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in our 2016 Form 10-K.

MARKET RISK – EQUITY INVESTMENTS We are directly and indirectly affected by changes in the equity markets. We make and manage direct equity investments in start-up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. We also invest in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by management and the Board. The Board's policy is to review business developments, key risks and historical returns for the private equity investment portfolio at least annually. Management reviews these investments at least quarterly and assesses them for possible OTTI. For nonmarketable investments, the analysis is based on facts and circumstances of each individual investment and the expectations for that investment's cash flows and capital needs, the viability of its business model and our exit strategy. Nonmarketable investments include private equity investments accounted for under the cost method, equity method and fair value option.

In conjunction with the March 2008 initial public offering (IPO) of Visa, Inc. (Visa), we received approximately 20.7 million shares of Visa Class B common stock, the class which was apportioned to member banks of Visa at the time of the IPO. To manage our exposure to Visa and realize the value of the appreciated Visa shares, we incrementally sold these shares

through a series of sales over the past few years, thereby eliminating this position as of September 30, 2015. As part of these sales, we agreed to compensate the buyer for any additional contributions to a litigation settlement fund for the litigation matters associated with the Class B shares we sold. Our exposure to this retained litigation risk has been updated quarterly and is reflected on our balance sheet. For additional information about the associated litigation matters, see the "Interchange Litigation" section in Note 11 (Legal Actions) to Financial Statements in this Report.

As part of our business to support our customers, we trade public equities, listed/OTC equity derivatives and convertible bonds. We have parameters that govern these activities. We also have marketable equity securities in the available-for-sale securities portfolio, including securities relating to our venture capital activities. We manage these investments within capital risk limits approved by management and the Board and monitored by Corporate ALCO and the Corporate Market Risk Committee. Gains and losses on these securities are recognized in net income when realized and periodically include OTTI charges.

Changes in equity market prices may also indirectly affect our net income by (1) the value of third party assets under management and, hence, fee income, (2) borrowers whose ability to repay principal and/or interest may be affected by the stock market, or (3) brokerage activity, related commission income and other business activities. Each business line monitors and manages these indirect risks.

Table 40 provides information regarding our marketable and nonmarketable equity investments as of June 30, 2017, and December 31, 2016.

Table 40: Nonmarketable and Marketable Equity Investments

(in millions)	Jun 30, 2017	Dec 31, 2016
Nonmarketable equity investments:		
Cost method:		
Federal bank stock	$5,820	6,407
Private equity	1,367	1,465
Auction rate securities	420	525
Total cost method	7,607	8,397
Equity method:		
LIHTC (1)	9,828	9,714
Private equity	3,740	3,635
Tax-advantaged renewable energy	1,960	2,054
New market tax credit and other	295	305
Total equity method	15,823	15,708
Fair value (2)	3,986	3,275
Total nonmarketable equity investments (3)	$27,416	27,380
Marketable equity securities:		
Cost	$614	706
Net unrealized gains	414	505
Total marketable equity securities (4)	$1,028	1,211

(1) Represents low income housing tax credit investments.

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

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

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

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

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

April 1, 2017, certain quantitative and qualitative information regarding their LCR calculations.

The FRB, OCC and FDIC have proposed a rule that would implement a stable funding requirement, the net stable funding ratio (NSFR), which would require large banking organizations, such as Wells Fargo, to maintain a sufficient amount of stable funding in relation to their assets, derivative exposures and commitments over a one-year horizon period. As proposed, the rule would become effective on January 1, 2018.

Liquidity Coverage Ratio As of June 30, 2017, the consolidated Company and Wells Fargo Bank, N.A. were above the minimum LCR requirement of 100%, which is calculated as HQLA divided by projected net cash outflows, as each is defined under the LCR rule. Table 41 presents the Company’s quarterly average values for the daily-calculated LCR and its components calculated pursuant to the LCR rule requirements.

Table 41: Liquidity Coverage Ratio

(in billions)	Average for Quarter ended June 30, 2017	
HQLA (1)(2)	389	
Projected net cash outflows	314	
LCR	124	%
HQLA in excess of projected net cash outflows	75	

(1) Excludes excess HQLA at Wells Fargo Bank, N.A.
(2) Net of applicable haircuts required under the LCR rule.

Liquidity Sources We maintain liquidity in the form of cash, cash equivalents and unencumbered high-quality, liquid securities. These assets make up our primary sources of liquidity which are presented in Table 42. Our primary sources of liquidity are substantially the same in composition as HQLA under the LCR rule; however, our primary sources of liquidity will generally exceed HQLA calculated under the LCR rule due to the applicable haircuts to HQLA and the exclusion of excess HQLA at our subsidiary insured depository institutions required under the LCR rule.

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

Asset/Liability Management (continued)

Table 42: Primary Sources of Liquidity

	June 30, 2017			December 31, 2016		
(in millions)	Total	Encumbered	Unencumbered	Total	Encumbered	Unencumbered
Interest-earning deposits	$195,700	—	195,700	$200,671	—	200,671
Securities of U.S. Treasury and federal agencies	63,231	1,182	62,049	70,898	1,160	69,738
Mortgage-backed securities of federal agencies (1)	222,643	53,146	169,497	205,655	52,672	152,983
Total	$481,574	54,328	427,246	$477,224	53,832	423,392

(1) Included in encumbered securities at June 30, 2017, were securities with a fair value of $6.2 billion which were purchased in June 2017, but settled in July 2017.

In addition to our primary sources of liquidity shown in Table 42, liquidity is also available through the sale or financing of other securities including trading and/or available-for-sale securities, as well as through the sale, securitization or financing of loans, to the extent such securities and loans are not encumbered. In addition, other securities in our held-to-maturity portfolio, to the extent not encumbered, may be pledged to obtain financing.

Deposits have historically provided a sizable source of relatively low-cost funds. Deposits were 136% of total loans at June 30, 2017 and 135% at December 31, 2016. Additional funding is provided by long-term debt and short-term borrowings.
Table 43 shows selected information for short-term borrowings, which generally mature in less than 30 days.
Table 43: Short-Term Borrowings

	Quarter ended				
(in millions)	Jun 30 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Balance, period end					
Federal funds purchased and securities sold under agreements to repurchase	$78,683	76,366	78,124	108,468	104,812
Commercial paper	11	10	120	123	154
Other short-term borrowings	16,662	18,495	18,537	16,077	15,292
Total	$95,356	94,871	96,781	124,668	120,258
Average daily balance for period					
Federal funds purchased and securities sold under agreements to repurchase	$79,826	79,942	107,271	101,252	97,702
Commercial paper	10	51	121	137	326
Other short-term borrowings	15,927	18,556	17,306	14,839	13,820
Total	$95,763	98,549	124,698	116,228	111,848
Maximum month-end balance for period					
Federal funds purchased and securities sold under agreements to repurchase (1)	$78,683	81,284	109,645	108,468	104,812
Commercial paper (2)	11	78	121	138	451
Other short-term borrowings (3)	18,281	19,439	18,537	16,077	15,292

(1) Highest month-end balance in each of the last five quarters was in June, February 2017, October, September and June 2016.

(2) Highest month-end balance in each of the last five quarters was in June, January 2017, November, July and April 2016.

(3) Highest month-end balance in each of the last five quarters was in April, February 2017, December, September and June 2016.

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

Long-Term Debt We issue long-term debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. Long-term debt of $238.9 billion at June 30, 2017, decreased $16.2 billion from December 31, 2016. We issued $14.8 billion and $28.0 billion of long-term debt in the second quarter and first half of 2017, respectively. Table 44 provides the aggregate carrying value of long-term debt maturities (based on contractual payment dates) for the remainder of 2017 and the following years thereafter, as of June 30, 2017.

Table 44: Maturity of Long-Term Debt

(in millions)	June 30, 2017 Remaining 2017	2018	2019	2020	2021	Thereafter	Total
Wells Fargo & Company (Parent Only)							
Senior notes	$5,305	8,006	6,717	13,214	17,865	65,461	116,568
Subordinated notes	—	591	—	—	—	26,338	26,929
Junior subordinated notes	—	—	—	—	—	1,657	1,657
Total long-term debt - Parent	$5,305	8,597	6,717	13,214	17,865	93,456	145,154
Wells Fargo Bank, N.A. and other bank entities (Bank)							
Senior notes	$8,203	28,153	21,388	5,510	10,236	218	73,708
Subordinated notes	1,029	—	—	—	—	5,387	6,416
Junior subordinated notes	—	—	—	—	—	337	337
Securitizations and other bank debt	3,744	1,715	679	614	144	2,965	9,861
Total long-term debt - Bank	$12,976	29,868	22,067	6,124	10,380	8,907	90,322
Other consolidated subsidiaries							
Senior notes	$—	778	1,160	—	988	394	3,320
Junior subordinated notes	—	—	—	—	—	—	—
Securitizations and other bank debt	—	73	—	—	—	—	73
Total long-term debt - Other consolidated subsidiaries	$—	851	1,160	—	988	394	3,393
Total long-term debt	$18,281	39,316	29,944	19,338	29,233	102,757	238,869

Parent Under SEC rules, our Parent is classified as a "well-known seasoned issuer," which allows it to file a registration statement that does not have a limit on issuance capacity. In February 2017, the Parent filed a registration statement with the SEC for the issuance of senior and subordinated notes, preferred stock and other securities. The Parent's ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. As of June 30, 2017, the Parent was authorized by the Board to issue up to $50 billion in outstanding short-term debt and $180 billion in outstanding long-term debt. The Parent's short-term debt issuance authority granted by the Board is limited to debt issued to affiliates, while the Parent's long-term debt issuance authority granted by the Board includes debt issued to affiliates and others. At June 30, 2017, the Parent had available $49.5 billion in short-term debt issuance authority and $26.5 billion in long-term debt issuance authority. During the first half of 2017, the Parent issued $16.9 billion of senior notes, of which $12.1 billion were registered with the SEC. Additionally, in July 2017, the Parent issued $4.6 billion of senior notes, of which $3.8 billion were registered with the SEC.

The Parent's proceeds from securities issued were used for general corporate purposes, and, unless otherwise specified in the applicable prospectus or prospectus supplement, we expect the proceeds from securities issued in the future will be used for the same purposes. Depending on market conditions, we may purchase our outstanding debt securities from time to time in privately negotiated or open market transactions, by tender offer, or otherwise.

Wells Fargo Bank, N.A. As of June 30, 2017, Wells Fargo Bank, N.A. was authorized by its board of directors to issue $100 billion in outstanding short-term debt and $175 billion in outstanding long-term debt and had available $95.8 billion in short-term debt issuance authority and $95.0 billion in long-term debt issuance authority. In April 2015, Wells Fargo Bank, N.A. established a $100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $50 billion in outstanding short-term senior

notes and $50 billion in outstanding long-term senior or subordinated notes. At June 30, 2017, Wells Fargo Bank, N.A. had remaining issuance capacity under the bank note program of $50.0 billion in short-term senior notes and $36.0 billion in long-term senior or subordinated notes. During the first half of 2017, Wells Fargo Bank, N.A. issued $585 million of unregistered senior notes, none of which were issued under the bank note program. In addition, during the first half of 2017, Wells Fargo Bank, N.A. executed advances of $14.4 billion with the Federal Home Loan Bank of Des Moines, and as of June 30, 2017, Wells Fargo Bank, N.A. had outstanding advances of $62.6 billion across the

Federal Home Loan Bank System. In addition, in July 2017, Wells Fargo Bank, N.A. executed $2.0 billion of Federal Home Loan Bank advances.

Credit Ratings Investors in the long-term capital markets, as well as other market participants, generally will consider, among other factors, a company's debt rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a reduction of our credit rating; however, our debt securities do not contain credit rating covenants.

On May 24, 2017, Moody's Investors Service affirmed all of the Company's ratings. There were no other significant actions undertaken by the rating agencies with regard to our ratings during second quarter 2017. Both the Parent and Wells Fargo Bank, N.A. remain among the top-rated financial firms in the U.S.

See the "Risk Factors" section in our 2016 Form 10-K for additional information regarding our credit ratings and the potential impact a credit rating downgrade would have on our liquidity and operations, as well as Note 12 (Derivatives) to Financial Statements in this Report for information regarding additional collateral and funding obligations required for certain

Asset/Liability Management (continued)

derivative instruments in the event our credit ratings were to fall below investment grade.
The credit ratings of the Parent and Wells Fargo Bank, N.A. as of June 30, 2017, are presented in Table 45.

Table 45: Credit Ratings as of June 30, 2017

	Wells Fargo & Company		Wells Fargo Bank, N.A.	
	Senior debt	Short-term borrowings	Long-term deposits	Short-term borrowings
Moody's	A2	P-1	Aa1	P-1
S&P	A	A-1	AA-	A-1+
Fitch Ratings, Inc.	AA-	F1+	AA+	F1+
DBRS	AA	R-1*	AA**	R-1**

* middle ** high

FEDERAL HOME LOAN BANK MEMBERSHIP The Federal Home Loan Banks (the FHLBs) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. We are a member of the FHLBs based in Dallas, Des Moines and San Francisco. Each member of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Board. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

Capital Management

We have an active program for managing capital through a comprehensive process for assessing the Company's overall capital adequacy. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily fund our capital needs through the retention of earnings net of both dividends and share repurchases, as well as through the issuance of preferred stock and long and short-term debt. Retained earnings increased $6.4 billion from December 31, 2016, predominantly from Wells Fargo net income of $11.3 billion, less common and preferred stock dividends of $4.6 billion. During second quarter 2017, we issued 13.0 million shares of common stock. We also issued 27.6 million Depositary Shares, each representing a 1/1,000th interest in a share of the Company's newly issued Non-Cumulative Perpetual Class A Preferred Stock, Series Y, for an aggregate public offering price of $690 million. During second quarter 2017, we repurchased 43.0 million shares of common stock in open market transactions, private transactions and from employee benefit plans, at a cost of $2.3 billion. We also entered into a $1 billion forward repurchase contract with an unrelated third party in July 2017 that is expected to settle in fourth quarter 2017 for approximately 19 million shares. For additional information about our forward repurchase agreements, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

Regulatory Capital Guidelines

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

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

- a minimum Common Equity Tier 1 (CET1) ratio of 9.0%, comprised of a 4.5% minimum requirement plus a capital conservation buffer of 2.5% and for us, as a global systemically important bank (G-SIB), a capital surcharge to be calculated annually, which is 2.0% based on our year-end 2015 data;
- a minimum tier 1 capital ratio of 10.5%, comprised of a 6.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a minimum total capital ratio of 12.5%, comprised of a 8.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a potential countercyclical buffer of up to 2.5% to be added to the minimum capital ratios, which is currently not in effect but could be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in systemic risk;
- a minimum tier 1 leverage ratio of 4.0%; and
- a minimum supplementary leverage ratio (SLR) of 5.0% (comprised of a 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) for large and internationally active bank holding companies (BHCs).

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

Because the Company has been designated as a G-SIB, we will also be subject to the FRB's rule implementing the additional capital surcharge of between 1.0-4.5% on G-SIBs. Under the rule, we must annually calculate our surcharge

under two methods and use the higher of the two surcharges. The first method (method one) will consider our size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, consistent with a methodology developed by the BCBS and the Financial Stability Board (FSB). The second (method two) will use similar inputs, but will replace substitutability with use of short-term wholesale funding and will generally result in higher surcharges than the BCBS methodology. The phase-in period for the G-SIB surcharge began on January 1, 2016 and will become fully effective on January 1, 2019. Based on year-end 2015 data, our 2017 G-SIB surcharge under method two is 2.0% of the Company’s RWAs, which is the higher of method one and method two. Because the G-SIB surcharge is calculated annually based on data that can differ over time, the amount of the surcharge is subject to change in future years. Under the Standardized Approach (fully phased-in), our CET1 ratio of 11.59% exceeded the minimum of 9.0% by 259 basis points at June 30, 2017.
The tables that follow provide information about our risk- based capital and related ratios as calculated under Basel III capital guidelines. For banking industry regulatory reporting purposes, we report our capital in accordance with Transition Requirements but are managing our capital based on a fully phased-in calculation. For information about our capital requirements calculated in accordance with Transition Requirements, see Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

Capital Management (continued)

Table 46 summarizes our CET1, tier 1 capital, total capital, risk-weighted assets and capital ratios on a fully phased-in basis at June 30, 2017 and December 31, 2016. As of June 30, 2017, our CET1 and tier 1 capital ratios were lower using RWAs calculated under the Standardized Approach.

Table 46: Capital Components and Ratios (Fully Phased-In) (1)

(in millions)		June 30, 2017 Advanced Approach		June 30, 2017 Standardized Approach		December 31, 2016 Advanced Approach		December 31, 2016 Standardized Approach	
Common Equity Tier 1	(A)	$151,854		151,854		146,424		146,424	
Tier 1 Capital	(B)	175,258		175,258		169,063		169,063	
Total Capital	(C)	206,454		216,318		200,344		210,796	
Risk-Weighted Assets	(D)	1,257,523		1,310,483		1,298,688		1,358,933	
Common Equity Tier 1 Capital Ratio	(A)/(D)	12.08	%	11.59	*	11.27		10.77	*
Tier 1 Capital Ratio	(B)/(D)	13.94		13.37	*	13.02		12.44	*
Total Capital Ratio	(C)/(D)	16.42	*	16.51		15.43	*	15.51	

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

(1) Fully phased-in regulatory capital amounts, ratios and RWAs are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's capital position. See Table 47 for information regarding the calculation and components of CET1, tier 1 capital, total capital and RWAs, as well as the corresponding reconciliation of our regulatory capital amounts to GAAP financial measures.

57

Table 47 provides information regarding the calculation and composition of our risk-based capital under the Advanced and Standardized Approaches at June 30, 2017 and December 31, 2016.

Table 47: Risk-Based Capital Calculation and Components

	June 30, 2017		December 31, 2016	
(in millions)	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach
Total equity	$206,145	206,145	200,497	200,497
Adjustments:				
Preferred stock	(25,785)	(25,785)	(24,551)	(24,551)
Additional paid-in capital on ESOP preferred stock	(136)	(136)	(126)	(126)
Unearned ESOP shares	2,119	2,119	1,565	1,565
Noncontrolling interests	(915)	(915)	(916)	(916)
Total common stockholders' equity	181,428	181,428	176,469	176,469
Adjustments:				
Goodwill	(26,573)	(26,573)	(26,693)	(26,693)
Certain identifiable intangible assets (other than MSRs)	(2,147)	(2,147)	(2,723)	(2,723)
Other assets (1)	(2,268)	(2,268)	(2,088)	(2,088)
Applicable deferred taxes (2)	1,624	1,624	1,772	1,772
Investment in certain subsidiaries and other	(210)	(210)	(313)	(313)
Common Equity Tier 1 (Fully Phased-In)	151,854	151,854	146,424	146,424
Effect of Transition Requirements	888	888	2,361	2,361
Common Equity Tier 1 (Transition Requirements)	$152,742	152,742	148,785	148,785
Common Equity Tier 1 (Fully Phased-In)	$151,854	151,854	146,424	146,424
Preferred stock	25,785	25,785	24,551	24,551
Additional paid-in capital on ESOP preferred stock	136	136	126	126
Unearned ESOP shares	(2,119)	(2,119)	(1,565)	(1,565)
Other	(398)	(398)	(473)	(473)
Total Tier 1 capital (Fully Phased-In) (A)	175,258	175,258	169,063	169,063
Effect of Transition Requirements	876	876	2,301	2,301
Total Tier 1 capital (Transition Requirements)	$176,134	176,134	171,364	171,364
Total Tier 1 capital (Fully Phased-In)	$175,258	175,258	169,063	169,063
Long-term debt and other instruments qualifying as Tier 2	29,223	29,223	29,465	29,465
Qualifying allowance for credit losses (3)	2,282	12,146	2,088	12,540
Other	(309)	(309)	(272)	(272)
Total Tier 2 capital (Fully Phased-In) (B)	31,196	41,060	31,281	41,733

Effect of Transition Requirements		1,205	1,205	1,780	1,780
Total Tier 2 capital (Transition Requirements)		$32,401	42,265	33,061	43,513
Total qualifying capital (Fully Phased-In)	(A)+(B)	$206,454	216,318	200,344	210,796
Total Effect of Transition Requirements		2,081	2,081	4,081	4,081
Total qualifying capital (Transition Requirements)		$208,535	218,399	204,425	214,877
Risk-Weighted Assets (RWAs) (4)(5):					
Credit risk		$920,271	1,272,656	960,763	1,314,833
Market risk		37,827	37,827	44,100	44,100
Operational risk		299,425	N/A	293,825	N/A
Total RWAs (Fully Phased-In)		$1,257,523	1,310,483	1,298,688	1,358,933
Credit risk		$895,726	1,249,500	936,664	1,292,098
Market risk		37,827	37,827	44,100	44,100
Operational risk		299,424	N/A	293,825	N/A
Total RWAs (Transition Requirements)		$1,232,977	1,287,327	1,274,589	1,336,198

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

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

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

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

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

Capital Management (continued)

Table 48 presents the changes in Common Equity Tier 1 under the Advanced Approach for the six months ended June 30, 2017.

Table 48: Analysis of Changes in Common Equity Tier 1

(in millions)	
Common Equity Tier 1 (Fully Phased-In) at December 31, 2016	$146,424
Net income	10,460
Common stock dividends	(3,802)
Common stock issued, repurchased, and stock compensation-related items	(2,716)
Goodwill	120
Certain identifiable intangible assets (other than MSRs)	576
Other assets (1)	(181)
Applicable deferred taxes (2)	(148)
Investment in certain subsidiaries and other	1,121
Change in Common Equity Tier 1	5,430
Common Equity Tier 1 (Fully Phased-In) at June 30, 2017	$151,854

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

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

Table 49 presents net changes in the components of RWAs under the Advanced and Standardized Approaches for the six months ended June 30, 2017.

Table 49: Analysis of Changes in RWAs

(in millions)	Advanced Approach	Standardized Approach
RWAs (Fully Phased-In) at December 31, 2016	$1,298,688	1,358,933
Net change in credit risk RWAs	(40,492)	(42,177)
Net change in market risk RWAs	(6,273)	(6,273)
Net change in operational risk RWAs	5,600	N/A
Total change in RWAs	(41,165)	(48,450)
RWAs (Fully Phased-In) at June 30, 2017	1,257,523	1,310,483
Effect of Transition Requirements	(24,546)	(23,156)
RWAs (Transition Requirements) at June 30, 2017	$1,232,977	1,287,327

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

- Tangible book value per common share, which represents tangible common equity divided by common shares outstanding.

- Return on average tangible common equity (ROTCE), which represents our annualized earnings contribution as a percentage of tangible common equity.

The methodology of determining tangible common equity may differ among companies. Management believes that tangible book value per common share and return on average tangible common equity, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. Table 50 provides a reconciliation of these non-GAAP financial measures to GAAP financial measures.

Table 50: Tangible Common Equity

		Balance at period end			Average balance				
		Quarter ended			Quarter ended			Six months ended	
(in millions, except ratios)		Jun 30, 2017	Mar 31, 2017	Jun 30, 2016	Jun 30, 2017	Mar 31, 2017	Jun 30, 2016	Jun 30, 2017	Jun 30, 2016
Total equity		$206,145	202,489	202,661	205,968	201,767	201,003	203,879	198,795
Adjustments:									
Preferred stock		(25,785)	(25,501)	(24,830)	(25,849)	(25,163)	(24,091)	(25,508)	(24,027)
Additional paid-in capital on ESOP preferred stock		(136)	(157)	(150)	(144)	(146)	(168)	(145)	(184)
Unearned ESOP shares		2,119	2,546	1,868	2,366	2,198	2,094	2,282	2,302
Noncontrolling interests		(915)	(989)	(916)	(910)	(957)	(984)	(934)	(944)
Total common stockholders' equity	(A)	181,428	178,388	178,633	181,431	177,699	177,854	179,574	175,942
Adjustments:									
Goodwill		(26,573)	(26,666)	(26,963)	(26,664)	(26,673)	(27,037)	(26,668)	(26,553)
Certain identifiable intangible assets (other than MSRs)		(2,147)	(2,449)	(3,356)	(2,303)	(2,588)	(3,600)	(2,445)	(3,503)
Other assets (1)		(2,268)	(2,121)	(2,110)	(2,160)	(2,095)	(2,096)	(2,128)	(2,081)
Applicable deferred taxes (2)		1,624	1,698	1,906	1,648	1,722	1,934	1,685	1,974
Tangible common equity	(B)	$152,064	148,850	148,110	151,952	148,065	147,055	150,018	145,779
Common shares outstanding	(C)	4,966.8	4,996.7	5,048.5	N/A	N/A	N/A	N/A	N/A
Net income applicable to common stock (3)	(D)	N/A	N/A	N/A	$5,404	5,056	5,173	10,460	10,258
Book value per common share	(A)/(C)	$36.53	35.70	35.38	N/A	N/A	N/A	N/A	N/A
Tangible book value per common share	(B)/(C)	30.62	29.79	29.34	N/A	N/A	N/A	N/A	N/A
Return on average common stockholders' equity (ROE)	(D)/(A)	N/A	N/A	N/A	11.95 %	11.54	11.70	11.75	11.72
Return on average tangible common equity (ROTCE)	(D)/(B)	N/A	N/A	N/A	14.26	13.85	14.15	14.06	14.15

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

(2) Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.
(3) Quarter ended net income applicable to common stock is annualized for the respective ROE and ROTCE ratios.

Capital Management (continued)

SUPPLEMENTARY LEVERAGE RATIO In April 2014, federal banking regulators finalized a rule that enhances the SLR requirements for BHCs, like Wells Fargo, and their insured depository institutions. The SLR consists of Tier 1 capital divided by the Company's total leverage exposure. Total leverage exposure consists of the total average on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments and derivative exposures, less amounts permitted to be deducted from Tier 1 capital. The rule, which becomes effective on January 1, 2018, will require a covered BHC to maintain a SLR of at least 5.0% (comprised of the 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) to avoid restrictions on capital distributions and discretionary bonus payments. The rule will also require that all of our insured depository institutions maintain a SLR of 6.0% under applicable regulatory capital adequacy guidelines. In September 2014, federal banking regulators finalized additional changes to the SLR requirements to implement revisions to the Basel III leverage framework finalized by the BCBS in January 2014. These additional changes, among other things, modify the methodology for including off- balance sheet items, including credit derivatives, repo-style transactions and lines of credit, in the denominator of the SLR, and will become effective on January 1, 2018. At June 30, 2017, our SLR for the Company was 7.9% assuming full phase-in of the Advanced Approach capital framework. Based on our review, our current leverage levels would exceed the applicable requirements for each of our insured depository institutions as well. The fully phased-in SLR is considered a non-GAAP financial measure that is used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's leverage exposure. See Table 51 for information regarding the calculation and components of the SLR.

Table 51: Fully Phased-In SLR

(in millions, except ratio)	June 30, 2017
Tier 1 capital	$175,258
Total average assets	1,927,079
Less: deductions from Tier 1 capital	29,983
Total adjusted average assets	1,897,096
Adjustments:	
Derivative exposures	70,086
Repo-style transactions	3,022
Other off-balance sheet exposures	247,845
Total adjustments	320,953
Total leverage exposure	$2,218,049
Supplementary leverage ratio	7.9 %

OTHER REGULATORY CAPITAL MATTERS In December 2016, the FRB finalized rules to address the amount of equity and unsecured long-term debt a U.S. G-SIB must hold to improve its resolvability and resiliency, often referred to as Total Loss Absorbing Capacity (TLAC). Under the rules, which become effective on January 1, 2019, U.S. G-SIBs will be required to have a minimum TLAC amount (consisting of CET1 capital and additional tier 1 capital issued directly by the top-tier or covered BHC plus eligible external long-term debt) equal to the greater of (i) 18% of RWAs and (ii) 7.5% of total leverage exposure (the denominator of the SLR calculation). Additionally, U.S. G-SIBs will be required to maintain (i) a TLAC buffer equal to 2.5% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method one plus any applicable countercyclical buffer that will be added to the 18% minimum and (ii) an external

TLAC leverage buffer equal to 2.0% of total leverage exposure that will be added to the 7.5% minimum, in order to avoid restrictions on capital distributions and discretionary bonus payments. The rules will also require U.S. G-SIBs to have a minimum amount of eligible unsecured long-term debt equal to the greater of (i) 6.0% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method two and (ii) 4.5% of the total leverage exposure. In addition, the rules will impose certain restrictions on the operations and liabilities of the top-tier or covered BHC in order to further facilitate an orderly resolution, including prohibitions on the issuance of short-term debt to external investors and on entering into derivatives and certain other types of financial contracts with external counterparties.

While the rules permit permanent grandfathering of a significant portion of otherwise ineligible long-term debt that was issued prior to December 31, 2016, long-term debt issued after that date must be fully compliant with the eligibility requirements of the rules in order to count toward the minimum TLAC amount. As a result of the rules, we will be required to issue additional long-term debt.
In addition, as discussed in the "Risk Management – Asset/ Liability Management – Liquidity and Funding – Liquidity Standards" section in this Report, federal banking regulators have issued a final rule regarding the U.S. implementation of the Basel III LCR and a proposed rule regarding the NSFR.

Capital Planning and Stress Testing
Our planned long-term capital structure is designed to meet regulatory and market expectations. We believe that our long-term targeted capital structure enables us to invest in and grow our business, satisfy our customers' financial needs in varying environments, access markets, and maintain flexibility to return capital to our shareholders. Our long-term targeted capital structure also considers capital levels sufficient to exceed capital requirements including the G-SIB surcharge. Accordingly, based on the final Basel III capital rules under the lower of the Standardized or Advanced Approaches CET1 capital ratios, we currently target a long-term CET1 capital ratio at or in excess of 10%, which includes a 2% G-SIB surcharge. Our capital targets are subject to change based on various factors, including changes to the regulatory capital framework and expectations for large banks promulgated by bank regulatory agencies, planned capital actions, changes in our risk profile and other factors.
Under the FRB's capital plan rule, large BHCs are required to submit capital plans annually for review to determine if the FRB has any objections before making any capital distributions. The rule requires updates to capital plans in the event of material changes in a BHC's risk profile, including as a result of any significant acquisitions. The FRB assesses the overall financial condition, risk profile, and capital adequacy of BHCs while considering both quantitative and qualitative factors when evaluating capital plans.
Our 2017 capital plan, which was submitted on April 4, 2017, as part of CCAR, included a comprehensive capital outlook supported by an assessment of expected sources and uses of capital over a given planning horizon under a range of expected and stress scenarios. As part of the 2017 CCAR, the FRB also generated a supervisory stress test, which assumed a sharp decline in the economy and significant decline in asset pricing using the information provided by the Company to estimate performance. The FRB reviewed the supervisory stress results both as required under the Dodd-Frank Act using a common set of capital actions for all large BHCs and by taking into account the Company's proposed capital actions. The FRB published its supervisory stress test results as required under the Dodd-Frank

Act on June 22, 2017. On June 28, 2017, the FRB notified us that it did not object to our capital plan included in the 2017 CCAR. On July 25, 2017, the Company increased its quarterly common stock dividend to $0.39 per share, as approved by the Board.

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

Securities Repurchases

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

In January 2016, the Board authorized the repurchase of 350 million shares of our common stock. At June 30, 2017, we had remaining authority to repurchase approximately 171 million shares, subject to regulatory and legal conditions. For more information about share repurchases during second quarter 2017, see Part II, Item 2 in this Report.

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

In connection with our participation in the Capital Purchase Program (CPP), a part of the Troubled Asset Relief Program (TARP), we issued to the U.S. Treasury Department warrants to purchase 110,261,688 shares of our common stock with an original exercise price of $34.01 per share expiring on October 28, 2018. The terms of the warrants require the exercise price to be adjusted under certain circumstances when the Company's quarterly common stock dividend exceeds $0.34 per share, which began occurring in second quarter 2014. Accordingly, with each quarterly common stock dividend above $0.34 per share, we must calculate whether an adjustment to the exercise price is required by the terms of the warrants, including whether certain minimum thresholds have been met to trigger an adjustment, and notify the holders of any such change. The Board authorized the repurchase by the Company of up to $1 billion of the warrants. At June 30, 2017, there were 27,997,283 warrants outstanding, exercisable at $33.762 per share, and $452 million of unused warrant repurchase authority. Depending on market conditions, we may purchase from time to time additional warrants in privately negotiated or open market transactions, by tender offer or otherwise.

Regulatory Matters (continued)

Regulatory Matters

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

The following supplements our discussion of the significant regulations and regulatory oversight initiatives that have affected or may affect our business contained in the “Regulatory Matters” and “Risk Factors” sections in our 2016 Form 10-K and the “Regulatory Matters” section in our 2017 First Quarter Report on Form 10-Q.

REGULATION OF CONSUMER FINANCIAL PRODUCTS The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) to ensure consumers receive clear and accurate disclosures regarding financial products and to protect them from hidden fees and unfair or abusive practices. With respect to residential mortgage lending, the CFPB issued a number of final rules implementing new origination, notification, disclosure and other requirements, as well as additional limitations on the fees and charges that may be increased from the estimates provided by lenders. In October 2015, the CFPB finalized amendments to the rule implementing the Home Mortgage Disclosure Act, resulting in a significant expansion of the data points lenders will be required to collect beginning January 1, 2018 and report to the CFPB beginning January 1, 2019. The CFPB also expanded the transactions covered by the rule and increased the reporting frequency from annual to quarterly for large volume lenders, such as Wells Fargo, beginning January 1, 2020. With respect to other financial products, in October 2016, the CFPB finalized rules, most of which become effective on April 1, 2018, to make prepaid cards subject to similar consumer protections as those provided by more traditional debit and credit cards such as fraud protection and expanded access to account information. In July 2017, the CFPB finalized a rule, which becomes effective on September 18, 2017, prohibiting covered providers of certain consumer financial products and services, such as Wells Fargo, from using arbitration agreements that prevent consumers from filing or participating in class action litigation.

In addition to these rulemaking activities, the CFPB is continuing its on-going supervisory examination activities of the financial services industry with respect to a number of consumer businesses and products, including mortgage lending and servicing, fair lending requirements, student lending activities, and automobile finance. At this time, the Company cannot predict the full impact of the CFPB’s rulemaking and supervisory authority on our business practices or financial results.

“LIVING WILL” REQUIREMENTS AND RELATED MATTERS

Rules adopted by the FRB and the FDIC under the Dodd-Frank Act require large financial institutions, including Wells Fargo, to prepare and periodically revise resolution plans, so-called “living-wills”, that would facilitate their resolution in the event of material distress or failure. Under the rules, resolution plans are required to provide strategies for resolution under the Bankruptcy Code and other applicable insolvency regimes that can be accomplished in a reasonable period of time and in a manner that mitigates the risk that failure would have serious adverse effects on the financial stability of the United States. We submitted our 2017 resolution plan to the FRB and FDIC on June 30, 2017, but have not yet received regulatory feedback on the

plan. If the FRB and FDIC determine that our 2017 resolution plan has deficiencies, they may impose more stringent capital, leverage or liquidity requirements on us or restrict our growth, activities or operations until we adequately remedy the deficiencies. If the FRB and FDIC ultimately determine that we have been unable to remedy any deficiencies, they could require us to divest certain assets or operations.

We must also prepare and submit to the FRB on an annual basis a recovery plan that identifies a range of options that we may consider during times of idiosyncratic or systemic economic stress to remedy any financial weaknesses and restore market confidence without extraordinary government support. Recovery options include the possible sale, transfer or disposal of assets, securities, loan portfolios or businesses. Our insured national bank subsidiary, Wells Fargo Bank, N.A. (the “Bank”), must also prepare and submit to the OCC a recovery plan that sets forth the bank’s plan to remain a going concern when the bank is experiencing considerable financial or operational stress, but has not yet deteriorated to the point where liquidation or resolution is imminent. If either the FRB or the OCC determine that our recovery plan is deficient, they may impose fines, restrictions on our business or ultimately require us to divest assets.

If Wells Fargo were to fail, it may be resolved in a bankruptcy proceeding or, if certain conditions are met, under the resolution regime created by the Dodd-Frank Act known as the "orderly liquidation authority." The orderly liquidation authority allows for the appointment of the FDIC as receiver for a systemically important financial institution that is in default or in danger of default if, among other things, the resolution of the institution under the U.S. Bankruptcy Code would have serious adverse effects on financial stability in the United States. If the FDIC is appointed as receiver for Wells Fargo & Company (the "Parent"), then the orderly liquidation authority, rather than the U.S. Bankruptcy Code, would determine the powers of the receiver and the rights and obligations of our security holders. The FDIC's orderly liquidation authority requires that security holders of a company in receivership bear all losses before U.S. taxpayers are exposed to any losses, and allows the FDIC to disregard the strict priority of creditor claims under the U.S. Bankruptcy Code in certain circumstances.

Whether under the U.S. Bankruptcy Code or by the FDIC under the orderly liquidation authority, Wells Fargo could be resolved using a "multiple point of entry" strategy, in which the Parent and one or more of its subsidiaries would each undergo separate resolution proceedings, or a "single point of entry" strategy, in which the Parent would likely be the only material legal entity to enter resolution proceedings. The FDIC has announced that a single point of entry strategy may be a desirable strategy under its implementation of the orderly liquidation authority, but not all aspects of how the FDIC might exercise this authority are known and additional rulemaking is possible.

To facilitate the orderly resolution of systemically important financial institutions in case of material distress or failure, federal banking regulations require that institutions, such as Wells Fargo, maintain a minimum amount of equity and unsecured debt to absorb losses and recapitalize operating subsidiaries. Federal banking regulators have also required measures to facilitate the continued operation of operating subsidiaries notwithstanding the failure of their parent companies, such as limitations on parent guarantees, and have issued guidance encouraging institutions to take legally binding measures to provide capital and liquidity resources to certain subsidiaries in order to facilitate an orderly resolution. In response to the regulators’ guidance and to facilitate the implementation of the Company’s preferred “multiple point of entry” resolution strategy, on June 28, 2017, the Parent entered into a support agreement (the “Support Agreement”) with WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the “IHC”), and the Bank, Wells Fargo Securities, LLC (“WFS”), and Wells Fargo Clearing Services, LLC (“WFCS”), each an indirect subsidiary of the Parent. Pursuant to the Support Agreement, the Parent transferred a significant amount of its assets, including the majority of its cash, deposits, liquid securities and intercompany loans (but excluding its equity interests in its subsidiaries and certain other assets), to the IHC and will continue to transfer those types of assets to the IHC from time to time. In the event of our material financial distress or failure, the IHC will be obligated to use the transferred assets to provide capital and/or liquidity to the Bank pursuant to the Support Agreement and to WFS and WFCS through repurchase facilities entered into in connection with the Support Agreement. Under the Support Agreement, the IHC will also provide funding and liquidity to the Parent through subordinated notes and a committed line of credit, which, together with the issuance of dividends, is expected to provide the Parent, during business as usual operating conditions, with the same access to cash necessary to service its debts, pay dividends, repurchase its shares, and perform its other obligations as it would have had if it had not entered into these arrangements and transferred any assets. If certain liquidity and/or capital metrics fall below defined triggers, the subordinated notes would be forgiven and the committed line of credit would terminate, which could materially and adversely impact the Parent’s liquidity and its ability to satisfy its debts and other obligations, and could result in the commencement of bankruptcy proceedings by the Parent at an earlier time than might have otherwise occurred if the Support Agreement were not implemented. The Parent's and the IHC's respective obligations under the Support Agreement are secured pursuant to a related security agreement.

DEPARTMENT OF LABOR ERISA FIDUCIARY STANDARD In April 2016, the U.S. Department of Labor adopted a rule under the Employee Retirement Income Security Act of 1974 (ERISA) that, among other changes and subject to certain exceptions, as of the applicability date of June 9, 2017, makes anyone, including broker-dealers, providing investment advice to retirement investors a fiduciary who must act in the best interest of clients when providing investment advice for direct or indirect compensation to a retirement plan, to a plan fiduciary, participant or beneficiary, or to an investment retirement account (IRA) or IRA holder. The rule impacts the manner in which business is conducted with retirement investors and affects product offerings with respect to retirement plans and IRAs.

Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K) are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Six of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

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

Starting second quarter 2017, the liability for contingent litigation losses has been designated as one of our critical accounting policies. The remaining five of these policies are described further in the "Financial Review – Critical Accounting Policies" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.

Liability for Contingent Litigation Losses

The Company is involved in a number of judicial, regulatory, arbitration and other proceedings concerning matters arising from the conduct of its business activities, and many of those proceedings expose the Company to potential financial loss. We establish accruals for these legal actions when potential losses associated with the actions become probable and the costs can be reasonably estimated. For such accruals, we record the amount we consider to be the best estimate within a range of potential losses that are both probable and estimable; however, if we cannot determine a best estimate, then we record the low end of the range of those potential losses. The actual costs of resolving legal actions may be substantially higher or lower than the amounts accrued for those actions.

We apply judgment when establishing an accrual for potential losses associated with legal actions and in establishing the range of reasonably possible losses in excess of the accrual. Our judgment in establishing accruals and the range of reasonably possible losses in excess of the Company's accrual for probable and estimable losses is influenced by our understanding of information currently available related to the legal evaluation and potential outcome of actions, including input and advice on these matters from our internal counsel, external counsel and senior management. These matters may be in various stages of investigation, discovery or proceedings. They may also involve a wide variety of claims across our businesses, legal entities and jurisdictions. The eventual outcome may be a scenario that was not considered or was considered remote in anticipated occurrence. Accordingly, our estimate of potential losses will change over time and the actual losses may vary significantly.

The outcomes of legal actions are unpredictable and subject to significant uncertainties, and it is inherently difficult to determine whether any loss is probable or even possible. It is also inherently difficult to estimate the amount of any loss and there may be matters for which a loss is probable or reasonably possible but not currently estimable. Accordingly, actual losses may be in excess of the established accrual or the range of reasonably possible loss.

See Note 11 (Legal Actions) to Financial Statements in this Report for further information.

Management and the Board's Audit and Examination Committee have reviewed and approved these critical accounting policies.

Current Accounting Developments

Table 52 provides accounting pronouncements applicable to us that have been issued by the FASB but are not yet effective.

Table 52: Current Accounting Developments – Issued Standards

Standard	Description	Effective date and financial statement impact
Accounting Standards Update (ASU or Update) 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	The Update changes the accounting for certain purchased callable debt securities held at a premium to shorten the amortization period for the premium to the earliest call date rather than to the maturity date. Accounting for purchased callable debt securities held at a discount does not change. The discount would continue to amortize to the maturity date.	We expect to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Our investment securities portfolio includes holdings of callable debt securities. We are evaluating the impact of the Update on our consolidated financial statements, which will be affected by our investments in callable debt securities carried at a premium at the time of adoption.
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. Also, the Update eliminates the existing guidance for PCI loans, but requires an allowance for purchased financial assets with more than insignificant deterioration since origination. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.	The guidance is effective in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the Update on our consolidated financial statements. We expect the Update will result in an increase in the allowance for credit losses given the change to estimated losses over the contractual life adjusted for expected prepayments with an anticipated material impact from longer duration portfolios, as well as the addition of an allowance for debt securities. The amount of the increase will be impacted by the portfolio composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.
ASU 2016-02 – Leases (Topic 842)	The Update requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.	We expect to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started our implementation of the Update which has included an initial evaluation of our leasing contracts and activities. As a lessee we are developing our methodology to estimate the

right-of use assets and lease liabilities, which is based on the present value of lease payments (the December 31, 2016 future minimum lease payments were $6.9 billion). We do not expect a material change to the timing of expense recognition. Given the limited changes to lessor accounting, we do not expect material changes to recognition or measurement, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the Update.

Current Accounting Developments (continued)

Standard	Description	Effective date and financial statement impact
ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost.	We expect to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. We expect the primary accounting changes will relate to our equity investments. Our investments in marketable equity securities that are classified as available-for-sale will be accounted for at fair value with unrealized gains or losses reflected in earnings. Our investments in nonmarketable equity investments accounted for under the cost method of accounting (except for Federal bank stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if we elect, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. We are currently evaluating which method will be applied to these nonmarketable equity investments. Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, we are evaluating our valuation methods to determine the necessary changes to conform to an “exit price” notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption.
ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates	The Update modifies the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The Update also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations.	We will adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings. Our revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of our revenues will not be affected. We have performed an assessment of our revenue contracts as well as worked with industry participants on matters of interpretation and application. Our accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices applied by our businesses. We have not identified material changes to the timing or amount of revenue recognition. Based on changes to guidance applied by broker-dealers, we expect a minor change to the presentation of our broker-dealer’s costs for underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. We will provide qualitative disclosures of our performance obligations related to our revenue recognition and we continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.

In addition to the list above, the following updates are applicable to us but, subject to completion of our assessment, are not expected to have a material impact on our consolidated financial statements:

- ASU 2017-09 – Compensation – Stock Compensation (Topic718): Scope of Modification Accounting
- ASU 2017-04 – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment
- ASU 2017-03 – Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)
- ASU 2017-01 – Business Combinations (Topic 805): Clarifying the Definition of a Business
- ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash
- ASU 2016-16 – Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory
- ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments
- ASU 2016-04 – Liabilities – Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products

We have determined that other existing accounting updates are either not applicable to us or have completed our assessment and determined will not have a material impact on our consolidated financial statements.
Table 53 provides proposed accounting updates that could materially impact our consolidated financial statements when finalized by the FASB.

Table 53: Current Accounting Developments – Proposed Standards

Proposed Standard	Description	Expected effective date and financial statement impact
Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	The proposed Update would make targeted changes to the hedge accounting model intended to facilitate financial reporting that more closely reflects an entity's risk management activities and to simplify application of hedge accounting. Changes include expanding the types of risk management strategies eligible for hedge accounting, easing the documentation and effectiveness assessment requirements, changing how ineffectiveness is measured and changing the presentation and disclosure requirements for hedge accounting activities.	The guidance is expected to be issued third quarter 2017 and will be effective beginning January 1, 2019. It will include the option to early adopt in any interim or annual period upon issuance of the final Update, under a modified retrospective approach. When adopted, the proposed amendments are expected to minimize the amount of hedge ineffectiveness related to our fair value hedges of long-term debt. We are in the process of evaluating our ability to adopt the standard in either the third or fourth quarter of 2017, which would result in the retrospective recognition of the related cumulative effect adjustment to retained earnings as of January 1, 2017.

Forward-Looking Statements (continued)

Forward-Looking Statements

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

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

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

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

- the effect of a fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;
- negative effects from the retail banking sales practices matter, including on our legal, operational and compliance costs, our ability to engage in certain business activities or offer certain products or services, our ability to keep and attract customers, our ability to attract and retain qualified team members, and our reputation;
- reputational damage from negative publicity, protests, fines, penalties and other negative consequences from regulatory violations and legal actions;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber attacks;
- the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- fiscal and monetary policies of the Federal Reserve Board; and
- the other risk factors and uncertainties described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or repurchases will depend on the earnings, cash requirements and financial condition of the Company, market conditions, capital requirements (including under Basel capital standards), common stock issuance requirements, applicable law and regulations (including federal securities laws and federal banking regulations), and other factors deemed relevant by the Company’s

Board of Directors, and may be subject to regulatory approval or conditions.
For more information about factors that could cause actual results to differ materially from our expectations, refer to our reports filed with the Securities and Exchange Commission, including the discussion under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission and available on its website at www.sec.gov.
Any forward-looking statement made by us speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Risk Factors

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. For a discussion of risk factors that could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company, we refer you to the “Risk Factors” section in our 2016 Form 10-K.

Controls and Procedures

Disclosure Controls and Procedures

The Company’s management evaluated the effectiveness, as of June 30, 2017, of the Company’s disclosure controls and procedures. The Company’s chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company’s chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2017.

Internal Control Over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during second quarter 2017 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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

	Quarter ended June 30,		Six months ended June 30,	
(in millions, except per share amounts)	2017	2016	2017	2016
Interest income				
Trading assets	$710	572	$1,353	1,168
Investment securities	2,698	2,176	5,373	4,438
Mortgages held for sale	195	181	379	342
Loans held for sale	4	3	5	5
Loans	10,358	9,822	20,499	19,399
Other interest income	750	392	1,332	766
Total interest income	14,715	13,146	28,941	26,118
Interest expense				
Deposits	683	332	1,220	639
Short-term borrowings	163	77	277	144
Long-term debt	1,278	921	2,461	1,763
Other interest expense	108	83	200	172
Total interest expense	2,232	1,413	4,158	2,718
Net interest income	12,483	11,733	24,783	23,400
Provision for credit losses	555	1,074	1,160	2,160
Net interest income after provision for credit losses	11,928	10,659	23,623	21,240
Noninterest income				
Service charges on deposit accounts	1,276	1,336	2,589	2,645
Trust and investment fees	3,629	3,547	7,199	6,932
Card fees	1,019	997	1,964	1,938
Other fees	902	906	1,767	1,839
Mortgage banking	1,148	1,414	2,376	3,012
Insurance	280	286	557	713
Net gains from trading activities	237	328	676	528
Net gains on debt securities (1)	120	447	156	691
Net gains from equity investments (2)	188	189	591	433
Lease income	493	497	974	870
Other	394	482	539	1,356
Total noninterest income	9,686	10,429	19,388	20,957
Noninterest expense				
Salaries	4,343	4,099	8,604	8,135
Commission and incentive compensation	2,499	2,604	5,224	5,249
Employee benefits	1,308	1,244	2,994	2,770
Equipment	529	493	1,106	1,021
Net occupancy	706	716	1,418	1,427
Core deposit and other intangibles	287	299	576	592
FDIC and other deposit assessments	328	255	661	505
Other	3,541	3,156	6,750	6,195
Total noninterest expense	13,541	12,866	27,333	25,894
Income before income tax expense	8,073	8,222	15,678	16,303
Income tax expense	2,225	2,649	4,282	5,216
Net income before noncontrolling interests	5,848	5,573	11,396	11,087
Less: Net income from noncontrolling interests	38	15	129	67
Wells Fargo net income	$5,810	5,558	$11,267	11,020

Less: Preferred stock dividends and other	406	385	807	762
Wells Fargo net income applicable to common stock	$5,404	5,173	$10,460	10,258
Per share information				
Earnings per common share	$1.08	1.02	$2.09	2.02
Diluted earnings per common share	1.07	1.01	2.07	2.00
Dividends declared per common share	0.380	0.380	0.760	0.755
Average common shares outstanding	4,989.9	5,066.9	4,999.2	5,071.3
Diluted average common shares outstanding	5,037.7	5,118.1	5,054.8	5,129.8

(1) Total other-than-temporary impairment (OTTI) losses were $6 million and $11 million for second quarter 2017 and 2016, respectively. Of total OTTI, losses of $48 million and $26 million were recognized in earnings, and losses (reversal of losses) of $(42) million and $(15) million were recognized as non-credit-related OTTI in other comprehensive income for second quarter 2017 and 2016, respectively. Total OTTI losses were $49 million and $87 million for the first half of 2017 and 2016, respectively. Of total OTTI, losses of $100 million and $91 million were recognized in earnings, and reversal of losses of $(51) million and $(4) million were recognized as non-credit-related OTTI in other comprehensive income for the first half of 2017 and 2016, respectively.

(2) Includes OTTI losses of $25 million and $104 million for second quarter 2017 and 2016, respectively, and $102 million and $237 million for the first half of 2017 and 2016, respectively.

The accompanying notes are an integral part of these statements.

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

	Quarter ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Wells Fargo net income	$5,810	5,558	11,267	11,020
Other comprehensive income (loss), before tax:				
Investment securities:				
Net unrealized gains arising during the period	1,565	1,571	1,934	2,366
Reclassification of net gains to net income	(177)	(504)	(322)	(808)
Derivatives and hedging activities:				
Net unrealized gains arising during the period	376	1,057	243	3,056
Reclassification of net gains on cash flow hedges to net income	(153)	(265)	(355)	(521)
Defined benefit plans adjustments:				
Net actuarial and prior service losses arising during the period	—	(19)	(7)	(27)
Amortization of net actuarial loss, settlements and other to net income	41	39	79	76
Foreign currency translation adjustments:				
Net unrealized gains (losses) arising during the period	31	(6)	47	37
Other comprehensive income , before tax	1,683	1,873	1,619	4,179
Income tax expense related to other comprehensive income	(624)	(714)	(587)	(1,571)
Other comprehensive income, net of tax	1,059	1,159	1,032	2,608
Less: Other comprehensive income (loss) from noncontrolling interests	(9)	(15)	5	(43)
Wells Fargo other comprehensive income, net of tax	1,068	1,174	1,027	2,651
Wells Fargo comprehensive income	6,878	6,732	12,294	13,671
Comprehensive income from noncontrolling interests	29	—	134	24
Total comprehensive income	$6,907	6,732	12,428	13,695

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries
Consolidated Balance Sheet

(in millions, except shares)	Jun 30, 2017	Dec 31, 2016
Assets	(Unaudited)	
Cash and due from banks	$20,248	20,729
Federal funds sold, securities purchased under resale agreements and other short-term investments	264,706	266,038
Trading assets	83,607	74,397
Investment securities:		
Available-for-sale, at fair value	269,202	308,364
Held-to-maturity, at cost (fair value $140,390 and $99,155)	140,392	99,583
Mortgages held for sale (includes $19,543 and $22,042 carried at fair value) (1)	24,807	26,309
Loans held for sale	156	80
Loans (includes $443 and $758 carried at fair value) (1)	957,423	967,604
Allowance for loan losses	(11,073)	(11,419)
Net loans	946,350	956,185
Mortgage servicing rights:		
Measured at fair value	12,789	12,959
Amortized	1,399	1,406
Premises and equipment, net	8,403	8,333
Goodwill	26,573	26,693
Derivative assets	13,273	14,498
Other assets (includes $3,986 and $3,275 carried at fair value) (1)	118,966	114,541
Total assets (2)	$1,930,871	1,930,115
Liabilities		
Noninterest-bearing deposits	$372,766	375,967
Interest-bearing deposits	933,064	930,112
Total deposits	1,305,830	1,306,079
Short-term borrowings	95,356	96,781
Derivative liabilities	11,636	14,492
Accrued expenses and other liabilities	73,035	57,189
Long-term debt	238,869	255,077
Total liabilities (3)	1,724,726	1,729,618
Equity		
Wells Fargo stockholders' equity:		
Preferred stock	25,785	24,551
Common stock – $1-2/3 par value, authorized 9,000,000,000 shares; issued 5,481,811,474 shares	9,136	9,136
Additional paid-in capital	60,689	60,234
Retained earnings	139,524	133,075
Cumulative other comprehensive income (loss)	(2,110)	(3,137)
Treasury stock – 515,041,424 shares and 465,702,148 shares	(25,675)	(22,713)
Unearned ESOP shares	(2,119)	(1,565)
Total Wells Fargo stockholders' equity	205,230	199,581
Noncontrolling interests	915	916
Total equity	206,145	200,497
Total liabilities and equity	$1,930,871	1,930,115

(1) Parenthetical amounts represent assets and liabilities for which we have elected the fair value option.

(2) Our consolidated assets at June 30, 2017, and December 31, 2016, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash and due from banks, $112 million and $168 million; Federal funds sold, securities purchased under resale agreements and other short-term investments, $424 million and $74 million; Trading assets, $50 million and $130 million; Investment securities, $0 million at both period ends; Net loans, $12.1 billion and $12.6 billion; Derivative assets, $0 million and $1 million; Other assets, $339 million and $452 million; and Total assets, $13.0 billion and $13.4 billion, respectively.

(3) Our consolidated liabilities at June 30, 2017, and December 31, 2016, include the following VIE liabilities for which the VIE creditors do not have recourse to Wells Fargo: Derivative liabilities, $28 million and $33 million; Accrued expenses and other liabilities, $96 million and $107 million; Long-term debt, $2.8 billion and $3.7 billion; and Total liabilities, $3.0 billion and $3.8 billion, respectively.

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries
Consolidated Statement of Changes in Equity (Unaudited)

	Preferred stock		Common stock	
(in millions, except shares)	Shares	Amount	Shares	Amount
Balance December 31, 2015	11,259,917	$22,214	5,092,128,810	$9,136
Cumulative effect from change in consolidation accounting (1)				
Balance January 1, 2016	11,259,917	$22,214	5,092,128,810	$9,136
Net income				
Other comprehensive income (loss), net of tax				
Noncontrolling interests				
Common stock issued			38,655,156	
Common stock repurchased			(96,479,740)	
Preferred stock issued to ESOP	1,150,000	1,150		
Preferred stock released by ESOP				
Preferred stock converted to common shares	(684,244)	(684)	14,189,729	
Common stock warrants repurchased/exercised				
Preferred stock issued	86,000	2,150		
Common stock dividends				
Preferred stock dividends				
Tax benefit from stock incentive compensation				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change	551,756	2,616	(43,634,855)	—
Balance June 30, 2016	11,811,673	$24,830	5,048,493,955	$9,136
Balance January 1, 2017	11,532,712	$24,551	5,016,109,326	$9,136
Net income				
Other comprehensive income, net of tax				
Noncontrolling interests				
Common stock issued			39,392,446	
Common stock repurchased			(96,121,157)	
Preferred stock issued to ESOP	950,000	950		
Preferred stock released by ESOP				
Preferred stock converted to common shares	(406,185)	(406)	7,389,435	
Common stock warrants repurchased/exercised				
Preferred stock issued	27,600	690		
Common stock dividends				
Preferred stock dividends				
Tax benefit from stock incentive compensation (2)				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change	571,415	1,234	(49,339,276)	—
Balance June 30, 2017	12,104,127	$25,785	4,966,770,050	$9,136

(1) Effective January 1, 2016, we adopted changes in consolidation accounting pursuant to ASU 2015-02 (Amendments to the Consolidation Analysis). Accordingly, we recorded a $121 million increase to beginning noncontrolling interests as a cumulative-effect adjustment.

(2) Effective January 1, 2017, we adopted Accounting Standards Update 2016-09 (Improvements to Employee Share-Based Payment Accounting). Accordingly, tax benefit from stock incentive compensation is reported in income tax expense in the consolidated statement of income.

The accompanying notes are an integral part of these statements.

			Wells Fargo stockholders' equity				
Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total Wells Fargo stockholders' equity	Noncontrolling interests	Total equity
60,714	120,866	297	(18,867)	(1,362)	192,998	893	193,891
						121	121
60,714	120,866	297	(18,867)	(1,362)	192,998	1,014	194,012
	11,020				11,020	67	11,087
		2,651			2,651	(43)	2,608
1					1	(122)	(121)
(184)	(185)		1,845		1,476		1,476
500			(4,743)		(4,243)		(4,243)
99				(1,249)	—		—
(59)				743	684		684
—			684		—		—
—					—		—
(49)					2,101		2,101
27	(3,861)				(3,834)		(3,834)
	(764)				(764)		(764)
172					172		172
508					508		508
(1,038)			13		(1,025)		(1,025)
(23)	6,210	2,651	(2,201)	(506)	8,747	(98)	8,649
60,691	127,076	2,948	(21,068)	(1,868)	201,745	916	202,661
60,234	133,075	(3,137)	(22,713)	(1,565)	199,581	916	200,497
	11,267				11,267	129	11,396
		1,027			1,027	5	1,032
1					1	(135)	(134)
(26)	(184)		1,868		1,658		1,658
750			(5,212)		(4,462)		(4,462)
31				(981)	—		—
(21)				427	406		406
41			365		—		—
(68)					(68)		(68)
(13)					677		677
25	(3,827)				(3,802)		(3,802)
	(807)				(807)		(807)
—					—		—
534					534		534
(799)			17		(782)		(782)
455	6,449	1,027	(2,962)	(554)	5,649	(1)	5,648
60,689	139,524	(2,110)	(25,675)	(2,119)	205,230	915	206,145

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

	Six months ended June 30,	
(in millions)	2017	2016
Cash flows from operating activities:		
Net income before noncontrolling interests	$11,396	11,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,160	2,160
Changes in fair value of MSRs, MHFS and LHFS carried at fair value	567	1,664
Depreciation, amortization and accretion	2,478	2,233
Other net losses	317	1,107
Stock-based compensation	1,186	1,176
Originations and purchases of MHFS and LHFS (1)	(86,008)	(85,821)
Proceeds from sales of and paydowns on mortgages originated for sale and LHFS (1)	53,404	59,824
Net change in:		
Trading assets (1)	24,477	16,506
Deferred income taxes	1,281	(2,286)
Derivative assets and liabilities (1)	(2,133)	(10)
Other assets (1)	1,485	(8,667)
Other accrued expenses and liabilities (1)	(652)	(394)
Net cash provided (used) by operating activities	8,958	(1,421)
Cash flows from investing activities:		
Net change in:		
Federal funds sold, securities purchased under resale agreements and other short-term investments	(5,489)	(25,492)
Available-for-sale securities:		
Sales proceeds	23,004	22,631
Prepayments and maturities	24,359	15,182
Purchases	(45,649)	(19,602)
Held-to-maturity securities:		
Paydowns and maturities	4,606	2,951
Purchases	—	(19,217)
Nonmarketable equity investments:		