WELLS FARGO & COMPANY/MN
Form 10-Q
May 06, 2015

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

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

Commission file number 001-2979

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

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

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

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

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

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

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

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

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

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

	Shares Outstanding April 30, 2015
Common stock, $1-2/3 par value	5,149,204,973

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PART I Financial Information

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

($ in millions, except per share amounts)	Quarter ended			% Change Mar 31, 2015 from	
	Mar 31, 2015	Dec 31, 2014	Mar 31, 2014	Dec 31, 2014	Mar 31, 2014
For the Period					
Wells Fargo net income	$5,804	5,709	5,893	2 %	(2)
Wells Fargo net income applicable to common stock	5,461	5,382	5,607	1	(3)
Diluted earnings per common share	1.04	1.02	1.05	2	(1)
Profitability ratios (annualized):					
Wells Fargo net income to average assets (ROA)	1.38 %	1.36	1.57	1	(12)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	13.17	12.84	14.35	3	(8)
Efficiency ratio (1)	58.8	59.0	57.9	—	2
Total revenue	21,278	21,443	20,625	(1)	3
Pre-tax pre-provision profit (PTPP) (2)	8,771	8,796	8,677	—	1
Dividends declared per common share	0.35	0.35	0.30	—	17
Average common shares outstanding	5,160.4	5,192.5	5,262.8	(1)	(2)
Diluted average common shares outstanding	5,243.6	5,279.2	5,353.3	(1)	(2)
Average loans	$863,261	849,429	823,790	2	5
Average assets	1,707,798	1,663,760	1,525,905	3	12
Average core deposits (3)	1,063,234	1,035,999	973,801	3	9
Average retail core deposits (4)	731,413	714,572	690,643	2	6
Net interest margin	2.95 %	3.04	3.20	(3)	(8)
At Period End					
Investment securities	$324,736	312,925	270,327	4	20
Loans	861,231	862,551	826,443	—	4
Allowance for loan losses	12,176	12,319	13,695	(1)	(11)
Goodwill	25,705	25,705	25,637	—	—
Assets	1,737,737	1,687,155	1,546,707	3	12
Core deposits (3)	1,086,993	1,054,348	994,185	3	9
Wells Fargo stockholders' equity	188,796	184,394	175,654	2	7
Total equity	189,964	185,262	176,469	3	8
Tier 1 capital (5)	158,787	154,666	147,549	3	8
Total capital (5)	196,204	192,940	183,559	2	7
Capital ratios (5):					
Total equity to assets	10.93 %	10.98	11.41	—	(4)
Risk-based capital:					
Tier 1 capital	12.20	12.45	12.63	(2)	(3)
Total capital	15.08	15.53	15.71	(3)	(4)
Tier 1 leverage	9.48	9.45	9.84	—	(4)
Common Equity Tier 1	10.69	11.04	11.36	(3)	(6)
Common shares outstanding	5,162.9	5,170.3	5,265.7	—	(2)

Book value per common share	$32.70	32.19	30.48	2	7
Common stock price:					
High	56.29	55.95	49.97	1	13
Low	50.42	46.44	44.17	9	14
Period end	54.40	54.82	49.74	(1)	9
Team members (active, full-time equivalent)	266,000	264,500	265,300	1	—

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

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

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

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

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

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

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

Financial Review

Overview

Wells Fargo & Company is a nationwide, diversified, community-based financial services company with $1.7 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,700 locations, 12,500 ATMs, the internet (wellsfargo.com) and mobile banking, and we have offices in 36 countries to support customers who conduct business in the global economy. With approximately 266,000 active, full-time equivalent team members, we serve one in three households in the United States and rank No. 29 on Fortune's 2014 rankings of America's largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at March 31, 2015.

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

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

Financial Performance

Wells Fargo net income was $5.8 billion in first quarter 2015 with diluted earnings per share (EPS) of $1.04, compared with $5.9 billion and $1.05, respectively, from a year ago. Our solid

earnings reflected the benefit of our diversified business model and our continued focus on serving the needs of our customers.

Compared with a year ago:

- revenue grew 3% as a result of increases in both net interest income and noninterest income;
- our loans increased $34.8 billion, or 4%, even with the planned runoff in our non-strategic/liquidating portfolios, and our core loan portfolio grew by $54.2 billion, or 7%;

- our liquidating portfolio declined $19.4 billion and was only 7% of our total loans, down from 9% a year ago;
- our deposit franchise continued to generate strong customer and balance growth, with total deposits reaching a record $1.2 trillion, up $102.1 billion, or 9%, and we grew the number of primary consumer checking customers by 5.7%;
- our credit performance continued to be very strong with total net charge-offs down $117 million, or 14%, and represented only 33 basis points (annualized) of average loans; and
- we continued to maintain our solid customer relationships across our company, with Retail Banking cross-sell of 6.13 products per household (February 2015); Wholesale Banking cross-sell of 7.2 products (December 2014); and Wealth, Brokerage and Retirement cross-sell of 10.44 products (February 2015).

Balance Sheet and Liquidity

Our balance sheet continued to strengthen in first quarter 2015 as we increased our liquidity position, generated core loan and deposit growth, experienced continued improvement in credit quality and maintained strong capital levels. We have been able to grow our loans on a year-over-year basis for 15 consecutive quarters (for the past 12 quarters year-over-year loan growth has been 3% or greater) despite the planned runoff from our non-strategic/liquidating portfolios. Our non-strategic/liquidating loan portfolios decreased $2.2 billion during the quarter and our core loan portfolio increased $914 million. Our investment securities increased by $11.8 billion during the quarter, driven primarily by our purchases of U.S. Treasuries, federal agency mortgage-backed securities (MBS) and municipal securities.

Deposit growth remained strong with period-end deposits up $28.4 billion, or 2%, from December 31, 2014. This increase reflected solid growth across both our commercial and consumer businesses. Our average deposit cost was 9 basis points, consistent with fourth quarter 2014 and down 2 basis points from a year ago. We successfully grew our primary consumer checking customers by 5.7% and primary business checking customers by 5.5% from a year ago (February 2015 compared with February 2014). Our ability to consistently grow primary checking customers is important to our results because these customers have more interactions with us, have higher cross-sell and are more than twice as profitable as non-primary customers.

Overview (continued)

Credit Quality

Credit quality remained strong in first quarter 2015 as losses remained at historically low levels, nonperforming assets (NPAs) continued to decline, and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $708 million, or 0.33% (annualized) of average loans, in first quarter 2015, compared with $825 million a year ago (0.41%), a 14% year-over-year decrease in credit losses. Our commercial portfolio net charge-offs were $44 million, or 4 basis points of average commercial loans. Net consumer credit losses declined to 60 basis points in first quarter 2015 from 75 basis points in first quarter 2014. Our commercial real estate portfolios were in a net recovery position for the ninth consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined $156 million from a year ago, down 43%, which included a $46 million decline in losses in our core 1-4 family first mortgage portfolio. The lower consumer loss levels reflected the benefit of the improving economy and our continued focus on originating high quality loans. Approximately 61% of the consumer first mortgage portfolio was originated after 2008, when more stringent underwriting standards were implemented.

Our provision for credit losses reflected a release from the allowance for credit losses of $100 million in first quarter 2015, which was $400 million less than what we released a year ago. Future allowance levels may increase or decrease based on a variety of factors, including loan growth, portfolio performance and general economic conditions.

In addition to lower net charge-offs and provision expense, NPAs also improved and were down $618 million, or 4%, from December 31, 2014, the tenth consecutive quarter of decline. Nonaccrual loans declined $338 million from the prior quarter while foreclosed assets were down $280 million.

Capital

Our financial performance in first quarter 2015 resulted in strong capital generation, which increased total equity to $190.0 billion at March 31, 2015, up $4.7 billion from the prior quarter. We continued to reduce our common share count through the repurchase of 48.4 million common shares in the quarter. We also entered into a $750 million forward repurchase contract in January 2015 with an unrelated third party that settled in April 2015 for 14.0 million shares. In addition, we entered into another $750 million forward repurchase contract with an unrelated third party in April 2015 that is expected to settle before August 2015 for approximately 14 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2015. In March 2015, the Federal Reserve Board (FRB) announced no objection to our 2015 Capital Plan (the Plan) under the Comprehensive Capital Analysis and Review (CCAR) of the nation's largest banks. The Plan included a proposed increase to our quarterly dividend rate by 7% to $0.375 per common share for second quarter 2015, which was approved by our Board of Directors on April 28, 2015. This result again demonstrates the benefit of our diversified business model and conservative risk discipline, which have positioned us well to return more capital to shareholders while maintaining strong capital levels.

We believe an important measure of our capital strength is the estimated Common Equity Tier 1 ratio under Basel III, using the Advanced Approach, fully phased-in, which increased to 10.48% at March 31, 2015.

Our regulatory capital ratios under Basel III (Standardized Approach with Transition Requirements) were strong with a total risk-based capital ratio of 15.08%, Tier 1 risk-based capital ratio of 12.20% and Tier 1 leverage ratio of 9.48% at March 31, 2015. See the “Capital Management” section in this Report for more information regarding our capital, including the calculation of common equity for regulatory purposes.

Earnings Performance
Wells Fargo net income for first quarter 2015 was $5.8 billion ($1.04 diluted earnings per common share), compared with $5.9 billion ($1.05 diluted per share) for first quarter 2014. Our first quarter 2015 earnings reflected strong execution of our business strategy as we continued to satisfy our customers' financial needs. We generated diversified sources of revenue across many of our businesses and grew loans and deposits.
Revenue, the sum of net interest income and noninterest income, was $21.3 billion in first quarter 2015, compared with $20.6 billion in first quarter 2014. Our diversified sources of revenue generated by our businesses continued to be balanced between net interest income and noninterest income. The increase in revenue for first quarter 2015 compared with the same period in 2014 was primarily due to an increase in net interest income, reflecting increases in interest income from loans and trading assets. In first quarter 2015, net interest income of $11.0 billion represented 52% of revenue, compared with $10.6 billion (51%) in the same period in 2014.
Noninterest income was $10.3 billion in first quarter 2015, representing 48% of revenue, compared with $10.0 billion (49%) in first quarter 2014. The increase was driven predominantly by higher trust and investment fees and card fees, as well as net gains on debt securities, partially offset by lower net gains from equity investments.
Noninterest expense was $12.5 billion in first quarter 2015, compared with $11.9 billion in first quarter 2014. The increase in noninterest expense in first quarter 2015, compared with first quarter 2014, reflected higher personnel expense, including higher commission and incentive compensation. Noninterest expense as a percentage of revenue (efficiency ratio) was 58.8% in first quarter 2015 compared with 57.9% in first quarter 2014.

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

Net interest income on a taxable-equivalent basis was $11.2 billion in the first quarter of 2015, up from $10.8 billion for the same period a year ago. The net interest margin was 2.95% for the first quarter of 2015, down from 3.20% in the same period a year ago. The increase in net interest income in the first quarter of 2015 from the same period a year ago was largely driven by growth in earning assets, including growth in short-term investments, investment securities, commercial and industrial loans, and trading assets, which offset a decrease in earning asset yields. Lower funding expense, due to an increase in noninterest bearing funding sources and reduced deposit and long-term debt costs, also contributed to higher net interest income. The decline in net interest margin in first quarter of 2015, compared with the same period a year ago was primarily driven by higher funding balances, including customer-driven deposit growth and actions we took in 2014 in response to increased regulatory liquidity expectations which raised long- term debt and term deposits. This growth in funding increased cash and federal funds sold and other short-term investments which are dilutive to net interest margin although essentially neutral to net interest income.
Average earning assets increased $169.9 billion in first quarter 2015 from a year ago, as average investment securities increased $49.5 billion and average federal funds sold and other short-term investments increased $62.4 billion for the same period, respectively. In addition, average loans increased $39.5 billion in first quarter 2015, compared with the same period a year ago.
Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate

and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to $1.1 trillion in first quarter 2015, compared with $973.8 billion in first quarter 2014, and funded 123% of average loans compared with 118% a year ago. Average core deposits decreased to 69% of average earning assets in first quarter 2015, compared with 71% a year ago. The cost of these deposits has continued to decline due to a sustained low interest rate environment and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 97% of our average core deposits are in checking and savings deposits, one of the highest industry percentages.

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

	Quarter ended March 31,							
				2015				2014
(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	$275,731	0.28	%	$190	213,284	0.27	%	$144
Trading assets	62,977	2.88		453	48,231	3.17		381
Investment securities (3):								
Available-for-sale securities:								
Securities of U.S. Treasury and federal agencies	26,163	1.55		100	6,572	1.68		28
Securities of U.S. states and political subdivisions	44,948	4.20		472	42,600	4.37		465
Mortgage-backed securities:								
Federal agencies	102,193	2.76		706	117,641	2.94		864
Residential and commercial	23,938	5.71		342	28,035	6.12		429
Total mortgage-backed securities	126,131	3.32		1,048	145,676	3.55		1,293
Other debt and equity securities	47,051	3.43		400	49,156	3.59		438
Total available-for-sale securities	244,293	3.32		2,020	244,004	3.65		2,224
Held-to-maturity securities:								
Securities of U.S. Treasury and federal agencies	42,869	2.21		234	1,104	2.18		6
Securities of U.S. states and political subdivisions	1,948	5.16		25	—	—		—
Federal agency mortgage-backed securities	11,318	1.87		53	6,162	3.11		48
Other debt securities	6,792	1.72		29	6,414	1.86		29
Total held-to-maturity securities	62,927	2.19		341	13,680	2.45		83
Total investment securities	307,220	3.08		2,361	257,684	3.59		2,307
Mortgages held for sale (4)	19,583	3.61		177	16,556	4.11		170
Loans held for sale (4)	700	2.67		5	111	6.28		2
Loans:								
Commercial:								
Commercial and industrial - U.S.	227,682	3.28		1,844	193,865	3.43		1,641
Commercial and industrial - Non U.S.	45,062	1.88		209	42,181	1.92		200
Real estate mortgage	111,497	3.57		981	112,824	3.56		990
Real estate construction	19,492	3.52		169	17,071	4.38		184
Lease financing	12,319	4.95		152	12,262	6.12		188
Total commercial	416,052	3.26		3,355	378,203	3.43		3,203
Consumer:								
Real estate 1-4 family first mortgage	265,823	4.13		2,741	259,488	4.17		2,705
Real estate 1-4 family junior lien mortgage	58,880	4.27		621	65,014	4.30		692
Credit card	30,380	11.78		883	26,283	12.32		798
Automobile	56,004	5.95		821	51,794	6.50		831
Other revolving credit and installment	36,122	6.01		535	43,008	5.00		531
Total consumer	447,209	5.05		5,601	445,587	5.02		5,557
Total loans (4)	863,261	4.19		8,956	823,790	4.29		8,760
Other	4,730	5.41		63	4,655	5.72		66

Total earning assets	$1,534,202	3.21	%	$12,205	1,364,311	3.49	% $11,830
Funding sources							
Deposits:							
Interest-bearing checking	$39,155	0.05	%	$5	36,799	0.07	% $6
Market rate and other savings	613,413	0.06		97	579,044	0.07	105
Savings certificates	34,608	0.75		64	40,535	0.89	89
Other time deposits	56,549	0.39		56	45,822	0.42	48
Deposits in foreign offices	105,537	0.14		36	91,050	0.14	31
Total interest-bearing deposits	849,262	0.12		258	793,250	0.14	279
Short-term borrowings	71,712	0.11		18	54,502	0.09	13
Long-term debt	183,763	1.32		604	153,793	1.62	619
Other liabilities	16,894	2.30		97	12,859	2.72	87
Total interest-bearing liabilities	1,121,631	0.35		977	1,014,404	0.40	998
Portion of noninterest-bearing funding sources	412,571			—	349,907	—	—
Total funding sources	$1,534,202	0.26		977	1,364,311	0.29	998
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.95	%	$11,228		3.20	% $10,832
Noninterest-earning assets							
Cash and due from banks	$17,059				16,363		
Goodwill	25,705				25,637		
Other	130,832				119,594		
Total noninterest-earning assets	$173,596				161,594		
Noninterest-bearing funding sources							
Deposits	$325,531				284,069		
Other liabilities	71,988				52,955		
Total equity	188,648				174,477		
Noninterest-bearing funding sources used to fund earning assets	(412,571)				(349,907)		
Net noninterest-bearing funding sources	$173,596				161,594		
Total assets	$1,707,798				1,525,905		

(1) Our average prime rate was 3.25% for the quarters ended March 31, 2015 and 2014. The average three-month London Interbank Offered Rate (LIBOR) was 0.26% and 0.24% for the quarters ended March 31, 2015 and 2014, respectively.

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

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

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

(5) Includes taxable-equivalent adjustments of $242 million and $217 million for the quarters ended March 31, 2015 and 2014, respectively, primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

Earnings Performance (continued)

Noninterest Income

Table 2: Noninterest Income

(in millions)	Quarter ended Mar 31, 2015	2014	% Change
Service charges on deposit accounts	$1,215	1,215	— %
Trust and investment fees:			
Brokerage advisory, commissions and other fees	2,380	2,241	6
Trust and investment management	852	844	1
Investment banking	445	327	36
Total trust and investment fees	3,677	3,412	8
Card fees	871	784	11
Other fees:			
Charges and fees on loans	309	367	(16)
Merchant processing fees	187	172	9
Cash network fees	125	120	4
Commercial real estate brokerage commissions	129	72	79
Letters of credit fees	88	96	(8)
All other fees	240	220	9
Total other fees	1,078	1,047	3
Mortgage banking:			
Servicing income, net	523	938	(44)
Net gains on mortgage loan origination/sales activities	1,024	572	79
Total mortgage banking	1,547	1,510	2
Insurance	430	432	—
Net gains from trading activities	408	432	(6)
Net gains on debt securities	278	83	235
Net gains from equity investments	370	847	(56)
Lease income	132	133	(1)
Life insurance investment income	145	132	10
All other	141	(17)	NM
Total	$10,292	10,010	3

NM - Not meaningful

Noninterest income of $10.3 billion represented 48% of revenue for first quarter 2015, compared with $10.0 billion, or 49% for first quarter 2014. The increase in noninterest income reflected growth in many of our businesses, including credit and debit cards, commercial banking, commercial real estate, corporate banking, investment banking, principal investments, asset-backed finance, real estate capital markets, wealth management and retail brokerage.

Service charges on deposit accounts was $1.2 billion in first quarter 2015, unchanged from first quarter 2014. Lower overdraft fees driven by changes implemented in early October 2014 designed to provide customers with more real time information were offset by higher fees from new commercial product sales and commercial product re-pricing.

Brokerage advisory, commissions and other fees are received for providing services to full-service and discount brokerage customers. Income from these brokerage-related activities include asset-based fees, which are based on the market value of the customer’s assets, and transactional commissions based on the number and size of transactions executed at the customer’s direction. These fees increased to $2.4 billion in first quarter 2015 from $2.2 billion for the same period in 2014. The increase in brokerage income was predominantly due to higher asset-based fees as a result of higher market values and growth in assets under management. Retail brokerage client assets totaled $1.44 trillion at March 31, 2015, up 4% from $1.38 trillion at March 31, 2014.

We earn trust and investment management fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees increased to $852 million in first quarter 2015 from $844 million for the same period in 2014, with growth primarily due to higher market values. At March 31, 2015, these assets totaled $2.5 trillion, an increase from $2.4 trillion at March 31, 2014.

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 $445 million in first quarter 2015 from $327 million for the same period in 2014, driven by advisory services and broad based equity and debt origination performance in an active domestic market.

Card fees were $871 million in first quarter 2015, compared with $784 million from the same period a year ago. The increase was primarily due to account growth and increased purchase activity.

Other fees of $1.1 billion in first quarter 2015 increased $31 million compared with the same period a year ago as increases in commercial real estate brokerage commissions and merchant processing fees more than offset a decline in charges and fees on loans. Charges and fees on loans decreased to $309 million in first quarter 2015 compared with $367 million

for the same period a year ago primarily due to the phase out of the direct deposit advance product during the first half of 2014. Commercial real estate brokerage commissions increased by $57 million in first quarter 2015 compared with the same period a year ago, driven by increased sales and other property-related activities including financing and advisory services.
Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $1.5 billion in first quarter 2015, unchanged from first quarter 2014.
In addition to servicing fees, net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for first quarter 2015 included a $108 million net MSR valuation gain ($773 million decrease in the fair value of the MSRs and a $881 million hedge gain) and for first quarter 2014 included a $407 million net MSR valuation gain ($441 million decrease in the fair value of the MSRs offset by an $848 million hedge gain). The decrease in net MSR valuation gains in first quarter 2015, compared with the same period in 2014, was primarily attributable to MSR valuation adjustments in first quarter 2015 that reflected higher prepayment expectations due to the reduction in FHA mortgage insurance premiums as well as overall lower actual prepayments in first quarter of 2014.
Our portfolio of residential and commercial loans serviced for others was $1.84 trillion at March 31, 2015, and $1.86 trillion at December 31, 2014. At March 31, 2015, the ratio of combined residential and commercial MSRs to related loans serviced for others was 0.71%, compared with 0.75% at December 31, 2014. See the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section of this Report for additional information regarding our MSRs risks and hedging approach.
Net gains on mortgage loan origination/sale activities were $1.0 billion in first quarter 2015, up from $572 million for the same period a year ago. The increase in first quarter 2015, compared with the same period a year ago, was primarily driven by increased origination volumes and margins. Mortgage loan originations were $49.0 billion for first quarter 2015, of which 45% were for home purchases, compared with $36 billion and 66% for the same period a year ago. The year-over-year increase was primarily driven by lower mortgage interest rates. Mortgage applications were $93 billion in first quarter 2015 compared with $60 billion for the same period a year ago. The real estate 1-4 family first mortgage unclosed pipeline was $44 billion at March 31, 2015, its highest level since June 30, 2013, compared with $27 billion at March 31, 2014. For additional information about our mortgage banking activities and results, see the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.
Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For the first quarter of 2015, we released a net $16 million from the repurchase liability, compared with a provision of $6 million for the first quarter of 2014. For additional information about mortgage loan repurchases, see the “Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses” section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

We engage in trading activities primarily to accommodate the investment activities of our customers, execute economic hedging to manage certain of our balance sheet risks and for a very limited amount of proprietary trading for our own account. Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $408 million in first quarter 2015 compared with $432 million for the same period a year ago. The first quarter year-over-year decrease was primarily driven by lower customer accommodation trading within our capital markets business partly offset by higher deferred compensation gains (offset in employee benefits expense).
Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. Interest and fees related to proprietary trading are reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. For additional information about proprietary and other trading, see the “Risk Management – Asset and Liability Management – Market Risk – Trading

Activities” section in this Report.
Net gains on debt and equity securities totaled $648 million for first quarter 2015 and $930 million for first quarter 2014, net of other-than-temporary impairment (OTTI) write-downs of $73 million and $135 million for first quarter 2015 and 2014, respectively. The decrease in net gains on debt and equity securities was primarily due to lower net gains from equity investments as our portfolio benefited from strong public and private equity markets in first quarter 2014.
All other income was $141 million in first quarter 2015, compared with $(17) million for the same period a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity method of accounting, any of which can cause decreases and net losses in other income. Higher other income for first quarter 2015, compared with the same period a year ago, reflected higher income from equity method investments and larger ineffectiveness gains on derivatives that qualify for hedge accounting.

Earnings Performance (continued)

Noninterest Expense

Table 3: Noninterest Expense

	Quarter ended Mar 31,		
(in millions)	2015	2014	% Change
Salaries	$3,851	3,728	3 %
Commission and incentive compensation	2,685	2,416	11
Employee benefits	1,477	1,372	8
Equipment	494	490	1
Net occupancy	723	742	(3)
Core deposit and other intangibles	312	341	(9)
FDIC and other deposit assessments	248	243	2
Outside professional services	548	559	(2)
Operating losses	295	159	86
Outside data processing	253	241	5
Contract services	225	234	(4)
Travel and entertainment	158	219	(28)
Postage, stationery and supplies	171	191	(11)
Advertising and promotion	118	118	—
Foreclosed assets	135	132	2
Telecommunications	111	114	(2)
Insurance	140	125	12
Operating leases	62	50	25
All other	501	474	6
Total	$12,507	11,948	5

Noninterest expense was $12.5 billion in first quarter 2015, up 5% from $11.9 billion in the same period a year ago, driven predominantly by higher personnel expenses ($8.0 billion, up from $7.5 billion a year ago) and higher operating losses ($295 million, up from $159 million a year ago). These increases were partially offset by lower travel and entertainment expense ($158 million, down from $219 million a year ago).

Personnel expenses, which include salaries, commissions, incentive compensation and employee benefits, were up $497 million, or 7%, in first quarter 2015 compared with the same quarter last year, largely due to higher revenue-related compensation, annual salary increases, higher deferred compensation (offset in trading income) and other benefits.

Operating losses were up $136 million, or 86%, in first quarter 2015 compared with the same period a year ago, primarily reflecting higher litigation accruals.

Travel and entertainment expenses were down $61 million, or 28%, in first quarter 2015 compared with the same period in 2014, primarily driven by travel expense reduction initiatives.

The efficiency ratio was 58.8% in first quarter 2015, compared with 57.9% in first quarter 2014. The Company expects to operate within its targeted efficiency ratio range of 55 to 59% for full year 2015.

Income Tax Expense

Our effective tax rate was 28.2% and 27.9% for first quarter 2015 and 2014, respectively. The effective tax rates for first quarter 2015 and 2014 reflected $359 million and $423 million, respectively, of discrete tax benefits primarily from reductions in reserves for uncertain tax positions due to audit resolutions of prior period matters with U.S. federal and state taxing authorities. Absent additional discrete tax benefits in 2015, we expect the effective income tax rate for full year 2015 to be higher than the effective tax rate for first quarter 2015.

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Operating Segment Results
We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting

guidance equivalent to generally accepted accounting principles (GAAP). Table 4 and the following discussion present our results by operating segment. For additional description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results – Highlights

(income/expense in millions,	Community Banking		Wholesale Banking		Wealth, Brokerage and Retirement		Other (1)		Consolidated Company	
average balances in billions)	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Quarter ended March 31,										
Revenue	$12,784	12,593	5,912	5,580	3,733	3,468	(1,151)	(1,016)	21,278	20,625
Provision (reversal of provision) for credit losses	617	419	(6)	(93)	(3)	(8)	—	7	608	325
Noninterest expense	7,064	6,774	3,409	3,215	2,831	2,711	(797)	(752)	12,507	11,948
Net income (loss)	3,665	3,844	1,797	1,742	561	475	(219)	(168)	5,804	5,893
Average loans	$506.4	505.0	337.6	301.9	56.9	50.0	(37.6)	(33.1)	863.3	823.8
Average core deposits	668.9	626.5	303.4	259.0	161.4	156.0	(70.5)	(67.7)	1,063.2	973.8

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

Cross-sell Our cross-sell strategy is to increase the number of products our customers use by offering them all of the financial products that satisfy their financial needs. We track our cross-sell activities based on whether the customer is a retail banking household or has a wholesale banking relationship. For additional information regarding our cross-sell metrics, see the "Earnings Performance – Operating Segments – Cross-sell" section in our 2014 Form 10-K.

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

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including checking and savings accounts, credit and debit cards, and auto, student, and small business lending. These products also include investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C. through its Regional Banking and Wells Fargo Home Lending business units. The Community Banking segment also includes the results of our Corporate Treasury activities net of allocations in support of the other operating segments and results of investments in our affiliated venture capital partnerships. Our retail banking household cross-sell was 6.13 products per household in February 2015, compared with 6.17 in February 2014. The February 2015 retail banking household cross-sell ratio includes the impact of the sale of government guaranteed student loans in fourth quarter 2014. Our goal of eight products per retail banking household equates to approximately one-half of our estimate of potential demand for an average U.S. household. We believe there is continued opportunity to earn more business from our customers as we build lifelong relationships with them. Our approach is needs-based – some customers will benefit from more than eight products, some may need less, but on average our goal is to have eight products per retail banking household. In February 2015, one of every four of our retail banking households had eight or more of our products. Table 4a provides additional financial information for Community Banking.

Earnings Performance (continued)

Table 4a - Community Banking

(in millions, except average balances which are in billions)	Quarter ended March 31, 2015	2014	% Change
Net interest income	$7,561	7,275	4 %
Noninterest income:			
Service charges on deposit accounts	772	817	(6)
Trust and investment fees:			
Brokerage advisory, commissions and other fees	506	433	17
Trust and investment management	214	199	8
Investment banking (1)	(36)	(7)	414
Total trust and investment fees	684	625	9
Card fees	802	721	11
Other fees	551	593	(7)
Mortgage banking	1,435	1,424	1
Insurance	31	32	(3)
Net gains from trading activities	83	36	131
Net gains on debt securities	206	10	NM
Net gains from equity investments (2)	290	755	(62)
Other income of the segment	369	305	21
Total noninterest income	5,223	5,318	(2)
Total revenue	12,784	12,593	2
Provision for credit losses	617	419	47
Noninterest expense:			
Personnel expense	4,548	4,259	7
Equipment	436	420	4
Net occupancy	534	555	(4)
Core deposit and other intangibles	146	158	(8)
FDIC and other deposit assessments	147	152	(3)
Outside professional services	207	224	(8)
Operating losses	230	119	93
Other expense of the segment	816	887	(8)
Total noninterest expense	7,064	6,774	4
Income before income tax expense and noncontrolling interests	5,103	5,400	(6)
Income tax expense	1,364	1,376	(1)
Net income from noncontrolling interests (3)	74	180	(59)
Net income	$3,665	3,844	(5)
Average loans	$506.4	505.0	—
Average core deposits	668.9	626.5	7

NM - Not meaningful

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

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

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

Community Banking reported net income of $3.7 billion in first quarter 2015, down $179 million, or 5%, from first quarter 2014. Revenue of $12.8 billion increased $191 million, or 2%, from a year ago primarily due to higher net interest income, gains on sale of debt securities, and higher card fees and trust and investment fees, partially offset by lower gains on equity investments and lower service charges on deposit accounts. Average core deposits increased $42.4 billion, or 7%, from first quarter 2014. Primary consumer checking customers as of February 2015 (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) were up 5.7% from February 2014. Noninterest expense increased $290 million, or 4%, from first quarter 2014, driven by higher personnel expenses and operating losses, partially offset by lower travel, occupancy, and

other expenses. Net charge-offs decreased $172 million from first quarter 2014 primarily due to credit improvement in consumer real estate loan portfolios. The provision for credit losses was $198 million higher than first quarter 2014 as the improvement in net charge-offs was more than offset by a lower allowance release.

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

Finance, Wells Fargo Securities, Principal Investments, Asset Backed Finance, and Asset Management. Wholesale Banking cross-sell was 7.2 products per relationship in first quarter 2015, consistent with the first quarter of 2014. Table 4b provides additional financial information for Wholesale Banking.

Table 4b - Wholesale Banking

	Quarter ended March 31,		
(in millions, except average balances which are in billions)	2015	2014	% Change
Net interest income	$2,921	2,891	1 %
Noninterest income:			
Service charges on deposit accounts	443	398	11
Trust and investment fees:			
Brokerage advisory, commissions and other fees	85	76	12
Trust and investment management	453	460	(2)
Investment banking	484	337	44
Total trust and investment fees	1,022	873	17
Card fees	69	62	11
Other fees	526	453	16
Mortgage banking	113	86	31
Insurance	344	361	(5)
Net gains from trading activities	283	360	(21)
Net gains on debt securities	61	69	(12)
Net gains from equity investments	77	88	(13)
Other income of the segment	53	(61)	NM
Total noninterest income	2,991	2,689	11
Total revenue	5,912	5,580	6
Reversal of provision for credit losses	(6)	(93)	(94)
Noninterest expense:			
Personnel expense	1,951	1,790	9
Equipment	47	60	(22)
Net occupancy	113	111	2
Core deposit and other intangibles	85	96	(11)
FDIC and other deposit assessments	79	70	13
Outside professional services	236	243	(3)
Operating losses	37	19	95
Other expense of the segment	861	826	4
Total noninterest expense	3,409	3,215	6
Income before income tax expense and noncontrolling interests	2,509	2,458	2
Income tax expense	706	714	(1)
Net income from noncontrolling interests	6	2	200
Net income	$1,797	1,742	3
Average loans	$337.6	301.9	12
Average core deposits	303.4	259.0	17

NM - Not meaningful

Wholesale Banking reported net income of $1.8 billion, up $55 million, or 3%, from first quarter 2014 driven by revenue growth. Revenue grew $332 million, or 6%, from first quarter 2014 on both increased net interest income and noninterest income. Net interest income increased $30 million, or 1%, driven by loan and other earning asset growth. Noninterest income increased $302 million, or 11%, on increased investment banking, commercial real estate brokerage, treasury management, foreign exchange and loan fees, and improved mortgage banking activity and earnings on nonmarketable equity investments. Average loans of $337.6 billion increased $35.7 billion, or 12%, from first quarter 2014, driven by growth in asset backed finance, capital

finance, commercial banking, commercial real estate, corporate banking, equipment finance, government and institutional banking and real estate capital markets. Average core deposits of $303.4 billion increased $44.4 billion, or 17%, from first quarter 2014 reflecting continued strong customer liquidity. Noninterest expense increased $194 million, or 6%, from first quarter 2014 due primarily to higher personnel expenses related to growth initiatives, compliance, and regulatory requirements. The provision for credit losses increased $87 million from first quarter 2014 due primarily to lower recoveries.

Earnings Performance (continued)

Wealth, Brokerage and Retirement provides a full range of financial advisory services to clients using a planning approach to meet each client's financial needs. Wealth Management provides affluent and high net worth clients with a complete range of wealth management solutions, including financial planning, private banking, credit, investment management and fiduciary services. Abbot Downing, a Wells Fargo business, provides comprehensive wealth management services to ultra-high net worth families and individuals as well as endowments and foundations. Brokerage serves customers' advisory, brokerage and financial needs as part of one of the largest full-service

brokerage firms in the United States. Retirement is a national leader in providing retirement and trust services (including 401(k) and pension plan record keeping) for institutional clients and reinsurance services for the life insurance industry. Wealth, Brokerage and Retirement cross-sell was 10.44 products per retail banking household in February 2015, up from 10.42 a year ago. Table 4c provides additional financial information for Wealth, Brokerage and Retirement.

Table 4c - Wealth, Brokerage and Retirement

	Quarter ended March 31,		
(in millions, except average balances which are in billions)	2015	2014	% Change
Net interest income	$861	768	12 %
Noninterest income:			
Service charges on deposit accounts	4	4	—
Trust and investment fees:			
Brokerage advisory, commissions and other fees	2,294	2,164	6
Trust and investment management	407	392	4
Investment banking (1)	(3)	(3)	—
Total trust and investment fees	2,698	2,553	6
Card fees	1	1	—
Other fees	4	4	—
Mortgage banking	(2)	(1)	100
Insurance	55	39	41
Net gains from trading activities	42	36	17
Net gains on debt securities	11	4	175
Net gains from equity investments	3	4	(25)
Other income of the segment	56	56	—
Total noninterest income	2,872	2,700	6
Total revenue	3,733	3,468	8
Reversal of provision for credit losses	(3)	(8)	(63)
Noninterest expense:			
Personnel expense	1,932	1,847	5
Equipment	12	11	9
Net occupancy	105	103	2
Core deposit and other intangibles	81	87	(7)
FDIC and other deposit assessments	37	35	6
Outside professional services	112	100	12
Operating losses	30	24	25

Other expense of the segment	522	504	4
Total noninterest expense	2,831	2,711	4
Income before income tax expense and noncontrolling interests	905	765	18
Income tax expense	344	290	19
Net income from noncontrolling interests	—	—	—
Net income	$561	475	18
Average loans	$56.9	50.0	14
Average core deposits	161.4	156.0	3

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

Wealth, Brokerage and Retirement reported net income of $561 million in first quarter 2015, up 18% from first quarter 2014 driven by higher net interest income and noninterest income. Revenue of $3.7 billion in first quarter 2015 was up 8% from first quarter 2014, predominantly due to strong growth in asset-based

fees and higher net interest income primarily driven by growth in investment and loan portfolios. Noninterest expense increased 4% from first quarter 2014, primarily due to brokerage volume-based expenses and higher other expenses. Total provision for credit losses increased $5 million from first quarter 2014.

Balance Sheet Analysis

At March 31, 2015, our assets totaled $1.7 trillion, up $50.6 billion from December 31, 2014. The predominant areas of asset growth were in federal funds sold and other short-term investments, which increased $32.9 billion, investment securities, which increased $11.8 billion, and mortgages held for sale, which increased $4.1 billion. Deposit growth of $28.4 billion, an increase in short-term borrowings of $14.2 billion, and total equity growth of $4.7 billion from December 31, 2014, were the predominant sources that funded our asset growth in first quarter 2015. Equity growth benefited from $3.6 billion in

earnings net of dividends paid. The strength of our business model produced solid earnings and continued internal capital generation.

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

	March 31, 2015			December 31, 2014		
(in millions)	Amortized Cost	Net unrealized gain	Fair value	Amortized Cost	Net unrealized gain	Fair value
Available-for-sale securities:						
Debt securities	$247,757	6,342	254,099	247,747	6,019	253,766
Marketable equity securities	1,919	1,585	3,504	1,906	1,770	3,676
Total available-for-sale securities	249,676	7,927	257,603	249,653	7,789	257,442
Held-to-maturity debt securities	67,133	1,648	68,781	55,483	876	56,359
Total investment securities (1)	$316,809	9,575	326,384	305,136	8,665	313,801

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

Table 5 presents a summary of our investment securities portfolio, which increased $11.8 billion from December 31, 2014, predominantly due to purchases of U.S. Treasury securities and Federal agency mortgage-backed securities. The total net unrealized gains on available-for-sale securities were $7.9 billion at March 31, 2015, up from $7.8 billion at December 31, 2014, due primarily to a decrease in long-term interest rates. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section of our 2014 Form 10-K. Also, see the "Risk Management - Asset/Liability Management" section in this Report for information on our use of investments to manage liquidity and interest rate risk.

We analyze securities for other-than-temporary impairment (OTTI) quarterly or more often if a potential loss-triggering event occurs. Of the $73 million in OTTI write-downs recognized in earnings in first quarter 2015, $31 million related to debt securities and $42 million related to nonmarketable equity investments, which are included in other assets. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2014 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At March 31, 2015, investment securities included $49.5 billion of municipal bonds, of which 92.1% were rated "A-" or better based predominantly on external and, in some cases, internal ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are substantially all investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer’s guarantee in

making the investment decision. 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 6.0 years at March 31, 2015. Because 50% of this portfolio is MBS, the expected remaining maturity is shorter than the remaining contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effects of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available-for-sale portfolio are shown in Table 6.

Table 6: Mortgage-Backed Securities

(in billions)	Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At March 31, 2015			
Actual	$127.9	4.5	3.9
Assuming a 200 basis point:			
Increase in interest rates	118.0	(5.4)	6.0
Decrease in interest rates	131.0	7.6	2.4

The weighted-average expected maturity of debt securities held-to-maturity was 6.2 years at March 31, 2015. See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

Balance Sheet Analysis (continued)

Loan Portfolio

Total loans were $861.2 billion at March 31, 2015, down $1.3 billion from December 31, 2014. Table 7 provides a summary of total outstanding loans by non-strategic/liquidating and core loan portfolios. The decrease in the non-strategic/liquidating portfolios was $2.2 billion. Loans in the core portfolio grew

$914 million from December 31, 2014, primarily due to growth in real estate construction loans within the commercial loan portfolio segment.

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

Table 7: Loan Portfolios

	March 31, 2015			December 31, 2014		
(in millions)	Core	Liquidating	Total	Core	Liquidating	Total
Commercial	$414,600	699	415,299	413,701	1,125	414,826
Consumer	388,077	57,855	445,932	388,062	59,663	447,725
Total loans	$802,677	58,554	861,231	801,763	60,788	862,551
Change from prior quarter-end	$914	(2,234)	(1,320)	25,972	(2,304)	23,668

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 distribution of loans in those categories to changes in interest rates.

Table 8: Maturities for Selected Commercial Loan Categories

	March 31, 2015				December 31, 2014			
(in millions)	Within one year	After one year through five years	After five years	Total	Within one year	After one year through five years	After five years	Total
Selected loan maturities:								
Commercial and industrial	$73,576	175,072	22,440	271,088	76,216	172,801	22,778	271,795
Real estate mortgage	17,458	60,473	33,917	111,848	17,485	61,092	33,419	111,996
Real estate construction	6,641	12,021	1,319	19,981	6,079	11,312	1,337	18,728
Total selected loans	$97,675	247,566	57,676	402,917	99,780	245,205	57,534	402,519
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$15,942	26,049	20,919	62,910	15,574	25,429	20,002	61,005
Loans at floating/variable interest rates	81,733	221,517	36,757	340,007	84,206	219,776	37,532	341,514
Total selected loans	$97,675	247,566	57,676	402,917	99,780	245,205	57,534	402,519

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Deposits

Deposits totaled $1.2 trillion at both March 31, 2015, and December 31, 2014. Table 9 provides additional information regarding deposits. Deposit growth of $28.4 billion from December 31, 2014, reflected continued customer-driven growth as well as liquidity-related issuances of term deposits. Information regarding the impact of deposits on net interest

income and a comparison of average deposit balances is provided in “Earnings Performance – Net Interest Income” and Table 1 earlier in this Report. Total core deposits were $1.1 trillion at March 31, 2015, and December 31, 2014. Core deposits were up $32.6 billion from December 31, 2014.

Table 9: Deposits

($ in millions)	Mar 31, 2015	% of total deposits		Dec 31, 2014	% of total deposits		% Change	
Noninterest-bearing	$335,858	28	%	$321,962	27	%	4	
Interest-bearing checking	41,165	3		41,713	4		(1	)
Market rate and other savings	606,741	51		585,530	50		4	
Savings certificates	33,494	3		35,354	3		(5	)
Foreign deposits (1)	69,735	6		69,789	6		—	
Core deposits	1,086,993	91		1,054,348	90		3	
Other time and savings deposits	73,303	6		76,322	7		(4	)
Other foreign deposits	36,367	3		37,640	3		(3	)
Total deposits	$1,196,663	100	%	$1,168,310	100	%	2	

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

Fair Value of Financial Instruments

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

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

Table 10: Fair Value Level 3 Summary

	March 31, 2015			December 31, 2014	
($ in billions)	Total balance		Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$380.6		30.4	378.1	32.3
As a percentage of total assets	22	%	2	22	2
Liabilities carried at fair value	$38.2		2.1	34.9	2.3
As a percentage of total liabilities	2	%	*	2	*

* Less than 1%.

(1) Excludes derivative netting adjustments.

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

Equity

Total equity was $190.0 billion at March 31, 2015 compared with $185.3 billion at December 31, 2014. The increase was predominantly driven by a $3.6 billion increase in retained earnings from earnings net of dividends paid, and a $2.8 billion increase in preferred stock, partially offset by a net reduction in common stock due to repurchases.

Off-Balance Sheet Arrangements

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

Commitments to Lend and Purchase Securities

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

Transactions with Unconsolidated Entities

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

Guarantees and Certain Contingent Arrangements

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

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

Derivatives

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

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

Other Commitments

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

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Risk Management

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

Operational Risk Management

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

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

Credit Risk Management

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

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

(in millions)	Mar 31, 2015	Dec 31, 2014
Commercial:		
Commercial and industrial	$271,088	271,795
Real estate mortgage	111,848	111,996
Real estate construction	19,981	18,728
Lease financing	12,382	12,307
Total commercial	415,299	414,826
Consumer:		
Real estate 1-4 family first mortgage	265,213	265,386
Real estate 1-4 family junior lien mortgage	57,839	59,717
Credit card	30,078	31,119
Automobile	56,339	55,740
Other revolving credit and installment	36,463	35,763
Total consumer	445,932	447,725
Total loans	$861,231	862,551

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

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

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

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

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

- Nonaccrual loans totaled $2.2 billion at both March 31, 2015, and December 31, 2014, in our commercial portfolio and decreased to $10.3 billion in our consumer portfolio at March 31, 2015, compared with $10.6 billion at December 31, 2014. Nonaccrual loans represented 1.45% of total loans at March 31, 2015, compared with 1.49% at December 31, 2014.
- Net charge-offs (annualized) as a percentage of average total loans improved to 0.33% in first quarter 2015, compared with 0.41% for the same period a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.04% and 0.60% in first quarter 2015, respectively, compared with 0.01% and 0.75%, respectively, in first quarter 2014.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $74 million and $767 million in our commercial and consumer portfolios, respectively, at March 31, 2015, compared with $47 million and $873 million at December 31, 2014.

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

- Our provision for credit losses was $608 million in first quarter 2015, compared with $325 million for the same period a year ago.

- The allowance for credit losses decreased to $13.0 billion, or 1.51% of total loans, at March 31, 2015 from $13.2 billion, or 1.53%, at December 31, 2014.

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

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

Table 12 identifies our non-strategic and liquidating loan portfolios. They consist primarily of the Pick-a-Pay mortgage portfolio and PCI loans acquired from Wachovia, certain portfolios from legacy Wells Fargo Home Equity and Wells Fargo Financial, and our Education Finance government guaranteed student loan portfolio. The total balance of our non-strategic and liquidating loan portfolios has decreased 69% since the merger with Wachovia at December 31, 2008, and decreased 4% from the end of 2014.

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

Table 12: Non-Strategic and Liquidating Loan Portfolios

	Outstanding balance		
	Mar 31,	December 31,	
(in millions)	2015	2014	2008
Commercial:			
Legacy Wachovia commercial and industrial and commercial real estate PCI loans (1)	$699	1,125	18,704
Total commercial	699	1,125	18,704
Consumer:			
Pick-a-Pay mortgage (1)(2)	43,745	45,002	95,315
Legacy Wells Fargo Financial debt consolidation (3)	11,067	11,417	25,299
Liquidating home equity	2,744	2,910	10,309

Legacy Wachovia other PCI loans (1)	276	300	2,478
Legacy Wells Fargo Financial indirect auto (3)	23	34	18,221
Education Finance - government insured	—	—	20,465
Total consumer	57,855	59,663	172,087
Total non-strategic and liquidating loan portfolios	$58,554	60,788	190,791

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

(2) Includes PCI loans of $21.0 billion, $21.5 billion and $37.6 billion at March 31, 2015 and December 31, 2014 and 2008, respectively.

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

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Risk Management - Credit Risk Management (continued)

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are PCI loans. A nonaccretable difference is established for PCI loans to absorb losses expected on the contractual amounts of those loans in excess of the fair value recorded at the date of acquisition. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. The carrying value of PCI loans totaled $22.4 billion at March 31, 2015, down from $23.3 billion and $58.8 billion at December 31, 2014 and 2008, respectively, and $2.9 billion in nonaccretable difference remains at March 31, 2015, to absorb losses on PCI loans. Such loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

Since December 31, 2008, we have released over $10.5 billion in nonaccretable difference, including $8.6 billion transferred from the nonaccretable difference to the accretable yield and $1.9 billion released to income through loan resolutions. Also, we have provided $1.7 billion for losses on certain PCI loans or pools of PCI loans that have had credit-related decreases to cash flows expected to be collected. Through March 31, 2015, cumulative losses on PCI loans were $8.8 billion lower than our December 31, 2008 initial expectation of $41.0 billion.

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

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 $283.5 billion, or 33% of total loans, at March 31, 2015. The annualized net charge-off rate for this portfolio was 0.09% in first quarter 2015 compared with 0.12% in fourth quarter 2014, and 0.08% in first quarter 2014. At March 31, 2015, 0.24% of this portfolio was nonaccruing, compared with 0.20% at December 31, 2014. In addition, $16.6 billion of this portfolio was rated as criticized in accordance with regulatory guidance at March 31, 2015, compared with $16.7 billion at December 31, 2014.

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

Table 13 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $45.6 billion of foreign loans at March 31, 2015, that were reported in a separate foreign loan class in prior periods. Foreign loans totaled