WELLS FARGO & COMPANY/MN
Form 10-Q
November 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Commission file number 001-2979

WELLS FARGO & COMPANY

(Exact name of registrant as specified in its charter)

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

420 Montgomery Street, San Francisco, California 94163

(Address of principal executive offices) (Zip Code)

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 ¨

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 ¨

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 ¨

Non accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

Yes ¨ No 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
	October 31, 2014
Common stock, $1-2/3 par value	5,187,624,483

FORM 10-Q

CROSS-REFERENCE INDEX

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

		Quarter ended		% Change Sept. 30, 2014 from		Nine months ended		
($ in millions, except per share amounts)	**Sept. 30, 2014**	June 30, 2014	Sept. 30, 2013	June 30, 2014	Sept. 30, 2013	**Sept. 30, 2014**	Sept. 30, 2013	% Change
For the Period								
Wells Fargo net income	$ **5,729**	5,726	5,578	- %	3	**17,348**	16,268	7 %
Wells Fargo net income applicable to common stock	**5,408**	5,424	5,317	-	2	**16,439**	15,520	6
Diluted earnings per common share	**1.02**	1.01	0.99	1	3	**3.08**	2.89	7
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA) (1)	**1.40** %	1.47	1.53	(5)	(8)	**1.48**	1.53	(3)

Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)		**13.10**		13.40	14.07	(2)	(7)	**13.60**	13.92	(2)
Efficiency ratio (2)		**57.7**		57.9	59.1	-	(2)	**57.9**	58.2	(1)
Total revenue	$	**21,213**		21,066	20,478	1	4	**62,904**	63,115	-
Pre-tax pre-provision profit (PTPP) (3)		**8,965**		8,872	8,376	1	7	**26,514**	26,358	1
Dividends declared per common share		**0.35**		0.35	0.30	-	17	**1.00**	0.85	18
Average common shares outstanding		**5,225.9**		5,268.4	5,295.3	(1)	(1)	**5,252.2**	5,293.0	(1)
Diluted average common shares outstanding		**5,310.4**		5,350.8	5,381.7	(1)	(1)	**5,339.2**	5,374.7	(1)
Average loans (1)	$	**833,199**		831,043	802,134	-	4	**829,378**	799,080	4
Average assets (1)		**1,617,942**		1,564,003	1,446,965	3	12	**1,569,621**	1,425,836	10
Average core deposits (4)		**1,012,219**		991,727	940,279	2	8	**992,723**	934,131	6
Average retail core deposits (5)		**703,062**		698,763	670,335	1	5	**697,535**	666,393	5
Net interest margin (1)		**3.06**	%	3.15	3.39	(3)	(10)	**3.13**	3.45	(9)

At Period End										
Investment securities	$	**289,009**		279,069	259,399	4	11	**289,009**	259,399	11
Loans (1)		**838,883**		828,942	809,135	1	4	**838,883**	809,135	4
Allowance for loan losses		**12,681**		13,101	15,159	(3)	(16)	**12,681**	15,159	(16)
Goodwill		**25,705**		25,705	25,637	-	-	**25,705**	25,637	-
Assets (1)		**1,636,855**		1,598,874	1,484,865	2	10	**1,636,855**	1,484,865	10
Core deposits (4)		**1,016,478**		1,007,485	947,805	1	7	**1,016,478**	947,805	7
Wells Fargo stockholders' equity		**182,481**		180,859	167,165	1	9	**182,481**	167,165	9
Total equity		**182,990**		181,549	168,813	1	8	**182,990**	168,813	8
Tier 1 capital (6)		**153,437**		151,679	137,468	1	12	**153,437**	137,468	12
Total capital (6)		**190,525**		189,480	171,329	1	11	**190,525**	171,329	11
Capital ratios:										
Total equity to assets (1)		**11.18**	%	11.35	11.37	(2)	(2)	**11.18**	11.37	(2)
Risk-based capital (6):										
Tier 1 capital		**12.55**		12.72	12.11	(1)	4	**12.55**	12.11	4
Total capital		**15.58**		15.89	15.09	(2)	3	**15.58**	15.09	3
Tier 1 leverage (6)		**9.64**		9.86	9.76	(2)	(1)	**9.64**	9.76	(1)
Common Equity Tier 1 (7)		**11.11**		11.31	10.60	(2)	5	**11.11**	10.60	5
Common shares outstanding		**5,215.0**		5,249.9	5,273.7	(1)	(1)	**5,215.0**	5,273.7	(1)
Book value per common share	$	**31.55**		31.18	28.98	1	9	**31.55**	28.98	9
Common stock price:										
High		**53.80**		53.05	44.79	1	20	**53.80**	44.79	20

	Low	**49.47**	46.72	40.79	6	21	**44.17**	34.43	28
	Period end	**51.87**	52.56	41.32	(1)	26	**51.87**	41.32	26
Team members (active, full-time equivalent)		**263,900**	263,500	270,600	-	(2)	**263,900**	270,600	(2)

(1) Financial information for certain periods prior to 2014 was revised to reflect our determination that certain factoring arrangements did not qualify as loans. Accordingly, we revised our commercial loan balances for year-end 2012 and each of the quarters in 2013 in order to present the Company's lending trends on a comparable basis over this period. This revision, which resulted in a reduction to total commercial loans and a corresponding decrease to other liabilities, did not impact the Company's consolidated net income or total cash flows. We reduced our commercial loans by $3.5 billion, $3.2 billion, $2.1 billion, $1.6 billion and $1.2 billion at December 31, September 30, June 30, and March 31, 2013, and December 31, 2012, respectively, which represented less than 1% of total commercial loans and less than 0.5% of our total loan portfolio. Other affected financial information, including financial guarantees and financial ratios, has been appropriately revised to reflect this revision. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.

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

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

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

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

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

(7) See the "Capital Management" section in this Report for additional information.

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This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K).

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

Financial Review[1]

Overview

Wells Fargo & Company is a nationwide, diversified, community-based financial services company with $1.6 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,700 locations, 12,500 ATMs and the internet (wellsfargo.com), and we have offices in 36 countries to support customers who conduct business in the global economy. With approximately 265,000 active, full-time equivalent team members, we serve one in three households in the United States and rank No. 29 on *Fortune's* 2014 rankings of America's largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at September 30, 2014.

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

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

Financial Performance

Wells Fargo net income was $5.7 billion in third quarter 2014 with diluted earnings per share (EPS) of $1.02, both up 3% from a year ago, reflecting the benefit of our diversified business model, which has enabled us to produce strong and consistent results over a variety of economic and interest rate environments. We continued our focus on meeting customers' financial needs and creating long-term value for shareholders. Compared with a year ago:

- revenue grew 4% as a result of increases in both net interest income and noninterest income;
- pre-tax pre-provision profit increased 7%;
- our loans increased $29.7 billion, or 4%, even with the planned runoff in our non-strategic/liquidating portfolios, and our core loan portfolio grew by $50.8 billion, or 7%;
- our liquidating portfolio declined $21.0 billion and was only 8% of our total loans, down from 10% a year ago;
- our deposit franchise continued to generate strong customer and balance growth, with total deposits up $88.8 billion, or 9%;
- our credit performance continued to improve with total net charge-offs down $307 million, or 31%, and represented only 32 basis points (annualized) of average loans;
- our efficiency ratio improved to 57.7%, compared with 59.1%; and
- we continued to maintain our solid customer relationships across our company, with Retail Banking cross-sell of 6.15 products per household (August 2014); Wholesale Banking cross-sell of 7.2 products (June 2014); and Wealth, Brokerage and Retirement cross-sell of 10.44 products (August 2014).

Balance Sheet and Liquidity

Our balance sheet continued to strengthen in third quarter 2014 as we increased our liquidity position, improved the quality of our assets and held more capital. We have been able to grow our loans on a year-over-year basis for 13 consecutive quarters (for the past 10 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 $2.3 billion during the quarter and our core loan portfolio increased $12.2 billion. Our investment securities increased by $9.9 billion during the quarter, driven primarily by our purchases of U.S. Treasuries. We issued $16.3 billion of liquidity-related long-term debt as well as some additional liquidity-related short-term funding during third quarter 2014.

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

Deposit growth remained strong with period-end deposits up $51.4 billion, or 5%, from December 31, 2013. This increase reflected solid growth across both our commercial and consumer businesses. We grew our primary consumer checking customers by a net 4.9% and primary business checking customers by a net 5.6% from a year ago (August 2014 compared with August 2013). Our ability to grow primary customers is important to our results because these customers have more interactions with us, have higher cross-sell and are more than twice as profitable as non-primary customers.

Credit Quality

Credit quality continued to improve in third quarter 2014 as losses remained at historically low levels, nonperforming assets (NPAs) continued to decrease and we continued to originate high quality loans, reflecting our long-term risk focus and the benefit from the improved housing market. Net charge-offs were $668 million, or 0.32% (annualized) of average loans, in third quarter 2014, compared with $975 million a year ago (0.48%), a 31% year-over-year decrease in losses. Our commercial portfolio produced net recoveries of $24 million, or 2 basis points of average commercial loans. Net consumer losses declined to 62 basis points in third quarter 2014 from 86 basis points in third quarter 2013. Our commercial real estate portfolios were in a net recovery position for the seventh consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined $263 million from a year ago, down 51%, which included an $80 million decline in losses in our core 1-4 family first mortgage portfolio. The consumer loss levels reflected the benefit of the improving economy and our continued focus on originating high quality loans. Approximately 57% of the consumer first mortgage portfolio was originated after 2008, when new underwriting standards were implemented.

Our provision for credit losses reflected a release from the allowance for credit losses of $300 million in third quarter 2014, which was $600 million less than what we released a year ago. We continue to expect future allowance releases absent a significant deterioration in the economy, but expect a lower level of future releases as the rate of credit improvement slows and the loan portfolio continues to grow.

In addition to lower net charge-offs and provision expense, NPAs also improved and were down $406 million, or 2%, from June 30, 2014, the eighth consecutive quarter of decline. Nonaccrual loans declined $607 million from the prior quarter while foreclosed assets were up $201 million.

Capital

We continued to maintain strong capital levels while returning more capital to shareholders, increasing total equity to $183.0 billion at September 30, 2014, up $1.4 billion from the prior quarter. In third quarter 2014, our common shares outstanding declined by 34.9 million shares, the largest decline in over six years. We continued to reduce our common share count through the repurchase of 48.7 million common shares in the quarter. We entered into a $1.0 billion forward repurchase contract with an unrelated third party that settled in October 2014 for 19.8 million shares. In addition, we entered into a $750 million forward repurchase contract with an unrelated third party in October 2014 that is expected to settle in first quarter 2015 for approximately 15.1 million shares. We expect our share count to continue to decline in 2014 as a result of anticipated net share repurchases. Our net payout ratio (which is the ratio of (i) common stock dividends ($0.35 per share in third quarter 2014) and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock) in third quarter 2014 was 66%, in line with our recent guidance of 55-75%.

We believe an important measure of our capital strength is the estimated Common Equity Tier 1 ratio under Basel III, using the Advanced Approach, fully phased-in, which increased to 10.48% in third quarter 2014.

Our regulatory capital ratios under Basel III (General Approach) remained strong with a total risk-based capital ratio of 15.58%, Tier 1 risk-based capital ratio of 12.55% and Tier 1 leverage ratio of 9.64% at September 30, 2014, compared with 15.89%, 12.72% and 9.86%, respectively, at June 30, 2014. See the "Capital Management" section in this Report for more information regarding our capital, including the calculation of common equity for regulatory purposes.

Earnings Performance

Wells Fargo net income for third quarter 2014 was $5.7 billion ($1.02 diluted earnings per common share) compared with $5.6 billion ($0.99) for third quarter 2013. Net income for the first nine months of 2014 was $17.3 billion ($3.08) compared with $16.3 billion ($2.89) for the same period a year ago. Our third quarter 2014 earnings reflected continued execution of our business strategy and growth in many of our businesses. The key drivers of our financial performance in the third quarter and first nine months of 2014 were balanced net interest and fee income, diversified sources of fee income, a diversified loan portfolio and strong underlying credit performance.

Revenue, the sum of net interest income and noninterest income, was $21.2 billion in third quarter 2014, compared with $20.5 billion in third quarter 2013. Revenue for the first nine months of 2014 was $62.9 billion, down from $63.1 billion for the first nine months of 2013. The increase in revenue for third quarter 2014 was due to an increase in net interest income, fee income (including trust and investment fees) and market sensitive revenue (net gains from trading activities, debt securities and equity investments). The decline in revenue for the first nine months of 2014 was predominantly due to a decline in mortgage banking revenue, partially offset by an increase in trust and investment fees, and market sensitive revenue. Noninterest income represented 48% and 49% of revenue for the third quarter 2014 and first nine months of 2014, respectively, compared with 48% and 49% for the same periods a year ago. The drivers of our fee income can differ depending on the interest rate and economic environment. For example, net gains on mortgage loan origination/sales activities were 9% of our fee income in third quarter 2014, down from 11% in the same period a year ago when the refinance market was stronger. Other businesses, such as equity investments, brokerage, and mortgage servicing, contributed more to fee income this quarter, demonstrating the benefit of our diversified business model.

Net Interest Income

Earnings Performance ***(continued)***

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 periods.

Net interest income on a taxable-equivalent basis was $11.2 billion and $33.0 billion in the third quarter and first nine months of 2014, up from $10.9 billion and $32.6 billion, respectively, for the same periods a year ago. The net interest margin was 3.06% and 3.13% for the third quarter and first nine months of 2014, down from 3.39% and 3.45% in the same periods a year ago. The increase in net interest income in the third quarter and first nine months of 2014 from the same periods a year ago was largely driven by growth in earning assets, including larger trading balances, investment securities purchases and increased short-term investments, which offset the decrease in earning asset yields. Lower funding expense also contributed to higher net interest income due to reduced deposit costs and the maturing of higher yielding long-term debt. The decline in net interest margin in third quarter and first nine months of 2014, compared with the same periods a year ago was primarily driven by higher funding balances, including customer-driven deposit growth and actions we have taken in response to increased regulatory liquidity expectations which raised long-term debt and term deposits. This growth in funding increased cash and federal funds sold and other short-term investments which are dilutive to net interest margin although essentially neutral to net interest income.

Average earning assets increased $166.7 billion in the third quarter and $145.5 billion in the first nine months of 2014 from the same periods a year ago, as average federal funds sold and other short-term investments increased $97.3 billion in the third quarter and $94.3 billion in the first nine months of 2014 from the same periods a year ago, and average investment securities increased $27.7 billion in the third quarter and $29.5 billion in the first nine months of 2014 from the same periods a year ago. In addition, an increase in commercial and industrial loans contributed to $31.1 billion and $30.3 billion higher average loans in the third quarter and first nine months of 2014, respectively, compared with the same periods a year ago.

Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to $1.0 trillion in third quarter 2014 ($992.7 billion in the first nine months of 2014), compared with $940.3 billion in third quarter 2013 ($934.1 billion in the first nine months of 2013), and funded 121% of average loans in third quarter 2014 (120% for the first nine months of 2014), compared with 117% for the same periods a year ago. Average core deposits decreased to 70% of average earning assets in third quarter and 71% for the first nine months of 2014, compared with 73% in third quarter 2013 and 74% for the first nine months of 2013. The cost of these deposits declined from the prior year due to a sustained low interest rate environment and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 96% of our average core deposits are in checking and savings deposits, one of the highest industry percentages.

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

	Quarter ended September 30,					
			2014			2013
			Interest			Interest
	Average	**Yields/**	**income/**	Average	Yields/	income/
(in millions)	**balance**	**rates**	**expense**	balance	rates	expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 253,231**	**0.28 %**	**$ 180**	155,888	0.31 %	$ 121
Trading assets	**57,439**	**3.00**	**432**	44,809	3.02	339
Investment securities (3):						
Available-for-sale securities:						
Securities of U.S. Treasury and federal agencies	**8,816**	**1.69**	**38**	6,633	1.69	28
Securities of U.S. states and political subdivisions	**43,324**	**4.24**	**459**	40,754	4.35	444
Mortgage-backed securities:						
Federal agencies	**113,022**	**2.76**	**780**	112,997	2.83	800
Residential and commercial	**25,946**	**5.98**	**388**	30,216	6.56	496
Total mortgage-backed securities	**138,968**	**3.36**	**1,168**	143,213	3.62	1,296
Other debt and equity securities	**47,131**	**3.45**	**408**	55,404	3.27	455
Total available-for-sale securities	**238,239**	**3.48**	**2,073**	246,004	3.61	2,223
Held-to-maturity securities:						
Securities of U.S. Treasury and federal agencies	**23,672**	**2.22**	**133**	-	-	-
Securities of U.S. states and political subdivisions	**66**	**5.51**	**1**	-	-	-
Federal agency mortgage-backed securities	**5,854**	**2.23**	**32**	-	-	-
Other debt securities	**5,918**	**1.83**	**28**	-	-	-
Total held-to-maturity	**35,510**	**2.17**	**194**	-	-	-

securities											
Total investment securities		**273,749**	**3.31**			**2,267**	246,004	3.61			2,223
Mortgages held for sale (4)		**21,444**	**4.01**			**215**	33,227	3.86			320
Loans held for sale (4)		**9,533**	**2.10**			**50**	197	7.25			3
Loans:											
Commercial:											
Commercial and industrial		**207,570**	**3.29**			**1,716**	185,809	3.63			1,697
Real estate mortgage		**107,769**	**3.52**			**957**	104,637	4.12			1,086
Real estate construction		**17,610**	**3.93**			**175**	16,188	4.43			181
Lease financing		**12,007**	**5.39**			**162**	11,700	5.29			155
Foreign		**48,217**	**2.69**			**327**	44,799	2.09			236
Total commercial		**393,173**	**3.37**			**3,337**	363,133	3.67			3,355
Consumer:											
Real estate 1-4 family first mortgage		**262,134**	**4.23**			**2,773**	254,082	4.20			2,670
Real estate 1-4 family junior lien mortgage		**61,575**	**4.30**			**665**	68,785	4.30			743
Credit card		**27,713**	**11.96**			**836**	24,989	12.45			784
Automobile		**54,638**	**6.19**			**852**	49,134	6.85			848
Other revolving credit and installment		**33,966**	**6.03**			**516**	42,011	4.83			512
Total consumer		**440,026**	**5.11**			**5,642**	439,001	5.04			5,557
Total loans (4)		**833,199**	**4.29**			**8,979**	802,134	4.42			8,912
Other		**4,674**	**5.41**			**64**	4,279	5.62			61
Total earning assets	**$**	**1,453,269**	**3.34**	**%**	**$**	**12,187**	1,286,538	3.71	%	$	11,979
Funding sources											
Deposits:											
Interest-bearing checking	**$**	**41,368**	**0.07**	**%**	**$**	**7**	34,499	0.06	%	$	5
Market rate and other savings		**586,353**	**0.07**			**98**	553,062	0.08			107
Savings certificates		**37,347**	**0.84**			**80**	47,339	1.08			129
Other time deposits		**55,128**	**0.39**			**54**	30,423	0.62			47
Deposits in foreign offices		**98,862**	**0.14**			**34**	81,087	0.15			30
Total interest-bearing deposits		**819,058**	**0.13**			**273**	746,410	0.17			318
Short-term borrowings		**62,285**	**0.10**			**16**	53,403	0.08			11
Long-term debt		**172,982**	**1.46**			**629**	133,397	1.86			621
Other liabilities		**15,536**	**2.73**			**106**	12,128	2.64			80
Total interest-bearing liabilities		**1,069,861**	**0.38**			**1,024**	945,338	0.43			1,030
Portion of noninterest-bearing funding sources		**383,408**	**-**			**-**	341,200	-			-
Total funding sources	**$**	**1,453,269**	**0.28**			**1,024**	1,286,538	0.32			1,030

Net interest margin and net interest income on a taxable-equivalent basis (5)			**3.06**	**%**	**$**	**11,163**			3.39	%	$	10,949
Noninterest-earning assets												
Cash and due from banks	**$**	**16,189**						16,350				
Goodwill		**25,705**						25,637				
Other		**122,779**						118,440				
Total noninterest-earning assets	**$**	**164,673**						160,427				
Noninterest-bearing funding sources												
Deposits	**$**	**307,991**						279,156				
Other liabilities		**57,979**						57,324				
Total equity		**182,111**						165,147				
Noninterest-bearing funding sources used to fund earning assets		**(383,408)**						(341,200)				
Net noninterest-bearing funding sources	**$**	**164,673**						160,427				
Total assets	**$**	**1,617,942**						1,446,965				

(1) Our average prime rate was 3.25% for the quarters ended September 30, 2014 and 2013, and 3.25% for the first nine months of both 2014 and 2013. The average three-month London Interbank Offered Rate (LIBOR) was 0.23% and 0.26% for the quarters ended September 30, 2014 and 2013, respectively, and 0.23% and 0.28% for the first nine months of 2014 and 2013, respectively.

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

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

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

(5) Includes taxable-equivalent adjustments of $222 million and $201 million for the quarters ended September 30, 2014 and 2013, respectively, and $664 million and $573 million for the first nine months of 2014 and 2013, respectively, primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

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Earnings Performance *(continued)*

	Nine months ended September 30,									
					2014					2013
					Interest					Interest
		Average	**Yields/**		**income/**	Average	Yields/			income/
(in millions)		**balance**	**rates**		**expense**	balance	rates			expense
Earning assets										
Federal funds sold, securities purchased under resale agreements and other short-term investments	$	**232,241**	**0.28**	%	$ **485**	137,926	0.33	%	$	342
Trading assets		**53,373**	**3.07**		**1,227**	44,530	3.05			1,020
Investment securities (3):										
Available-for-sale securities:										
Securities of U.S. Treasury and federal agencies		**7,331**	**1.72**		**95**	6,797	1.66			85
Securities of U.S. states and political subdivisions		**42,884**	**4.29**		**1,380**	39,213	4.38			1,288
Mortgage-backed securities:										
Federal agencies		**115,696**	**2.85**		**2,475**	103,522	2.79			2,164
Residential and commercial		**27,070**	**6.07**		**1,233**	31,217	6.51			1,524
Total mortgage-backed securities		**142,766**	**3.46**		**3,708**	134,739	3.65			3,688
Other debt and equity securities		**48,333**	**3.60**		**1,303**	54,893	3.56			1,463
Total available-for-sale securities		**241,314**	**3.58**		**6,486**	235,642	3.69			6,524
Held-to-maturity securities:										
Securities of U.S. Treasury and federal agencies		**11,951**	**2.22**		**198**	-	-			-
Securities of U.S. states and political subdivisions		**25**	**5.51**		**1**	-	-			-
Federal agency mortgage-backed securities		**6,034**	**2.70**		**122**	-	-			-
Other debt securities		**5,844**	**1.86**		**82**	-	-			-
Total held-to-maturity securities		**23,854**	**2.26**		**403**	-	-			-

Total investment securities	**265,168**	**3.47**	**6,889**	235,642	3.69	6,524
Mortgages held for sale (4)	**18,959**	**4.08**	**580**	39,950	3.57	1,069
Loans held for sale (4)	**3,302**	**2.15**	**53**	172	7.88	10
Loans:						
Commercial:						
Commercial and industrial	**200,277**	**3.37**	**5,044**	184,421	3.70	5,113
Real estate mortgage	**107,746**	**3.53**	**2,849**	105,367	3.96	3,121
Real estate construction	**17,249**	**4.15**	**536**	16,401	4.76	584
Lease financing	**11,922**	**5.75**	**514**	12,151	6.26	571
Foreign	**48,315**	**2.43**	**879**	42,326	2.16	683
Total commercial	**385,509**	**3.41**	**9,822**	360,666	3.73	10,072
Consumer:						
Real estate 1-4 family first mortgage	**260,538**	**4.20**	**8,207**	252,904	4.24	8,044
Real estate 1-4 family junior lien mortgage	**63,264**	**4.30**	**2,037**	71,390	4.29	2,292
Credit card	**26,811**	**12.08**	**2,423**	24,373	12.54	2,285
Automobile	**53,314**	**6.34**	**2,528**	47,890	7.03	2,516
Other revolving credit and installment	**39,942**	**5.32**	**1,589**	41,857	4.76	1,489
Total consumer	**443,869**	**5.05**	**16,784**	438,414	5.06	16,626
Total loans (4)	**829,378**	**4.28**	**26,606**	799,080	4.46	26,698
Other	**4,622**	**5.62**	**195**	4,229	5.45	172
Total earning assets	**$ 1,407,043**	**3.42 %**	**$ 36,035**	1,261,529	3.79 %	$ 35,835
Funding sources						
Deposits:						
Interest-bearing checking	**$ 39,470**	**0.07 %**	**$ 20**	35,704	0.06 %	$ 16
Market rate and other savings	**583,128**	**0.07**	**304**	544,208	0.08	341
Savings certificates	**38,867**	**0.86**	**251**	51,681	1.18	457
Other time deposits	**49,855**	**0.41**	**152**	24,177	0.81	146
Deposits in foreign offices	**94,743**	**0.14**	**100**	73,715	0.15	80
Total interest-bearing deposits	**806,063**	**0.14**	**827**	729,485	0.19	1,040
Short-term borrowings	**58,573**	**0.10**	**43**	55,535	0.13	55
Long-term debt	**162,073**	**1.54**	**1,868**	128,691	2.02	1,950
Other liabilities	**14,005**	**2.73**	**286**	12,352	2.37	220
Total interest-bearing liabilities	**1,040,714**	**0.39**	**3,024**	926,063	0.47	3,265
Portion of noninterest-bearing funding sources	**366,329**	**-**	**-**	335,466	-	-
Total funding sources	**$ 1,407,043**	**0.29**	**3,024**	1,261,529	0.34	3,265
Net interest margin and net interest income on						

a taxable-equivalent basis (5)			**3.13**	**%**	**$**	**33,011**		3.45	%	$	32,570
Noninterest-earning assets											
Cash and due from banks	**$**	**16,169**					16,364				
Goodwill		**25,681**					25,637				
Other		**120,728**					122,306				
Total noninterest-earning assets	**$**	**162,578**					164,307				
Noninterest-bearing funding sources											
Deposits	**$**	**296,066**					277,820				
Other liabilities		**54,057**					58,788				
Total equity		**178,784**					163,165				
Noninterest-bearing funding sources used to fund earning assets		**(366,329)**					(335,466)				
Net noninterest-bearing funding sources	**$**	**162,578**					164,307				
Total assets	**$**	**1,569,621**					1,425,836				

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Noninterest Income

Table 2: Noninterest Income

(in millions)		Quarter ended Sept. 30, 2014	2013	% Change			Nine months ended Sept. 30, 2014	2013	% Change	
Service charges on deposit accounts	$	**1,311**	1,278	3	%	$	**3,809**	3,740	2	%
Trust and investment fees:										
Brokerage advisory, commissions and other fees		**2,327**	2,068	13			**6,848**	6,245	10	
Trust and investment management		**856**	811	6			**2,538**	2,439	4	
Investment banking		**371**	397	(7)			**1,189**	1,288	(8)	
Total trust and investment fees		**3,554**	3,276	8			**10,575**	9,972	6	
Card fees		**875**	813	8			**2,506**	2,364	6	
Other fees:										
Charges and fees on loans		**296**	390	(24)			**1,005**	1,161	(13)	
Merchant processing fees		**184**	169	9			**539**	497	8	
Cash network fees		**134**	129	4			**382**	371	3	
Commercial real estate brokerage commissions		**143**	91	57			**314**	209	50	
Letters of credit fees		**100**	100	-			**288**	311	(7)	
All other fees		**233**	219	6			**697**	672	4	
Total other fees		**1,090**	1,098	(1)			**3,225**	3,221	-	
Mortgage banking:										
Servicing income, net		**679**	504	35			**2,652**	1,211	119	
Net gains on mortgage loan origination/sales activities		**954**	1,104	(14)			**2,214**	5,993	(63)	
Total mortgage banking		**1,633**	1,608	2			**4,866**	7,204	(32)	
Insurance		**388**	413	(6)			**1,273**	1,361	(6)	
Net gains from trading activities		**168**	397	(58)			**982**	1,298	(24)	
Net gains (losses) on debt securities		**253**	(6)	NM			**407**	(15)	NM	
Net gains from equity investments		**712**	502	42			**2,008**	818	145	
Lease income		**137**	160	(14)			**399**	515	(23)	
Life insurance investment income		**143**	154	(7)			**413**	441	(6)	
All other		**8**	37	(78)			**94**	199	(53)	
Total	$	**10,272**	9,730	6		$	**30,557**	31,118	(2)	

NM - Not meaningful

Noninterest income was $10.3 billion and $9.7 billion for third quarter 2014 and 2013, respectively, and $30.6 billion and $31.1 billion for the first nine months of 2014 and 2013, respectively. This income represented 48% and 49% of revenue for the third quarter and first nine months of 2014, respectively, consistent with the same periods a year ago. The increase in noninterest income in third quarter 2014 from the same period a year ago reflected growth in many of our businesses, including debit card, asset-backed finance, equipment finance, international, venture capital, wealth management, retail brokerage and retirement. The decrease in noninterest income in the first nine months of 2014, compared with the same period a year ago, was primarily due to a decline in mortgage banking origination volume. Excluding mortgage banking, noninterest income increased $1.8 billion in the first nine months of 2014, from the same period a year ago.

Service charges on deposit accounts increased $33 million in third quarter 2014, or 3%, from third quarter 2013, and $69 million in the first nine months of 2014, or 2%, from the first nine months of 2013, due to account growth, 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 of transactions executed at the customer's direction. These fees increased to $2.3 billion and $6.8 billion in the third quarter and first nine months of 2014, respectively, from $2.1 billion and $6.2 billion for the same periods in 2013. The increase in brokerage income was predominantly due to higher asset-based fees as a result of higher market values and growth in assets under management, partially offset by a decrease in brokerage transaction revenue. Retail brokerage client assets totaled $1.4 trillion at September 30, 2014, an increase from $1.3 trillion at September 30, 2013.

We earn trust and investment management fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees increased to $856 million and $2.5 billion in the third quarter and first nine months of 2014, respectively, from $811 million and $2.4 billion for the same periods in 2013, primarily due to growth in assets under management reflecting higher market values. At September 30, 2014, these assets totaled $2.5 trillion, an increase from $2.3 trillion at September 30, 2013.

We earn investment banking fees from underwriting debt and equity securities, arranging loan syndications, and performing other

Earnings Performance ***(continued)***

related advisory services. Investment banking fees decreased to $371 million and $1.2 billion in the third quarter and first nine months of 2014, from $397 million and $1.3 billion, respectively, for the same periods a year ago, primarily due to lower syndication fees in line with the overall market.

Card fees were $875 million and $2.5 billion in the third quarter and first nine months of 2014, respectively, compared with $813 million and $2.4 billion from the same periods a year ago. The increase in both periods was primarily due to account growth and increased purchase activity.

Other fees of $1.1 billion and $3.2 billion in the third quarter and first nine months of 2014, respectively, were unchanged compared with the same periods a year ago as a decline in charges and fees on loans was offset by an increase in commercial real estate brokerage commissions. Charges and fees on loans decreased to $296 million and $1.0 billion in the third quarter and first nine months of 2014, respectively, compared with $390 million and $1.2 billion for the same periods a year ago primarily due to the phase out of the direct deposit advance product during the first half of 2014. Commercial real estate brokerage commissions increased by $52 million and $105 million in the third quarter and first nine months of 2014, respectively, compared with the same periods a year ago, driven by increased sales and other property-related activities including financing and advisory services.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $1.6 billion in both third quarter 2014 and 2013. For the first nine months of 2014, mortgage banking noninterest income totaled $4.9 billion, compared with $7.2 billion for the same period a year ago.

Net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for third quarter 2014 included a $270 million net MSR valuation gain ($253 million increase in the fair value of the MSRs and a $17 million hedge gain) and for third quarter 2013 included a $26 million net MSR valuation gain ($213 million decrease in the fair value of the MSRs offset by a $239 million hedge gain). For the first nine months of 2014, net servicing income included a $1.15 billion net MSR valuation gain ($1.02 billion decrease in the fair value of the MSRs offset by a $2.18 billion hedge gain) and for the same period of 2013, included a $223 million net MSR valuation gain ($2.42 billion increase in the fair value of MSRs offset by a $2.19 billion hedge loss). The increase in net MSR valuation gains in the third quarter and first nine months of 2014, compared with the same periods in 2013, was attributable to higher valuation adjustments, which reduced the value of MSRs in 2013 primarily associated with higher prepayments and increases in servicing and foreclosure costs. Our portfolio of loans serviced for others was $1.87 trillion at September 30, 2014, and $1.90 trillion at December 31, 2013. At September 30, 2014, the ratio of MSRs to related loans serviced for others was 0.82%, compared with 0.88% at December 31, 2013. See the "Risk Management – Mortgage Banking Interest Rate and Market Risk" section of this Report for additional information regarding our MSRs risks and hedging approach.

Net gains on mortgage loan origination/sale activities were $954 million and $2.2 billion in the third quarter and first nine months of 2014, respectively, down from $1.1 billion and $6.0 billion for the same periods a year ago. The decline in third quarter 2014, compared with the same period a year ago, was primarily driven by lower origination volumes, partially offset by higher origination margins and a repurchase liability release in third quarter 2014. Mortgage loan originations were $48 billion for third quarter 2014, of which 70% were for home purchases, compared with $80 billion and 59% for the same period a year ago. The year-over-year decrease in the first nine months of 2014 was primarily driven by lower margins and origination volumes. Mortgage loan originations were $131 billion for the first nine months of 2014, compared with $301 billion for the same period last year. Mortgage applications were $64 billion and $196 billion in the third quarter and first nine months of 2014, respectively, compared with $87 billion and $373 billion for the same periods a year ago. The real estate 1-4 family first mortgage unclosed pipeline was $25 billion at September 30, 2014, and $35 billion at September 30, 2013. For additional information about our mortgage banking activities and results, see the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For the first nine months of 2014, we released a net $101 million from the repurchase liability, including $81 million in third quarter 2014, compared with a provision of $402 million for the first nine months of 2013, including $28 million in third quarter 2013. For additional information about mortgage loan repurchases, see the “Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses” section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

We engage in trading activities primarily to accommodate the investment activities of our customers, execute economic hedging to manage certain of our balance sheet risks and for a very limited amount of proprietary trading for our own account. Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $168 million and $982 million in the third quarter and first nine months of 2014, respectively, compared with $397 million and $1.3 billion for the same periods a year ago. The third quarter year-over-year decrease was primarily driven by lower deferred compensation gains (offset in employee benefits expense). The first nine months year-over-year decrease was driven by lower trading from customer accommodation activity within our capital markets business and lower deferred compensation gains (offset in employee benefits expense). Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. Interest and fees related to proprietary trading are reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. For additional information about proprietary and other trading, see the “Risk Management – Asset and Liability Management – Market Risk – Trading Activities” section in this Report.

Net gains on debt and equity securities totaled $965 million for third quarter 2014 and $496 million for third quarter 2013 ($2.4 billion and $803 million for the first nine months of 2014 and 2013, respectively), net of other-than-temporary impairment (OTTI) writedowns of $55 million and $60 million for third quarter 2014 and 2013, respectively, and $272 million and $249 million for the first nine months of 2014 and 2013, respectively. Net gains from equity investments increased over the past year, reflecting our portfolio's positive operating performance and the benefit of strong public and private equity markets.

All other income was $8 million and $94 million in the third quarter and first nine months of 2014, compared with $37 million and $199 million for the same periods a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity accounting method, any of which can cause decreases and net losses in other income. Lower other income for the third quarter and first nine months of 2014, compared with the same periods a year ago, primarily reflected lower income from equity method investments.

Noninterest Expense

Table 3: Noninterest Expense

							Nine months			
	Quarter ended Sept. 30,			%			ended Sept. 30,		%	
(in millions)		**2014**	2013	Change			**2014**	2013	Change	
Salaries	**$**	**3,914**	3,910	-	%	**$**	**11,437**	11,341	1	%
Commission and incentive compensation		**2,527**	2,401	5			**7,388**	7,604	(3)	
Employee benefits		**931**	1,172	(21)			**3,473**	3,873	(10)	
Equipment		**457**	471	(3)			**1,392**	1,417	(2)	