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

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

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

Commission file number 001-2979

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

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

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

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

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

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

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

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

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

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

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

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

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

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

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

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

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

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

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

(6)

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

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

Overview (continued)

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K).

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

Financial Review

Overview

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

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

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

Financial Performance

Wells Fargo net income was $5.6 billion in second quarter 2016 with diluted earnings per common share (EPS) of $1.01, compared with $5.7 billion and $1.03, respectively, a year ago. We have now generated quarterly earnings of more than

$5 billion for 15 consecutive quarters, which reflected the ability of our diversified business model and risk discipline to generate consistent financial performance during a period that included persistent low interest rates, market volatility and economic uncertainty. Britain's vote to withdraw from the European Union (Brexit) in June 2016 added to global economic uncertainty and could result in interest rates remaining lower for longer than expected. However, we remain focused on meeting the financial needs of our customers and on investing in our businesses so we may continue to meet the evolving needs of our customers in the future.

Compared with a year ago:

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

Balance Sheet and Liquidity

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

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

Deposit growth continued in the first half of 2016 with period-end deposits up $22.2 billion, or 2%, from December 31, 2015. Our average deposit cost in second quarter 2016 was 11 basis points, up 3 basis points from a year ago, which reflected an increase in deposit pricing for certain wholesale banking customers. We successfully grew our primary consumer checking customers (i.e., customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) by 4.7% (May 2016 compared with May 2015). Our ability to consistently grow primary checking customers is important to our results because these customers have more interactions with us and are significantly more profitable than non-primary customers.

Credit Quality

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

The allowance for credit losses in second quarter 2016 reflected an allowance build of $150 million for the quarter, due to loan growth in the commercial, automobile and credit card portfolios, partially offset by continued improvement in the residential real estate portfolios. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our provision for

loan losses was $1.1 billion in second quarter 2016, up from $300 million a year ago, reflecting losses in the oil and gas portfolio and the loan growth mentioned above.

Nonperforming assets were down $433 million, or 3%, from March 31, 2016, as lower residential and commercial real estate nonaccruals and foreclosed assets were partially offset by higher oil and gas nonaccruals. Nonaccrual loans decreased $271 million from the prior quarter as an $809 million decrease in consumer nonaccruals was partially offset by a $651 million increase in oil and gas nonaccruals. In addition, foreclosed assets were down $162 million from the prior quarter.

Capital

Our financial performance in second quarter 2016 resulted in strong capital generation, which increased total equity to a record $202.7 billion at June 30, 2016, up $4.2 billion from the prior quarter and the first time total equity exceeded $200 billion. We returned $3.2 billion to shareholders in second quarter 2016 through common stock dividends and net share repurchases and our net payout ratio (which is the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock) was 62%, compared with 60% in the prior quarter, and within our targeted range of 55-75%. We continued to reduce our common share count through the repurchase of 44.8 million common shares in the quarter. We also entered into a $750 million forward repurchase contract with an unrelated third party in July 2016 that is expected to settle in fourth quarter 2016 for approximately 16 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2016.

We believe an important measure of our capital strength is the Common Equity Tier 1 ratio under Basel III, fully phased-in, which was 10.61% at June 30, 2016. Likewise, our other regulatory capital ratios remained strong. We also received a non-objection to our 2016 Comprehensive Capital Analysis and Review (CCAR) submission from the Federal Reserve. See the "Capital Management" section in this Report for more information regarding our capital, including the calculation of our regulatory capital amounts.

Earnings Performance

Wells Fargo net income for second quarter 2016 was $5.6 billion ($1.01 diluted earnings per common share), compared with $5.7 billion ($1.03 diluted per share) for second quarter 2015. Net income for the first half of 2016 was $11.0 billion ($2.00), compared with $11.5 billion ($2.07) for the same period a year ago. Our second quarter and first half of 2016 earnings reflected continued execution of our business strategy as we continued to satisfy our customers' financial needs. We generated revenue across many of our businesses and grew loans and deposits. Our financial performance in the first half of 2016, compared with the same period a year ago, benefited from a $1.1 billion increase in net interest income, which was offset by a $1.3 billion increase in our provision for credit losses and a $918 million increase in noninterest expense. The key drivers of our financial performance in the second quarter and first half of 2016 were balanced net interest income and noninterest income, diversified sources of fee income, a diversified and growing loan portfolio and strong underlying credit performance.

Revenue, the sum of net interest income and noninterest income, was $22.2 billion in second quarter 2016, compared with $21.3 billion in second quarter 2015. Revenue for the first half of 2016 was $44.4 billion, up 4% from the first half of 2015. The increase in revenue for the second quarter and first half of 2016, compared with the same periods in 2015, was primarily due to an increase in net interest income, reflecting increases in interest income from loans and trading assets, partially offset by higher long-term debt and deposit interest expense. In both the second quarter and first half of 2016, net interest income represented 53% of revenue, compared with 53% and 52% in the same periods in 2015, respectively.

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

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

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

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

long-term debt balances, including debt issued to fund the GE Capital acquisitions. As a result of growth in funding balances, net interest margin was diluted by an increase in cash, federal funds sold, and other short-term investments, which was partially offset by growth in loans, trading, and the benefit of higher short-term interest rates.
Average earning assets increased $130.6 billion and $124.0 billion in the second quarter and first half of 2016, respectively, compared with the same periods a year ago, as average loans increased $80.3 billion in the second quarter and $72.1 billion in the first half of 2016, average investment securities increased $12.4 billion in the second quarter and $20.2 billion in the first half of 2016, and average trading assets increased $13.8 billion in the second quarter and $15.6 billion in the first half of 2016, compared with the same periods a year ago. In addition, average federal funds sold and other short-term investments increased $26.7 billion and $17.8 billion in the second quarter and first half of 2016, respectively, compared with the same periods a year ago.
Deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Deposits include noninterest-bearing deposits, interest-bearing checking, market rate and other savings, savings certificates, other time deposits, and deposits in foreign offices. Average deposits of $1.24 trillion increased in second quarter 2016 ($1.23 trillion in the first half of 2016), compared with $1.19 trillion in second quarter 2015 ($1.18 trillion in the first half of 2015), and represented 130% of average loans in second quarter 2016 (131% in the first half of 2016) compared with 136% in both the second quarter and first half of 2015. Average deposits decreased to 73% and 74% of average earning assets in the second quarter and first half of 2016, respectively, compared with 76% for the same periods a year ago as the growth in total loans outpaced deposit growth.

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

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

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

(1) Our average prime rate was 3.50% and 3.25% both for the quarters ended June 30, 2016 and 2015, and for the first half of 2016 and 2015, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 0.64% and 0.28% for the quarters ended June 30, 2016