WELLS FARGO & COMPANY/MN
Form 10-Q
November 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 September 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 October 25, 2016
Common stock, $1-2/3 par value	5,022,303,027

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CROSS-REFERENCE INDEX

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

	Quarter ended			% Change Sep 30, 2016 from		Nine months ended		
($ in millions, except per share amounts)	Sep 30, 2016	Jun 30, 2016	Sep 30, 2015	Jun 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015	% Change
For the Period								
Wells Fargo net income	$5,644	5,558	5,796	2 %	(3)	$16,664	17,319	(4)%
Wells Fargo net income applicable to common stock	5,243	5,173	5,443	1	(4)	15,501	16,267	(5)
Diluted earnings per common share	1.03	1.01	1.05	2	(2)	3.03	3.12	(3)
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	1.17 %	1.20	1.32	(3)	(11)	1.19 %	1.34	(11)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	11.60	11.70	12.62	(1)	(8)	11.68	12.83	(9)
Return on average tangible common equity (ROTCE) (1)	13.96	14.15	15.19	(1)	(8)	14.08	15.46	(9)
Efficiency ratio (2)	59.4	58.1	56.7	2	5	58.7	58.0	1
Total revenue	$22,328	22,162	21,875	1	2	$66,685	64,471	3
Pre-tax pre-provision profit (PTPP) (3)	9,060	9,296	9,476	(3)	(4)	27,523	27,096	2
Dividends declared per common share	0.380	0.380	0.375	—	1	1.135	1.100	3
Average common shares outstanding	5,043.4	5,066.9	5,125.8	—	(2)	5,061.9	5,145.9	(2)
Diluted average common shares outstanding	5,094.6	5,118.1	5,193.8	—	(2)	5,118.2	5,220.3	(2)
Average loans	$957,484	950,751	895,095	1	7	$945,197	876,384	8
Average assets	1,914,586	1,862,084	1,746,402	3	10	1,865,694	1,727,967	8
Average total deposits	1,261,527	1,236,658	1,198,874	2	5	1,239,287	1,186,412	4
Average consumer and small business banking deposits (4)	739,066	726,359	683,245	2	8	726,798	674,741	8
Net interest margin	2.82 %	2.86	2.96	(1)	(5)	2.86 %	2.96	(3)
At Period End								
Investment securities	$390,832	353,426	345,074	11	13	$390,832	345,074	13
Loans	961,326	957,157	903,233	—	6	961,326	903,233	6
Allowance for loan losses	11,583	11,664	11,659	(1)	(1)	11,583	11,659	(1)

Goodwill	26,688	26,963	25,684	(1)	4	26,688	25,684	4
Assets	1,942,124	1,889,235	1,751,265	3	11	1,942,124	1,751,265	11
Deposits	1,275,894	1,245,473	1,202,179	2	6	1,275,894	1,202,179	6
Common stockholders' equity	179,916	178,633	172,089	1	5	179,916	172,089	5
Wells Fargo stockholders' equity	203,028	201,745	193,051	1	5	203,028	193,051	5
Total equity	203,958	202,661	194,043	1	5	203,958	194,043	5
Tangible common equity (1)	149,829	148,110	143,352	1	5	149,829	143,352	5
Capital ratios (5)(6):								
Total equity to assets	10.50 %	10.73	11.08	(2)	(5)	10.50 %	11.08	(5)
Risk-based capital:								
Common Equity Tier 1	10.93	10.82	10.87	1	1	10.93	10.87	1
Tier 1 capital	12.60	12.50	12.42	1	1	12.60	12.42	1
Total capital	15.40	15.14	14.86	2	4	15.40	14.86	4
Tier 1 leverage	9.11	9.25	9.51	(2)	(4)	9.11	9.51	(4)
Common shares outstanding	5,023.9	5,048.5	5,108.5	—	(2)	5,023.9	5,108.5	(2)
Book value per common share (7)	$35.81	35.38	33.69	1	6	$35.81	33.69	6
Tangible book value per common share (1) (7)	29.82	29.34	28.06	2	6	29.82	28.06	6
Common stock price:								
High	51.00	51.41	58.77	(1)	(13)	53.27	58.77	(9)
Low	44.10	44.50	47.75	(1)	(8)	44.10	47.75	(8)
Period end	44.28	47.33	51.35	(6)	(14)	44.28	51.35	(14)
Team members (active, full-time equivalent)	268,800	267,900	265,200	—	1	268,800	265,200	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 taxes. The methodology of determining tangible common equity may differ among companies. Management believes that return on average tangible common equity and tangible book value per common share, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. For additional information, including a corresponding reconciliation to GAAP financial measures, see the "Capital Management – Tangible Common Equity" section in this Report.

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

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

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

(5) The risk-based capital ratios presented at September 30 and June 30, 2016, and September 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.

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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 42 countries and territories to support customers who conduct business in the global economy. With approximately 269,000 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 second in the market value of our common stock among all U.S. banks at September 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.

Sales Practices Matters

On September 8, 2016, we announced settlements with the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC) and the Office of the Los Angeles City Attorney regarding allegations that some of our

retail customers received products and services they did not request. The amount of the settlements, which was fully accrued for as of June 30, 2016, totaled $185 million, plus $5 million in customer remediation. Our commitment to addressing the concerns raised by these settlements has included:

- The Independent Directors of the Board have retained the law firm of Shearman & Sterling LLP to assist in its investigation into the Company's retail banking sales practices and related matters.
- An extensive review was performed by an independent consulting firm going back to 2011, which was completed prior to these settlements. This review was conducted to identify financial harm stemming from potentially unauthorized accounts. The review identified approximately 2.1 million potentially unauthorized consumer and small business accounts, including 623,000 consumer and small business unsecured credit card accounts. As a result of this review, $2.6 million has been refunded to customers for any fees associated with the potentially unauthorized accounts. Since the announcement of the settlements, the review has been voluntarily expanded to include 2009 and 2010.
- Changes in senior management:

John Stumpf retired and has been replaced by Tim Sloan as CEO and Stephen Sanger, an independent member of the Board, as Chairman. Consistent with his recommendation, Mr. Stumpf forfeited unvested equity awards valued at approximately $41 million.

Carrie Tolstedt left the Company and has been replaced by Mary Mack as head of Community Banking. Ms. Tolstedt forfeited unvested equity awards valued at approximately $19 million, will not receive severance or retirement enhancements in connection with her separation from the Company, and has agreed not to exercise vested options during the investigation by the Independent Directors of the Board.

Neither executive will receive a bonus for 2016.

- Eliminated product sales goals for retail banking team members. Implemented interim incentive-based compensation plans in retail banking for fourth quarter 2016. Management continues to review incentive-based compensation practices in retail banking.
- Implemented procedures to send retail banking customers a confirmation email approximately an hour after opening a checking or savings account and an acknowledgment letter after submitting a credit card application.
- Attempting to contact all retail and small business deposit customers across the country, including those who have already received refunded fees, to invite them to review their accounts with their banker. Also contacting credit card customers identified as possibly having unauthorized accounts to confirm whether they need or want their credit card.

- Investments in enhanced team member training and monitoring and controls have been made, including reinforcement of our Code of Ethics and Business Conduct and our EthicsLine.
- Evaluation of potential credit score and related impacts to customers to develop a plan for regulatory approval.
- Expanding branch-based customer experience surveys and instituted mystery shopper program.

As we move forward we have a specific action plan in place that is focused on outreach to everyone who has been affected by retail banking sales practices including our community, our customers, our regulators, our team members and our investors. For additional information regarding sales practices matters, including related legal matters, see the "Earnings Performance – Operating Segment Results – Cross-sell" and “Risk Factors” sections and Note 11 (Legal Actions) to Financial Statements in this Report.

Financial Performance

Wells Fargo net income was $5.6 billion in third quarter 2016 with diluted earnings per common share (EPS) of $1.03, compared with $5.8 billion and $1.05, respectively, a year ago. We have now generated quarterly earnings of more than $5 billion for 16 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. 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 $22.3 billion, up 2%, with growth in net interest income despite equity investment gains being at a five quarter low and $780 million lower than a year ago;
- noninterest expense increased driven by higher personnel expenses and higher operating lease expense due to the GE Capital business acquisitions;
- our investment securities reached a record $390.8 billion, an increase of $45.8 billion, or 13%;
- our total loans reached a high of $961.3 billion, an increase of $58.1 billion, or 6%;
- our deposit franchise generated strong customer and balance growth, with total deposits reaching a record $1.28 trillion, up $73.7 billion, or 6%, and we grew the number of primary consumer checking customers by 4.7% (August 2016 compared with August 2015); and
- our solid capital position enabled us to return $3.2 billion to shareholders through common stock dividends and net share repurchases, the fifth consecutive quarter of returning more than $3 billion.

Balance Sheet and Liquidity

Our balance sheet maintained its strength in third quarter 2016 as we increased our liquidity position, generated loan, investment securities 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 21 consecutive quarters (for the past 18 quarters year-over-year loan growth has been 3% or greater). Our loan portfolio increased $44.8 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 $26.5 billion of commercial and industrial loans and capital leases acquired from GE Capital in the first nine months of 2016.
With the expectation of interest rates remaining lower for a longer period, we grew our investment securities portfolio by $43.3 billion, or 12%, from December 31, 2015, with approximately $57 billion of gross purchases during third quarter 2016, compared with last year's average of $26 billion per quarter. The amount of investment securities purchased was higher than in prior quarters due to the fact that we did not add duration in the loan portfolio with interest rate swaps, as we had in prior quarters.
Our funding sources grew in third quarter 2016 with long-term debt up $55.3 billion from December 31, 2015, on $19.7 billion of issuances in third quarter 2016, including $9.2 billion that we anticipate will be Total Loss Absorbing Capacity (TLAC) eligible. Deposit growth continued in the first nine months of 2016 with period-end deposits up $52.6 billion, or 4%, from December 31, 2015. Our average deposit cost in third 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% (August 2016 compared with August 2015).

Credit Quality

Solid overall credit results continued in third quarter 2016 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $805 million, or 0.33% (annualized) of average loans, in third quarter 2016, compared with $703 million a year ago (0.31%). The increase in net charge-offs in third quarter 2016, compared with a year ago, was predominantly due to continued challenges in the oil and gas portfolio. However, our total oil and gas loan exposure, which includes unfunded commitments and loans outstanding, was down 10% from a year ago.

Our commercial portfolio net charge-offs were $215 million, or 17 basis points of average commercial loans, in third quarter 2016, compared with net charge-offs of $94 million, or 8 basis points, a year ago. Net consumer credit losses declined to 51 basis points of average consumer loans in third quarter 2016 from 53 basis points in third quarter 2015. Our commercial real estate portfolios were in a net recovery position for the 15th consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined $82 million from a year ago, down 54%. 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 72% of the consumer first mortgage portfolio was originated after 2008, when more stringent underwriting standards were implemented.

The allowance for credit losses as of September 30, 2016, increased $132 million compared with a year ago. The allowance coverage for total loans was 1.32% at September 30, 2016, compared with 1.39% a year ago. The allowance covered 4.0 times annualized third quarter net charge-offs, compared with 4.5 times a year ago. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our provision for loan losses was $805 million in third quarter 2016, up from $703 million a year ago, reflecting losses in the oil and gas portfolio and the loan growth mentioned above.

Nonperforming assets decreased $1.1 billion, or 8%, from June 30, 2016 with improvement across our consumer and

Overview (continued)

commercial portfolios and lower foreclosed assets. Nonperforming assets were only 1.25% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased $977 million from the prior quarter primarily due to a $732 million decrease in consumer nonaccruals. In addition, foreclosed assets were down $97 million from the prior quarter.

During the first week of October 2016, Hurricane Matthew caused destruction along the coasts of Florida, Georgia, South Carolina and North Carolina and resulted in, among other things, property damage for our customers and the closing of many businesses. We are currently assessing the impact to our customers and our business as a result of Hurricane Matthew. The financial impact to us is expected to primarily relate to our consumer real estate, commercial real estate and auto loan portfolios and will depend on a number of factors, including the types of loans most affected by the hurricane, the extent of damage to our collateral, the extent of available insurance coverage, the availability of government assistance for our borrowers, and whether our borrowers' ability to repay their loans has been diminished.

Capital

Our financial performance in third quarter 2016 resulted in strong capital generation, which increased total equity to a record $204.0 billion at September 30, 2016, up $1.3 billion from the prior quarter. We returned $3.2 billion to shareholders in third 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 61%, compared with 62% in the prior quarter, and within our targeted range of 55-75%. We continued to reduce our common share count through the repurchase of 38.3 million common shares in the quarter. We also entered into a $750 million forward repurchase contract with an unrelated third party in October 2016 that is expected to settle in first quarter 2017 for approximately 17 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 10.71% at September 30, 2016. Likewise, our other regulatory capital ratios remained strong. 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 third quarter 2016 was $5.6 billion ($1.03 diluted earnings per common share), compared with $5.8 billion ($1.05 diluted per share) for third quarter 2015. Net income for the first nine months of 2016 was $16.7 billion ($3.03), compared with $17.3 billion ($3.12) for the same period a year ago. Our third quarter and first nine months of 2016 earnings reflected continued execution of our business strategy as we continued to satisfy our customers' financial needs. We generated revenue growth across many of our businesses and grew loans and deposits. Our financial performance in the first nine months of 2016, compared with the same period a year ago, benefited from a $1.6 billion increase in net interest income, which was offset by a $1.4 billion increase in our provision for credit losses and a $1.8 billion increase in noninterest expense. The key drivers of our financial performance in the third quarter and first nine months of 2016 were balanced net interest income and noninterest income, diversified sources of fee income, and a diversified and growing loan portfolio.

Revenue, the sum of net interest income and noninterest income, was $22.3 billion in third quarter 2016, compared with $21.9 billion in third quarter 2015. Revenue for the first nine months of 2016 was $66.7 billion, up 3% from the first nine months of 2015. The increase in revenue for the third quarter and first nine months of 2016, compared with the same periods in 2015, was largely 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 the third quarter and first nine months of 2016, net interest income represented 54% and 53% of revenue, respectively, compared with 52% for both periods in 2015.

Noninterest income was $10.38 billion and $31.33 billion in the third quarter and first nine months of 2016, representing 46% and 47% of revenue, respectively, compared with $10.42 billion (48%) and $30.76 billion (48%) in the third quarter and first nine months of 2015. Noninterest income in third quarter 2016 decreased $42 million, compared with the same period in 2015, predominantly due to lower net gains on equity investments and insurance, partially offset by an increase in net gains from trading activities and lease income. Noninterest income for the first nine months of 2016, compared with the same period in 2015, reflected an increase in lease income related to the GE Capital business acquisitions, 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, and net gains on equity investments.

Noninterest expense was $13.3 billion and $39.2 billion in the third quarter and first nine months of 2016, respectively, compared with $12.4 billion and $37.4 billion for the same periods in 2015. The increase in noninterest expense for the third quarter and first nine months of 2016, compared with the same periods in 2015, was predominantly due to higher personnel expenses, operating lease expense, FDIC and other deposit assessments, and outside professional services and contract services, as well as increased operating losses, reflecting higher litigation accruals, partially offset by lower foreclosed assets expense, insurance and outside data processing. Noninterest expense as a percentage of revenue (efficiency ratio) was 59.4% in third quarter 2016 (58.7% in the first nine months of 2016), compared with 56.7% in third quarter 2015 (58.0% in the first nine months of 2015).

During first quarter 2016, we closed substantially all of the

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 third quarter 2016, we closed the acquisition of the Asia, Australia, and New Zealand segments of GE Capital’s Commercial Distribution Finance business. In October 2016, the final phase of our GE Capital business acquisitions was completed when we closed the acquisition of the Europe, Middle East, and Africa segments of the GE Capital Commercial Distribution Finance business.

Net Interest Income

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

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

Net interest income on a taxable-equivalent basis was $12.3 billion and $36.3 billion in the third quarter and first nine months of 2016, respectively, compared with $11.7 billion and $34.5 billion for the same periods a year ago. The net interest margin was 2.82% and 2.86% for the third quarter and first nine months of 2016, down from 2.96% for both the third quarter and first nine months of 2015. The increase in net interest income in the third quarter and first nine months of 2016 from the same periods a year ago resulted from an increase in interest income, partially offset by an increase in funding interest expense. The increase in interest income was driven by growth in commercial and consumer loans, including the GE Capital business acquisitions that closed in 2016, growth in investment securities, increased trading income and higher short-term interest rates. Funding interest expense increased in the third quarter and first nine months 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 third quarter and first nine months of 2016, compared with the same periods a year ago, was primarily due to deposit growth and higher long-term debt balances, including debt issued to fund the GE Capital business 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 $158.4 billion and $135.5 billion in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago, as average loans increased $62.4 billion in the third quarter and $68.8 billion in the first nine months of 2016, average investment securities increased $24.2 billion in the third quarter and $21.5 billion in the first nine months of 2016, and average trading assets increased $21.6 billion in the third quarter and $17.6 billion in the first nine months of 2016, compared with the same periods a year ago. In addition, average federal funds sold and other short-term investments increased $49.2 billion and $28.4 billion in the third quarter and first nine months 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 $1.26 trillion increased in third quarter 2016 ($1.24 trillion in the first nine months of 2016), compared with $1.20 trillion in third quarter 2015 ($1.19 trillion in the first nine months of 2015), and represented 132% of average loans in third quarter 2016 (131% in the first nine months of 2016), compared with 134% and 135% for the same periods a year ago. Average deposits decreased to 73% of average earning assets in both the third quarter and first nine months of 2016, 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)

	Quarter ended September 30,							
				2016				2015
(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	$299,351	0.50	%	$373	250,104	0.26	%	$167
Trading assets	88,838	2.72		605	67,223	2.93		492
Investment securities (3):								
Available-for-sale securities:								
Securities of U.S. Treasury and federal agencies	25,817	1.52		99	35,709	1.59		143
Securities of U.S. states and political subdivisions	55,170	4.28		590	48,238	4.22		510
Mortgage-backed securities:								
Federal agencies	105,780	2.39		631	98,459	2.70		665
Residential and commercial	18,080	5.54		250	21,876	5.84		319
Total mortgage-backed securities	123,860	2.85		881	120,335	3.27		984
Other debt and equity securities	54,176	3.37		459	50,371	3.40		430
Total available-for-sale securities	259,023	3.13		2,029	254,653	3.24		2,067
Held-to-maturity securities:								
Securities of U.S. Treasury and federal agencies	44,678	2.19		246	44,649	2.18		245
Securities of U.S. states and political subdivisions	2,507	5.24		33	2,151	5.17		28
Federal agency and other mortgage-backed securities	47,971	1.97		236	27,079	2.38		161
Other debt securities	3,909	1.98		19	5,371	1.75		24
Total held-to-maturity securities	99,065	2.15		534	79,250	2.30		458
Total investment securities	358,088	2.86		2,563	333,903	3.02		2,525
Mortgages held for sale (4)	24,060	3.44		207	24,159	3.69		223
Loans held for sale (4)	199	3.04		2	568	2.57		4
Loans:								
Commercial:								
Commercial and industrial – U.S.	271,226	3.48		2,369	241,409	3.30		2,005
Commercial and industrial – Non U.S.	51,261	2.40		309	45,923	1.83		212
Real estate mortgage	128,809	3.48		1,127	120,983	3.31		1,009
Real estate construction	23,212	3.50		205	21,626	3.39		184
Lease financing	18,896	4.70		223	12,282	4.18		129
Total commercial	493,404	3.42		4,233	442,223	3.18		3,539
Consumer:								
Real estate 1-4 family first mortgage	278,509	3.97		2,764	269,437	4.10		2,762
Real estate 1-4 family junior lien mortgage	48,927	4.37		537	55,298	4.22		588
Credit card	34,578	11.60		1,008	31,649	11.73		936
Automobile	62,461	5.60		880	58,534	5.80		855
Other revolving credit and installment	39,605	5.92		590	37,954	5.84		559
Total consumer	464,080	4.97		5,779	452,872	5.01		5,700
Total loans (4)	957,484	4.17		10,012	895,095	4.11		9,239
Other	6,488	2.30		36	5,028	5.11		64
Total earning assets	$1,734,508	3.17	%	$13,798	1,576,080	3.21	%	$12,714
Funding sources								
Deposits:								

Interest-bearing checking	$44,056	0.15	%	$17	37,783	0.05	%	$5
Market rate and other savings	667,185	0.07		110	628,119	0.06		90
Savings certificates	25,185	0.30		19	30,897	0.58		44
Other time deposits	54,921	0.93		128	48,676	0.46		57
Deposits in foreign offices	107,072	0.30		82	111,521	0.13		36
Total interest-bearing deposits	898,419	0.16		356	856,996	0.11		232
Short-term borrowings	116,228	0.29		86	90,357	0.06		13
Long-term debt	252,400	1.59		1,006	180,569	1.45		655
Other liabilities	16,771	2.11		88	16,435	2.13		89
Total interest-bearing liabilities	1,283,818	0.48		1,536	1,144,357	0.34		989
Portion of noninterest-bearing funding sources	450,690	—		—	431,723	—		—
Total funding sources	$1,734,508	0.35		1,536	1,576,080	0.25		989
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.82	%	$12,262		2.96	%	$11,725
Noninterest-earning assets								
Cash and due from banks	$18,682				16,979			
Goodwill	26,979				25,703			
Other	134,417				127,640			
Total noninterest-earning assets	$180,078				170,322			
Noninterest-bearing funding sources								
Deposits	$363,108				341,878			
Other liabilities	63,777				67,964			
Total equity	203,883				192,203			
Noninterest-bearing funding sources used to fund earning assets	(450,690)				(431,723)			
Net noninterest-bearing funding sources	$180,078				170,322			
Total assets	$1,914,586				1,746,402			

(1) Our average prime rate was 3.50% and 3.25% both for the quarters ended September 30, 2016 and 2015, and for the first nine months of 2016 and 2015, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 0.79% and 0.31% for the quarters ended September 30, 2016 and 2015, respectively, and 0.69% and 0.28% for the first nine months of 2016 and 2015, respectively.

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

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

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

(5) Includes taxable-equivalent adjustments of $310 million and $268 million for the quarters ended September 30, 2016 and 2015, respectively, and $909 million and $780 million for the first nine months of 2016 and 2015, respectively, predominantly related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

(in millions)	Nine months ended September 30, Average balance	Yields/ rates	2016 Interest income/ expense	Average balance	Yields/ rates	2015 Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	$292,635	0.49 %	$1,076	264,218	0.27 %	$543
Trading assets	83,580	2.86	1,792	65,954	2.91	1,437
Investment securities (3):						
Available-for-sale securities:						
Securities of U.S. Treasury and federal agencies	30,588	1.56	358	31,242	1.57	368
Securities of U.S. states and political subdivisions	52,637	4.25	1,678	46,765	4.18	1,468
Mortgage-backed securities:						
Federal agencies	98,099	2.57	1,889	99,523	2.71	2,021
Residential and commercial	19,488	5.39	787	22,823	5.80	992
Total mortgage-backed securities	117,587	3.03	2,676	122,346	3.28	3,013
Other debt and equity securities	53,680	3.36	1,349	48,758	3.44	1,257
Total available-for-sale securities	254,492	3.18	6,061	249,111	3.27	6,106
Held-to-maturity securities:						
Securities of U.S. Treasury and federal agencies	44,671	2.19	733	44,010	2.19	722
Securities of U.S. states and political subdivisions	2,274	5.34	91	2,064	5.16	80
Federal agency and other mortgage-backed securities	37,087	2.08	577	19,871	2.14	319
Other debt securities	4,193	1.94	61	6,139	1.72	79
Total held-to-maturity securities	88,225	2.21	1,462	72,084	2.22	1,200
Total investment securities	342,717	2.93	7,523	321,195	3.03	7,306
Mortgages held for sale (4)	20,702	3.53	549	22,416	3.62	609
Loans held for sale (4)	240	3.71	7	644	2.93	14
Loans:						
Commercial:						
Commercial and industrial – U.S.	266,622	3.44	6,874	233,598	3.31	5,788
Commercial and industrial – Non U.S.	50,658	2.29	867	45,373	1.88	638
Real estate mortgage	125,902	3.43	3,236	115,224	3.45	2,972
Real estate construction	22,978	3.53	608	20,637	3.68	567
Lease financing	17,629	4.86	643	12,322	4.77	441
Total commercial	483,789	3.38	12,228	427,154	3.26	10,406
Consumer:						
Real estate 1-4 family first mortgage	276,369	4.01	8,311	267,107	4.12	8,243
Real estate 1-4 family junior lien mortgage	50,585	4.38	1,659	57,068	4.24	1,812
Credit card	33,774	11.58	2,927	30,806	11.74	2,704
Automobile	61,246	5.64	2,588	57,180	5.87	2,512
Other revolving credit and installment	39,434	5.94	1,755	37,069	5.91	1,638
Total consumer	461,408	4.99	17,240	449,230	5.03	16,909
Total loans (4)	945,197	4.16	29,468	876,384	4.16	27,315
Other	6,104	2.23	101	4,874	5.21	191
Total earning assets	$1,691,175	3.20 %	$40,516	1,555,685	3.21 %	$37,415
Funding sources						

Deposits:						
Interest-bearing checking	$40,858	0.13 %	$41	38,491	0.05 %	$15
Market rate and other savings	659,257	0.07	327	620,510	0.06	274
Savings certificates	26,432	0.37	73	32,639	0.66	160
Other time deposits	58,087	0.84	364	52,459	0.43	168
Deposits in foreign offices	100,783	0.25	190	107,153	0.13	105
Total interest-bearing deposits	885,417	0.15	995	851,252	0.11	722
Short-term borrowings	111,993	0.28	231	82,258	0.09	52
Long-term debt	235,209	1.57	2,769	183,130	1.37	1,879
Other liabilities	16,534	2.10	260	16,576	2.16	269
Total interest-bearing liabilities	1,249,153	0.45	4,255	1,133,216	0.34	2,922
Portion of noninterest-bearing funding sources	442,022		—	422,469	—	—
Total funding sources	$1,691,175	0.34	4,255	1,555,685	0.25	2,922
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.86 %	$36,261		2.96 %	$34,493
Noninterest-earning assets						
Cash and due from banks	$18,499			17,167		
Goodwill	26,696			25,703		
Other	129,324			129,412		
Total noninterest-earning assets	$174,519			172,282		
Noninterest-bearing funding sources						
Deposits	$353,870			335,160		
Other liabilities	62,169			69,167		
Total equity	200,502			190,424		
Noninterest-bearing funding sources used to fund earning assets	(442,022)			(422,469)		
Net noninterest-bearing funding sources	$174,519			172,282		
Total assets	$1,865,694			1,727,967		

Noninterest Income

Table 2: Noninterest Income

(in millions)	Quarter ended Sep 30, 2016	2015	% Change	Nine months ended Sep 30, 2016	2015	% Change
Service charges on deposit accounts	$1,370	1,335	3 %	$4,015	3,839	5 %
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,344	2,368	(1)	6,874	7,147	(4)
Trust and investment management	849	843	1	2,499	2,556	(2)
Investment banking	420	359	17	1,172	1,254	(7)
Total trust and investment fees	3,613	3,570	1	10,545	10,957	(4)
Card fees	997	953	5	2,935	2,754	7
Other fees:						
Charges and fees on loans	306	307	—	936	920	2
Cash network fees	138	136	1	407	393	4
Commercial real estate brokerage commissions	119	124	(4)	322	394	(18)
Letters of credit fees	81	89	(9)	242	267	(9)
Wire transfer and other remittance fees	103	95	8	296	275	8
All other fees (1)(2)(3)	179	348	(49)	562	1,035	(46)
Total other fees	926	1,099	(16)	2,765	3,284	(16)
Mortgage banking:						
Servicing income, net	359	674	(47)	1,569	1,711	(8)
Net gains on mortgage loan origination/sales activities	1,308	915	43	3,110	3,130	(1)
Total mortgage banking	1,667	1,589	5	4,679	4,841	(3)
Insurance	293	376	(22)	1,006	1,267	(21)
Net gains (losses) from trading activities	415	(26)	NM	943	515	83
Net gains on debt securities	106	147	(28)	797	606	32
Net gains from equity investments	140	920	(85)	573	1,807	(68)
Lease income	534	189	183	1,404	476	195
Life insurance investment income	152	150	1	455	440	3
All other (3)	163	116	41	1,216	(28)	NM
Total	$10,376	10,418	—	$31,333	30,758	2

NM- Not meaningful

(1) Wire transfer and other remittance fees, reflected in all other fees prior to 2016, have been separately disclosed.

(2) All other fees have been revised to include merchant processing fees for all periods presented.

(3) Effective fourth quarter 2015, the Company's proportionate share of its merchant services joint venture earnings is included in All other income.

Noninterest income was $10.38 billion and $31.33 billion for the third quarter and first nine months of 2016, respectively, compared with $10.42 billion and $30.76 billion for the same periods a year ago. This income represented 46% and 47% of revenue for the third quarter and first nine months of 2016, respectively, compared with 48% for both the third quarter and first nine months of 2015. The decline in noninterest income in third quarter 2016, compared with the same period a year ago, was due to lower net gains on equity investments and insurance, partially offset by an increase in net gains from trading activities and lease income. The increase in noninterest income for the first nine months of 2016, compared with the same period a year ago, was driven by higher lease income related to the GE Capital business acquisitions, 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, and net gains on equity investments. Many of our businesses, including consumer and small business deposits, credit and debit cards, capital markets, international, community lending, multi-family capital, corporate trust, equipment finance, and structured real estate, grew noninterest income in the third quarter and first nine months of

2016.

Service charges on deposit accounts were $1.37 billion and $4.02 billion in the third quarter and first nine months of 2016, respectively, compared with $1.34 billion and $3.84 billion in the third quarter and first nine months of 2015. The increase in third quarter 2016, compared with the same period a year ago, was driven by account growth and higher overdraft fee revenue, while the increase in the first nine months of 2016, compared with the same period a year ago, was driven by higher overdraft fee revenue, account growth and higher fees from commercial product sales and commercial product re-pricing.

Brokerage advisory, commissions and other fees are received for providing full-service and discount brokerage services predominantly to retail brokerage clients. Income from these brokerage-related activities include asset-based fees for advisory accounts, which are based on the market value of the client’s assets, and transactional commissions based on the number and size of transactions executed at the client’s direction. These fees decreased to $2.3 billion and $6.9 billion in the third quarter and first nine months of 2016, respectively, from $2.4 billion and $7.1 billion for the same periods in 2015. The decrease in third quarter 2016 was predominantly due to lower brokerage transaction revenue. The decrease for the first nine months of 2016 was due to lower brokerage transaction revenue and lower asset-based fees. Retail brokerage client assets totaled $1.48 trillion at September 30, 2016, compared with $1.35 trillion at September 30, 2015, with all retail brokerage services provided by our Wealth and Investment Management (WIM) operating segment. For additional information on retail brokerage client assets, see the discussion and Tables 4d and 4e in the "Operating Segment Results – Wealth and Investment Management – Retail Brokerage Client Assets" section in this Report.

We earn trust and investment management fees from managing and administering assets, including mutual funds, institutional separate accounts, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fee income is primarily from client assets under management (AUM) for which the fees are determined based on a tiered scale relative to the market value of the AUM. AUM consists of assets for which we have investment management discretion. Our AUM totaled $667.5 billion at September 30, 2016, compared with $639.9 billion at September 30, 2015, with substantially all of our AUM managed by our WIM operating segment. Additional information regarding our WIM operating segment AUM is provided in Table 4f and the related discussion in the "Operating Segment Results – Wealth and Investment Management – Trust and Investment Client Assets Under Management" section in this Report. In addition to AUM we have client assets under administration (AUA) that earn various administrative fees which are generally based on the type of services provided to administer the account. Our AUA totaled $1.55 trillion at September 30, 2016, compared with $1.52 trillion at September 30, 2015. Trust and investment management fees increased $6 million to $849 million in third quarter 2016, but decreased $57 million to $2.5 billion in the first nine months of 2016. The decrease in the first nine months of 2016 was due to lower average AUM and a shift of assets into lower yielding products.

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 $420 million in third quarter 2016 from $359 million in third quarter 2015 driven by higher fee income across all products. Investment banking fees decreased to $1.2 billion in the first nine months of 2016 from $1.3 billion in the same period a year ago driven by declines in debt and equity originations due to market volatility.

Card fees were $997 million and $2.9 billion in the third quarter and first nine months of 2016, respectively, compared with $953 million and $2.8 billion for the same periods a year ago. The increase was predominantly due to account growth and increased purchase activity.

Other fees decreased to $926 million and $2.8 billion in the third quarter and first nine months of 2016, respectively, from $1.1 billion and $3.3 billion for the same periods in 2015, predominantly driven by lower all other fees. All other fees were $179 million and $562 million in the third quarter and first nine months of 2016, respectively, compared with $348 million and $1.0 billion for the same periods in 2015. The decrease was predominantly due to the deconsolidation of our merchant services joint venture in fourth quarter 2015, which resulted in a proportionate share of that income now being reported in all other income.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $1.7 billion and $4.7 billion in the third quarter and first nine months of 2016, respectively, compared with $1.6 billion and $4.8 billion for the same periods a year ago.

In addition to servicing fees, net mortgage loan servicing

income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income of $359 million for third quarter 2016 included a $134 million net MSR valuation gain ($8 million decrease in the fair value of the MSRs and a $142 million hedge gain). Net servicing income of $674 million for third quarter 2015 included a $253 million net MSR valuation gain ($833 million decrease in the fair value of the MSRs and a $1.1 billion hedge gain). For the first nine months of 2016, net servicing income of $1.6 billion included a $786 million net MSR valuation gain ($1.8 billion decrease in the fair value of the MSRs and a $2.6 billion hedge gain) and for the same period in 2015 net servicing income of $1.7 billion included a $468 million

net MSR valuation gain ($553 million decrease in the fair value of the MSRs and a $1.0 billion hedge gain). Net servicing income decreased in third quarter 2016, compared with the same period a year ago, from lower net MSR valuation gains, higher unreimbursed servicing costs related to FHA loans, lower contractual servicing fees due to servicing portfolio runoff and higher other changes in MSR fair value losses due to higher payoffs in third quarter 2016. The increase in net MSR valuation gains in the first nine months of 2016, compared with the same period in 2015, was predominantly 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 a reduction in forecasted prepayments in the first nine months of 2016 due to updated economic and mortgage market rate inputs.
Our portfolio of loans serviced for others was $1.70 trillion at September 30, 2016, and $1.78 trillion at December 31, 2015. At September 30, 2016, the ratio of combined residential and commercial MSRs to related loans serviced for others was 0.69%, compared with 0.77% at December 31, 2015. See the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in this Report for additional information regarding our MSRs risks and hedging approach.
Net gains on mortgage loan origination/sales activities was $1.3 billion and $3.1 billion in the third quarter and first nine months of 2016, respectively, compared with $915 million and $3.1 billion for the same periods a year ago. The increase in third quarter 2016, compared with the same period a year ago, was primarily driven by higher originations, partially offset by lower production margins. Mortgage loan originations were $70 billion and $177 billion for the third quarter and first nine months of 2016, respectively, compared with $55 billion and $166 billion for the same periods a year ago. The production margin on residential held-for-sale mortgage originations, which represents net gains on residential mortgage loan origination/sales activities divided by total residential held-for-sale mortgage originations, provides a measure of the profitability of our residential mortgage origination activity. Table 2a presents the information used in determining the production margin.

Table 2a: Selected Mortgage Production Data

		Quarter ended Sep 30,		Nine months ended Sep 30,	
		2016	2015	2016	2015
Net gains on mortgage loan origination/sales activities (in millions):					
Residential	(A)	$953	736	2,229	2,261
Commercial		167	55	310	254
Residential pipeline and unsold/repurchased loan management (1)		188	124	571	615
Total		$1,308	915	3,110	3,130
Residential real estate originations (in billions):					
Held-for-sale	(B)	$53	39	130	122
Held-for-investment		17	16	47	44
Total		$70	55	177	166
Production margin on residential held-for-sale mortgage originations	(A)/(B)	1.81 %	1.88	1.72	1.85

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

The production margin was 1.81% and 1.72% for the third quarter and first nine months of 2016, respectively, compared with 1.88% and 1.85% for the same periods a year ago. Mortgage applications were $100 billion and $272 billion for the third quarter and first nine months of 2016, respectively, compared with $73 billion and $247 billion for the same periods a year ago. The 1-4 family first mortgage unclosed pipeline was $50 billion at September 30, 2016, compared with $34 billion at September 30, 2015. For additional information about our mortgage banking activities and results, see the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For the first nine months of 2016, we released a net $106 million from the repurchase liability, including $13 million in third quarter 2016, compared with a net $40 million release for the first nine months of 2015, including $6 million in third quarter 2015. 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.

Net gains from trading activities, which reflect both unrealized changes in fair value of our trading positions and realized gains, were $415 million and $943 million in the third quarter and first nine months of 2016, respectively, compared with $(26) million and $515 million for the same periods a year ago. The increase in the third quarter and the first nine months of 2016 was predominantly driven by higher deferred compensation gains (offset in employee benefits expense) and higher customer accommodation trading activity within our capital markets business reflecting higher fixed income trading gains. Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. For additional information about our trading activities, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in this Report.

Net gains on debt and equity securities totaled $246 million and $1.4 billion for the third quarter and first nine months of 2016, respectively, compared with $1.1 billion and $2.4 billion for the same periods in 2015, after other-than-temporary impairment (OTTI) write-downs of $136 million and $464 million, respectively, for the third quarter and first nine months of 2016, compared with $140 million and $308 million for the same periods in 2015. The decrease in net gains on debt and equity securities in the third quarter and first nine months of 2016, compared with the same periods a year ago, reflected lower net gains from equity investments as our portfolio benefited from

strong public and private equity markets in 2015.
Lease income was $534 million and $1.4 billion in the third quarter and first nine months of 2016, respectively, compared with $189 million and $476 million for the same periods a year ago, largely driven by the GE Capital business acquisitions.
All other income was $163 million and $1.2 billion in the third quarter and first nine months of 2016, respectively, compared with $116 million and $(28) million for the same periods a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, the results of certain economic hedges, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity method, any of which can cause decreases and net losses in other income. The increase in other income for the third quarter and first nine months of 2016, compared with the same periods a year ago, reflected changes in ineffectiveness recognized on interest rate swaps used to hedge our exposure to interest rate risk on long-term debt and cross-currency swaps, cross-currency interest rate swaps and forward contracts used to hedge our exposure to foreign currency risk and interest rate risk involving non-U.S. dollar denominated long-term debt. A portion of the hedge ineffectiveness recognized was partially offset by the results of certain economic hedges and accordingly we recognized a net hedge benefit of $142 million and $577 million for the third quarter and first nine months of 2016, respectively, compared with a net hedge gain of $109 million and $56 million for the same periods a year ago. Other income for the first nine months of 2016 also included a $381 million gain from the sale of our crop insurance business in first quarter 2016, and a $290 million gain from the sale of our health benefit services business in second quarter 2016. For additional information about derivatives used as part of our asset/liability management, see Note 12 (Derivatives) to Financial Statements in this Report.

Earnings Performance (continued)

Noninterest Expense

Table 3: Noninterest Expense

	Quarter ended Sep 30,		%	Nine months ended Sep 30,		%
(in millions)	2016	2015	Change	2016	2015	Change
Salaries	$4,224	4,035	5 %	$12,359	11,822	5 %
Commission and incentive compensation	2,520	2,604	(3)	7,769	7,895	(2)
Employee benefits	1,223	821	49	3,993	3,404	17
Equipment	491	459	7	1,512	1,423	6
Net occupancy	718	728	(1)	2,145	2,161	(1)
Core deposit and other intangibles	299	311	(4)	891	935	(5)
FDIC and other deposit assessments	310	245	27	815	715	14
Outside professional services	802	663	21	2,154	1,838	17
Operating losses	577	523	10	1,365	1,339	2
Outside data processing	233	258	(10)	666	780	(15)
Contract services	313	249	26	878	712	23
Postage, stationery and supplies	150	174	(14)	466	525	(11)
Travel and entertainment	144	166	(13)	509	496	3
Advertising and promotion	117	135	(13)	417	422	(1)
Insurance	23	95	(76)	156	391	(60)
Telecommunications	101	109	(7)	287	333	(14)
Foreclosed assets	(17)	109	NM	127	361	(65)
Operating leases	363	79	359	950	205	363
All other	677	636	6	1,703	1,618	5
Total	$13,268	12,399	7	$39,162	37,375	5

NM - Not meaningful

Noninterest expense was $13.3 billion in third quarter 2016 and $39.2 billion in the first nine months of 2016, up 7% and 5%, respectively, from the same periods a year ago, driven predominantly by higher personnel expenses, operating lease expense, outside professional services and contract services, FDIC and other deposit assessments, and operating losses, partially offset by lower foreclosed assets expense, insurance, and outside data processing.

Personnel expenses, which include salaries, commissions, incentive compensation and employee benefits, were up $507 million, or 7%, in third quarter 2016 compared with the same period a year ago, and up $1.0 billion, or 4%, for the first nine months of 2016 compared with the same period a year ago. The increase in both periods was due to annual salary increases, higher deferred compensation expense (offset in trading revenue), and staffing growth driven by the GE Capital business acquisitions, as well as investments in risk management. The increase in the first nine months of 2016 was also driven by an extra payroll day.

Operating lease expense was up $284 million in third quarter 2016 and $745 million in the first nine months of 2016, compared with the same periods a year ago, largely due to depreciation expense on the operating leases acquired from GE Capital.

Outside professional services expense was up 21% and 17% in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago. Contract services expense was up 26% and 23% in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago. The increase in both expense categories reflected continued investments in our products, technology and service delivery, as well as costs to meet heightened regulatory expectations and evolving cybersecurity risk.

FDIC and other deposit assessments were up 27% and 14% in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago, due to an increase in deposit assessments as a result of a temporary surcharge which became effective on July 1, 2016. See the "Regulatory Reform" section in this Report for additional information.

Operating losses were up 10% and 2% in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago, predominantly due to higher litigation and compliance expense for various legal matters.

Foreclosed assets expense was a net recovery in third quarter 2016 compared to a net expense in the same period a year ago. Higher gains on sales of foreclosed properties contributed to the net recovery in third quarter 2016. Foreclosed assets expense was down 65% in the first nine months of 2016 compared with the same period a year ago, driven by lower operating expense and write-downs.

Insurance expense was down 76% and 60% in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago, due to the sale of our crop insurance business in first quarter 2016 and the sale of our Warranty Solutions business in third quarter 2015.

Outside data processing expense was down 10% and 15% in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago, predominantly due to the deconsolidation of our merchant services joint venture in fourth quarter 2015 as well as lower card processing expense.

All other expense in third quarter 2016 included a $107 million contribution to the Wells Fargo Foundation, compared with $126 million in third quarter 2015.

The efficiency ratio was 59.4% in third quarter 2016, compared with 56.7% in third quarter 2015. The Company expects the efficiency ratio to remain at an elevated level.

Income Tax Expense
Our effective tax rate was 31.5% and 32.5% for third quarter 2016 and 2015, respectively. The decrease in the effective tax rate for third quarter 2016 was largely due to an increase in tax credit investments, partially offset by the recognition of net changes in discrete tax benefits and expenses relating to tax disputes, settlements and uncertain tax positions. Our effective tax rate was 31.9% in the first nine months of 2016, up from 31.1% in the first nine months of 2015. The effective tax rate for the first nine months of 2015 reflected $359 million 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.

Operating Segment Results
We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth and Investment Management (WIM). These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles (GAAP). Table 4 and the following discussion present our results by operating segment. For additional description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results – Highlights

(income/expense in millions,	Community Banking		Wholesale Banking		Wealth and Investment Management		Other (1)		Consolidated Company	
average balances in billions)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Quarter ended Sep 30,										
Revenue	$12,387	12,933	7,147	6,326	4,099	3,878	(1,305)	(1,262)	22,328	21,875
Provision (reversal of provision) for credit losses	651	668	157	36	4	(6)	(7)	5	805	703
Noninterest expense	6,953	6,778	4,120	3,503	2,999	2,909	(804)	(791)	13,268	12,399
Net income (loss)	3,227	3,560	2,047	1,925	677	606	(307)	(295)	5,644	5,796
Average loans	$489.2	477.0	454.3	405.6	68.4	61.1	(54.4)	(48.6)	957.5	895.1
Average deposits	708.0	655.6	441.2	442.0	189.2	172.6	(76.9)	(71.3)	1,261.5	1,198.9
Nine months ended Sep 30,										
Revenue	$37,205	37,011	21,389	19,345	11,872	11,830	(3,781)	(3,715)	66,685	64,471
Provision (reversal of provision) for credit losses	2,060	1,723	905	(99)	(8)	(19)	8	6	2,965	1,611
Noninterest expense	20,437	20,088	12,124	10,625	9,017	9,069	(2,416)	(2,407)	39,162	37,375
Net income (loss)	9,702	10,322	6,041	6,090	1,773	1,721	(852)	(814)	16,664	17,319
Average loans	$486.4	473.9	445.2	390.7	66.4	59.1	(52.8)	(47.3)	945.2	876.4
Average deposits	698.3	651.3	431.7	435.4	185.4	170.4	(76.1)	(70.7)	1,239.3	1,186.4

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

Cross-sell 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. An outcome of offering customers the products and services they need, want and value is that we earn more opportunities to serve them, or what we call cross-sell. Cross-sell is the result of serving our customers well, understanding their financial needs and goals over their lifetimes, and ensuring we innovate our products, services and

channels so that we earn more of their business and help them succeed financially. Our customer-focused approach to cross-sell is needs-based as some customers will benefit from more products, and some may need fewer. We believe there is continued opportunity to meet our customers' financial needs as we build lifelong relationships with them.
One way we track the degree to which we are satisfying our customers' financial needs is through our cross-sell metrics, which help us measure the depth of relationships we have formed with our Community Banking, Wholesale Banking and WIM customers. For additional information regarding our cross-sell metrics, see the "Earnings Performance – Operating Segments – Cross-sell" section in our 2015 Form 10-K.
The “Earnings Performance – Operating Segments – Cross-sell” section in our 2015 Form 10-K described our methodology

for measuring and tracking cross-sell metrics. As described below, in second quarter 2016 we modified our methodology for Community Banking to better align our cross-sell metrics with ongoing changes in Community Banking’s business and products. This change in methodology was unrelated to the sales practices settlements announced on September 8, 2016. Instead, the change in methodology was the result of a long-term evaluation spanning 18 months that explored several alternatives and involved product groups and lines of business in order to best align our Community Banking cross-sell metric with our strategic focus of long-term retail banking relationships. For similar reasons, we are currently in the process of evaluating changes in our cross-sell methodology for Wholesale Banking and WIM. In response to the sales practices settlements, however, we eliminated product sales goals for retail banking team members effective October 1, 2016.
For Community Banking, the cross-sell metric represents the average number of products per retail banking household. For example, one checking account and two loans for the same household would be treated as three products for the metric. During second quarter 2016, we changed how we determine retail banking households within Community Banking to include only those households that have a retail (consumer) checking account, which we believe provides the foundation for long-term retail

banking relationships. Previously, retail banking households were defined as a household that had at least one of the following retail products – a checking account, savings account, savings certificate, individual retirement account (IRA) certificate of deposit, IRA savings account, personal line of credit, personal loan, home equity line of credit or home equity loan. We continue to determine a retail banking household for Community Banking based on aggregating all products with the same address. This change to how we determine retail banking households resulted in the removal from the cross-sell metric of approximately 1.7 million households and over 3 million associated products. In order to provide a more comprehensive and holistic view of a retail banking household's entire relationship with us, during second quarter 2016 we also updated the products included in the Community Banking cross-sell metrics to capture business products (over 6 million business products added, consisting primarily of checking accounts and debit cards), in addition to retail products, that have the potential for revenue generation and long-term viability. Products and services that generally do not meet these criteria – such as ATM cards, online banking, bill pay and direct deposit – are not included. The removal of bill pay, which was previously included, resulted in over 9 million products being removed from the cross-sell metric, as we believe bill pay is better classified as one of the many omni-channel services we provide. On an ongoing basis, we may periodically update the products included in our cross-sell metrics to account for changes in our product offerings.

Our Community Banking cross-sell metrics, as revised for prior periods to conform to the current period presentation, were 6.33, 6.31, 6.37 and 6.36 as of August 2015 and November 2015, 2014 and 2013, respectively, reflecting a one month reporting lag for each period. Cross-sell metrics have not been adjusted to reflect the impact of approximately 2.1 million potentially unauthorized accounts identified in a review by an independent consulting firm. Due to our ongoing processes to actively monitor balances and usage of accounts and remove those that are inactive over established timeframes, not all of these potentially unauthorized accounts affected our cross-sell metrics at any one time. Accordingly, the maximum impact of these accounts to this reported metric in any one quarter was 0.02 products per household, or 0.3%.

Operating Segment Results

The following discussion provides a description of each of our operating segments, including cross-sell metrics and financial results. Operating segment results for 2016 reflect a shift in expenses between the personnel and other expense categories as a result of the movement of support staff from the Wholesale Banking and WIM segments into a consolidated organization within the Community Banking segment. Personnel expenses associated with the transferred support staff are now being allocated from Community Banking back to the Wholesale Banking and WIM segments through other expense.

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including checking and savings accounts, credit and debit cards, and automobile, student, 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. 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 (on the revised basis described above) was 6.25 products per household in August 2016, compared with 6.33 in August 2015, reflecting a one month reporting lag for each period. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

(in millions, except average balances which are in billions)	Quarter ended Sep 30, 2016	2015	% Change	Nine months ended Sep 30, 2016	2015	% Change
Net interest income	$7,430	7,409	— %	$22,277	21,833	2 %
Noninterest income:						
Service charges on deposit accounts	821	793	4	2,347	2,232	5
Trust and investment fees:						
Brokerage advisory, commissions and other fees (1)	479	516	(7)	1,384	1,545	(10)
Trust and investment management (1)	222	218	2	631	641	(2)
Investment banking (2)	(23)	(35)	34	(92)	(95)	3
Total trust and investment fees	678	699	(3)	1,923	2,091	(8)
Card fees	911	862	6	2,670	2,497	7
Other fees	362	369	(2)	1,100	1,091	1
Mortgage banking	1,481	1,513	(2)	4,314	4,523	(5)
Insurance	2	31	(94)	4	94	(96)
Net gains (losses) from trading activities	33	(143)	123	(54)	(149)	64
Net gains on debt securities	131	75	75	744	349	113
Net gains from equity investments (3)	109	825	(87)	448	1,438	(69)
Other income of the segment	429	500	(14)	1,432	1,012	42
Total noninterest income	4,957	5,524	(10)	14,928	15,178	(2)
Total revenue	12,387	12,933	(4)	37,205	37,011	1
Provision for credit losses	651	668	(3)	2,060	1,723	20
Noninterest expense:						
Personnel expense	4,606	4,350	6	13,886	13,266	5
Equipment	462	420	10	1,421	1,315	8
Net occupancy	520	533	(2)	1,551	1,574	(1)
Core deposit and other intangibles	123	144	(15)	380	431	(12)
FDIC and other deposit assessments	159	140	14	453	398	14
Outside professional services	300	253	19	749	674	11
Operating losses	525	381	38	1,224	1,009	21
Other expense of the segment	258	557	(54)	773	1,421	(46)
Total noninterest expense	6,953	6,778	3	20,437	20,088	2
Income before income tax expense and noncontrolling interests	4,783	5,487	(13)	14,708	15,200	(3)
Income tax expense	1,546	1,785	(13)	4,910	4,695	5
Net income from noncontrolling interests (4)	10	142	(93)	96	183	(48)
Net income	$3,227	3,560	(9)	$9,702	10,322	(6)
Average loans	$489.2	477.0	3	$486.4	473.9	3
Average deposits	708.0	655.6	8	698.3	651.3	7

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

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

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

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

Community Banking reported net income of $3.2 billion in third quarter 2016, down $333 million, or 9%, from third quarter 2015, and $9.7 billion for the first nine months of 2016, down $620 million, or 6%, compared with the same period a year ago. Results from the first nine months of 2015 included a discrete tax benefit of $359 million. Revenue of $12.4 billion decreased $546 million, or 4%, from third quarter 2015, and revenue of $37.2 billion for the first nine months of 2016 increased $194 million, or 1%, compared with the same period last year. The decrease from third quarter 2015 was driven by lower gains on equity investments and other income, partially offset by higher deferred compensation plan investment results (offset in employee benefits expense), higher gains on debt securities, revenue from debit and credit card volumes, and deposit service charges. The increase from the first nine months of 2015 was due to higher net interest income, other income driven by positive hedge ineffectiveness, gains on debt securities, revenue from debit and credit card volumes, and deposit service charges, partially offset by lower gains on equity investments, mortgage banking revenue, and trust and investment fees. Average loans of $489.2 billion in third quarter 2016 increased $12.2 billion, or 3%, from third quarter 2015, and average loans of $486.4 billion in the first nine months of 2016 increased $12.5 billion, or 3%, from the first nine months of 2015. Average deposits increased $52.4 billion, or 8%, from third quarter 2015 and $47.0 billion, or 7%, from the first nine months of 2015. Primary consumer

checking customers (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) as of August 2016 were up 4.7% from August 2015. Noninterest expense increased 3% from third quarter 2015 and increased 2% from the first nine months of 2015. The increase from third quarter 2015 was driven by higher deferred compensation plan expense (offset in trading revenue) and operating losses, partially offset by lower foreclosed assets expense and other expense. The increase from the first nine months of 2015 was due to higher personnel expense including higher deferred compensation plan expense (offset in trading revenue), operating losses, and equipment expense, partially offset by lower foreclosed assets expense, data processing, and other expense. The provision for credit losses decreased $17 million from third quarter 2015 due to lower net charge-offs, and increased $337 million from the first nine months of 2015 due to allowance releases in the prior year compared with an allowance build for the first nine months of 2016, reflecting loan growth in the automobile and credit card portfolios.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $5 million. Products and businesses include Business Banking, Middle Market Commercial Banking, Government and Institutional Banking, Corporate Banking, Commercial Real Estate, Treasury Management, Wells Fargo Capital Finance, Earnings Performance (continued)

Insurance, International, Real Estate Capital Markets, Commercial Mortgage Servicing, Corporate Trust, Equipment Finance, Wells Fargo Securities, Principal Investments, and Asset Backed Finance. As previously mentioned, we are currently evaluating changes in our cross-sell methodology to better align

our metrics with ongoing changes in Wholesale Banking's business and products. Table 4b provides additional financial information for Wholesale Banking.

Table 4b: Wholesale Banking

	Quarter ended Sep 30,			Nine months ended Sep 30,		
(in millions, except average balances which are in billions)	2016	2015	% Change	2016	2015	% Change
Net interest income	$4,062	3,611	12 %	$11,729	10,639	10 %
Noninterest income:						
Service charges on deposit accounts	549	542	1	1,667	1,606	4
Trust and investment fees:						
Brokerage advisory, commissions and other fees	91	77	18	276	209	32
Trust and investment management	117	104	13	351	305	15
Investment banking	444	389	14	1,265	1,349	(6)
Total trust and investment fees	652	570	14	1,892	1,863	2
Card fees	85	90	(6)	263	255	3
Other fees	562	728	(23)	1,660	2,189	(24)
Mortgage banking	186	76	145	367	319	15
Insurance	291	345	(16)	1,002	1,172	(15)
Net gains from trading activities	302	187	61	853	671	27
Net gains (losses) on debt securities	(25)	72	NM	52	256	(80)
Net gains from equity investments	26	100	(74)	118	358	(67)
Other income of the segment	457	5	NM	1,786	17	NM
Total noninterest income	3,085	2,715	14	9,660	8,706	11
Total revenue	7,147	6,326	13	21,389	19,345	11
Provision (reversal of provision) for credit losses	157	36	336	905	(99)	NM
Noninterest expense:						
Personnel expense	1,806	1,671	8	5,563	5,210	7
Equipment	18	26	(31)	55	69	(20)
Net occupancy	116	112	4	350	340	3
Core deposit and other intangibles	101	86	17	286	260	10
FDIC and other deposit assessments	125	87	44	299	262	14
Outside professional services	269	210	28	759	567	34
Operating losses	55	87	(37)	130	130	—
Other expense of the segment	1,630	1,224	33	4,682	3,787	24
Total noninterest expense	4,120	3,503	18	12,124	10,625	14
Income before income tax expense and noncontrolling interests	2,870	2,787	3	8,360	8,819	(5)
Income tax expense	827	815	1	2,341	2,583	(9)

Net income (loss) from noncontrolling interests	(4)	47	NM	(22)	146	NM
Net income	$2,047	1,925	6	$6,041	6,090	(1)
Average loans	$454.3	405.6	12	$445.2	390.7	14
Average deposits	441.2	442.0	—	431.7	435.4	(1)

NM – Not meaningful

Wholesale Banking had net income of $2.0 billion in third quarter 2016, up $122 million, or 6%, from third quarter 2015. In the first nine months of 2016, net income of $6.0 billion decreased $49 million, or 1%, from the same period a year ago. The increase in the third quarter was driven by higher revenue, partially offset by higher expenses and provision for credit losses. The decline in the first nine months of 2016 was driven by increased provision for credit losses and noninterest expense, partially offset by increased revenue. Revenue of $7.1 billion in third quarter 2016 increased $821 million, or 13%, from third quarter 2015 and revenue of $21.4 billion in the first nine months of 2016 increased $2.0 billion, or 11%, from the first nine months of 2015 on higher net interest income and noninterest income. Net interest income increased $451 million, or 12%, from third quarter 2015 and $1.1 billion, or 10%, from the first nine months of 2015 driven by the GE Capital business acquisitions and broad-based loan growth. Noninterest income increased $370 million, or 14%, from third quarter 2015 on higher lease income related to the GE Capital business acquisitions, higher customer accommodation trading, mortgage banking fees and investment banking fees, partially offset by lower gains on equity and debt

securities, lower insurance income as a result of the sale of our crop insurance business in first quarter 2016, and the deconsolidation of our merchant services joint venture in fourth quarter 2015, which previously recognized a large share of income in all other fees. Noninterest income increased $1.0 billion, or 11%, from the first nine months of 2015 on higher lease income related to the GE Capital business acquisitions, gains on the sales of our crop insurance and health benefit services businesses, and higher customer accommodation trading, partially offset by lower insurance fees related to the sale of our crop insurance business, lower other fees related to lower commercial real estate brokerage fees and the deconsolidation of our merchant services joint venture, and lower gains on equity investments and debt securities. Average loans of $454.3 billion in third quarter 2016 increased $48.7 billion, or 12%, from third quarter 2015, driven by the GE Capital business acquisitions and broad based growth in asset backed finance, commercial real estate, corporate banking, equipment finance and structured real estate. Average deposits of $441.2 billion in third quarter 2016 remained flat from third quarter 2015. Noninterest expense increased $617 million, or 18%, from third quarter 2015 and

$1.5 billion, or 14%, from the first nine months of 2015, due to higher personnel and operating lease expense related to the GE Capital business acquisitions as well as higher expenses related to growth initiatives, compliance and regulatory requirements. The provision for credit losses increased $121 million from third quarter 2015 and $1.0 billion from the first nine months of 2015 driven by increased losses and credit deterioration in the oil and gas portfolio.

Wealth and Investment Management provides a full range of personalized wealth management, investment and retirement products and services to clients across U.S. based businesses including Wells Fargo Advisors, The Private Bank, Abbot Downing, Wells Fargo Institutional Retirement and Trust, and

Wells Fargo Asset Management. We deliver financial planning, private banking, credit, investment management and fiduciary services to high-net worth and ultra-high-net worth individuals and families. We also serve clients' brokerage needs, supply retirement and trust services to institutional clients and provide investment management capabilities delivered to global institutional clients through separate accounts and the Wells Fargo Funds. As previously mentioned, we are currently evaluating changes in our cross-sell methodology to better align our metrics with ongoing changes in WIM's business and products. Table 4c provides additional financial information for WIM.

Table 4c: Wealth and Investment Management

	Quarter ended Sep 30,			Nine months ended Sep 30,		
(in millions, except average balances which are in billions)	2016	2015	% Change	2016	2015	% Change
Net interest income	$977	887	10 %	$2,852	2,545	12 %
Noninterest income:						
Service charges on deposit accounts	5	4	25	15	14	7
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,256	2,295	(2)	6,618	6,942	(5)
Trust and investment management	738	747	(1)	2,168	2,274	(5)
Investment banking (1)	—	5	(100)	(1)	—	NM
Total trust and investment fees	2,994	3,047	(2)	8,785	9,216	(5)
Card fees	2	2	—	5	4	25
Other fees	4	4	—	13	12	8
Mortgage banking	(2)	(2)	—	(6)	(5)	(20)
Insurance	—	—	NM	—	1	(100)
Net gains (losses) from trading activities	80	(70)	214	144	(7)	NM
Net gains on debt securities	—	—	NM	1	1	—
Net gains (losses) from equity investments	5	(5)	200	7	11	(36)
Other income of the segment	34	11	209	56	38	47
Total noninterest income	3,122	2,991	4	9,020	9,285	(3)
Total revenue	4,099	3,878	6	11,872	11,830	—
Provision (reversal of provision) for credit losses	4	(6)	167	(8)	(19)	58
Noninterest expense:						
Personnel expense	1,966	1,850	6	5,902	5,889	—
Equipment	12	14	(14)	40	42	(5)
Net occupancy	111	113	(2)	332	335	(1)
Core deposit and other intangibles	75	81	(7)	225	244	(8)
FDIC and other deposit assessments	44	30	47	106	93	14

Outside professional services	241	207	16	668	619	8
Operating losses	(1)	57	NM	17	206	(92)
Other expense of the segment	551	557	(1)	1,727	1,641	5
Total noninterest expense	2,999	2,909	3	9,017	9,069	(1)
Income before income tax expense and noncontrolling interests	1,096	975	12	2,863	2,780	3
Income tax expense	415	371	12	1,087	1,054	3
Net income (loss) from noncontrolling interests	4	(2)	300	3	5	(40)
Net income	$677	606	12	$1,773	1,721	3
Average loans	$68.4	61.1	12	$66.4	59.1	12
Average deposits	189.2	172.6	10	185.4	170.4	9

NM – Not meaningful

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

WIM reported net income of $677 million in third quarter 2016, up $71 million from third quarter 2015. The increase in net income from third quarter 2015 was driven by higher noninterest income and net interest income, partially offset by higher noninterest expense. Net income for the first nine months of 2016 was $1.8 billion, up $52 million, or 3%, compared with the same period a year ago, driven by higher net interest income and lower noninterest expense, primarily due to lower operating losses, partially offset by lower noninterest income. Revenue was up $221 million, or 6%, from third quarter 2015 and up $42 million from the first nine months of 2015, driven by growth in net interest income and gains on deferred compensation plan

investments (offset in employee benefits expense), partially offset by lower asset-based fees and lower brokerage transaction revenue. Net interest income increased 10% from third quarter 2015, and was up 12% from the first nine months of 2015, due to growth in loan balances and investment portfolios. Average loan balances of $68.4 billion in third quarter 2016 increased 12% from third quarter 2015. Average loans in the first nine months of 2016 increased 12% from the same period a year ago. Average loan growth was driven by growth in non-conforming mortgage loans and securities-based lending. Average deposits in third quarter 2016 of $189.2 billion increased 10% from third quarter 2015. Average deposits in the first nine months of 2016 increased

9% from the same period a year ago. Noninterest expense was up 3% from third quarter 2015, substantially driven by higher deferred compensation plan expense (offset in trading revenue), partially offset by lower operating losses, and down 1% from the first nine months of 2015, driven by lower operating losses and broker commissions, partially offset by higher deferred compensation plan expense (offset in trading revenue) and other non-personnel expenses. Provision for credit losses increased $10 million from third quarter 2015 and $11 million from the first nine months of 2015.
The following discussions provide additional information for client assets we oversee in our retail brokerage advisory and trust and investment management business lines.

Retail Brokerage Client Assets Brokerage advisory, commissions and other fees are received for providing full-service

and discount brokerage services predominantly to retail brokerage clients. Offering advisory account relationships to our brokerage clients is an important component of our broader strategy of meeting their financial needs. Although a majority of our retail brokerage client assets are in accounts that earn brokerage commissions, the fees from those accounts generally represent transactional commissions based on the number and size of transactions executed at the client's direction. Fees earned from advisory accounts are asset-based and depend on changes in the value of the client's assets as well as the level of assets resulting from inflows and outflows. A major portion of our brokerage advisory, commissions and other fee income is earned from advisory accounts. Table 4d shows advisory account client assets as a percentage of total retail brokerage client assets at September 30, 2016 and 2015.

Table 4d: Retail Brokerage Client Assets

	September 30,	
(in billions)	2016	2015
Retail brokerage client assets	$1,483.3	1,351.7
Advisory account client assets	458.3	408.8
Advisory account client assets as a percentage of total client assets	31 %	30

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

and are affected by investment performance as well as asset inflows and outflows. For the third quarter and first nine months of 2016 and 2015, the average fee rate by account type ranged from 80 to 120 basis points. Table 4e presents retail brokerage advisory account client assets activity by account type for the third quarter and first nine months of 2016 and 2015.

Table 4e: Retail Brokerage Advisory Account Client Assets

	Quarter ended September 30, 2016					Nine months ended September 30, 2016				
(in billions)	Jun 30, 2016	Inflows (5)	Outflows (6)	Market impact (7)	Sep 30, 2016	Dec 31, 2015	Inflows (5)	Outflows (6)	Market impact (7)	Sep 30, 2016
Client directed (1)	$158.5	9.2	(9.5)	3.1	161.3	154.7	27.4	(27.7)	6.9	161.3
Financial advisor directed (2)	104.2	6.3	(4.7)	4.7	110.5	91.9	21.4	(13.5)	10.7	110.5
	118.9	6.0	(5.6)	3.5	122.8	110.4	19.0	(15.6)	9.0	122.8

Separate accounts (3)										
Mutual fund advisory (4)	62.1	2.2	(2.6)	2.0	63.7	62.9	6.1	(8.5)	3.2	63.7
Total advisory client assets	$443.7	23.7	(22.4)	13.3	458.3	419.9	73.9	(65.3)	29.8	458.3

	Quarter ended September 30, 2015					Nine months ended September 30, 2015				
	Jun 30, 2015	Inflows (5)	Outflows (6)	Market impact (7)	Sep 30, 2015	Dec 31, 2014	Inflows (5)	Outflows (6)	Market impact (7)	Sep 30, 2015
Client directed (1)	$161.8	9.2	(9.0)	(10.2)	151.8	159.8	30.0	(27.9)	(10.1)	151.8
Financial advisor directed (2)	91.4	4.8	(4.1)	(4.4)	87.7	85.4	15.4	(12.5)	(0.6)	87.7
Separate accounts (3)	113.0	4.9	(5.3)	(5.8)	106.8	110.7	16.5	(15.4)	(5.0)	106.8
Mutual fund advisory (4)	67.4	2.4	(3.1)	(4.2)	62.5	66.9	8.0	(9.0)	(3.4)	62.5
Total advisory client assets	$433.6	21.3	(21.5)	(24.6)	408.8	422.8	69.9	(64.8)	(19.1)	408.8

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

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

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

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

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

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

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

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

provides total retirement management, investments, and trust and custody solutions tailored to meet the needs of institutional clients. Substantially all of our trust and investment management fee income is earned from AUM where we have discretionary management authority over the investments and generate fees as a percentage of the market value of the AUM. Table 4f presents AUM activity for the third quarter and first nine months of 2016 and 2015.

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

	Quarter ended September 30, 2016					Nine months ended September 30, 2016				
(in billions)	Jun 30, 2016	Inflows (4)	Outflows (5)	Market impact (6)	Sep 30, 2016	Dec 31, 2015	Inflows (4)	Outflows (5)	Market impact (6)	Sep 30, 2016
Assets managed by WFAM (1):										
Money market funds (2)	$108.9	7.4	—	—	116.3	123.6	—	(7.3)	—	116.3
Other assets managed	374.9	31.0	(30.3)	6.2	381.8	366.1	86.9	(85.2)	14.0	381.8
Assets managed by Wealth and Retirement (3)	164.6	8.4	(7.4)	3.1	168.7	162.1	25.7	(25.4)	6.3	168.7
Total assets under management	$648.4	46.8	(37.7)	9.3	666.8	651.8	112.6	(117.9)	20.3	666.8

	Quarter ended September 30, 2015					Nine months ended September 30, 2015				
	Jun 30, 2015	Inflows (4)	Outflows (5)	Market impact (6)	Sep 30, 2015	Dec 31, 2014	Inflows (4)	Outflows (5)	Market impact (6)	Sep 30, 2015
Assets managed by WFAM (1):										
Money market funds (2)	$108.3	3.6	—	—	111.9	123.1	—	(11.2)	—	111.9
Other assets managed	379.5	21.0	(20.6)	(11.4)	368.5	372.6	73.5	(71.6)	(6.0)	368.5
Assets managed by Wealth and Retirement (3)	165.5	9.0	(7.3)	(8.2)	159.0	165.3	26.7	(25.2)	(7.8)	159.0
Total assets under management	$653.3	33.6	(27.9)	(19.6)	639.4	661.0	100.2	(108.0)	(13.8)	639.4

(1) Assets managed by Wells Fargo Asset Management consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.

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

(3) Includes $8.2 billion and $8.9 billion as of December 31, 2015 and 2014 and $7.7 billion and $8.3 billion as of September 30, 2016 and 2015, respectively, of client assets invested in proprietary funds managed by WFAM.

(4) Inflows include new managed account assets, contributions, dividends and interest.

(5) Outflows include closed managed account assets, withdrawals and client management fees.

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

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Balance Sheet Analysis (continued)

Balance Sheet Analysis

At September 30, 2016, our assets totaled $1.9 trillion, up $154.5 billion from December 31, 2015. The predominant areas of asset growth were in federal funds sold and other short-term investments, which increased $28.2 billion, investment securities, which increased $43.3 billion, and loans, which increased $44.8 billion (including $26.5 billion from the GE Capital business acquisitions). Additionally, other assets increased $22.8 billion due to $5.9 billion in operating leases from the first quarter 2016 GE Capital business acquisitions, higher receivables related to unsettled trading security transactions and higher fair values for derivative assets designated as hedging instruments due to decreasing interest rates. An increase of $55.3 billion in long-term debt (including

debt issued to fund the GE Capital business acquisitions and debt issued that is anticipated to be TLAC eligible), deposit growth of $52.6 billion, an increase in short-term borrowings of $27.1 billion, and total equity growth of $10.1 billion from December 31, 2015, were the predominant sources that funded our asset growth in the first nine months of 2016. Equity growth benefited from $9.4 billion in earnings net of dividends paid.

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

Investment Securities

Table 5: Investment Securities – Summary

	September 30, 2016			December 31, 2015		
(in millions)	Amortized Cost	Net unrealized gain	Fair value	Amortized Cost	Net unrealized gain	Fair value
Available-for-sale securities:						
Debt securities	$286,367	3,991	290,358	263,318	2,403	265,721
Marketable equity securities	751	482	1,233	1,058	579	1,637
Total available-for-sale securities	287,118	4,473	291,591	264,376	2,982	267,358
Held-to-maturity debt securities	99,241	3,306	102,547	80,197	370	80,567
Total investment securities (1)	$386,359	7,779	394,138	344,573	3,352	347,925

(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 $43.3 billion from December 31, 2015, predominantly due to purchases of federal agency mortgage-backed securities. The increase in investment securities was partially offset by sales and pay-downs of federal agency mortgage-backed securities and sales of U.S. Treasury securities in our available-for-sale portfolio.

The total net unrealized gains on available-for-sale securities were $4.5 billion at September 30, 2016, up from $3.0 billion at December 31, 2015, due to a decline in interest rates. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section in our 2015 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 $464 million in OTTI write-downs recognized in earnings in the first nine months of 2016, $142 million related to debt securities and $5 million related to marketable equity securities, which are included in available-for-sale securities. Another $317 million in OTTI write-downs were related to nonmarketable equity investments, which are included in other assets. OTTI write-downs recognized in earnings related to oil and gas investments totaled $185 million in the first nine months of 2016, of which $57 million related to investment securities and $128 million related to nonmarketable equity investments. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form

10-K and Note 4 (Investment Securities) to Financial Statements in this Report.
At September 30, 2016, investment securities included $58.4 billion of municipal bonds, of which 96.3% were rated “A-” or better based largely on external and, in some cases, internal ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer’s guarantee in making the investment decision. The credit quality of our municipal bond holdings are monitored as part of our ongoing impairment analysis.
The weighted-average expected maturity of debt securities available-for-sale was 5.7 years at September 30, 2016. Because 53% 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 Available for Sale

(in billions)	Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At September 30, 2016			
Actual	$154.1	3.7	5.3
Assuming a 200 basis point:			
Increase in interest rates	140.1	(10.3)	7.4
Decrease in interest rates	158.8	8.4	2.8

The weighted-average expected maturity of debt securities held-to-maturity was 5.5 years at September 30, 2016. See Note 4

(Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

Loan Portfolios

Table 7 provides a summary of total outstanding loans by portfolio segment. Total loans increased $44.8 billion from December 31, 2015, predominantly due to growth in commercial and industrial, real estate mortgage and lease financing loans within the commercial loan portfolio segment, which included $26.5 billion of commercial and industrial loans and capital leases acquired from GE Capital.

Table 7: Loan Portfolios

(in millions)	September 30, 2016	December 31, 2015
Commercial	$ 496,454	456,583
Consumer	464,872	459,976
Total loans	$ 961,326	916,559
Change from prior year-end	$ 44,767	54,008

A discussion of average loan balances and a comparative detail of average loan balances is included in Table 1 under "Earnings Performance – Net Interest Income" earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the "Risk Management – Credit Risk Management" section in this Report. Period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

Table 8: Maturities for Selected Commercial Loan Categories

	September 30, 2016				December 31, 2015			
(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	$97,678	199,697	26,645	324,020	91,214	184,641	24,037	299,892
Real estate mortgage	20,933	70,027	39,263	130,223	18,622	68,391	35,147	122,160
Real estate construction	8,583	13,447	1,310	23,340	7,455	13,284	1,425	22,164
Total selected loans	$127,194	283,171	67,218	477,583	117,291	266,316	60,609	444,216
Distribution of loans to changes in interest rates:								

Loans at fixed interest rates	$19,542	29,272	26,086	74,900	16,819	27,705	23,533	68,057
Loans at floating/variable interest rates	107,652	253,899	41,132	402,683	100,472	238,611	37,076	376,159
Total selected loans	$127,194	283,171	67,218	477,583	117,291	266,316	60,609	444,216

Balance Sheet Analysis (continued)

Deposits

Deposits increased $52.6 billion from December 31, 2015, to $1.28 trillion, reflecting continued broad-based growth in our consumer and small business banking deposits. Table 9 provides additional information regarding deposits. Information regarding

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

Table 9: Deposits

($ in millions)	Sep 30, 2016	% of total deposits	Dec 31, 2015	% of total deposits	% Change
Noninterest-bearing	$376,136	29 %	$351,579	29 %	7
Interest-bearing checking	44,738	4	40,115	3	12
Market rate and other savings	677,382	53	651,563	54	4
Savings certificates	24,816	2	28,614	2	(13)
Other time and deposits	46,926	4	49,032	4	(4)
Deposits in foreign offices (1)	105,896	8	102,409	8	3
Total deposits	$1,275,894	100 %	$1,223,312	100 %	4

(1) Includes Eurodollar sweep balances of $64.3 billion and $71.1 billion at September 30, 2016, and December 31, 2015, respectively.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2015 Form 10-K for a description of our critical accounting policy related to fair value of financial instruments and a discussion of our fair value measurement techniques.

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

Table 10: Fair Value Level 3 Summary

	September 30, 2016		December 31, 2015	
($ in billions)	Total balance	Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value (2)	$447.9	25.9	384.2	27.6
As a percentage of total assets	23 %	1	21	2
Liabilities carried at fair value	$34.8	1.8	29.6	1.5
As a percentage of total liabilities	2 %	*	2	*

* Less than 1%.

(1) Before derivative netting adjustments.

(2) Level 3 assets at December 31, 2015, have been revised in accordance with our adoption of Accounting Standards Update 2015-07 (Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)). See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information.

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

Equity

Total equity was $204.0 billion at September 30, 2016, compared with $193.9 billion at December 31, 2015. The increase was predominantly driven by a $9.4 billion increase in retained earnings from earnings net of dividends paid, and a $2.4 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 is expected to expire without being used by the customer. For more information on lending commitments, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report. We also enter into commitments to purchase securities under resale agreements. For more information on commitments to purchase securities under resale agreements, see Note 3 (Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments) to Financial Statements in this Report.

Transactions with Unconsolidated Entities

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

Guarantees and Certain Contingent Arrangements

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of standby letters of credit, securities lending and other indemnifications, written put options, recourse obligations and other types of 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 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 2015 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements” section in our 2015 Form 10-K.

Risk Management
Wells Fargo manages a variety of risks that can significantly affect our financial performance and our ability to meet the expectations of our customers, stockholders, regulators and other stakeholders. Among the risks that we manage are operational risk, credit risk, and asset/liability management risk, which includes interest rate risk, market risk, 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 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 2015 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. Cyber attacks have also focused on targeting the infrastructure of the internet, causing the widespread unavailability of websites and degrading website performance. Wells Fargo has not experienced any material losses relating to these or other cyber attacks. Addressing cybersecurity risks is a priority for Wells Fargo, and we continue to develop and enhance our controls, processes and systems in order to protect our networks, computers, software and data from attack, damage or unauthorized access. We are also proactively involved in industry cybersecurity efforts and working with other parties, including our third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cybersecurity threats. See the "Risk Factors" section in our 2015 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)	Sep 30, 2016	Dec 31, 2015
Commercial:		
Commercial and industrial	$324,020	299,892
Real estate mortgage	130,223	122,160
Real estate construction	23,340	22,164
Lease financing	18,871	12,367
Total commercial	496,454	456,583
Consumer:		
Real estate 1-4 family first mortgage	278,689	273,869
Real estate 1-4 family junior lien mortgage	48,105	53,004
Credit card	34,992	34,039
Automobile	62,873	59,966
Other revolving credit and installment	40,213	39,098

Total consumer	464,872	459,976
Total loans	$961,326	916,559

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 remained solid in third quarter 2016 as our loss rate remained low at 0.33%. We continued to benefit from improvements in the performance of our residential real estate portfolio, which was partially offset by losses in our oil and gas portfolio. In particular:

- Nonaccrual loans were $11.0 billion at September 30, 2016, down from $11.4 billion at December 31, 2015. Although commercial nonaccrual loans increased to $4.3 billion at September 30, 2016, compared with $2.4 billion at December 31, 2015, consumer nonaccrual loans declined to $6.7 billion at September 30, 2016, compared with $9.0 billion at December 31, 2015. The increase in commercial nonaccrual loans, predominantly driven by loans in our oil and gas portfolio, partially offset the decline in consumer nonaccrual loans, reflecting an improved housing market. Nonaccrual loans represented 1.14% of total loans at September 30, 2016, compared with 1.24% at December 31, 2015.
- Net charge-offs (annualized) as a percentage of average total loans increased to 0.33% and 0.37% in the third quarter and first nine months of 2016, respectively, compared with 0.31% in both periods a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.17% and 0.51% in third quarter and 0.22% and 0.52% in the first nine months of 2016, respectively, compared with 0.08% and 0.53% in the third quarter and 0.06% and 0.55% in the first nine months of 2015.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $51 million and $802 million in our commercial and consumer portfolios, respectively, at September 30, 2016, compared with $114 million and $867 million at December 31, 2015.
- Our provision for credit losses was $805 million and $3.0 billion in the third quarter and first nine months of 2016, respectively, compared with $703 million and $1.6 billion, for the same periods a year ago.
- The allowance for credit losses totaled $12.7 billion, or 1.32% of total loans, at September 30, 2016, up from $12.5 billion, or 1.37%, at December 31, 2015.

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

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are PCI loans. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. The carrying value of PCI loans at September 30, 2016, which included $290 million from the GE Capital business acquisitions, totaled $17.7 billion, compared with $20.0 billion at December 31, 2015, and $58.8 billion at December 31, 2008. The decrease from December 31, 2015, was due in part to higher prepayment trends observed in our Pick-a-Pay PCI portfolio. PCI loans are considered to be accruing due to the existence of the accretable yield amount, which represents the cash expected to be collected in excess of their carrying value, and not based on consideration given to contractual interest payments. The accretable yield at September 30, 2016, was $11.6 billion.

A nonaccretable difference is established for PCI loans to absorb losses expected on the contractual amounts of those loans in excess of the fair value recorded at the date of acquisition. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. Since December 31, 2008, we have released $12.9 billion in nonaccretable difference, including $11.0 billion transferred from the nonaccretable difference to the accretable yield due to decreases in our initial estimate of loss on contractual amounts, and $1.9 billion released to income through loan resolutions. Also, we have provided $1.7 billion for losses on certain PCI loans or pools of PCI loans that have had credit-related decreases to cash flows expected to be collected. The net result is an $11.2 billion reduction from December 31, 2008, through September 30, 2016, in our initial projected losses of $41.0 billion on all PCI loans acquired in the Wachovia acquisition. At September 30, 2016, $936 million in nonaccretable difference, which included $116 million from the GE Capital business acquisitions, remained to absorb losses on PCI loans.

For additional information on PCI loans, see the "Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans – Pick-a-Pay Portfolio" section in this Report, Note 1 (Summary of Significant

Accounting Policies) to Financial Statements in our 2015 Form 10-K, and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Risk Management - Credit Risk Management (continued)

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 $342.9 billion, or 36% of total loans, at September 30, 2016. The annualized net charge-off rate for this portfolio was 0.30% and 0.36% in the third quarter and first nine months of 2016, respectively, compared with 0.17% and 0.13% for the same periods a year ago. At September 30, 2016, 1.00% of this portfolio was nonaccruing, compared with 0.44% at December 31, 2015, an increase of $2.0 billion. Also, $23.7 billion of this portfolio was internally classified as criticized in accordance with regulatory guidance at September 30, 2016, compared with $19.1 billion at December 31, 2015. The increase in criticized loans, which also includes the increase in nonaccrual loans, was primarily due to the initial classification of loans and capital leases acquired from GE Capital, and to deterioration in the oil and gas portfolio. Based on additional refinement of our initial classification of the criticized loans and leases acquired from GE Capital, we continued to see classification improvement.

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

Table 12 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $52.5 billion of foreign loans at September 30, 2016. Foreign loans totaled $14.2 billion within the investor category, $16.6 billion within the financial institutions category and $2.1 billion within the oil and gas category.

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

We provide financial institutions with a variety of relationship focused products and services, including loans supporting short-term trade finance and working capital needs. The $16.6 billion of foreign loans in the financial institutions category were predominantly originated by our Global Financial Institutions (GFI) business.

The oil and gas loan portfolio totaled $16.0 billion, or 2% of total outstanding loans at September 30, 2016, compared with $17.4 billion, or 2% of total outstanding loans, at December 31, 2015. Unfunded loan commitments in the oil and gas loan portfolio totaled $22.3 billion at September 30, 2016. Approximately half of our oil and gas loans were to businesses in the exploration and production (E&P) sector. Most of these E&P loans are secured by oil and/or gas reserves and have underlying borrowing base arrangements which include regular (typically semi-annual) “redeterminations” that consider refinements to borrowing structure and prices used to determine borrowing limits. The majority of the other oil and gas loans were to midstream companies. We proactively monitor our oil and gas loan portfolio and work with customers to address any emerging issues. Oil and gas nonaccrual loans increased to $2.5 billion at September 30, 2016, compared with $844 million at December 31, 2015, due to weaker borrower financial performance.

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

	September 30, 2016			
(in millions)	Nonaccrual loans	Total portfolio	(2)	% of total loans
Investors	$7	54,252		6 %
Financial institutions	19	37,975		4
Cyclical retailers	87	25,498		3
Oil and gas	2,525	16,010		2
Healthcare	36	15,682		2
Food and beverage	88	15,420		2
Industrial equipment	29	15,253		2
Real estate lessor	10	14,467		2
Technology	56	12,437		1
Transportation	96	9,614		1
Public administration	13	9,490		1
Business services	27	9,172		1
Other	430	107,621	(3)	9
Total	$3,423	342,891		36 %

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

(2) Includes $367 million of PCI loans, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(3) No other single industry had total loans in excess of $6.7 billion.

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $8.8 billion of foreign CRE loans, totaled $153.6 billion, or 16% of total loans, at September 30, 2016, and consisted of $130.2 billion of mortgage loans and $23.4 billion of construction loans.
Table 13 summarizes CRE loans by state and property type with the related nonaccrual totals. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of CRE loans are in California, New York, Texas

and Florida, which combined represented 49% of the total CRE portfolio. By property type, the largest concentrations are office buildings at 28% and apartments at 16% of the portfolio. CRE nonaccrual loans totaled 0.5% of the CRE outstanding balance at September 30, 2016, compared with 0.7% at December 31, 2015. At September 30, 2016, we had $5.6 billion of criticized CRE mortgage loans, compared with $6.8 billion at December 31, 2015, and $562 million of criticized CRE construction loans, compared with $549 million at December 31, 2015.
At September 30, 2016, the recorded investment in PCI CRE loans totaled $470 million, down from $12.3 billion when acquired at December 31, 2008, reflecting principal payments, loan resolutions and write-downs.

Table 13: CRE Loans by State and Property Type

	September 30, 2016										
	Real estate mortgage			Real estate construction			Total				
(in millions)	Nonaccrual loans	Total portfolio	(1)	Nonaccrual loans	Total portfolio	(1)	Nonaccrual loans	Total portfolio	(1)	% of total loans	
By state:											
California	$200	36,635		11	4,252		211	40,887		4	%
New York	30	9,659		—	2,132		30	11,791		1	
Texas	53	9,452		1	2,227		54	11,679		1	
Florida	73	8,742		1	1,967		74	10,709		1	
Arizona	32	4,357		1	550		33	4,907		1	
North Carolina	46	3,907		6	891		52	4,798		*	
Washington	25	3,375		—	953		25	4,328		*	
Georgia	29	3,678		5	571		34	4,249		*	
Virginia	10	3,263		—	943		10	4,206		*	
Illinois	25	3,498		—	291		25	3,789		*	
Other	257	43,657		34	8,563		291	52,220	(2)	5	
Total	$780	130,223		59	23,340		839	153,563		16	%
By property:											
Office buildings	$224	40,197		—	2,896		224	43,093		4	%
Apartments	28	15,488		—	8,813		28	24,301		3	
Industrial/warehouse	115	15,498		—	1,522		115	17,020		2	
Retail (excluding shopping center)	104	15,237		—	863		104	16,100		2	
Shopping center	43	10,494		—	1,482		43	11,976		1	
Hotel/motel	15	10,509		4	1,098		19	11,607		1	
Real estate - other	95	8,148		—	228		95	8,376		1	
Institutional	30	3,123		—	1,025		30	4,148		*	
1-4 family structure	—	3		7	2,663		7	2,666		*	
Agriculture	42	2,474		—	9		42	2,483		*	
Other	84	9,052		48	2,741		132	11,793		1	
Total	$780	130,223		59	23,340		839	153,563		16	%

* Less than 1%.

(1) Includes a total of $470 million PCI loans, consisting of $410 million of real estate mortgage and $60 million of real estate construction, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(2) Includes 40 states; no state had loans in excess of $3.6 billion.

Risk Management - Credit Risk Management (continued)

FOREIGN LOANS AND COUNTRY RISK EXPOSURE We classify loans for financial statement and certain regulatory purposes as foreign primarily based on whether the borrower’s primary address is outside of the United States. At September 30, 2016, foreign loans totaled $61.7 billion, representing approximately 6% of our total consolidated loans outstanding, compared with $58.6 billion, or approximately 6% of total consolidated loans outstanding, at December 31, 2015. Foreign loans were approximately 3% of our consolidated total assets at September 30, 2016 and at December 31, 2015.

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

We evaluate our individual country risk exposure based on our assessment of ultimate risk, which is normally based on the country of residence of the guarantor or collateral location, and may be different from the reporting based on the borrower’s primary address. Our largest single foreign country exposure on an ultimate risk basis at September 30, 2016, was the United Kingdom, which totaled $26.9 billion, or approximately 1% of our total assets, and included $3.5 billion of sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch. Britain's vote to withdraw from the European Union (Brexit) in June 2016 did not have a material impact on our United Kingdom or other foreign exposure as of September 30, 2016. As the United Kingdom prepares for the negotiations on the terms of its exit from the European Union, we will be reviewing our capabilities in the region and plan to make any adjustments necessary and prudent for serving our customers. Our exposure to Canada, our second largest foreign country exposure on an ultimate risk basis, totaled $17.7 billion at September 30, 2016, up $2.6 billion from December 31, 2015, predominantly due to the GE Capital business acquisitions.

We conduct periodic stress tests of our significant country risk exposures, analyzing the direct and indirect impacts on the risk of loss from various macroeconomic and capital markets scenarios. We do not have significant exposure to foreign country risks because our foreign portfolio is relatively small. However, we have identified exposure to increased loss from U.S. borrowers associated with the potential impact of a regional or worldwide economic downturn on the U.S. economy. We mitigate these potential impacts on the risk of loss through our normal risk management processes which include active monitoring and, if necessary, the application of aggressive loss mitigation strategies.

Table 14 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, on an ultimate risk basis. Our exposure to Puerto Rico (considered part of U.S. exposure) is largely through automobile lending and was not material to our consolidated country risk exposure.

Table 14: Select Country Exposures

	September 30, 2016								
	Lending (1)		Securities (2)		Derivatives and other (3)		Total exposure		
(in millions)	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign (4)	Total
Top 20 country exposures:									
United Kingdom	$3,522	16,743	7	3,557	—	3,096	3,529	23,396	26,925
Canada	1	16,190	71	567	—	836	72	17,593	17,665
Cayman Islands	—	4,597	—	—	—	237	—	4,834	4,834
Ireland	—	3,975	—	123	—	117	—	4,215	4,215
Germany	2,368	1,259	—	100	—	438	2,368	1,797	4,165
Bermuda	—	2,793	—	181	—	145	—	3,119	3,119
Australia	—	1,620	—	757	—	67	—	2,444	2,444
India	—	2,134	—	178	—	7	—	2,319	2,319
Netherlands	—	1,722	—	500	—	53	—	2,275	2,275
Brazil	—	1,880	—	11	—	8	—	1,899	1,899
France	—	840	—	919	—	91	—	1,850	1,850
China	—	1,732	(2)	77	8	1	6	1,810	1,816
South Korea	—	1,577	(2)	58	1	1	(1)	1,636	1,635
Switzerland	—	1,461	—	3	—	77	—	1,541	1,541
Mexico	193	1,262	1	16	—	8	194	1,286	1,480
Guernsey	—	1,463	—	(2)	—	1	—	1,462	1,462
Chile	—	1,435	—	5	—	9	—	1,449	1,449
Turkey	—	1,218	—	80	—	1	—	1,299	1,299
Luxembourg	—	977	—	153	—	15	—	1,145	1,145
Jersey, C.I.	—	790	—	236	—	29	—	1,055	1,055
Total top 20 country exposures	$6,084	65,668	75	7,519	9	5,237	6,168	78,424	84,592
Eurozone exposure:									
Eurozone countries included in Top 20 above (5)	$2,368	8,773	—	1,795	—	714	2,368	11,282	13,650
Austria	—	595	—	—	—	1	—	596	596
Spain	—	302	—	84	—	9	—	395	395
Belgium	—	288	—	3	—	1	—	292	292
Other Eurozone exposure (6)	22	109	—	38	—	8	22	155	177
Total Eurozone exposure	$2,390	10,067	—	1,920	—	733	2,390	12,720	15,110

(1) Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under the terms of the credit agreements. For the countries listed above, includes $16 million in PCI loans, predominantly to customers in Germany and the Netherlands, and $947 million in defeased leases secured primarily by U.S. Treasury and government agency securities, or government guaranteed.

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

(3)

Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used to manage our U.S. and London-based cash credit trading businesses, which sometimes results in selling and purchasing protection on the identical reference entity. Generally, we do not use market instruments such as CDS to hedge the credit risk of our investment or loan positions, although we do use them to manage risk in our trading businesses. At September 30, 2016, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries was $2.3 billion, which was offset by the notional amount of CDS purchased of $2.5 billion. We did not have any CDS purchased or sold that reference pools of assets that contain sovereign debt or where the reference asset was solely the sovereign debt of a foreign country.

(4) For countries presented in the table, total non-sovereign exposure comprises $37.7 billion exposure to financial institutions and $42.2 billion to non-financial corporations at September 30, 2016.

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

(6) Includes non-sovereign exposure to Italy and Portugal in the amount of $114 million and $22 million, respectively, and no non-sovereign exposure in Greece. We had no sovereign debt exposure to Italy and Greece, and the exposure to Portugal was immaterial at September 30, 2016.

Risk Management - Credit Risk Management (continued)

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

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

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

	September 30, 2016			December 31, 2015		
(in millions)	Balance	% of portfolio		Balance	% of portfolio	
Real estate 1-4 family first mortgage	$278,689	85	%	$273,869	84	%
Real estate 1-4 family junior lien mortgage	48,105	15		53,004	16	
Total real estate 1-4 family mortgage loans	$326,794	100	%	$326,873	100	%

The real estate 1-4 family mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 7% and 9% of total loans at September 30, 2016, and December 31, 2015, respectively. We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. The option ARMs we do have are included in the Pick-a-Pay portfolio which was acquired from Wachovia. Since our acquisition of the Pick-a-Pay loan portfolio at the end of 2008, the option payment portion of the portfolio has reduced from 86% to 37% at September 30, 2016, as a result of our modification activities and customers exercising their option to convert to fixed payments. For more information, see the “Pick-a-Pay Portfolio” section in this Report.

We continue to modify real estate 1-4 family mortgage loans to assist homeowners and other borrowers experiencing financial difficulties. For more information on our participation in the U.S. Treasury’s Making Home Affordable (MHA) programs, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2015 Form 10-K.

Part of our credit monitoring includes tracking delinquency, current FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These credit risk indicators, which exclude government insured/guaranteed loans, continued to improve in third quarter 2016 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at September 30, 2016, totaled $6.0 billion, or 2% of total non-PCI mortgages, compared with $8.3 billion, or 3%, at December 31, 2015. Loans with FICO scores lower than 640 totaled $17.6 billion, or 6% of total non-PCI mortgages at September 30, 2016, compared with $21.1 billion, or 7%, at December 31, 2015. Mortgages with a LTV/CLTV greater than 100% totaled $10.5 billion at September 30, 2016, or 3% of total non-PCI mortgages, compared with $15.1 billion, or 5%, at December 31, 2015. Information regarding credit quality indicators, including PCI credit quality indicators, can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 16. Our real estate 1-4 family mortgage loans (including PCI loans) to borrowers in California represented approximately 12% of total loans at September 30, 2016, located mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 5% of total loans. We monitor changes in real estate values and

underlying economic or market conditions for all geographic areas of our real estate 1-4 family mortgage portfolio as part of our credit risk management process. Our underwriting and periodic review of loans secured by residential real estate collateral includes appraisals or estimates from automated valuation models (AVMs) to support property values. Additional information about AVMs and our policy for their use can be found in Note 5 (Loans and Allowance for

Credit Losses) to Financial Statements in this Report and the "Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans" section in our 2015 Form 10-K.

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

	September 30, 2016				
(in millions)	Real estate 1-4 family first mortgage	Real estate 1-4 family junior lien mortgage	Total real estate 1-4 family mortgage	% of total loans	
Real estate 1-4 family loans (excluding PCI):					
California	$92,671	13,168	105,839	11	%
New York	23,198	2,253	25,451	2	
Florida	13,824	4,388	18,212	2	
New Jersey	12,529	4,160	16,689	2	
Virginia	7,456	2,780	10,236	1	
Texas	8,491	810	9,301	1	
Washington	7,615	1,105	8,720	1	
Pennsylvania	5,761	2,565	8,326	1	
North Carolina	6,086	2,217	8,303	1	
Other (1)	64,511	14,617	79,128	8	
Government insured/ guaranteed loans (2)	19,717	—	19,717	2	
Real estate 1-4 family loans (excluding PCI)	261,859	48,063	309,922	32	
Real estate 1-4 family PCI loans (3)	16,830	42	16,872	2	
Total	$278,689	48,105	326,794	34	%

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

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

(3) Includes $11.7 billion in real estate 1-4 family mortgage PCI loans in California.

First Lien Mortgage Portfolio Our total real estate 1-4 family first lien mortgage portfolio increased $1.5 billion in third quarter 2016 and $4.8 billion in the first nine months of 2016, as we retained $15.9 billion and $43.9 billion in non-conforming originations, consisting of loans that exceed conventional conforming loan amount limits established by federal government-sponsored entities (GSEs), in the third quarter and first nine months of 2016, respectively.
The credit performance associated with our real estate 1-4 family first lien mortgage portfolio continued to improve in third quarter 2016, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average real estate 1-4 family first lien mortgage loans improved

to 0.03% and 0.04% in the third quarter and first nine months of 2016, respectively, compared with 0.09% and 0.11% for the same periods a year ago. Nonaccrual loans were $5.3 billion at September 30, 2016, compared with $7.3 billion at December 31, 2015. Improvement in the credit performance was driven by an improving housing environment. Real estate 1-4 family first lien mortgage loans originated after 2008, which generally utilized tighter underwriting standards, have resulted in minimal losses to date and were approximately 72% of our total real estate 1-4 family first lien mortgage portfolio as of September 30, 2016.
Table 17 shows certain delinquency and loss information for the first lien mortgage portfolio and lists the top five states by outstanding balance.

Table 17: First Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
(in millions)	Sep 30, 2016	Dec 31, 2015	Sep 30, 2016	Dec 31, 2015	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
California	$92,671	88,367	1.29 %	1.87	(0.08)	(0.09)	(0.07)	(0.05)	(0.05)
New York	23,198	20,962	2.03	3.07	0.07	0.11	0.12	0.08	0.13
Florida	13,824	14,068	3.73	5.14	(0.04)	(0.19)	0.03	0.02	0.16
New Jersey	12,529	11,825	3.79	5.68	0.37	0.42	0.44	0.33	0.38
Texas	8,491	8,153	2.21	2.80	0.06	0.09	0.10	0.02	—
Other	91,429	88,951	2.58	3.72	0.10	0.10	0.18	0.21	0.23
Total	242,142	232,326	2.15 %	3.11	0.03	0.02	0.08	0.09	0.11
Government insured/guaranteed loans	19,717	22,353							
PCI	16,830	19,190							
Total first lien mortgages	$278,689	273,869							

Pick-a-Pay Portfolio The Pick-a-Pay portfolio was one of the consumer residential first lien mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.
The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), and also includes loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The Pick-a-Pay portfolio is included in the consumer real estate 1-4 family

first mortgage class of loans throughout this Report. Table 18 provides balances by types of loans as of September 30, 2016, as a result of modification efforts, compared to the types of loans included in the portfolio at acquisition. Total adjusted unpaid principal balance of PCI Pick-a-Pay loans was $21.4 billion at September 30, 2016, compared with $61.0 billion at acquisition. Due to loan modification and loss mitigation efforts, the adjusted unpaid principal balance of option payment PCI loans has declined to 14% of the total Pick-a-Pay portfolio at September 30, 2016, compared with 51% at acquisition.

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

December 31,

(in millions)	September 30, 2016 Adjusted unpaid principal balance (1)	% of total		2015 Adjusted unpaid principal balance (1)	% of total		2008 Adjusted unpaid principal balance (1)	% of total	
Option payment loans	$14,378	37	%	$16,828	39	%	$99,937	86	%
Non-option payment adjustable-rate and fixed-rate loans	4,907	13		5,706	13		15,763	14	
Full-term loan modifications	19,333	50		21,193	48		—	—	
Total adjusted unpaid principal balance	$38,618	100	%	$43,727	100	%	$115,700	100	%
Total carrying value	$33,999			39,065			95,315		

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

Risk Management - Credit Risk Management (continued)

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

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

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

	September 30, 2016					
	PCI loans				All other loans	
(in millions)	Adjusted unpaid principal balance (2)	Current LTV ratio (3)	Carrying value (4)	Ratio of carrying value to current value (5)	Carrying value (4)	Ratio of carrying value to current value (5)
California	$14,852	66 %	$11,643	51 %	$8,330	48 %
Florida	1,701	76	1,266	55	1,740	61
New Jersey	697	80	509	57	1,142	67
New York	494	75	415	57	561	64
Texas	182	50	161	44	686	40
Other states	3,458	75	2,712	58	4,834	61
Total Pick-a-Pay loans	$21,384	69	$16,706	53	$17,293	54

(1) The individual states shown in this table represent the top five states based on the total net carrying value of the Pick-a-Pay loans at the beginning of 2016.

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

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

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

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

Since the Wachovia acquisition, we have completed over 135,000 proprietary and Home Affordability Modification Program (HAMP) Pick-a-Pay loan modifications, including over 900 modifications in third quarter 2016. Pick-a-Pay loan modifications have resulted in over $6.1 billion of principal forgiveness. We have also provided interest rate reductions and loan term extensions of up to 40 years to enable sustainable homeownership for our Pick-a-Pay customers. As a result of these loss mitigation programs, approximately 70% of our Pick-a-Pay PCI adjusted unpaid principal balance as of September 30, 2016 has been modified.

The predominant portion of our PCI loans is included in the Pick-a-Pay portfolio. We regularly evaluate our estimates, of cash flows expected to be collected on our PCI loans. Our cash flows expected to be collected have been favorably affected over time by lower expected defaults and losses as a result of observed and forecasted economic strengthening, particularly in housing prices, and our loan modification efforts. When we periodically update our cash flow estimates we have historically expected that the credit-stressed borrower characteristics and distressed collateral values associated with our Pick-a-Pay PCI loans would limit the ability of these borrowers to prepay their loans, thus increasing the future expected weighted-average life of the portfolio since acquisition. However, over the last several quarters we have observed a higher prepayment trend emerging in our Pick-a-Pay PCI loans portfolio. We attribute this favorable prepayment experience to the benefits of home price appreciation which has resulted in loan (unpaid principal balance) to value ratios reaching an important industry refinancing inflection point of below 80%. As a result, we have experienced an increased level of borrowers qualifying for products to refinance their loans which may not have previously been available to them. Therefore, for third quarter 2016, we revised our Pick-a-Pay PCI loan cash flow estimates to reflect our expectation that the modified portion of the portfolio will have significantly higher

prepayments over the remainder of its life. The recent reductions in loan to value ratios and projections of sustained higher housing prices have reduced our loss estimates for this portfolio. The significant increase in expected prepayments lowered our estimated weighted-average life to approximately 7.6 years at September 30, 2016, from 11.5 years at June 30, 2016. Also, our revised cash flow estimates resulted in a $4.1 billion reduction in the accretable yield balance as of September 30, 2016, driven by a $4.9 billion reduction in expected cash flows resulting from the shorter estimated weighted-average life, partially offset by a transfer of $1.2 billion from nonaccretable difference to accretable yield due to the reduction in expected losses. Because the $1.2 billion transfer from nonaccretable difference to accretable yield resulted in a high amount of accretable yield relative to the shortened estimated weighted-average life, we expect the accretable yield percentage to be 8.22% for fourth quarter 2016, up from 6.68% at September 30, 2016.

Since acquisition, due to better than expected performance observed on the PCI portion of the Pick-a-Pay portfolio compared with the original acquisition estimates, we have reclassified $8.3 billion from the nonaccretable difference to the accretable yield. Fluctuations in the accretable yield are driven by changes in interest rate indices for variable rate PCI loans, prepayment assumptions, and expected principal and interest payments over the estimated life of the portfolio, which will be affected by the pace and degree of improvements in the U.S. economy and housing markets and projected lifetime performance resulting from loan modification activity. Changes in the projected timing of cash flow events, including loan liquidations, modifications and short sales, can also affect the accretable yield and the estimated weighted-average life of the portfolio.

For further information on the judgment involved in estimating expected cash flows for PCI loans, see the “Critical Accounting Policies – Purchased Credit-Impaired Loans” section

and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.
For further information on the Pick-a-Pay portfolio, including recast risk, deferral of interest and loan modifications, see the "Risk Management – Credit Risk Management – Pick-a-Pay Portfolio" section in our 2015 Form 10-K.
Junior Lien Mortgage Portfolio The junior lien mortgage portfolio consists of residential mortgage lines and loans that are subordinate in rights to an existing lien on the same property. It is not unusual for these lines and loans to have draw periods, interest only payments, balloon payments, adjustable rates and similar features. Substantially all of our junior lien loan products are amortizing payment loans with fixed interest rates and repayment periods between five to 30 years.
We continuously monitor the credit performance of our junior lien mortgage portfolio for trends and factors that influence the frequency and severity of loss. We have observed that the severity of loss for junior lien mortgages is high and generally not affected by whether we or a third party own or service the related first lien mortgage, but the frequency of delinquency is typically lower when we own or service the first lien mortgage. In general, we have limited information available on the delinquency status of the third party owned or serviced

senior lien where we also hold a junior lien. To capture this inherent loss content, our allowance process for junior lien mortgages considers the relative difference in loss experience for junior lien mortgages behind first lien mortgage loans we own or service, compared with those behind first lien mortgage loans owned or serviced by third parties. In addition, our allowance process for junior lien mortgages that are current, but are in their revolving period, considers the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.
Table 20 shows certain delinquency and loss information for the junior lien mortgage portfolio and lists the top five states by outstanding balance. The decrease in outstanding balances since December 31, 2015, predominantly reflects loan paydowns. As of September 30, 2016, 13% of the outstanding balance of the junior lien mortgage portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. Of those junior lien mortgages with a CLTV ratio in excess of 100%, 2.64% were 30 days or more past due. CLTV means the ratio of the total loan balance of first lien mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 5% of the junior lien mortgage portfolio at September 30, 2016.

Table 20: Junior Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due			Loss rate (annualized) quarter ended					
(in millions)	Sep 30, 2016	Dec 31, 2015	Sep 30, 2016		Dec 31, 2015	Sep 30, 2016		Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
California	$13,168	14,554	1.77	%	2.03	(0.13	)	0.07	0.27	0.12	0.21
Florida	4,388	4,823	2.21		2.45	0.56		0.76	0.79	0.51	1.02
New Jersey	4,160	4,462	2.89		3.06	0.96		1.10	0.84	0.77	1.23
Virginia	2,780	2,991	1.85		2.05	0.55		0.87	0.80	0.77	0.73
Pennsylvania	2,565	2,748	2.14		2.35	0.75		0.58	0.55	0.66	0.79
Other	21,002	23,357	1.96		2.24	0.51		0.53	0.63	0.68	0.70
Total	48,063	52,935	2.01	%	2.27	0.40		0.49	0.57	0.52	0.64
PCI	42	69									
Total junior lien mortgages	$48,105	53,004									

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Risk Management - Credit Risk Management (continued)

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

On a monthly basis, we monitor the payment characteristics of borrowers in our junior lien portfolio. In September 2016, approximately 48% of these borrowers paid only the minimum amount due and approximately 46% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due. For the borrowers with an interest only payment feature, approximately 35% paid only the minimum amount due and approximately 60% paid more than the minimum amount due.

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

Table 21 reflects the outstanding balance of our portfolio of junior lien mortgages, including lines and loans, and senior lien lines segregated into scheduled end of draw or end of term periods and products that are currently amortizing, or in balloon repayment status. It excludes real estate 1-4 family first lien line reverse mortgages, which total $2.0 billion, because they are predominantly insured by the FHA, and it excludes PCI loans, which total $67 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

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

		Scheduled end of draw / term							
(in millions)	Outstanding balance September 30, 2016		Remainder of 2016	2017	2018	2019	2020	2021 and thereafter (1)	Amortizing
Junior lien lines and loans	$ 48,063		853	4,222	2,483	1,004	904	25,466	13,131
First lien lines	15,459		116	634	770	356	325	11,259	1,999
Total (2)(3)	$ 63,522		969	4,856	3,253	1,360	1,229	36,725	15,130
% of portfolios	100	%	2	8	5	2	2	58	23

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2026, with annual scheduled amounts through that date ranging from $2.4 billion to $8.1 billion and averaging $6.1 billion per year.

(2) Junior and first lien lines are mostly interest-only during their draw period. The unfunded credit commitments for junior and first lien lines totaled $66.6 billion at September 30, 2016.

(3) Includes scheduled end-of-term balloon payments for lines and loans totaling $31 million, $281 million, $359 million, $346 million, $373 million and $963 million for 2016 2017, 2018, 2019, 2020, and 2021 and thereafter, respectively. Amortizing lines and loans include $133 million of end-of-term balloon payments, which are past due. At September 30, 2016, $503 million, or 4% of outstanding lines of credit that are amortizing, are 30 days or more past due compared to $737 million or 2% for lines in their draw period.

CREDIT CARDS Our credit card portfolio totaled $35.0 billion at September 30, 2016, which represented 4% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 2.82% for third quarter 2016, compared with 2.71% for third quarter 2015 and 3.07% and 3.03% for the first nine months of 2016 and 2015, respectively.

AUTOMOBILE Our automobile portfolio, predominantly composed of indirect loans, totaled $62.9 billion at September 30, 2016. The net charge-off rate (annualized) for our automobile portfolio was 0.87% for third quarter 2016, compared with 0.76% for third quarter 2015 and 0.77% and 0.66% for the first nine months of 2016 and 2015, respectively. The increase in net charge-offs in 2016 as compared with 2015 was consistent with trends in the automobile lending industry.

OTHER REVOLVING CREDIT AND INSTALLMENT Other revolving credit and installment loans totaled $40.2 billion at September 30, 2016, and primarily included student and security-based loans. Student loans totaled $12.5 billion at September 30, 2016. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.40% for third quarter 2016, compared with 1.35% for third quarter 2015 and 1.38% and 1.31% for the first nine months of 2016 and 2015, respectively.

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 22 summarizes nonperforming assets (NPAs) for each of the last four quarters. Total NPAs decreased $1.1 billion from second quarter 2016 to $12.0 billion with improvement across our consumer and commercial portfolios. Nonaccrual loans decreased $977 million from second quarter to $11.0 billion led by a $732 million decrease in consumer nonaccruals, which included the sale of nonaccrual loans during third quarter 2016. Foreclosed assets of $1.0 billion were down $97 million from second quarter 2016.

We generally place loans on nonaccrual status when:

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

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

	September 30, 2016		June 30, 2016		March 31, 2016		December 31, 2015	
($ in millions)	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans
Nonaccrual loans:								
Commercial:								
Commercial and industrial	$3,331	1.03 %	$3,464	1.07 %	$2,911	0.91 %	$1,363	0.45 %
Real estate mortgage	780	0.60	872	0.68	896	0.72	969	0.79
Real estate construction	59	0.25	59	0.25	63	0.27	66	0.30
Lease financing	92	0.49	112	0.59	99	0.52	26	0.21
Total commercial	4,262	0.86	4,507	0.91	3,969	0.81	2,424	0.53
Consumer:								
Real estate 1-4 family first mortgage (1)	5,310	1.91	5,970	2.15	6,683	2.43	7,293	2.66
Real estate 1-4 family junior lien mortgage	1,259	2.62	1,330	2.67	1,421	2.77	1,495	2.82
Automobile	108	0.17	111	0.18	114	0.19	121	0.20
Other revolving credit and installment	47	0.12	45	0.11	47	0.12	49	0.13
Total consumer	6,724	1.45	7,456	1.61	8,265	1.80	8,958	1.95
Total nonaccrual loans (2)(3)(4)	10,986	1.14	11,963	1.25	12,234	1.29	11,382	1.24
Foreclosed assets:								
Government insured/guaranteed (5)	282		321		386		446	
Non-government insured/guaranteed	738		796		893		979	
Total foreclosed assets	1,020		1,117		1,279		1,425	
Total nonperforming assets	$12,006	1.25 %	$13,080	1.37 %	$13,513	1.43 %	$12,807	1.40 %
Change in NPAs from prior quarter	$(1,074)		(433)		706		(497)	

(1) Includes MHFS of $150 million, $155 million, $157 million, and $177 million at September 30, June 30 and March 31, 2016, and December 31, 2015, respectively.

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

(3) Real estate 1-4 family mortgage loans predominantly insured by the FHA or guaranteed by the VA and student loans predominantly guaranteed by agencies on behalf of the U.S. Department of Education under the Federal Family Education Loan Program are not placed on nonaccrual status because they are insured or guaranteed.

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

(5) Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. Both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Foreclosure of certain government guaranteed residential real estate mortgage loans that meet criteria specified by Accounting Standards Update (ASU) 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure, effective as of January 1, 2014 are excluded from this table and included in Accounts Receivable in Other Assets. For more information on the changes in foreclosures for government guaranteed residential real estate mortgage loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.

Risk Management - Credit Risk Management (continued)

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

Table 23: Analysis of Changes in Nonaccrual Loans

	Quarter ended				
(in millions)	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Commercial nonaccrual loans					
Balance, beginning of period	$4,507	3,969	2,424	2,336	2,522
Inflows	1,180	1,936	2,291	793	382
Outflows:					
Returned to accruing	(80)	(32)	(34)	(44)	(26)
Foreclosures	(1)	(6)	(4)	(72)	(32)
Charge-offs	(290)	(420)	(317)	(243)	(135)
Payments, sales and other (1)	(1,054)	(940)	(391)	(346)	(375)
Total outflows	(1,425)	(1,398)	(746)	(705)	(568)
Balance, end of period	4,262	4,507	3,969	2,424	2,336
Consumer nonaccrual loans					
Balance, beginning of period	7,456	8,265	8,958	9,201	9,921
Inflows	868	829	964	1,226	1,019
Outflows:					
Returned to accruing	(597)	(546)	(584)	(646)	(676)
Foreclosures	(85)	(85)	(98)	(89)	(99)
Charge-offs	(192)	(167)	(203)	(204)	(228)
Payments, sales and other (1)	(726)	(840)	(772)	(530)	(736)
Total outflows	(1,600)	(1,638)	(1,657)	(1,469)	(1,739)
Balance, end of period	6,724	7,456	8,265	8,958	9,201
Total nonaccrual loans	$10,986	11,963	12,234	11,382	11,537

(1) Other outflows include the effects of VIE deconsolidations and adjustments for loans carried at fair value.

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

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by the following factors at September 30, 2016:

- 94% of total commercial nonaccrual loans and over 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 98% are secured by real estate and 78% have a combined LTV (CLTV) ratio of 80% or less.
- losses of $463 million and $2.3 billion have already been recognized on 13% of commercial nonaccrual loans and 48% of consumer nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due (except when required earlier by guidance issued by bank regulatory agencies), we transfer it to nonaccrual status. When the loan reaches 180 days past due, or is discharged in bankruptcy, it is our policy to write these loans down to net realizable value (fair value of collateral less estimated costs to sell), except for modifications in their trial period that are not written down as long as trial payments are made on time. Thereafter, we reevaluate each loan regularly and record additional write-downs if needed.
- 88% of commercial nonaccrual loans were current on interest, but were on nonaccrual status because the full or timely collection of interest or principal had become uncertain.

- the risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.
- $1.7 billion of consumer loans discharged in bankruptcy and classified as nonaccrual were 60 days or less past due, of which $1.6 billion were current.

We continue to work with our customers experiencing financial difficulty to determine if they can qualify for a loan modification so that they can stay in their homes. Under both our proprietary modification programs and the MHA programs, customers may be required to provide updated documentation, and some programs require completion of payment during trial periods to demonstrate sustained performance before the loan can be removed from nonaccrual status.

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

Table 24: Foreclosed Assets

(in millions)	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Summary by loan segment					
Government insured/guaranteed	$282	321	386	446	502
PCI loans:					
Commercial	98	124	142	152	297
Consumer	88	91	97	103	126
Total PCI loans	186	215	239	255	423
All other loans:					
Commercial	298	313	357	384	437
Consumer	254	268	297	340	405
Total all other loans	552	581	654	724	842
Total foreclosed assets	$1,020	1,117	1,279	1,425	1,767
Analysis of changes in foreclosed assets					
Balance, beginning of period	$1,117	1,279	1,425	1,767	1,958
Net change in government insured/guaranteed (1)	(39)	(65)	(60)	(56)	(86)
Additions to foreclosed assets (2)	261	281	290	327	325
Reductions:					
Sales	(421)	(405)	(390)	(719)	(468)
Write-downs and gains (losses) on sales	102	27	14	106	38
Total reductions	(319)	(378)	(376)	(613)	(430)
Balance, end of period	$1,020	1,117	1,279	1,425	1,767

(1) Foreclosed government insured/guaranteed loans are temporarily transferred to and held by us as servicer, until reimbursement is received from FHA or VA. The net change in government insured/guaranteed foreclosed assets is made up of inflows from mortgages held for investment and MHFS, and outflows when we are reimbursed by FHA/VA. Transfers from government insured/guaranteed loans to foreclosed assets amounted to $110 million, $45 million, $61 million, $46 million and $38 million for the quarters ended September 30, June 30 and March 31, 2016, and December 31 and September 30, 2015, respectively.

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

Foreclosed assets at September 30, 2016, included $604 million of foreclosed residential real estate, of which 47% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining foreclosed assets balance of $416 million has been written down to estimated net realizable value. Foreclosed assets at September 30, 2016 decreased compared with December 31, 2015. Of the $1.0 billion in foreclosed assets at September 30, 2016, 53% have been in the foreclosed assets portfolio one year or less.

Risk Management - Credit Risk Management (continued)

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 25: Troubled Debt Restructurings (TDRs)

(in millions)	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Commercial:					
Commercial and industrial	$2,445	1,951	1,606	1,123	999
Real estate mortgage	1,256	1,324	1,364	1,456	1,623
Real estate construction	95	106	116	125	207
Lease financing	8	5	6	1	1
Total commercial TDRs	3,804	3,386	3,092	2,705	2,830
Consumer:					
Real estate 1-4 family first mortgage	14,761	15,518	16,299	16,812	17,193
Real estate 1-4 family junior lien mortgage	2,144	2,214	2,261	2,306	2,336
Credit Card	294	291	295	299	307
Automobile	89	92	97	105	109
Other revolving credit and installment	93	86	81	73	63
Trial modifications	348	364	380	402	421
Total consumer TDRs (1)	17,729	18,565	19,413	19,997	20,429
Total TDRs	$21,533	21,951	22,505	22,702	23,259
TDRs on nonaccrual status	$6,429	6,404	6,484	6,506	6,709
TDRs on accrual status (1)	15,104	15,547	16,021	16,196	16,550
Total TDRs	$21,533	21,951	22,505	22,702	23,259

(1) TDR loans include $1.6 billion, $1.7 billion, $1.8 billion, $1.8 billion, and $1.8 billion at September 30, June 30, and March 31, 2016, and December 31, and September 30, 2015, respectively, of government insured/guaranteed loans that are predominantly insured by the FHA or guaranteed by the VA and accruing.

Table 25 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was $2.4 billion and $2.7 billion at September 30, 2016, and December 31, 2015, respectively. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs. In those situations where principal is forgiven, the entire amount of such forgiveness is immediately charged off to the extent not done so prior to the modification. We sometimes delay the timing on the repayment of a portion of principal (principal forbearance) and charge off the amount of forbearance if that amount is not considered fully collectible.
For more information on our nonaccrual policies when a restructuring is involved, see the "Risk Management – Credit Risk Management – Troubled Debt Restructurings (TDRs)" section in our 2015 Form 10-K.

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

Table 26: Analysis of Changes in TDRs

	Quarter ended				
(in millions)	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Commercial:					
Balance, beginning of quarter	$3,386	3,092	2,705	2,830	2,786
Inflows (1)	914	797	866	474	573
Outflows					
Charge-offs	(76)	(153)	(124)	(109)	(86)
Foreclosures	(2)	—	(1)	(64)	(30)
Payments, sales and other (2)	(418)	(350)	(354)	(426)	(413)
Balance, end of quarter	3,804	3,386	3,092	2,705	2,830
Consumer:					
Balance, beginning of quarter	18,565	19,413	19,997	20,429	21,008
Inflows (1)	542	508	661	672	753
Outflows					
Charge-offs	(65)	(38)	(67)	(73)	(79)
Foreclosures	(230)	(217)	(238)	(226)	(226)
Payments, sales and other (2)	(1,067)	(1,085)	(917)	(786)	(998)
Net change in trial modifications (3)	(16)	(16)	(23)	(19)	(29)
Balance, end of quarter	17,729	18,565	19,413	19,997	20,429
Total TDRs	$21,533	21,951	22,505	22,702	23,259

(1) Inflows include loans that both modify and resolve within the period as well as advances on loans that modified in a prior period.

(2) Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. It also includes $6 million of loans refinanced or restructured at market terms and qualifying as new loans and removed from TDR classification for the quarter ended December 31, 2015, while no loans were removed from TDR classification for the quarters ended September 30, June 30, and March 31, 2016, and September 30, 2015.

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

Risk Management - Credit Risk Management (continued)

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

Loans 90 days or more past due as to interest or principal are still accruing if they are (1) well-secured and in the process of collection or (2) real estate 1-4 family mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due. PCI loans are not included in past due and still accruing loans even though they are 90 days or more contractually past due. These PCI loans are considered to be accruing because they continue to earn interest from accretable yield, independent of performance in accordance with their contractual terms.

Excluding insured/guaranteed loans, loans 90 days or more past due and still accruing at September 30, 2016, were down $128 million, or 13%, from December 31, 2015, due to payoffs, modifications and other loss mitigation activities and credit

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

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages and the U.S. Department of Education for student loans under the Federal Family Education Loan Program (FFELP) were $11.2 billion at September 30, 2016, down from $13.4 billion at December 31, 2015, due to seasonally lower delinquencies.

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

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

(in millions)	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Total (excluding PCI (1)):	$12,068	12,385	13,060	14,380	14,405
Less: FHA insured/VA guaranteed (2)(3)	11,198	11,577	12,233	13,373	13,500
Less: Student loans guaranteed under the FFELP (4)	17	20	24	26	33
Total, not government insured/guaranteed	$853	788	803	981	872
By segment and class, not government insured/guaranteed:					
Commercial:					
Commercial and industrial	$47	36	24	97	53
Real estate mortgage	4	22	8	13	24
Real estate construction	—	—	2	4	—
Total commercial	51	58	34	114	77
Consumer:					
Real estate 1-4 family first mortgage (3)	171	169	167	224	216
Real estate 1-4 family junior lien mortgage (3)	54	52	55	65	61
Credit card	392	348	389	397	353
Automobile	81	64	55	79	66
Other revolving credit and installment	104	97	103	102	99
Total consumer	802	730	769	867	795
Total, not government insured/guaranteed	$853	788	803	981	872

(1) PCI loans totaled $2.2 billion, $2.4 billion, $2.7 billion, $2.9 billion, and $3.2 billion at September 30, June 30, and March 31, 2016, and December 31, and September 30, 2015, respectively.

(2) Represents loans whose repayments are predominantly insured by the FHA or guaranteed by the VA.

(3) Includes mortgages held for sale 90 days or more past due and still accruing.

(4) Represents loans whose repayments are predominantly guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP.

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NET CHARGE-OFFS

Table 28: Net Charge-offs

	Quarter ended									
	Sep 30, 2016		Jun 30, 2016		Mar 31, 2016		Dec 31, 2015		Sep 30, 2015	
($ in millions)	Net loan charge-offs	% of avg. loans(1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)
Commercial:										
Commercial and industrial	$259	0.32 %	$368	0.46 %	$273	0.36 %	$215	0.29 %	$122	0.17 %
Real estate mortgage	(28)	(0.09)	(20)	(0.06)	(29)	(0.10)	(19)	(0.06)	(23)	(0.08)
Real estate construction	(18)	(0.32)	(3)	(0.06)	(8)	(0.13)	(10)	(0.18)	(8)	(0.15)
Lease financing	2	0.04	12	0.27	1	0.01	1	0.01	3	0.11
Total commercial	215	0.17	357	0.29	237	0.20	187	0.16	94	0.08
Consumer:										
Real estate 1-4 family first mortgage	20	0.03	14	0.02	48	0.07	50	0.07	62	0.09
Real estate 1-4 family junior lien mortgage	49	0.40	62	0.49	74	0.57	70	0.52	89	0.64
Credit card	245	2.82	270	3.25	262	3.16	243	2.93	216	2.71
Automobile	137	0.87	90	0.59	127	0.85	135	0.90	113	0.76
Other revolving credit and installment	139	1.40	131	1.32	138	1.42	146	1.49	129	1.35
Total consumer	590	0.51	567	0.49	649	0.57	644	0.56	609	0.53
Total	$805	0.33 %	$924	0.39 %	$886	0.38 %	$831	0.36 %	$703	0.31 %

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

Table 28 presents net charge-offs for third quarter 2016 and the previous four quarters. Net charge-offs in third quarter 2016 were $805 million (0.33% of average total loans outstanding) compared with $703 million (0.31%) in third quarter 2015.
The increase in commercial and industrial net charge-offs from third quarter 2015 reflected higher oil and gas portfolio losses. Our commercial real estate portfolios were in a net recovery position. Total consumer net charge-offs decreased slightly from the prior year.

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

We apply a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. Our estimation approach for the commercial portfolio reflects the estimated probability of default in accordance with the borrower's financial strength, and the severity of loss in the event of default, considering the quality of any underlying collateral. Probability of default and severity at the time of default are statistically derived through historical observations of defaults and losses after default within each credit risk rating. Our estimation approach for the consumer portfolio uses forecasted losses that represent our best estimate of inherent loss based on historical experience, quantitative and other mathematical techniques. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2015 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

Risk Management - Credit Risk Management (continued)

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

	Sep 30, 2016		Dec 31, 2015		Dec 31, 2014		Dec 31, 2013		Dec 31, 2012	
(in millions)	ACL	Loans as % of total loans	ACL	Loans as % of total loans	ACL	Loans as % of total loans	ACL	Loans as % of total loans	ACL	Loans as % of total loans
Commercial:										
Commercial and industrial	$4,723	34 %	$4,231	33 %	$3,506	32 %	$3,040	29 %	$2,789	28 %
Real estate mortgage	1,199	14	1,264	13	1,576	13	2,157	14	2,284	13
Real estate construction	1,269	2	1,210	3	1,097	2	775	2	552	2
Lease financing	178	2	167	1	198	1	131	1	89	2
Total commercial	7,369	52	6,872	50	6,377	48	6,103	46	5,714	45
Consumer:										
Real estate 1-4 family first mortgage	1,513	29	1,895	30	2,878	31	4,087	32	6,100	31
Real estate 1-4 family junior lien mortgage	892	5	1,223	6	1,566	7	2,534	8	3,462	10
Credit card	1,518	4	1,412	4	1,271	4	1,224	3	1,234	3
Automobile	739	6	529	6	516	6	475	6	417	6
Other revolving credit and installment	663	4	581	4	561	4	548	5	550	5
Total consumer	5,325	48	5,640	50	6,792	52	8,868	54	11,763	55
Total	$12,694	100 %	$12,512	100 %	$13,169	100 %	$14,971	100 %	$17,477	100 %

	Sep 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
Components:					
Allowance for loan losses	$11,583	11,545	12,319	14,502	17,060
Allowance for unfunded credit commitments	1,111	967	850	469	417
Allowance for credit losses	$12,694	12,512	13,169	14,971	17,477
Allowance for loan losses as a percentage of total loans	1.20 %	1.26	1.43	1.76	2.13
Allowance for loan losses as a percentage of total net charge-offs (1)	362	399	418	322	189
Allowance for credit losses as a percentage of total loans	1.32	1.37	1.53	1.82	2.19
Allowance for credit losses as a percentage of total nonaccrual loans	116	110	103	96	85

(1) Total net charge-offs are annualized for quarter ended September 30, 2016.

In addition to the allowance for credit losses, there was $936 million at September 30, 2016, and $1.9 billion at December 31, 2015, of nonaccretable difference to absorb losses for PCI loans, which totaled $17.7 billion at September 30, 2016. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with credit-related metrics for other financial institutions. Additionally, loans purchased at fair value, including loans from the GE Capital business acquisitions, generally reflect a lifetime credit loss adjustment and therefore do not initially require additions to the allowance as is typically associated with loan growth. For additional information on PCI loans, see the "Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans" section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

primarily of real estate 1-4 family first and junior lien mortgage loans at September 30, 2016.

The allowance for credit losses increased $182 million, or 1%, from December 31, 2015, due to an increase in our commercial allowance reflecting deterioration in the oil and gas portfolio, and loan growth in the commercial, automobile and credit card portfolios, partially offset by continued improvement in the residential real estate portfolios. Total provision for credit losses was $805 million in third quarter 2016, compared with $703 million in third quarter 2015. The increase in the provision for credit losses reflected deterioration in the oil and gas portfolio as well as the growth in the loan portfolios mentioned above.

We believe the allowance for credit losses of $12.7 billion at September 30, 2016, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. Approximately $1.4 billion of the allowance at September 30, 2016 was allocated to our oil and gas portfolio, compared with $1.2 billion at December 31, 2015. This represented 8.8% and 6.7% of total oil and gas loans outstanding at September 30, 2016, and December 31, 2015, respectively. However, the entire allowance is available to absorb credit losses inherent in the total loan portfolio. The allowance for credit losses is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our process for determining the allowance for credit losses is discussed in the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K.

LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES

In connection with our sales and securitization of residential mortgage loans to various parties, we have established a mortgage repurchase liability, initially at fair value, related to various representations and warranties that reflect management's estimate of losses for loans for which we could have a repurchase obligation, whether or not we currently service those loans, based on a combination of factors. Our mortgage repurchase liability estimation process also incorporates a forecast of repurchase demands associated with mortgage insurance rescission activity.

Because we typically retain the servicing for the mortgage loans we sell or securitize, we believe the quality of our residential mortgage loan servicing portfolio provides helpful information in evaluating our repurchase liability. Of the $1.6 trillion in the residential mortgage loan servicing portfolio at September 30, 2016, 95% was current and less than 2% was subprime at origination. Our combined delinquency and foreclosure rate on this portfolio was 4.63% at September 30, 2016, compared with 5.18% at December 31, 2015. Two percent of this portfolio is private label securitizations for which we originated the loans and, therefore have some repurchase risk.

The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at September 30, 2016, was $57 million, representing 298 loans, down from a year ago both in number of outstanding loans and in total dollar balances as we observed a decline in new demands, continued to work through the outstanding demands and mortgage insurance rescissions, and resolved certain exposures.

Our liability for mortgage repurchases, included in "Accrued expenses and other liabilities" in our consolidated balance sheet, represents our best estimate of the probable loss that we expect to incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. The liability was $239 million at September 30, 2016, and $378 million at December 31, 2015. In third quarter 2016, we released $13 million, which increased net gains on mortgage loan origination/sales activities, compared with a release of $6 million in third quarter 2015. The release in third quarter 2016 was due to a re-estimation of our liability based on recently observed trends. We incurred net losses on repurchased loans and investor reimbursements totaling $3 million in third quarter 2016, compared with $13 million in third quarter 2015.

Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that are reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available information, significant judgment, and a number of

assumptions that are subject to change. The high end of this range of reasonably possible losses exceeded our recorded liability by $191 million at September 30, 2016, and was determined based upon modifying the assumptions (particularly to assume significant changes in investor repurchase demand practices) used in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions.

For additional information on our repurchase liability, see the "Risk Management – Credit Risk Management – Liability For Mortgage Loan Repurchase Losses" section in our 2015 Form 10-K and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

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

relief, refinancing relief, and foreclosure prevention and assistance, as well as imposed certain monetary penalties on us.
For additional information about the risks and various settlements related to our servicing activities, see the "Risk Management – Credit Risk Management – Risks Relating to Servicing Activities" section in our 2015 Form 10-K.

Asset/Liability Management (continued)

Asset/Liability Management

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

INTEREST RATE RISK Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary.

We assess interest rate risk by comparing outcomes under various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. These simulations require assumptions regarding how changes in interest rates and related market conditions could influence drivers of earnings and balance sheet composition such as loan origination demand, prepayment speeds, deposit balances and mix, as well as pricing strategies.

Our risk measures include both net interest income sensitivity and interest rate sensitive noninterest income and expense impacts. We refer to the combination of these exposures as interest rate sensitive earnings. In general, the Company is positioned to benefit from higher interest rates. Currently, our profile is such that net interest income will benefit from higher interest rates as our assets reprice faster and to a greater degree than our liabilities, and, in response to lower market rates, our assets will reprice downward and to a greater degree than our liabilities. Our interest rate sensitive noninterest income and expense is largely driven by mortgage activity, and tends to move in the opposite direction of our net interest income. So, in response to higher interest rates, mortgage activity, including refinancing activity, generally declines. And in response to lower rates, mortgage activity generally increases. Mortgage results in our simulations are also impacted by the valuation of MSRs and related hedge positions. See the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in this Report for more information.

The degree to which these sensitivities offset each other is dependent upon the timing and magnitude of changes in interest rates, and the slope of the yield curve. During a transition to a higher or lower interest rate environment, a reduction or increase in interest-sensitive earnings from the mortgage banking business could occur quickly, while the benefit or detriment from balance sheet repricing could take more time to develop. For example, our lower rate scenarios (scenario 1 and scenario 2) in the following table measure a decline in interest rates versus our most likely scenario. Although the performance in these rate scenarios contain benefits from increased mortgage banking activity, the result is lower earnings relative to the most likely scenario over time given pressure on net interest income. The higher rate scenarios (scenario 3 and scenario 4) measure the impact of varying degrees of rising short-term and long-term

interest rates over the course of the forecast horizon relative to the most likely scenario, both resulting in positive earnings sensitivity.

For more information about the various causes of interest rate risk, see the "Risk Management–Asset/Liability Management–Interest Rate Risk" section in our 2015 Form 10-K.

As of September 30, 2016, our most recent simulations estimate earnings at risk over the next 24 months under a range of both lower and higher interest rates. The results of the simulations are summarized in Table 30, indicating cumulative net income after tax earnings sensitivity relative to the most likely earnings plan over the 24 month horizon (a positive range indicates a beneficial earnings sensitivity measurement relative to the most likely earnings plan and a negative range indicates a detrimental earnings sensitivity relative to the most likely earnings plan).

Table 30: Earnings Sensitivity Over 24 Month Horizon Relative to Most Likely Earnings Plan

	Most likely	Lower rates Scenario 1	Scenario 2	Higher rates Scenario 3	Scenario 4
Ending rates:					
Federal funds	1.84 %	0.25	1.64	2.10	5.25
10-year treasury (1)	2.97	1.55	2.47	3.47	5.90
Earnings relative to most likely	N/A	(2)-(3)%	(2)-(3)	0-5	0-5

(1) U.S. Constant Maturity Treasury Rate

We use the investment securities portfolio and exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. See the “Balance Sheet Analysis – Investment Securities” section in this Report for more information on the use of the available-for-sale and held-to-maturity securities portfolios. The notional or contractual amount, credit risk amount and fair value of the derivatives used to hedge our interest rate risk exposures as of September 30, 2016, and December 31, 2015, are presented in Note 12 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

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

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For more information on mortgage banking interest rate and market risk, see the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in our 2015 Form 10-K.

While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in the value of ARM production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs. Additionally, hedge-carry income on our economic hedges for the MSRs may not continue at recent levels if the spread between short-term and long-term rates decreases or there are

other changes in the market for mortgage forwards that affect the implied carry.
The total carrying value of our residential and commercial MSRs was $11.8 billion at September 30, 2016, and $13.7 billion at December 31, 2015. The weighted-average note rate on our portfolio of loans serviced for others was 4.28% at September 30, 2016, and 4.37% at December 31, 2015. The carrying value of our total MSRs represented 0.69% of mortgage loans serviced for others at September 30, 2016, and 0.77% at December 31, 2015.

MARKET RISK – TRADING ACTIVITIES The Finance Committee of our Board of Directors reviews the acceptable market risk appetite for our trading activities. We engage in trading activities to accommodate the investment and risk management activities of our customers (which involves transactions that are recorded as trading assets and liabilities on our balance sheet), and to execute economic hedging to manage certain balance sheet risks. These activities largely occur within our Wholesale Banking businesses and to a lesser extent other divisions of the Company. All of our trading assets and liabilities, including securities, foreign exchange transactions, commodity transactions, and derivatives are carried at fair value. Income earned related to these trading activities include net interest income and changes in fair value related to trading assets and liabilities. Net interest income earned on trading assets and liabilities is reflected in the interest income and interest expense components of our income statement. Changes in fair value of trading assets and liabilities are reflected in net gains on trading activities, a component of noninterest income in our income statement.
Table 31 presents total revenue from trading activities.

Table 31: Net gains (losses) from Trading Activities

	Quarter ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Interest income (1)	$593	485	1,761	1,413
Less: Interest expense (2)	88	89	260	269
Net interest income	505	396	1,501	1,144
Noninterest income:				
Net gains (losses) from trading activities (3):				
Customer accommodation	348	168	947	723
Economic hedges and other (4)	67	(194)	(4)	(208)
Total net gains from trading activities	415	(26)	943	515
Total trading-related net interest and noninterest income	$920	370	2,444	1,659

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

Customer accommodation Customer accommodation activities are conducted to help customers manage their investment and risk management needs. We engage in market-making activities or act as an intermediary to purchase or sell financial instruments in anticipation of or in response to customer needs.

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

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

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

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

Asset/Liability Management (continued)

Table 32: Distribution of Daily Trading-Related Revenues

Market risk is the risk of possible economic loss from adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity, commodity prices, mortgage rates, and market liquidity. Market risk is intrinsic to the Company's sales and trading, market making, investing, and risk management activities.

The Company uses value-at-risk (VaR) metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. VaR is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets.

Trading VaR is the measure used to provide insight into the market risk exhibited by the Company's trading positions. The

Company calculates Trading VaR for risk management purposes to establish line of business and Company-wide risk limits. Trading VaR is calculated based on all trading positions classified as trading assets or trading liabilities on our balance sheet.

Table 33 shows the Company's Trading General VaR by risk category. As presented in the table, average Company Trading General VaR was $22 million for the quarter ended September 30, 2016, compared with $21 million for the quarter ended June 30, 2016. The increase was primarily driven by changes in portfolio composition.

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

	Quarter ended							
	September 30, 2016				June 30, 2016			
(in millions)	Period end	Average	Low	High	Period end	Average	Low	High
Company Trading General VaR Risk Categories								
Credit	$15	17	14	20	16	15	12	18
Interest rate	12	11	5	17	15	10	5	19
Equity	16	16	15	17	14	15	11	19
Commodity	1	2	1	3	1	2	1	3
Foreign exchange	1	1	1	2	1			