

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

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

Yes ☐ No ☒

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

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Shares Outstanding

October 25, 2016

Common stock, \$1-2/3 par value 5,022,303,027

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

(\$ in millions, except per share amounts)	Quarter ended			% Change		Nine months ended			% Change
	Sep 30, 2016	Jun 30, 2016	Sep 30, 2015	Sep 30, 2016 from Jun 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015		
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)	

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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

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 (1) 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).

Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a (3) 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.

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 (5) Transition Requirements. Accordingly, the total capital ratio was calculated under the Advanced Approach and the other ratios were calculated under the Standardized Approach, for each of the periods, respectively.

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

(7)

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

Overview (continued)

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

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

Financial Review

Overview

Wells Fargo & Company is a diversified, community-based financial services company with \$1.9 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,600 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 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.

Earnings Performance (continued)

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)

(in millions)	Quarter 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	\$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:						

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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		

- 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.
- (1) Yields/rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
- (2) 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.
- (3) Nonaccrual loans and related income are included in their respective loan categories.
- (4) 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.
- (5)

(in millions)	Nine months ended September 30,						2015 Interest income/ expense
	Average balance	Yields/ rates		2016 Interest income/ expense	Average balance	Yields/ rates	
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							

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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,		%		Nine months ended Sep 30,		%	
	2016	2015			2016	2015		
			Change				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

Earnings Performance (continued)

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, average balances in billions)	Community Banking		Wholesale Banking		Wealth and Investment Management		Other (1)		Consolidated Company	
	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

Includes the elimination of certain items that are included in more than one business segment, substantially all of (1) 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

Earnings Performance (continued)

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,		% Change	Nine months ended Sep 30,		
	2016	2015		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)

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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	

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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

Earnings Performance (continued)

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

(in billions)	September 30,	
	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

(in billions)	Quarter ended September 30, 2016				Nine months ended September 30, 2016				
	Jun 30, 2016	Inflows (5)	Outflows (6)	Market impact (7)	Sep 30, 2016	Dec 31, 2015	Inflows (5)	Outflows (6)	Market impact (7)
Client directed (1)	\$158.59.2		(9.5	)3.1	161.3	154.7	27.4	(27.7	)6.9
Financial advisor directed (2)	104.2	6.3	(4.7	)4.7	110.5	91.9	21.4	(13.5	)10.7
	118.9	6.0	(5.6	)3.5	122.8	110.4	19.0	(15.6	)9.0

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

- Investment advice and other services are provided to client, but decisions are made by the client and the fees
- (1) 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

(in billions)	Quarter ended September 30, 2016				Nine months ended September 30, 2016				
	Jun 30, 2016	Inflows (4)	Outflows (5)	Market impact (6)	Sep 30, 2016	Dec 31, 2015	Inflows (4)	Outflows (5)	Market impact (6)
Assets managed by WFAM (1):									
Money market funds (2)	\$108.97.4	—	—	—	116.3	123.6	—	(7.3))—
Other assets managed	374.9	31.0	(30.3)	)6.2	381.8	366.1	86.9	(85.2)	)14.0
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
Total assets under management	\$648.446.8		(37.7)	)9.3	666.8	651.8	112.6	(117.9)	)20.3
(in billions)	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)
Assets managed by WFAM (1):									
Money market funds (2)	\$108.33.6	—	—	—	111.9	123.1	—	(11.2))—
Other assets managed	379.5	21.0	(20.6)	)11.4	)368.5	372.6	73.5	(71.6)	)6.0
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
Total assets under management	\$653.333.6		(27.9)	)19.6	)639.4	661.0	100.2	(108.0)	)13.8

Assets managed by Wells Fargo Asset Management consist of equity, alternative, balanced, fixed income, money (1)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.

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

(in millions)	September 30, 2016			December 31, 2015		
	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

(in millions)	September 30, 2016				December 31, 2015			
	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:								

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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

(\$ in billions)	September 30, 2016		December 31, 2015	
	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.

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 %

Industry categories are based on the North American Industry Classification System and the amounts reported (1)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				