

WELLS FARGO & COMPANY/MN  
Form 10-Q  
November 03, 2017

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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes o No þ

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

|                                 | Shares Outstanding<br>October 25, 2017 |
|---------------------------------|--|
| Common stock, \$1-2/3 par value | 4,924,261,449                          |

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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, 2017  | Jun 30, 2017 | Sep 30, 2016 | Sep 30, 2017 from Jun 30, 2017 | Sep 30, 2017 from Sep 30, 2016 | Sep 30, 2017      | Sep 30, 2016 |          |
| For the Period   |               |              |              |                                |                                |                   |              |          |
| Wells Fargo net income   | \$4,596       | 5,810        | 5,644        | (21 )%                         | (19 )                          | \$15,863          | 16,664       | (5 )%    |
| Wells Fargo net income applicable to common stock  | 4,185         | 5,404        | 5,243        | (23 )                          | (20 )                          | 14,645            | 15,501       | (6 )     |
| Diluted earnings per common share  | 0.84          | 1.07         | 1.03         | (21 )                          | (18 )                          | 2.91              | 3.03         | (4 )     |
| Profitability ratios (annualized):   |               |              |              |                                |                                |                   |              |          |
| Wells Fargo net income to average assets (ROA)   | 0.94          | % 1.21       | 1.17         | (22 )                          | (20 )                          | 1.10              | % 1.19       | (8 )     |
| Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE) | 9.06          | 11.95        | 11.60        | (24 )                          | (22 )                          | 10.83             | 11.68        | (7 )     |
| Return on average tangible common equity (ROTCE) (1)   | 10.79         | 14.26        | 13.96        | (24 )                          | (23 )                          | 12.94             | 14.08        | (8 )     |
| Efficiency ratio (2)   | 65.5          | 61.1         | 59.4         | 7                              | 10                             | 63.1              | 58.7         | 7        |
| Total revenue  | \$21,926      | 22,169       | 22,328       | (1 )                           | (2 )                           | \$66,097          | 66,685       | (1 )     |
| Pre-tax pre-provision profit (PTPP) (3)  | 7,575         | 8,628        | 9,060        | (12 )                          | (16 )                          | 24,413            | 27,523       | (11 )    |
| Dividends declared per common share  | 0.390         | 0.380        | 0.380        | 3                              | 3                              | 1.150             | 1.135        | 1        |
| Average common shares outstanding  | 4,948.6       | 4,989.9      | 5,043.4      | (1 )                           | (2 )                           | 4,982.1           | 5,061.9      | (2 )     |
| Diluted average common shares outstanding  | 4,996.8       | 5,037.7      | 5,094.6      | (1 )                           | (2 )                           | 5,035.4           | 5,118.2      | (2 )     |
| Average loans  | \$952,343     | 956,879      | 957,484      | —                              | (1 )                           | \$957,581         | 945,197      | 1        |
| Average assets   | 1,938,523     | 1,927,079    | 1,914,586    | 1                              | 1                              | 1,932,242         | 1,865,694    | 4        |
| Average total deposits   | 1,306,356     | 1,301,195    | 1,261,527    | —                              | 4                              | 1,302,273         | 1,239,287    | 5        |
| Average consumer and small business banking deposits (4)   | 755,094       | 760,149      | 739,066      | (1 )                           | 2                              | 758,443           | 726,798      | 4        |
| Net interest margin  | 2.87          | % 2.90       | 2.82         | (1 )                           | 2                              | 2.88              | % 2.86       | 1        |
| At Period End  |               |              |              |                                |                                |                   |              |          |
| Investment securities  | \$414,633     | 409,594      | 390,832      | 1                              | 6                              | \$414,633         | 390,832      | 6        |
| Loans  | 951,873       | 957,423      | 961,326      | (1 )                           | (1 )                           | 951,873           | 961,326      | (1 )     |
|  | 11,078        | 11,073       | 11,583       | —                              | (4 )                           | 11,078            | 11,583       | (4 )     |

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|  |           |           |           |      |      |           |           |      |  |
|--|-----------|-----------|-----------|------|------|-----------|-----------|------|--|
| Allowance for loan losses                    |           |           |           |      |      |           |           |      |  |
| Goodwill                                     | 26,581    | 26,573    | 26,688    | —    | —    | 26,581    | 26,688    | —    |  |
| Assets                                       | 1,934,939 | 1,930,871 | 1,942,124 | —    | —    | 1,934,939 | 1,942,124 | —    |  |
| Deposits                                     | 1,306,706 | 1,305,830 | 1,275,894 | —    | 2    | 1,306,706 | 1,275,894 | 2    |  |
| Common stockholders' equity                  | 182,128   | 181,428   | 179,916   | —    | 1    | 182,128   | 179,916   | 1    |  |
| Wells Fargo stockholders' equity             | 205,929   | 205,230   | 203,028   | —    | 1    | 205,929   | 203,028   | 1    |  |
| Total equity                                 | 206,824   | 206,145   | 203,958   | —    | 1    | 206,824   | 203,958   | 1    |  |
| Tangible common equity (1)                   | 152,901   | 152,064   | 149,829   | 1    | 2    | 152,901   | 149,829   | 2    |  |
| Capital ratios (5)(6):                       |           |           |           |      |      |           |           |      |  |
| Total equity to assets                       | 10.69     | % 10.68   | 10.50     | —    | 2    | 10.69     | % 10.50   | 2    |  |
| Risk-based capital:                          |           |           |           |      |      |           |           |      |  |
| Common Equity Tier 1                         | 12.10     | 11.87     | 10.93     | 2    | 11   | 12.10     | 10.93     | 11   |  |
| Tier 1 capital                               | 13.95     | 13.68     | 12.60     | 2    | 11   | 13.95     | 12.60     | 11   |  |
| Total capital                                | 17.21     | 16.91     | 15.40     | 2    | 12   | 17.21     | 15.40     | 12   |  |
| Tier 1 leverage                              | 9.27      | 9.28      | 9.11      | —    | 2    | 9.27      | 9.11      | 2    |  |
| Common shares outstanding                    | 4,927.9   | 4,966.8   | 5,023.9   | (1 ) | (2 ) | 4,927.9   | 5,023.9   | (2 ) |  |
| Book value per common share (7)              | \$36.96   | 36.53     | 35.81     | 1    | 3    | \$36.96   | 35.81     | 3    |  |
| Tangible book value per common share (1) (7) | 31.03     | 30.62     | 29.82     | 1    | 4    | 31.03     | 29.82     | 4    |  |
| Common stock price:                          |           |           |           |      |      |           |           |      |  |
| High   | 56.45     | 56.60     | 51.00     | —    | 11   | 59.99     | 53.27     | 13   |  |
| Low  | 49.28     | 50.84     | 44.10     | (3 ) | 12   | 49.28     | 44.10     | 12   |  |
| Period end                                   | 55.15     | 55.41     | 44.28     | —    | 25   | 55.15     | 44.28     | 25   |  |
| Team members (active, full-time equivalent)  | 268,000   | 270,600   | 268,800   | (1 ) | —    | 268,000   | 268,800   | —    |  |

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 and held-for-sale assets, but excluding mortgage servicing rights), net of applicable deferred taxes. The methodology of determining tangible common (1) equity may differ among companies. Management believes that return on average tangible common equity and tangible book value per common share, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. For additional information, including a corresponding reconciliation to GAAP financial measures, see the "Capital Management – Tangible Common Equity" section in this Report.

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

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 were calculated under the lower of Standardized or Advanced Approach determined pursuant to Basel III with Transition Requirements. Accordingly, the total capital ratio was calculated under the (5) Advanced Approach and the other ratios were calculated under the Standardized Approach, for each of the periods presented.

(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, 2016 (2016 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 \$1.93 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 8,400 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 268,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 25 on Fortune’s 2017 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, 2017.

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 understanding 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.

In keeping with our primary values and risk management priorities, we announced six long-term goals for the Company in March 2017, which entail becoming the leader in the following areas:

• Customer service and advice – provide best-in-class service and guidance to our customers to help them reach their financial goals.

• Team member engagement – be a company where people matter, teamwork is rewarded, everyone feels respected and empowered to speak up, diversity and inclusion are embraced, and “how” our work gets done is just as important as getting the work done.

• Innovation – create new kinds of lasting value for our customers and businesses by using innovative technologies and moving quickly to bring about change.



Risk management – desire to set the global standard in managing all forms of risk.

Corporate citizenship – make better every community in which we live and do business.

Shareholder value – earn the confidence of shareholders by maximizing long-term value.

Over the past year, our Board of Directors (Board) has taken a series of actions to enhance Board oversight and governance. The actions the Board has taken to date, many of which reflect the feedback we received from our shareholders and other stakeholders, include separating the roles of Chairman of the Board and Chief Executive Officer, amending Wells Fargo’s By-Laws to require that the Chairman be an independent director, adding two new independent directors in February 2017, and amending Board committee charters to enhance oversight of conduct risk. In August 2017, the Board announced additional Board composition and governance changes that reflected a thoughtful and deliberate process by the Board that was informed by the Company’s engagement with shareholders and other stakeholders, as well as the Board’s annual self-evaluation that was conducted in advance of its typical year-end timing and facilitated by a third party. The Board’s composition and governance actions taken in third quarter 2017 included the following:

Elizabeth A. “Betsy” Duke was elected to serve as our new independent Board chair, effective January 1, 2018;

Juan A. Pujadas, a retired principal of PricewaterhouseCoopers LLP, was elected to the Board as a new independent director, effective September 1, 2017;

Changes to the leadership and composition of key Board committees were made, including appointing new chairs of the Board’s Risk Committee and Governance and Nominating Committee, effective September 1, 2017; and

To help facilitate Board refreshment and provide for an appropriate transition of committee membership, three long-serving directors, Cynthia H. Milligan, Stephen W. Sanger and Susan G. Swenson, will retire from the Board at year-end 2017.

In addition, the Board announced that it expects to name up to three additional independent directors before the 2018 annual shareholders’ meeting. As has been our practice, we will continue

our engagement efforts with our shareholders and other stakeholders.

#### Sales Practices Matters

As we have previously reported, 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, and entered into consent orders with the CFPB and the OCC, in connection with allegations that some of our retail customers received products and services they did not request. As a result, it remains our top priority to rebuild trust through a comprehensive action plan that includes making things right for our customers, team members, and other stakeholders, and to build a better Company for the future.

The job of rebuilding trust in Wells Fargo is a long-term effort – one requiring our commitment and perseverance. As we move forward, Wells Fargo has a specific action plan in place focused on reaching out to stakeholders who may have been affected by improper retail banking sales practices, including our communities, our customers, our regulators, our team members, and our investors.

Our priority of rebuilding trust has included the following additional actions, which have been focused on identifying potential financial harm and customer remediation:

#### Identifying Potential Financial Harm

In the fall of 2016, the Board and management undertook an enterprise-wide review of sales practices issues. This review is ongoing.

A third-party consulting firm performed an initial review of accounts opened from May 2011 to mid-2015 to identify financial harm stemming from potentially unauthorized accounts. The phrase “potentially unauthorized” does not mean that we are certain that the accounts are unauthorized, but rather describes the accounts that the third party analysis identified as showing patterns that could indicate a lack of authorization. Since the analysis was intentionally inclusive and erred on the side of the customer, the number of potentially unauthorized accounts likely includes a population of accounts that were in fact authorized by our customers. The initial account analysis reviewed 93.5 million current and former customer accounts and identified approximately 2.1 million potentially unauthorized accounts.

We expanded the time periods of this review to cover the entire consent order period of January 2011 through September 2016, and to perform a voluntary review of accounts from 2009 to 2010. The expanded analysis reviewed more than 165 million retail banking accounts opened over the nearly eight-year period and identified a new total of approximately 3.5 million potentially unauthorized consumer and small business accounts. The 3.5 million potentially unauthorized accounts total is composed of the following:

The original time period, which was re-examined following refinements to the practices and methodologies previously used by the third party to determine potentially unauthorized accounts: 2.55 million accounts identified as potentially unauthorized; and

The additional periods back to January 2009 and forward to September 2016: 981,000 accounts identified as potentially unauthorized.

In connection with these 3.5 million potentially unauthorized accounts, approximately 190,000 accounts incurred fees and charges, up from 130,000 previously identified accounts that incurred fees and charges.

In addition, the expanded analysis included a review of online bill pay services, as required by the consent orders.

During the almost eight-year review period, the analysis identified approximately 528,000 potentially unauthorized online bill pay enrollments.

For all periods of the expanded analysis (other than some periods in 2009 and 2010 for which we do not have sufficient information), the maximum impact of the 3.5 million potentially unauthorized accounts and 528,000 potentially unauthorized online bill pay enrollments on the originally reported Community Banking cross-sell metric was, in any one quarter, 0.03 products per household (or 0.5% of the originally reported metric). Due to our historical processes, which removed from the calculation of the cross-sell metric certain accounts and other products that were inactive over various time frames, not all of these potentially unauthorized accounts affected the cross-sell metric at any one time.

#### Customer Remediation

We refunded \$3.3 million to customers under the stipulated judgment with the Los Angeles City Attorney and under the CFPB and OCC consent orders, covering the period from May 2011 to mid-2015. In connection with the expanded account analysis, we will now provide a total of \$2.9 million in additional refunds and credits on top of the \$3.3 million previously refunded as a result of the initial account review. In addition, we will refund \$910,000 to customers who incurred fees or charges as a result of potentially unauthorized online bill pay enrollments.

As of September 30, 2017, we had paid \$5.45 million in additional payments to customers nationwide through our ongoing complaints process and free mediation services that were put in place in connection with the sales practices matters.

Customers also may receive compensation under the \$142 million class-action settlement concerning improper retail sales practices for claims dating back to 2002. After plaintiffs' attorneys' fees and costs of administration, the class-action settlement will provide reimbursement of fees not already paid and compensation for increased borrowing costs due to credit-score impact associated with a potentially unauthorized account. Remaining funds will be distributed to the participants in the class on a per account basis.

We are working to complete the requirements of our consent orders, which include the development of an action plan that addresses the findings of the independent review. The independent consultant's report, which is regulatory supervisory information that cannot be publicly disclosed, was received in August 2017.

For additional information regarding sales practices matters, including related legal matters, see the "Risk Factors" section in our 2016 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

#### Additional Efforts to Rebuild Trust

Our priority of rebuilding trust has also included an effort to identify other areas or instances where customers may have experienced financial harm. We are working with our regulatory agencies in this effort. As part of this effort, we are focused on the following key areas:

Overview (continued)

Practices concerning the origination, servicing, and/or collection of consumer automobile loans, including related insurance products. For example:

In July 2017, the Company announced a plan to remediate customers who may have been financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf. Commencing in August 2017, the Company began sending letters and refund checks to affected customers for policies placed between January 1, 2012, and September 30, 2016. The practice of placing CPI was discontinued by the Company on September 30, 2016. The time period in which customers may be eligible to claim or otherwise receive remediation compensation for certain CPI placements has now been extended back to October 15, 2005. The Company currently estimates that it will provide approximately \$100 million in cash remediation and \$30 million in account adjustments under the plan. The amount of remediation may be affected as the Company continues to work with its regulators on the remediation plan.

The Company has identified certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements between the dealer and, by assignment, the lender, which may result in refunds to customers in certain states.

In October 2017, the Company announced plans to reach out to all home lending customers who paid fees for mortgage rate lock extensions requested from September 16, 2013, through February 28, 2017, and to refund customers who believe they should not have paid those fees. The plan to issue refunds follows an internal review that determined that a rate lock extension policy implemented in September 2013 was, at times, not consistently applied, resulting in some borrowers being charged fees in cases where the Company was primarily responsible for the delays that made the extensions necessary. Effective March 1, 2017, the Company changed how it manages the mortgage rate lock extension process to ensure more consistency by establishing a centralized review team that reviews all rate lock extension requests for consistent application of policy. A total of approximately \$98 million in rate lock extension fees were assessed to about 110,000 borrowers during the period in question, although the Company believes a substantial number of those fees were appropriately charged under its policy. The amount ultimately refunded likely will be lower, as not all of the fees assessed were actually paid and some fees already have been refunded.

Practices related to certain consumer “add-on” products (e.g., identity theft and debt protection), including those products that are subject to an OCC consent order entered into in June 2015. Based on our ongoing review of “add-on” products, we expect remediation will be required.

Procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the Company detected suspected fraudulent activity (by third-parties or account holders) that affected those accounts.

For more information, see the “Risk Factors” section in our 2016 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

This effort to identify similar instances in which customers may have experienced harm is ongoing, and it is possible that we may identify other areas of potential concern.

Financial Performance

Wells Fargo net income was \$4.6 billion in third quarter 2017 with diluted earnings per common share (EPS) of \$0.84, compared with \$5.6 billion and \$1.03, respectively, a year ago. Third quarter 2017 results included the impact of a \$1.0 billion, or (\$0.20) per share, discrete litigation accrual, which was not tax-deductible, for previously disclosed, pre-financial crisis mortgage-related regulatory investigations.

Other financial results in third quarter 2017 included:

- revenue was \$21.9 billion, down \$402 million compared with a year ago, with net interest income up 4% from a year ago;

- average loans were \$952.3 billion, down \$5.1 billion, or 1%, from a year ago;

- total deposits were \$1.3 trillion, up \$30.8 billion, or 2%, from a year ago;

- Wealth and Investment Management (WIM) total client assets reached a record high of \$1.9 trillion;

-

our credit results improved with a net charge-off rate of 0.30% (annualized) of average loans in third quarter 2017, compared with 0.33% a year ago; and we returned \$4.0 billion to shareholders through common stock dividends and net share repurchases, which was the ninth consecutive quarter of returning more than \$3 billion.

#### Balance Sheet and Liquidity

Our balance sheet remained strong during third quarter 2017 with high levels of liquidity and capital. Our total assets were \$1.93 trillion at September 30, 2017. Cash and other short-term investments increased \$5.5 billion from December 31, 2016, reflecting lower loan balances and growth in deposits. Investment securities reached a record \$414.6 billion, with approximately \$31 billion of gross purchases during third quarter 2017, partially offset by runoff and the sale of approximately \$13 billion of lower-yielding short-duration securities. Loans were down \$15.7 billion, or 2%, from December 31, 2016, largely due to a decline in junior lien mortgage and automobile loans. Average deposits in third quarter 2017 reached a record \$1.31 trillion, up \$44.8 billion, or 4%, from third quarter 2016. Our average deposit cost in third quarter 2017 was 26 basis points, up 15 basis points from a year ago, primarily driven by an increase in commercial and WIM deposit rates.

#### Credit Quality

Solid overall credit results continued in third quarter 2017 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were \$717 million, or 0.30% (annualized) of average loans, in third quarter 2017, compared with \$805 million a year ago (0.33%). The decrease in net charge-offs in third quarter 2017, compared with a year ago, was driven by lower losses in the commercial and industrial loan portfolio, including in the oil and gas portfolio. Our total oil and gas loan exposure, which includes unfunded commitments and loans outstanding, was down 8% from a year ago.

Our commercial portfolio net charge-offs were \$113 million, or 9 basis points of average commercial loans, in third quarter 2017, compared with net charge-offs of \$215 million, or 17 basis points, a year ago. Net consumer credit losses increased to 53 basis points (annualized) of average consumer loans in third quarter 2017 from 51 basis points (annualized) in third quarter 2016. Our commercial real estate portfolios were in a net recovery position for the 19th consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Net

losses on our consumer real estate portfolios improved by \$84 million, or 122%, to a net recovery of \$15 million from a year ago, reflecting the benefit of the continued improvement in the housing market and our continued focus on originating high quality loans. Approximately 77% of the consumer first mortgage portfolio outstanding at September 30, 2017, was originated after 2008, when more stringent underwriting standards were implemented. The allowance for credit losses as of September 30, 2017, decreased \$585 million compared with a year ago and decreased \$431 million from December 31, 2016. The allowance for credit losses at September 30, 2017 included \$450 million for coverage of our preliminary estimate of potential hurricane-related losses from Hurricanes Harvey, Irma and Maria. The allowance coverage for total loans was 1.27% at September 30, 2017, compared with 1.32% a year ago and 1.30% at December 31, 2016. The allowance covered 4.3 times annualized third quarter net charge-offs, compared with 4.0 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 \$717 million in third quarter 2017, down from \$805 million a year ago, primarily reflecting improvement in the oil and gas portfolio. Nonperforming assets decreased \$512 million, or 5%, from June 30, 2017, the sixth consecutive quarter of decreases, with improvement across our consumer and commercial portfolios and lower foreclosed assets. Nonperforming assets were only 0.98% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased \$437 million from the prior quarter primarily due to a \$276 million decrease in commercial nonaccruals. In addition, foreclosed assets were down \$75 million from the prior quarter.

#### Capital

Our financial performance in third quarter 2017 resulted in strong capital generation, which increased total equity to a record \$206.8 billion at September 30, 2017, up \$6.3 billion from December 31, 2016. Third quarter 2017 was the first quarter our 2017 Capital Plan was effective and we returned \$4.0 billion to shareholders in third quarter 2017 through common stock dividends and net share repurchases, an increase of 24% from a year ago. 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 95%, up from 63% in the prior quarter. We continued to reduce our common shares outstanding through the repurchase of 49.0 million common shares in the quarter. We also entered into a \$1 billion forward repurchase contract with an unrelated third party in October 2017 that is expected to settle in first quarter 2018 for approximately 19 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2017.

We believe an important measure of our capital strength is the Common Equity Tier 1 (CET1) ratio under Basel III, fully phased-in, which was 11.82% at September 30, 2017, well above our internal target level of 10%. The growth in our CET1 ratio reflected lower risk-weighted assets (RWA), driven by lower loan balances and commitments, as well as improved RWA efficiency. 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 2017 was \$4.6 billion (\$0.84 diluted earnings per common share), compared with \$5.6 billion (\$1.03 diluted per share) for third quarter 2016. Net income for the first nine months of 2017 was \$15.9 billion (\$2.91), compared with \$16.7 billion (\$3.03) for the same period a year ago. Our financial performance in the first nine months of 2017, compared with the same period a year ago, benefited from a \$1.9 billion increase in net interest income and a \$1.1 billion decrease in our provision for credit losses, offset by a \$2.5 billion decrease in noninterest income and a \$2.5 billion increase in noninterest expense. In the first nine months of 2017, net interest income represented 56% of revenue, compared with 53% for the same period in 2016. Noninterest income was \$28.8 billion in the first nine months of 2017, representing 44% of revenue, compared with \$31.3 billion (47%) in the first nine months of 2016.

Revenue, the sum of net interest income and noninterest income, was \$21.9 billion in third quarter 2017, compared with \$22.3 billion in third quarter 2016. Revenue for the first nine months of 2017 was \$66.1 billion, compared with \$66.7 billion for the first nine months of 2016. The decrease in revenue for the third quarter and first nine months of 2017, compared with the same periods in 2016, was due to a decline in noninterest income, partially offset by an increase in interest income from loans and investment securities.



## Earnings Performance (continued)

## 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 \$12.8 billion and \$38.2 billion in the third quarter and first nine months of 2017, respectively, compared with \$12.3 billion and \$36.3 billion for the same periods a year ago. The net interest margin was 2.87% and 2.88% for the third quarter and first nine months of 2017, respectively, up from 2.82% and 2.86% for the same periods a year ago. The increase in net interest income in the third quarter and first nine months of 2017 from the same periods a year ago resulted from an increase in interest income, partially offset by an increase in interest expense on funding sources. The increase in interest income was driven by balance growth in earning assets and the benefit of higher interest rates. Interest expense on funding sources increased in the third quarter and first nine months of 2017, compared with the same periods a year ago, with a significant portion due to growth and repricing of long-term debt. Deposit interest expense was also higher, primarily due to an increase in wholesale pricing resulting from higher interest rates.

The increase in net interest margin in the third quarter and first nine months of 2017, compared with the same periods a year ago, was predominantly due to repricing benefits of earning assets from higher interest rates exceeding the repricing costs of deposits and market based funding sources.

Average earning assets increased \$42.3 billion and \$81.9 billion in the third quarter and first nine months of 2017, respectively, compared with the same periods a year ago. Average loans decreased \$5.1 billion in the third quarter and increased \$12.4 billion in the first nine months of 2017, average investment securities increased \$48.6 billion in third quarter 2017 and \$61.9 billion in the first nine months of 2017, and average trading assets increased \$14.8 billion in the third quarter and \$14.9 billion in the first nine months of 2017, compared with the same periods a year ago. In addition, average federal funds sold and other short-term investments decreased \$23.2 billion and \$12.2 billion in the third quarter and first nine months of 2017, 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 \$1.31 trillion and \$1.30 trillion in the third quarter and first nine months of 2017, increased compared with \$1.26 trillion and \$1.24 trillion for the same periods a year ago, and represented 137% of average loans in third quarter 2017 (136% in the first nine months of 2017), compared with 132% in third quarter 2016 (131% in the first nine months of 2016). Average deposits were 74% and 73% of average earning assets in the third quarter and first nine months of 2017, respectively, compared with 73% in both the third quarter and first nine months of 2016.



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

| (in millions)   | Quarter ended September 30, |                  |  |                 |                  |  |
|---|-----------------------------|------------------|--|-----------------|------------------|--|
|   | Average balance             | Yields/<br>rates | 2017<br>Interest<br>income/<br>expense | Average balance | Yields/<br>rates | 2016<br>Interest<br>income/<br>expense |
| Earning assets  |                             |                  |  |                 |                  |  |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | \$276,129                   | 1.20             | % \$832                                | 299,351         | 0.50             | % \$373                                |
| Trading assets  | 103,589                     | 2.96             | 767                                    | 88,838          | 2.72             | 605                                    |
| Investment securities (3):  |                             |                  |  |                 |                  |  |
| Available-for-sale securities:  |                             |                  |  |                 |                  |  |
| Securities of U.S. Treasury and federal agencies  | 14,529                      | 1.31             | 48                                     | 25,817          | 1.52             | 99                                     |
| Securities of U.S. states and political subdivisions  | 52,500                      | 4.16             | 546                                    | 55,170          | 4.28             | 590                                    |
| Mortgage-backed securities:   |                             |                  |  |                 |                  |  |
| Federal agencies  | 139,781                     | 2.58             | 903                                    | 105,780         | 2.39             | 631                                    |
| Residential and commercial  | 11,013                      | 5.43             | 149                                    | 18,080          | 5.54             | 250                                    |
| Total mortgage-backed securities  | 150,794                     | 2.79             | 1,052                                  | 123,860         | 2.85             | 881                                    |
| Other debt and equity securities  | 48,082                      | 3.75             | 453                                    | 54,176          | 3.37             | 459                                    |
| Total available-for-sale securities   | 265,905                     | 3.15             | 2,099                                  | 259,023         | 3.13             | 2,029                                  |
| Held-to-maturity securities:  |                             |                  |  |                 |                  |  |
| Securities of U.S. Treasury and federal agencies  | 44,708                      | 2.18             | 246                                    | 44,678          | 2.19             | 246                                    |
| Securities of U.S. states and political subdivisions  | 6,266                       | 5.44             | 85                                     | 2,507           | 5.24             | 33                                     |
| Federal agency and other mortgage-backed securities   | 88,272                      | 2.26             | 498                                    | 47,971          | 1.97             | 236                                    |
| Other debt securities   | 1,488                       | 3.05             | 12                                     | 3,909           | 1.98             | 19                                     |
| Total held-to-maturity securities   | 140,734                     | 2.38             | 841                                    | 99,065          | 2.15             | 534                                    |
| Total investment securities   | 406,639                     | 2.89             | 2,940                                  | 358,088         | 2.86             | 2,563                                  |
| Mortgages held for sale (4)   | 22,923                      | 3.82             | 219                                    | 24,060          | 3.44             | 207                                    |
| Loans held for sale (4)   | 152                         | 13.35            | 5                                      | 199             | 3.04             | 2                                      |
| Loans:  |                             |                  |  |                 |                  |  |
| Commercial:   |                             |                  |  |                 |                  |  |
| Commercial and industrial – U.S.  | 270,091                     | 3.81             | 2,590                                  | 271,226         | 3.48             | 2,369                                  |
| Commercial and industrial – Non U.S.  | 57,738                      | 2.90             | 421                                    | 51,261          | 2.40             | 309                                    |
| Real estate mortgage  | 129,087                     | 3.83             | 1,245                                  | 128,809         | 3.48             | 1,127                                  |
| Real estate construction  | 24,981                      | 4.18             | 263                                    | 23,212          | 3.50             | 205                                    |
| Lease financing   | 19,155                      | 4.59             | 220                                    | 18,896          | 4.70             | 223                                    |
| Total commercial  | 501,052                     | 3.76             | 4,739                                  | 493,404         | 3.42             | 4,233                                  |
| Consumer:   |                             |                  |  |                 |                  |  |
| Real estate 1-4 family first mortgage   | 278,371                     | 4.03             | 2,809                                  | 278,509         | 3.97             | 2,764                                  |
| Real estate 1-4 family junior lien mortgage   | 41,916                      | 4.95             | 521                                    | 48,927          | 4.37             | 537                                    |
| Credit card   | 35,657                      | 12.41            | 1,114                                  | 34,578          | 11.60            | 1,008                                  |
| Automobile  | 56,746                      | 5.34             | 764                                    | 62,461          | 5.60             | 880                                    |
| Other revolving credit and installment  | 38,601                      | 6.31             | 615                                    | 39,605          | 5.92             | 590                                    |
| Total consumer  | 451,291                     | 5.14             | 5,823                                  | 464,080         | 4.97             | 5,779                                  |
| Total loans (4)   | 952,343                     | 4.41             | 10,562                                 | 957,484         | 4.17             | 10,012                                 |
| Other   | 15,007                      | 1.69             | 65                                     | 6,488           | 2.30             | 36                                     |
| Total earning assets  | \$1,776,782                 | 3.45             | % \$15,390                             | 1,734,508       | 3.17             | % \$13,798                             |
| Funding sources   |                             |                  |  |                 |                  |  |
| Deposits:   |                             |                  |  |                 |                  |  |

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|   |             |      |            |            |      |            |
|---|-------------|------|------------|------------|------|------------|
| Interest-bearing checking   | \$48,278    | 0.57 | % \$69     | 44,056     | 0.15 | % \$17     |
| Market rate and other savings   | 681,187     | 0.17 | 293        | 667,185    | 0.07 | 110        |
| Savings certificates  | 21,806      | 0.31 | 16         | 25,185     | 0.30 | 19         |
| Other time deposits   | 66,046      | 1.51 | 252        | 54,921     | 0.93 | 128        |
| Deposits in foreign offices   | 124,746     | 0.76 | 240        | 107,072    | 0.30 | 82         |
| Total interest-bearing deposits   | 942,063     | 0.37 | 870        | 898,419    | 0.16 | 356        |
| Short-term borrowings   | 99,193      | 0.91 | 226        | 116,228    | 0.29 | 86         |
| Long-term debt  | 243,137     | 2.26 | 1,377      | 252,400    | 1.59 | 1,006      |
| Other liabilities   | 24,851      | 1.74 | 109        | 16,771     | 2.11 | 88         |
| Total interest-bearing liabilities  | 1,309,244   | 0.79 | 2,582      | 1,283,818  | 0.48 | 1,536      |
| Portion of noninterest-bearing funding sources                                | 467,538     | —    | —          | 450,690    | —    | —          |
| Total funding sources   | \$1,776,782 | 0.58 | 2,582      | 1,734,508  | 0.35 | 1,536      |
| Net interest margin and net interest income on a taxable-equivalent basis (5) |             | 2.87 | % \$12,808 |            | 2.82 | % \$12,262 |
| Noninterest-earning assets  |             |      |            |            |      |            |
| Cash and due from banks   | \$18,456    |      |            | 18,682     |      |            |
| Goodwill  | 26,600      |      |            | 26,979     |      |            |
| Other   | 116,685     |      |            | 134,417    |      |            |
| Total noninterest-earning assets  | \$161,741   |      |            | 180,078    |      |            |
| Noninterest-bearing funding sources   |             |      |            |            |      |            |
| Deposits  | \$364,293   |      |            | 363,108    |      |            |
| Other liabilities   | 57,052      |      |            | 63,777     |      |            |
| Total equity  | 207,934     |      |            | 203,883    |      |            |
| Noninterest-bearing funding sources used to fund earning assets               | (467,538 )  |      |            | (450,690 ) |      |            |
| Net noninterest-bearing funding sources                                       | \$161,741   |      |            | 180,078    |      |            |
| Total assets  | \$1,938,523 |      |            | 1,914,586  |      |            |

- Our average prime rate was 4.25% and 3.50% for the quarters ended September 30, 2017 and 2016, respectively, and 4.03% and 3.50% for the first nine months of 2017 and 2016, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 1.31% and 0.79% for the quarters ended September 30, 2017 and 2016, respectively, and 1.20% and 0.69% for the first nine months of 2017 and 2016, 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 \$332 million and \$310 million for the quarters ended September 30, 2017 and 2016, respectively, and \$980 million and \$909 million for the first nine months of 2017 and 2016, 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, |                  |  |                 |                  |  |
|---|---------------------------------|------------------|--|-----------------|------------------|--|
|   | Average balance                 | Yields/<br>rates | 2017<br>Interest<br>income/<br>expense | Average balance | Yields/<br>rates | 2016<br>Interest<br>income/<br>expense |
| <b>Earning assets</b>   |                                 |                  |  |                 |                  |  |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | \$280,477                       | 0.98             | % \$2,062                              | 292,635         | 0.49             | % \$1,076                              |
| Trading assets  | 98,516                          | 2.90             | 2,144                                  | 83,580          | 2.86             | 1,792                                  |
| <b>Investment securities (3):</b>   |                                 |                  |  |                 |                  |  |
| <b>Available-for-sale securities:</b>   |                                 |                  |  |                 |                  |  |
| Securities of U.S. Treasury and federal agencies  | 19,182                          | 1.48             | 212                                    | 30,588          | 1.56             | 358                                    |
| Securities of U.S. states and political subdivisions  | 52,748                          | 4.07             | 1,612                                  | 52,637          | 4.25             | 1,678                                  |
| <b>Mortgage-backed securities:</b>  |                                 |                  |  |                 |                  |  |
| Federal agencies  | 142,748                         | 2.60             | 2,782                                  | 98,099          | 2.57             | 1,889                                  |
| Residential and commercial  | 12,671                          | 5.44             | 516                                    | 19,488          | 5.39             | 787                                    |
| Total mortgage-backed securities  | 155,419                         | 2.83             | 3,298                                  | 117,587         | 3.03             | 2,676                                  |
| Other debt and equity securities  | 49,212                          | 3.74             | 1,377                                  | 53,680          | 3.36             | 1,349                                  |
| Total available-for-sale securities   | 276,561                         | 3.13             | 6,499                                  | 254,492         | 3.18             | 6,061                                  |
| <b>Held-to-maturity securities:</b>   |                                 |                  |  |                 |                  |  |
| Securities of U.S. Treasury and federal agencies  | 44,701                          | 2.19             | 733                                    | 44,671          | 2.19             | 733                                    |
| Securities of U.S. states and political subdivisions  | 6,270                           | 5.35             | 251                                    | 2,274           | 5.34             | 91                                     |
| Federal agency and other mortgage-backed securities   | 74,525                          | 2.38             | 1,329                                  | 37,087          | 2.08             | 577                                    |
| Other debt securities   | 2,531                           | 2.48             | 47                                     | 4,193           | 1.94             | 61                                     |
| Total held-to-maturity securities   | 128,027                         | 2.46             | 2,360                                  | 88,225          | 2.21             | 1,462                                  |
| Total investment securities   | 404,588                         | 2.92             | 8,859                                  | 342,717         | 2.93             | 7,523                                  |
| Mortgages held for sale (4)   | 20,869                          | 3.82             | 598                                    | 20,702          | 3.53             | 549                                    |
| Loans held for sale (4)   | 158                             | 8.44             | 10                                     | 240             | 3.71             | 7                                      |
| <b>Loans:</b>   |                                 |                  |  |                 |                  |  |
| <b>Commercial:</b>  |                                 |                  |  |                 |                  |  |
| Commercial and industrial – U.S.  | 272,621                         | 3.70             | 7,547                                  | 266,622         | 3.44             | 6,874                                  |
| Commercial and industrial – Non U.S.  | 56,512                          | 2.83             | 1,196                                  | 50,658          | 2.29             | 867                                    |
| Real estate mortgage  | 130,931                         | 3.69             | 3,615                                  | 125,902         | 3.43             | 3,236                                  |
| Real estate construction  | 24,949                          | 4.00             | 747                                    | 22,978          | 3.53             | 608                                    |
| Lease financing   | 19,094                          | 4.78             | 685                                    | 17,629          | 4.86             | 643                                    |
| Total commercial  | 504,107                         | 3.66             | 13,790                                 | 483,789         | 3.38             | 12,228                                 |
| <b>Consumer:</b>  |                                 |                  |  |                 |                  |  |
| Real estate 1-4 family first mortgage   | 276,330                         | 4.04             | 8,380                                  | 276,369         | 4.01             | 8,311                                  |
| Real estate 1-4 family junior lien mortgage   | 43,589                          | 4.77             | 1,557                                  | 50,585          | 4.38             | 1,659                                  |
| Credit card   | 35,322                          | 12.19            | 3,219                                  | 33,774          | 11.58            | 2,927                                  |
| Automobile  | 59,105                          | 5.41             | 2,392                                  | 61,246          | 5.64             | 2,588                                  |
| Other revolving credit and installment  | 39,128                          | 6.15             | 1,801                                  | 39,434          | 5.94             | 1,755                                  |
| Total consumer  | 453,474                         | 5.11             | 17,349                                 | 461,408         | 4.99             | 17,240                                 |
| Total loans (4)   | 957,581                         | 4.34             | 31,139                                 | 945,197         | 4.16             | 29,468                                 |
| Other   | 10,892                          | 2.06             | 169                                    | 6,104           | 2.23             | 101                                    |
| Total earning assets  | \$1,773,081                     | 3.39             | % \$44,981                             | 1,691,175       | 3.20             | % \$40,516                             |
| <b>Funding sources</b>  |                                 |                  |  |                 |                  |  |

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|   |             |      |            |            |      |            |
|---|-------------|------|------------|------------|------|------------|
| Deposits:   |             |      |            |            |      |            |
| Interest-bearing checking   | \$49,134    | 0.43 | % \$156    | 40,858     | 0.13 | % \$41     |
| Market rate and other savings   | 682,780     | 0.13 | 664        | 659,257    | 0.07 | 327        |
| Savings certificates  | 22,618      | 0.30 | 50         | 26,432     | 0.37 | 73         |
| Other time deposits   | 59,414      | 1.42 | 633        | 58,087     | 0.84 | 364        |
| Deposits in foreign offices   | 123,553     | 0.64 | 587        | 100,783    | 0.25 | 190        |
| Total interest-bearing deposits   | 937,499     | 0.30 | 2,090      | 885,417    | 0.15 | 995        |
| Short-term borrowings   | 97,837      | 0.69 | 505        | 111,993    | 0.28 | 231        |
| Long-term debt  | 250,755     | 2.04 | 3,838      | 235,209    | 1.57 | 2,769      |
| Other liabilities   | 20,910      | 1.97 | 309        | 16,534     | 2.10 | 260        |
| Total interest-bearing liabilities  | 1,307,001   | 0.69 | 6,742      | 1,249,153  | 0.45 | 4,255      |
| Portion of noninterest-bearing funding sources                                | 466,080     |      | —          | 442,022    | —    | —          |
| Total funding sources   | \$1,773,081 | 0.51 | 6,742      | 1,691,175  | 0.34 | 4,255      |
| Net interest margin and net interest income on a taxable-equivalent basis (5) |             | 2.88 | % \$38,239 |            | 2.86 | % \$36,261 |
| Noninterest-earning assets  |             |      |            |            |      |            |
| Cash and due from banks   | \$18,443    |      |            | 18,499     |      |            |
| Goodwill  | 26,645      |      |            | 26,696     |      |            |
| Other   | 114,073     |      |            | 129,324    |      |            |
| Total noninterest-earning assets  | \$159,161   |      |            | 174,519    |      |            |
| Noninterest-bearing funding sources   |             |      |            |            |      |            |
| Deposits  | \$364,774   |      |            | 353,870    |      |            |
| Other liabilities   | 55,221      |      |            | 62,169     |      |            |
| Total equity  | 205,246     |      |            | 200,502    |      |            |
| Noninterest-bearing funding sources used to fund earning assets               | (466,080 )  |      |            | (442,022 ) |      |            |
| Net noninterest-bearing funding sources                                       | \$159,161   |      |            | 174,519    |      |            |
| Total assets  | \$1,932,242 |      |            | 1,865,694  |      |            |

## Noninterest Income

Table 2: Noninterest Income

| (in millions)   | Quarter ended |              |          | Nine months        |                    |          |
|---|---------------|--------------|----------|--------------------|--------------------|----------|
|   | Sep 30, 2017  | Sep 30, 2016 | % Change | ended Sep 30, 2017 | ended Sep 30, 2016 | % Change |
| Service charges on deposit accounts                     | \$1,276       | 1,370        | (7 )%    | \$3,865            | 4,015              | (4 )%    |
| Trust and investment fees:                              |               |              |          |                    |                    |          |
| Brokerage advisory, commissions and other fees          | 2,304         | 2,344        | (2 )     | 6,957              | 6,874              | 1        |
| Trust and investment management                         | 840           | 849          | (1 )     | 2,506              | 2,499              | —        |
| Investment banking                                      | 465           | 420          | 11       | 1,345              | 1,172              | 15       |
| Total trust and investment fees                         | 3,609         | 3,613        | —        | 10,808             | 10,545             | 2        |
| Card fees   | 1,000         | 997          | —        | 2,964              | 2,935              | 1        |
| Other fees:   |               |              |          |                    |                    |          |
| Charges and fees on loans                               | 318           | 306          | 4        | 950                | 936                | 1        |
| Cash network fees                                       | 126           | 138          | (9 )     | 386                | 407                | (5 )     |
| Commercial real estate brokerage commissions            | 120           | 119          | 1        | 303                | 322                | (6 )     |
| Letters of credit fees                                  | 77            | 81           | (5 )     | 227                | 242                | (6 )     |
| Wire transfer and other remittance fees                 | 114           | 103          | 11       | 333                | 296                | 13       |
| All other fees  | 122           | 179          | (32 )    | 445                | 562                | (21 )    |
| Total other fees  | 877           | 926          | (5 )     | 2,644              | 2,765              | (4 )     |
| Mortgage banking:                                       |               |              |          |                    |                    |          |
| Servicing income, net                                   | 309           | 359          | (14 )    | 1,165              | 1,569              | (26 )    |
| Net gains on mortgage loan origination/sales activities | 737           | 1,308        | (44 )    | 2,257              | 3,110              | (27 )    |
| Total mortgage banking                                  | 1,046         | 1,667        | (37 )    | 3,422              | 4,679              | (27 )    |
| Insurance   | 269           | 293          | (8 )     | 826                | 1,006              | (18 )    |
| Net gains from trading activities                       | 245           | 415          | (41 )    | 921                | 943                | (2 )     |
| Net gains on debt securities                            | 166           | 106          | 57       | 322                | 797                | (60 )    |
| Net gains from equity investments                       | 238           | 140          | 70       | 829                | 573                | 45       |
| Lease income  | 475           | 534          | (11 )    | 1,449              | 1,404              | 3        |
| Life insurance investment income                        | 152           | 152          | —        | 441                | 455                | (3 )     |
| All other   | 97            | 163          | (40 )    | 347                | 1,216              | (71 )    |
| Total   | \$9,450       | 10,376       | (9 )     | \$28,838           | 31,333             | (8 )     |

Noninterest income was \$9.5 billion and \$28.8 billion for the third quarter and first nine months of 2017, respectively, compared with \$10.4 billion and \$31.3 billion for the same periods a year ago. This income represented 43% of revenue for third quarter 2017 and 44% for the first nine months of 2017, compared with 46% and 47% for the same periods a year ago.

The decline in noninterest income in the third quarter and first nine months of 2017, compared with the same periods a year ago, was due to lower mortgage banking income, lower net gains from trading activities, and lower service charges on deposit accounts. Noninterest income in the first nine months of 2017 also reflected lower net gains on debt securities, insurance income, and all other noninterest income due to unfavorable net hedge ineffectiveness accounting results, but benefited from higher trust and investment fees, net gains on equity investments, and deferred compensation plan investment results (offset in employee benefits expense).

Service charges on deposit accounts were \$1.3 billion and \$3.9 billion in the third quarter and first nine months of 2017, respectively, compared with \$1.4 billion and \$4.0 billion for the same periods in 2016. The decrease in the third quarter and first nine months of 2017, compared with the same periods a year ago, was driven by lower consumer and business checking account service charges, lower overdraft fees, and a higher earnings credit rate applied to commercial accounts due to increased interest rates.

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 were \$2.30 billion and \$6.96 billion in the third quarter and first nine months of 2017, respectively, compared with \$2.34 billion and \$6.87 billion for the same periods in 2016. The decrease in third quarter 2017, compared with the same period in 2016, was driven by lower transactional commission revenue, partially offset by higher asset-based fees. The increase for the first nine months of 2017, compared with the same period in 2016, was due to higher asset-based fees, partially offset by lower transactional commission revenue. Retail brokerage client assets totaled \$1.6 trillion at September 30, 2017, compared with \$1.5 trillion at September 30, 2016, 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,

## Earnings Performance (continued)

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 \$678.7 billion at September 30, 2017, compared with \$667.5 billion at September 30, 2016, 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 extent of the services provided to administer the account. Our AUA totaled \$1.7 trillion at September 30, 2017, compared with \$1.6 trillion at September 30, 2016. Trust and investment management fees were \$840 million and \$2.5 billion in the third quarter and first nine months of 2017, respectively, compared with \$849 million and \$2.5 billion for the same periods in 2016.

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 \$465 million and \$1.3 billion in the third quarter and first nine months of 2017, respectively, from \$420 million and \$1.2 billion for the same periods in 2016. The increase in third quarter 2017, compared with the same period in 2016, was predominantly driven by higher loan syndications. The increase for the first nine months of 2017, compared with the same period in 2016, was due to growth in equity originations, loan syndications, and advisory services.

Card fees were \$1.0 billion and \$3.0 billion in the third quarter and first nine months of 2017, respectively, compared with \$997 million and \$2.9 billion for the same periods a year ago.

Other fees decreased to \$877 million and \$2.6 billion in the third quarter and first nine months of 2017, respectively, from \$926 million and \$2.8 billion for the same periods in 2016, driven by lower all other fees. All other fees were \$122 million and \$445 million in the third quarter and first nine months of 2017, respectively, compared with \$179 million and \$562 million for the same periods in 2016, driven by lower other fees from discontinued products and the impact of the sale of our global fund services business in fourth quarter 2016.

Mortgage banking noninterest income, consisting of net servicing income and net gains on mortgage loan origination/sales activities, totaled \$1.0 billion and \$3.4 billion in the third quarter and first nine months of 2017, respectively, compared with \$1.7 billion and \$4.7 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 \$309 million for third quarter 2017 included a \$98 million net MSR valuation gain (\$142 million decrease in the fair value of the MSRs and a \$240 million hedge gain). 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). For the first nine months of 2017, net servicing income of \$1.2 billion included a \$271 million net MSR valuation gain (\$328 million decrease in the fair value of the MSRs and a \$599 million hedge gain), and for the same period in 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). Net servicing income decreased for the first nine months of 2017, compared with the same period a year ago, due to lower net MSR valuation gains. The decrease in net MSR valuation gains in the first nine months of 2017, compared with the same period in 2016, was primarily attributable to MSR valuation adjustments in the first quarter of 2016 that reflected a reduction in forecasted prepayments due to updated economic, customer data attributes, and mortgage market rate inputs as well as higher actual prepayments experienced in 2017.

Our portfolio of mortgage loans serviced for others was \$1.70 trillion at September 30, 2017 and \$1.68 trillion at December 31, 2016. At September 30, 2017, the ratio of combined residential and commercial MSRs to related loans

serviced for others was 0.87%, compared with 0.85% at December 31, 2016. See the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in this Report for additional information regarding our MSR risks and hedging approach.

Net gains on mortgage loan origination/sales activities were \$737 million and \$2.3 billion in the third quarter and first nine months of 2017, respectively, compared with \$1.3 billion and \$3.1 billion for the same periods a year ago. The decrease in the third quarter and first nine months of 2017, compared with the same periods a year ago, was primarily due to lower held for sale funding volume and production margins. Total mortgage loan originations were \$59 billion and \$159 billion for the third quarter and first nine months of 2017, respectively, compared with \$70 billion and \$177 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<br>ended Sep<br>30, |        | Nine<br>months<br>ended Sep<br>30, |       |
|--|---------|-----------------------------|--------|------------------------------------|-------|
|  |         | 2017                        | 2016   | 2017                               | 2016  |
| Net gains on mortgage loan origination/sales activities (in millions): |         |                             |        |                                    |       |
| Residential  | (A)     | \$546                       | 953    | 1,636                              | 2,229 |
| Commercial   |         | 81                          | 167    | 263                                | 310   |
| Residential pipeline and unsold/repurchased loan management (1)        |         | 110                         | 188    | 358                                | 571   |
| Total  |         | \$737                       | 1,308  | 2,257                              | 3,110 |
| Residential real estate originations (in billions):                    |         |                             |        |                                    |       |
| Held-for-sale  | (B)     | \$44                        | 53     | 120                                | 130   |
| Held-for-investment  |         | 15                          | 17     | 39                                 | 47    |
| Total  |         | \$59                        | 70     | 159                                | 177   |
| Production margin on residential held-for-sale mortgage originations   | (A)/(B) | 1.24                        | % 1.81 | 1.37                               | 1.72  |

(1) Largely 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 1.24% and 1.37% for the third quarter and first nine months of 2017, respectively, compared with 1.81% and 1.72% for the same periods in 2016. The decline in production margin in the third quarter and first nine months of 2017 was attributable to lower margins in both our retail and correspondent production channels as well as a shift to more correspondent origination volume, which has a lower production margin. Mortgage applications were \$73 billion and \$215 billion for the third quarter and first nine months of 2017, respectively, compared with \$100 billion and \$272 billion for the same periods a year ago. The 1-4 family first mortgage unclosed pipeline was \$29 billion at September 30, 2017, compared with \$50 billion at September 30, 2016. 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 2017, we had a net \$45 million release to the repurchase liability, compared with a net \$106 million release for the first nine months of 2016. 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.

Insurance income was \$269 million and \$826 million in the third quarter and first nine months of 2017, respectively, compared with \$293 million and \$1.0 billion in the same periods a year ago. The decrease in the first nine months of 2017, compared with the same period a year ago, was driven by the divestiture of our crop insurance business in first quarter 2016.

Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were \$245 million and \$921 million in the third quarter and first nine months of 2017, respectively, compared with \$415 million and \$943 million in the same periods a year ago. The decrease in the third quarter and first nine months of 2017, compared with the same periods a year ago, was predominantly driven by lower customer accommodation trading activity. The decrease in customer accommodation trading activity in the first nine months of 2017 was partially offset by higher deferred compensation plan investment results (offset in employee benefits expense). Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. For additional information about 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 \$404 million and \$1.2 billion in the third quarter and first nine months of 2017, respectively, compared with \$246 million and \$1.4 billion in the third quarter and first nine months of 2016, after other-than-temporary impairment (OTTI) write-downs of \$91 million and \$293 million for the third quarter and first nine months of 2017, respectively, compared with \$136 million and \$464 million for the same periods in 2016. The increase in net gains on debt and equity securities in third quarter 2017, compared with the same period a year ago, primarily reflected higher net gains from venture capital equity investments. The decrease in net gains on debt and equity securities in the first nine months of 2017, compared with the same period a year ago, was driven by lower net gains on debt securities, partially offset by higher net gains from equity investments.

Lease income was \$475 million and \$1.4 billion in the third quarter and first nine months of 2017, respectively, compared with \$534 million and \$1.4 billion for the same periods a year ago. The decrease in third quarter 2017, compared with the same period a year ago, was driven by lower equipment lease income and the impact of gains on early leveraged lease terminations in third quarter 2016.

All other income was \$97 million and \$347 million in the third quarter and first nine months of 2017, respectively, compared with \$163 million and \$1.2 billion 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 decrease in other income in the third quarter and first nine months of 2017, compared with the same periods a year ago, was

largely due to net hedge ineffectiveness results. All other income in the first nine months of 2017 also reflected the impact of a gain from the sale of our crop insurance business in first quarter 2016, and a gain from the sale of our health benefits services business in second quarter 2016, partially offset by a \$309 million gain from the sale of a Pick-a-Pay PCI loan portfolio in second quarter 2017 and higher income from equity method investments. Hedge ineffectiveness was driven by 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. The 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 \$93 million for third quarter 2017 and a net hedge loss of \$79 million for the first nine months of 2017, compared with a net hedge benefit of \$142 million and \$577 million for the same periods a year ago. 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

| (in millions)                         | Quarter ended |        |        | Nine months   |        |        |
|---------------------------------------|---------------|--------|--------|---------------|--------|--------|
|                                       | Sep 30,       | 2016   | %      | ended Sep 30, | 2016   | %      |
|                                       | 2017          |        | Change | 2017          |        | Change |
| Salaries                              | \$4,356       | 4,224  | 3      | \$12,960      | 12,359 | 5      |
| Commission and incentive compensation | 2,553         | 2,520  | 1      | 7,777         | 7,769  | —      |
| Employee benefits                     | 1,279         | 1,223  | 5      | 4,273         | 3,993  | 7      |
| Equipment                             | 523           | 491    | 7      | 1,629         | 1,512  | 8      |
| Net occupancy                         | 716           | 718    | —      | 2,134         | 2,145  | (1)    |
| Core deposit and other intangibles    | 288           | 299    | (4)    | 864           | 891    | (3)    |
| FDIC and other deposit assessments    | 314           | 310    | 1      | 975           | 815    | 20     |
| Outside professional services         | 955           | 802    | 19     | 2,788         | 2,154  | 29     |
| Operating losses                      | 1,329         | 577    | 130    | 1,961         | 1,365  | 44     |
| Operating leases                      | 347           | 363    | (4)    | 1,026         | 950    | 8      |
| Contract services                     | 351           | 313    | 12     | 1,025         | 878    | 17     |
| Outside data processing               | 227           | 233    | (3)    | 683           | 666    | 3      |
| Travel and entertainment              | 154           | 144    | 7      | 504           | 509    | (1)    |
| Postage, stationery and supplies      | 128           | 150    | (15)   | 407           | 466    | (13)   |
| Advertising and promotion             | 137           | 117    | 17     | 414           | 417    | (1)    |
| Telecommunications                    | 90            | 101    | (11)   | 272           | 287    | (5)    |
| Foreclosed assets                     | 66            | (17)   | NM     | 204           | 127    | 61     |
| Insurance                             | 24            | 23     | 4      | 72            | 156    | (54)   |
| All other                             | 514           | 677    | (24)   | 1,716         | 1,703  | 1      |
| Total                                 | \$14,351      | 13,268 | 8      | \$41,684      | 39,162 | 6      |

NM - Not meaningful

Noninterest expense was \$14.4 billion in third quarter 2017, up 8% from \$13.3 billion a year ago, driven by higher operating losses, personnel expenses, outside professional and contract services, and foreclosed assets expense, partially offset by lower other expense. In the first nine months of 2017, noninterest expense was \$41.7 billion, up 6% from the same period a year ago, due to higher personnel expenses, outside professional and contract services, operating losses, FDIC expense, and foreclosed assets expense, partially offset by lower insurance expense and postage, stationery and supplies expense.

Personnel expenses, which include salaries, commissions, incentive compensation, and employee benefits, were up \$221 million, or 3%, in third quarter 2017 compared with the same quarter last year, and up \$889 million, or 4%, in the first nine months of 2017 compared with the same period a year ago. The increase in both periods was due to annual salary increases and higher benefits expense, partially offset by one fewer payroll day. The increase in the first nine months of 2017 was also driven by higher deferred compensation costs (offset in trading revenue).

FDIC and other deposit assessments were up 1% and 20% in the third quarter and first nine months of 2017, compared with the same periods a year ago. The increase in the first nine months of 2017 was due to an increase in deposit assessments as a result of a temporary surcharge which became effective on July 1, 2016. The FDIC expects the surcharge to be in effect for approximately two years.

Outside professional and contract services expense was up 17% and 26% in the third quarter and first nine months of 2017, compared with the same periods a year ago. The increase in both periods reflected higher project and technology spending on regulatory and compliance related initiatives, as well as higher legal expense related to sales practices matters.

Operating losses were up 130% and 44% in the third quarter and first nine months of 2017, compared with the same periods in 2016, predominantly due to higher litigation accruals for various legal matters, including a non tax-deductible \$1 billion discrete litigation accrual in third quarter 2017 for previously disclosed mortgage-related regulatory investigations.

Foreclosed assets expense was up \$83 million and \$77 million in the third quarter and first nine months of 2017, compared with the same periods a year ago, predominantly due to lower gains on sale of foreclosed properties.

Insurance expense was up 4% in third quarter 2017 and down 54% in the first nine months of 2017, compared with the same periods a year ago. The decrease in the first nine months of 2017 was predominantly driven by the sale of our crop insurance business in first quarter 2016.

Postage, stationary, and supplies expense was down 15% and 13% in the third quarter and first nine months of 2017, compared with the same periods a year ago, due to lower mail services and supplies expense.

All other noninterest expense was down 24% in third quarter 2017 and up 1% in the first nine months of 2017, compared with the same periods a year ago. The decrease in the third quarter was primarily driven by lower donations expense. All other noninterest expense in third quarter 2016 included a \$107 million contribution to the Wells Fargo Foundation.

Our efficiency ratio was 65.5% in third quarter 2017, compared with 59.4% in third quarter 2016. The third quarter 2017 efficiency ratio included a 456 basis point impact from the \$1 billion discrete litigation accrual.

#### Income Tax Expense

Our effective income tax rate was 32.4% and 31.5% for third quarter 2017 and 2016, respectively. Our effective income tax rate was 29.0% in the first nine months of 2017, down from 31.9% in

the first nine months of 2016. The increase in the effective income tax rate for third quarter 2017 was primarily from the non-deductible treatment of the \$1.0 billion discrete litigation accrual, partially offset by net discrete tax benefits arising from favorable resolutions of prior period matters with state taxing authorities. The effective income tax rate for the first nine months of 2017 also included net discrete tax benefits associated with stock compensation activity subject to ASU 2016-09 accounting guidance adopted in first quarter 2017, and tax benefits associated with our agreement to sell Wells Fargo Insurance Services USA (and related businesses) in second quarter 2017. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for additional information about ASU 2016-09.

### 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). Commencing in second quarter 2016, operating segment results 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. Since then, personnel expenses associated with the transferred support staff have been allocated from Community Banking back to the Wholesale Banking and WIM segments through other expense. 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,<br>average balances in billions) | Community<br>Banking |        | Wholesale<br>Banking |        | Wealth and<br>Investment<br>Management |        | Other (1) |         | Consolidated<br>Company |         |
|---|----------------------|--------|----------------------|--------|--|--------|-----------|---------|-------------------------|---------|
|   | 2017                 | 2016   | 2017                 | 2016   | 2017                                   | 2016   | 2017      | 2016    | 2017                    | 2016    |
| Quarter ended Sep 30,   |                      |        |                      |        |  |        |           |         |                         |         |
| Revenue   | \$12,060             | 12,387 | 7,085                | 7,147  | 4,246                                  | 4,099  | (1,465)   | (1,305) | 21,926                  | 22,328  |
| Provision (reversal of<br>provision) for credit losses        | 650                  | 651    | 69                   | 157    | (1)                                    | 4      | (1)       | (7)     | 717                     | 805     |
| Noninterest expense   | 7,834                | 6,953  | 4,248                | 4,120  | 3,106                                  | 2,999  | (837)     | (804)   | 14,351                  | 13,268  |
| Net income (loss)   | 2,229                | 3,227  | 2,046                | 2,047  | 710                                    | 677    | (389)     | (307)   | 4,596                   | 5,644   |
| Average loans   | \$473.5              | 489.2  | 463.8                | 454.3  | 72.4                                   | 68.4   | (57.4)    | (54.4)  | 952.3                   | 957.5   |
| Average deposits  | 734.5                | 708.0  | 463.4                | 441.2  | 188.1                                  | 189.2  | (79.6)    | (76.9)  | 1,306.4                 | 1,261.5 |
| Nine months ended Sep 30,                                     |                      |        |                      |        |  |        |           |         |                         |         |
| Revenue   | \$36,442             | 37,205 | 21,074               | 21,389 | 12,621                                 | 11,872 | (4,040)   | (3,781) | 66,097                  | 66,685  |
| Provision (reversal of<br>provision) for credit losses        | 1,919                | 2,060  | (39)                 | 905    | 2                                      | (8)    | (5)       | 8       | 1,877                   | 2,965   |
| Noninterest expense   | 22,278               | 20,437 | 12,551               | 12,124 | 9,387                                  | 9,017  | (2,532)   | (2,416) | 41,684                  | 39,162  |
| Net income (loss)   | 8,231                | 9,702  | 6,549                | 6,041  | 2,015                                  | 1,773  | (932)     | (852)   | 15,863                  | 16,664  |
| Average loans   | \$477.8              | 486.4  | 465.0                | 445.2  | 71.6                                   | 66.4   | (56.8)    | (52.8)  | 957.6                   | 945.2   |
| Average deposits  | 726.4                | 698.3  | 464.1                | 431.7  | 190.6                                  | 185.4  | (78.8)    | (76.1)  | 1,302.3                 | 1,239.3 |

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

## Earnings Performance (continued)

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, mortgage, home equity and small business lending, as well as referrals to Wholesale Banking and WIM business partners. 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. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

| (in millions, except average balances which are in billions)  | Quarter ended<br>Sep 30, |        |             | Nine months<br>ended Sep 30, |        |          |
|---|--------------------------|--------|-------------|------------------------------|--------|----------|
|   | 2017                     | 2016   | %<br>Change | 2017                         | 2016   | % Change |
| Net interest income   | \$7,645                  | 7,430  | 3 %         | \$22,820                     | 22,277 | 2 %      |
| Noninterest income:   |                          |        |             |                              |        |          |
| Service charges on deposit accounts                           | 738                      | 821    | (10 )       | 2,203                        | 2,347  | (6 )     |
| Trust and investment fees:                                    |                          |        |             |                              |        |          |
| Brokerage advisory, commissions and other fees (1)            | 460                      | 479    | (4 )        | 1,356                        | 1,384  | (2 )     |
| Trust and investment management (1)                           | 225                      | 222    | 1           | 659                          | 631    | 4        |
| Investment banking (2)  | (13 )                    | (23 )  | 43          | (60 )                        | (92 )  | 35       |
| Total trust and investment fees                               | 672                      | 678    | (1 )        | 1,955                        | 1,923  | 2        |
| Card fees   | 910                      | 911    | —           | 2,703                        | 2,670  | 1        |
| Other fees  | 362                      | 362    | —           | 1,152                        | 1,100  | 5        |
| Mortgage banking  | 936                      | 1,481  | (37 )       | 3,081                        | 4,314  | (29 )    |
| Insurance   | 36                       | 2      | NM          | 64                           | 4      | NM       |
| Net gains (losses) from trading activities                    | 18                       | 33     | (45 )       | 87                           | (54 )  | 261      |
| Net gains on debt securities                                  | 169                      | 131    | 29          | 455                          | 744    | (39 )    |
| Net gains from equity investments (3)                         | 195                      | 109    | 79          | 731                          | 448    | 63       |
| Other income of the segment                                   | 379                      | 429    | (12 )       | 1,191                        | 1,432  | (17 )    |
| Total noninterest income                                      | 4,415                    | 4,957  | (11 )       | 13,622                       | 14,928 | (9 )     |
| Total revenue   | 12,060                   | 12,387 | (3 )        | 36,442                       | 37,205 | (2 )     |
| Provision for credit losses                                   | 650                      | 651    | —           | 1,919                        | 2,060  | (7 )     |
| Noninterest expense:  |                          |        |             |                              |        |          |
| Personnel expense   | 5,027                    | 4,606  | 9           | 15,193                       | 13,886 | 9        |
| Equipment   | 511                      | 462    | 11          | 1,569                        | 1,421  | 10       |
| Net occupancy   | 532                      | 520    | 2           | 1,573                        | 1,551  | 1        |
| Core deposit and other intangibles                            | 112                      | 123    | (9 )        | 335                          | 380    | (12 )    |
| FDIC and other deposit assessments                            | 171                      | 159    | 8           | 547                          | 453    | 21       |
| Outside professional services                                 | 464                      | 300    | 55          | 1,355                        | 749    | 81       |
| Operating losses  | 1,294                    | 525    | 146         | 1,853                        | 1,224  | 51       |
| Other expense of the segment                                  | (277 )                   | 258    | NM          | (147 )                       | 773    | NM       |
| Total noninterest expense                                     | 7,834                    | 6,953  | 13          | 22,278                       | 20,437 | 9        |
| Income before income tax expense and noncontrolling interests | 3,576                    | 4,783  | (25 )       | 12,245                       | 14,708 | (17 )    |

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|  |         |       |       |         |       |       |
|--|---------|-------|-------|---------|-------|-------|
| Income tax expense                           | 1,286   | 1,546 | (17 ) | 3,817   | 4,910 | (22 ) |
| Net income from noncontrolling interests (4) | 61      | 10    | 510   | 197     | 96    | 105   |
| Net income                                   | \$2,229 | 3,227 | (31 ) | \$8,231 | 9,702 | (15 ) |
| Average loans                                | \$473.5 | 489.2 | (3 )  | \$477.8 | 486.4 | (2 )  |
| Average deposits                             | 734.5   | 708.0 | 4     | 726.4   | 698.3 | 4     |

NM - Not meaningful

- (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) Predominantly represents gains resulting from venture capital investments.
- (4) Reflects results attributable to noncontrolling interests predominantly associated with the Company's consolidated venture capital investments.

Community Banking reported net income of \$2.2 billion, down \$998 million, or 31%, from third quarter 2016, and \$8.2 billion for the first nine months of 2017, down \$1.5 billion, or 15%, compared with the same period a year ago. Third quarter 2017 results included a \$1 billion discrete litigation accrual (not tax deductible) for previously disclosed mortgage-related regulatory investigations. Revenue of \$12.1 billion decreased \$327 million, or 3%, from third quarter 2016, and was \$36.4 billion for the first nine months of 2017, a decrease of \$763 million, or 2%, compared with the same period last year. The decrease from third quarter 2016 was predominantly due to lower mortgage banking revenue and deposit service charges, partially offset by higher net interest income, and gains on equity investments. The decrease from the first nine months of 2016 was predominantly due to lower mortgage banking revenue, gains on sales of debt securities, and other income driven by net hedge ineffectiveness accounting related to our long-term debt hedging results, partially offset by higher net interest income and gains on

equity investments. Average loans of \$473.5 billion in third quarter 2017 decreased \$15.7 billion, or 3%, from third quarter 2016, and average loans of \$477.8 billion in the first nine months of 2017 decreased \$8.6 billion, or 2%, from the first nine months of 2016. The decline in average loans was due to lower loan origination in the consumer lending portfolio. Average deposits of \$734.5 billion increased \$26.5 billion, or 4%, from third quarter 2016 and average deposits of \$726.4 billion in the first nine months of 2017 increased \$28.1 billion, or 4%, from the first nine months of 2016. 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 2017 were down 0.2% from August 2016. Noninterest expense increased 13% from third quarter 2016 and 9% from the first nine months of 2016. The increase from third quarter 2016 was driven by higher operating losses (including the \$1 billion discrete litigation accrual in third quarter 2017) and higher personnel expenses mainly due to the

impact of annual salary increases and higher professional services driven by increased project spending, partially offset by higher expenses allocated to the Wholesale Banking and Wealth and Investment Management operating segments related to increased project and technology spending on regulatory and compliance related initiatives. The increase from the first nine months of 2016 was predominantly due to higher personnel expenses, including deferred compensation plan expense (offset in trading revenue), and higher operating losses and professional services, partially offset by lower other expense. The provision for credit losses was flat compared with third quarter 2016 and decreased \$141 million from the first nine months of 2016 predominantly due to an improvement in the consumer lending

portfolio, primarily consumer real estate, compared with the same periods a year ago.

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, Commercial Real Estate, Corporate Banking, Financial Institutions Group, Government and Institutional Banking, Insurance, Middle Market Banking, Principal Investments, Treasury Management, Wells Fargo Commercial Capital, and Wells Fargo Securities. Table 4b provides additional financial information for Wholesale Banking.

Table 4b: Wholesale Banking

| (in millions, except average balances which are in billions) | Quarter ended<br>Sep 30, |       |             | Nine months<br>ended Sep 30, |        |          |
|--|--------------------------|-------|-------------|------------------------------|--------|----------|
|  | 2017                     | 2016  | %<br>Change | 2017                         | 2016   | % Change |
| Net interest income  | \$4,353                  | 4,062 | 7 %         | \$12,779                     | 11,729 | 9 %      |
| Noninterest income:  |                          |       |             |                              |        |          |
| Service charges on deposit accounts                          | 539                      | 549   | (2 )        | 1,662                        | 1,667  | —        |
| Trust and investment fees:                                   |                          |       |             |                              |        |          |
| Brokerage advisory, commissions and other fees               | 65                       | 91    | (29 )       | 231                          | 276    | (16 )    |
| Trust and investment management                              | 130                      | 117   | 11          | 390                          | 351    | 11       |
| Investment banking   | 478                      | 444   | 8           | 1,407                        | 1,265  | 11       |
| Total trust and investment fees                              | 673                      | 652   | 3           | 2,028                        | 1,892  | 7        |
| Card fees  | 90                       | 85    | 6           | 260                          | 263    | (1 )     |
| Other fees   | 513                      | 562   | (9 )        | 1,487                        | 1,660  | (10 )    |
| Mortgage banking   | 110                      | 186   | (41 )       | 343                          | 367    | (7 )     |
| Insurance  | 224                      | 291   | (23 )       | 736                          | 1,002  | (27 )    |
| Net gains from trading activities                            | 156                      | 302   | (48 )       | 614                          | 853    | (28 )    |
| Net gains (losses) on debt securities                        | (5 )                     | (25 ) | 80          | (135 )                       | 52     | NM       |
| Net gains from equity investments                            | 40                       | 26    | 54          | 92                           | 118    | (22 )    |
| Other income of the segment                                  | 392                      | 457   | (14 )       | 1,208                        | 1,786  | (32 )    |
| Total noninterest income                                     | 2,732                    | 3,085 | (11 )       | 8,295                        | 9,660  | (14 )    |
| Total revenue  | 7,085                    | 7,147 | (1 )        | 21,074                       | 21,389 | (1 )     |
| Provision (reversal of provision) for credit losses          | 69                       | 157   | (56 )       | (39 )                        | 905    | NM       |
| Noninterest expense:   |                          |       |             |                              |        |          |
| Personnel expense  | 1,607                    | 1,806 | (11 )       | 5,048                        | 5,563  | (9 )     |
| Equipment  | 12                       | 18    | (33 )       | 42                           | 55     | (24 )    |
| Net occupancy  | 106                      | 116   | (9 )        | 326                          | 350    | (7 )     |
| Core deposit and other intangibles                           | 102                      | 101   | 1           | 310                          | 286    | 8        |
| FDIC and other deposit assessments                           | 120                      | 125   | (4 )        | 358                          | 299    | 20       |
| Outside professional services                                | 301                      | 269   | 12          | 842                          | 759    | 11       |
| Operating losses   | 22                       | 55    | (60 )       | 34                           | 130    | (74 )    |
| Other expense of the segment                                 | 1,978                    | 1,630 | 21          | 5,591                        | 4,682  | 19       |



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|   |         |       |       |         |        |       |
|---|---------|-------|-------|---------|--------|-------|
| Total noninterest expense                                     | 4,248   | 4,120 | 3     | 12,551  | 12,124 | 4     |
| Income before income tax expense and noncontrolling interests | 2,768   | 2,870 | (4 )  | 8,562   | 8,360  | 2     |
| Income tax expense  | 729     | 827   | (12 ) | 2,034   | 2,341  | (13 ) |
| Net loss from noncontrolling interests                        | (7 )    | (4 )  | (75 ) | (21 )   | (22 )  | 5     |
| Net income  | \$2,046 | 2,047 | —     | \$6,549 | 6,041  | 8     |
| Average loans   | \$463.8 | 454.3 | 2     | \$465.0 | 445.2  | 4     |
| Average deposits  | 463.4   | 441.2 | 5     | 464.1   | 431.7  | 8     |

NM – Not meaningful

Wholesale Banking reported net income of \$2.0 billion in third quarter 2017, down \$1 million from third quarter 2016. In the first nine months of 2017, net income of \$6.5 billion increased \$508 million, or 8%, from the same period a year ago. Net income results for the first nine months of 2017 included a tax benefit resulting from our agreement to sell Wells Fargo Insurance Services USA and related businesses. Revenue decreased \$62 million, or 1%, from third quarter 2016 and \$315 million, or 1%, from the first nine months of 2016 as an increase in net interest income was more than offset by lower noninterest income. Net interest income increased \$291 million, or 7%, from third quarter 2016 and \$1.1 billion, or 9%, from the first nine months of 2016 driven by strong loan growth, which

included the benefit from the GE Capital business acquisitions in 2016, and rising interest rates. Noninterest income decreased \$353 million, or 11%, from third quarter 2016 due predominantly to lower customer accommodation trading, mortgage banking fees, and insurance income. Noninterest income decreased \$1.4 billion, or 14%, from the first nine months of 2016 largely due to the first quarter 2016 sale of our crop insurance business, which resulted in lower insurance and gain on sale income, and the second quarter 2016 gain on the sale of our health benefits services business, as well as lower gains on debt securities and customer accommodation trading. The decrease in noninterest income from the first nine months of 2016 was partially offset by higher investment banking fees as well as higher lease income

## Earnings Performance (continued)

related to the GE Capital business acquisitions. Average loans of \$463.8 billion in third quarter 2017 increased \$9.5 billion, or 2%, from third quarter 2016, and average loans of \$465.0 billion in the first nine months of 2017 increased \$19.8 billion, or 4%, from the first nine months of 2016. Average loan growth was driven by growth in asset backed finance, capital finance, government and institutional banking, middle market banking, and structured real estate, as well as the GE Capital business acquisitions in 2016. Average deposits of \$463.4 billion increased \$22.2 billion, or 5%, from third quarter 2016 and \$32.4 billion, or 8%, from the first nine months of 2016 reflecting growth in corporate banking, commercial real estate, corporate trust, financial institutions and structured real estate. Noninterest expense increased \$128 million, or 3%, from third quarter 2016 and \$427 million, or 4%, from the first nine months of 2016, due to higher expenses allocated from Community Banking related to increased project and technology spending on regulatory and compliance related initiatives, and higher expense related to growth initiatives. The provision for credit losses decreased \$88 million from third

quarter 2016 and \$944 million from the first nine months of 2016 driven by improvement 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. Table 4c provides additional financial information for WIM.

Table 4c: Wealth and Investment Management

| (in millions, except average balances which are in billions) | Quarter ended<br>Sep 30, |       |             | Nine months<br>ended Sep 30, |        |          |
|--|--------------------------|-------|-------------|------------------------------|--------|----------|
|  | 2017                     | 2016  | %<br>Change | 2017                         | 2016   | % Change |
| Net interest income  | \$1,159                  | 977   | 19 %        | \$3,360                      | 2,852  | 18 %     |
| Noninterest income:  |                          |       |             |                              |        |          |
| Service charges on deposit accounts                          | 2                        | 5     | (60 )       | 12                           | 15     | (20 )    |
| Trust and investment fees:                                   |                          |       |             |                              |        |          |
| Brokerage advisory, commissions and other fees               | 2,241                    | 2,256 | (1 )        | 6,741                        | 6,618  | 2        |
| Trust and investment management                              | 718                      | 738   | (3 )        | 2,138                        | 2,168  | (1 )     |
| Investment banking (1)                                       | (1 )                     | —     | NM          | (3 )                         | (1 )   | NM       |
| Total trust and investment fees                              | 2,958                    | 2,994 | (1 )        | 8,876                        | 8,785  | 1        |
| Card fees  | 1                        | 2     | (50 )       | 4                            | 5      | (20 )    |
| Other fees   | 5                        | 4     | 25          | 14                           | 13     | 8        |
| Mortgage banking   | (2 )                     | (2 )  | —           | (7 )                         | (6 )   | (17 )    |
| Insurance  | 21                       | —     | NM          | 63                           | —      | NM       |
| Net gains from trading activities                            | 71                       | 80    | (11 )       | 220                          | 144    | 53       |
| Net gains on debt securities                                 | 2                        | —     | NM          | 2                            | 1      | NM       |
| Net gains from equity investments                            | 3                        | 5     | (40 )       | 6                            | 7      | (14 )    |
| Other income of the segment                                  | 26                       | 34    | (24 )       | 71                           | 56     | 27       |
| Total noninterest income                                     | 3,087                    | 3,122 | (1 )        | 9,261                        | 9,020  | 3        |
| Total revenue  | 4,246                    | 4,099 | 4           | 12,621                       | 11,872 | 6        |

|   |        |       |      |         |       |       |     |     |
|---|--------|-------|------|---------|-------|-------|-----|-----|
| Provision (reversal of provision) for credit losses           | (1     | )     | 4    | NM      | 2     | (8    | )   | 125 |
| Noninterest expense:  |        |       |      |         |       |       |     |     |
| Personnel expense   | 1,983  | 1,966 | 1    | 6,068   | 5,902 | 3     |     |     |
| Equipment   | —      | 12    | (100 | )       | 20    | 40    | (50 | )   |
| Net occupancy   | 108    | 111   | (3   | )       | 323   | 332   | (3  | )   |
| Core deposit and other intangibles                            | 74     | 75    | (1   | )       | 219   | 225   | (3  | )   |
| FDIC and other deposit assessments                            | 39     | 44    | (11  | )       | 118   | 106   | 11  |     |
| Outside professional services                                 | 198    | 241   | (18  | )       | 613   | 668   | (8  | )   |
| Operating losses  | 16     | (1    | )    | NM      | 81    | 17    | 376 |     |
| Other expense of the segment                                  | 688    | 551   | 25   | 1,945   | 1,727 | 13    |     |     |
| Total noninterest expense                                     | 3,106  | 2,999 | 4    | 9,387   | 9,017 | 4     |     |     |
| Income before income tax expense and noncontrolling interests | 1,141  | 1,096 | 4    | 3,232   | 2,863 | 13    |     |     |
| Income tax expense  | 427    | 415   | 3    | 1,206   | 1,087 | 11    |     |     |
| Net income from noncontrolling interests                      | 4      | 4     | —    | 11      | 3     | 267   |     |     |
| Net income  | \$710  | 677   | 5    | \$2,015 | 1,773 | 14    |     |     |
| Average loans   | \$72.4 | 68.4  | 6    | \$71.6  | 66.4  | 8     |     |     |
| Average deposits  | 188.1  | 189.2 | (1   | )       | 190.6 | 185.4 | 3   |     |

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 \$710 million in third quarter 2017, up \$33 million from third quarter 2016. Net income for the first nine months of 2017 was \$2.0 billion, up \$242 million, or 14%, compared with the same period a year ago. Revenue was up \$147 million, or 4%, from third quarter 2016, due to an increase in net interest income, and up \$749 million, or 6%, from the first nine months of 2016, resulting from increases in both net interest

income and noninterest income. Net interest income increased 19% from third quarter 2016 and 18% from the first nine months of 2016, due to higher interest rates and growth in investment securities and loan balances. Noninterest income decreased 1% from third quarter 2016 substantially driven by lower brokerage transaction revenue, and increased 3% from the first nine months of 2016 substantially driven by higher asset-based fees and

deferred compensation plan investments (offset in employee benefits expense), partially offset by lower brokerage transaction revenue. Asset-based fees were up predominantly due to higher brokerage advisory account client assets driven by higher market valuations and positive net flows. Average loans of \$72.4 billion in third quarter 2017 increased 6% from third quarter 2016. Average loans in the first nine months of 2017 increased 8% from the same period a year ago. Average loan growth was driven by growth in non-conforming mortgage loans. Average deposits in third quarter 2017 of \$188.1 billion decreased 1% from third quarter 2016. Average deposits in the first nine months of 2017 increased 3% from the same period a year ago. Noninterest expense was up 4% from both the third quarter and first nine months of 2016, due to higher expenses allocated from Community Banking related to increased project and technology spending on regulatory and compliance related initiatives, and higher broker commissions mainly due to higher brokerage revenue. The increase in noninterest expense from the first nine months of 2016 was also affected by higher deferred compensation plan expense (offset in trading revenue). Total provision for credit losses decreased \$5 million from third quarter 2016 driven by lower net charge-offs, and increased \$10 million from the first nine months of 2016 driven by higher

net charge-offs.

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 majority 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, 2017 and 2016.

Table 4d: Retail Brokerage Client Assets

| (in billions)   | September 30, |         |
|---|---------------|---------|
|   | 2017          | 2016    |
| Retail brokerage client assets  | \$1,612.1     | 1,483.3 |
| Advisory account client assets  | 521.8         | 458.3   |
| Advisory account client assets as a percentage of total client assets | 32            | % 31    |

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 2017 and 2016, 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 2017 and 2016.

Table 4e: Retail Brokerage Advisory Account Client Assets

| (in billions)      | Quarter ended                |             |              |                   | Nine months ended      |                              |             |              |                   |                        |
|--------------------|------------------------------|-------------|--------------|-------------------|------------------------|------------------------------|-------------|--------------|-------------------|------------------------|
|                    | Balance, beginning of period | Inflows (1) | Outflows (2) | Market impact (3) | Balance, end of period | Balance, beginning of period | Inflows (1) | Outflows (2) | Market impact (3) | Balance, end of period |
| September 30, 2017 |                              |             |              |                   |                        |                              |             |              |                   |                        |

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|                                |             |       |       |       |       |      |       |       |       |
|--------------------------------|-------------|-------|-------|-------|-------|------|-------|-------|-------|
| Client directed (4)            | \$163.88.2  | (8.9  | )3.7  | 166.8 | 159.1 | 28.5 | (30.1 | )9.3  | 166.8 |
| Financial advisor directed (5) | 131.7 6.7   | (5.2  | )6.0  | 139.2 | 115.7 | 23.0 | (17.4 | )17.9 | 139.2 |
| Separate accounts (6)          | 137.7 5.6   | (5.0  | )4.7  | 143.0 | 125.7 | 20.1 | (17.2 | )14.4 | 143.0 |
| Mutual fund advisory (7)       | 69.3 3.2    | (2.3  | )2.6  | 72.8  | 63.3  | 9.9  | (8.0  | )7.6  | 72.8  |
| Total advisory client assets   | \$502.523.7 | (21.4 | )17.0 | 521.8 | 463.8 | 81.5 | (72.7 | )49.2 | 521.8 |
| September 30, 2016             |             |       |       |       |       |      |       |       |       |
| Client directed (4)            | \$158.59.2  | (9.5  | )3.1  | 161.3 | 154.7 | 27.4 | (27.7 | )6.9  | 161.3 |
| Financial advisor directed (5) | 104.2 6.3   | (4.7  | )4.7  | 110.5 | 91.9  | 21.4 | (13.5 | )10.7 | 110.5 |
| Separate accounts (6)          | 118.9 6.0   | (5.6  | )3.5  | 122.8 | 110.4 | 19.0 | (15.6 | )9.0  | 122.8 |
| Mutual fund advisory (7)       | 62.1 2.2    | (2.6  | )2.0  | 63.7  | 62.9  | 6.1  | (8.5  | )3.2  | 63.7  |
| Total advisory client assets   | \$443.723.7 | (22.4 | )13.3 | 458.3 | 419.9 | 73.9 | (65.3 | )29.8 | 458.3 |

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

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

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

Investment advice and other services are provided to client, but decisions are made by the client and the fees (4) earned are based on a percentage of the advisory account assets, not the number and size of transactions executed by the client.

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

(6) 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.

(7) 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.

## Earnings Performance (continued)

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 2017 and 2016.

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

| (in billions)                                     | Quarter ended                         |                |                 |                         | Nine months ended            |                                       |                |                 |                         |                              |
|---|---------------------------------------|----------------|-----------------|-------------------------|------------------------------|---------------------------------------|----------------|-----------------|-------------------------|------------------------------|
|   | Balance,<br>beginning<br>of<br>period | Inflows<br>(1) | Outflows<br>(2) | Market<br>impact<br>(3) | Balance,<br>end of<br>period | Balance,<br>beginning<br>of<br>period | Inflows<br>(1) | Outflows<br>(2) | Market<br>impact<br>(3) | Balance,<br>end of<br>period |
| September 30,<br>2017                             |                                       |                |                 |                         |                              |                                       |                |                 |                         |                              |
| Assets managed<br>by WFAM (4):                    |                                       |                |                 |                         |                              |                                       |                |                 |                         |                              |
| Money market<br>funds (5)                         | \$ 94.7                               | 7.7            | —               | —                       | 102.4                        | 102.6                                 | —              | (0.2)           | )—                      | 102.4                        |
| Other assets<br>managed                           | 392.5                                 | 25.4           | (31.2)          | )7.3                    | 394.0                        | 379.6                                 | 89.0           | (98.8)          | )24.2                   | 394.0                        |
| Assets managed<br>by Wealth and<br>Retirement (6) | 175.6                                 | 10.1           | (8.7)           | )4.0                    | 181.0                        | 168.5                                 | 29.5           | (29.1)          | )12.1                   | 181.0                        |
| Total assets under<br>management                  | \$ 662.8                              | 43.2           | (39.9)          | )11.3                   | 677.4                        | 650.7                                 | 118.5          | (128.1)         | )36.3                   | 677.4                        |
| September 30,<br>2016                             |                                       |                |                 |                         |                              |                                       |                |                 |                         |                              |
| Assets managed<br>by WFAM (4):                    |                                       |                |                 |                         |                              |                                       |                |                 |                         |                              |
| Money market<br>funds (5)                         | \$ 108.9                              | 7.4            | —               | —                       | 116.3                        | 123.6                                 | —              | (7.3)           | )—                      | 116.3                        |
| Other assets<br>managed                           | 374.9                                 | 31.0           | (30.3)          | )6.2                    | 381.8                        | 366.1                                 | 86.9           | (85.2)          | )14.0                   | 381.8                        |
| Assets managed<br>by Wealth and<br>Retirement (6) | 164.6                                 | 8.4            | (7.4)           | )3.1                    | 168.7                        | 162.1                                 | 25.7           | (25.4)          | )6.3                    | 168.7                        |
| Total assets under<br>management                  | \$ 648.4                              | 46.8           | (37.7)          | )9.3                    | 666.8                        | 651.8                                 | 112.6          | (117.9)         | )20.3                   | 666.8                        |

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

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

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

- (4) Assets managed by WFAM consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.
- (5) Money Market funds 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.
- (6) Includes \$5.7 billion and \$7.7 billion as of September 30, 2017 and 2016, respectively, of client assets invested in proprietary funds managed by WFAM.

## Balance Sheet Analysis

At September 30, 2017, our assets totaled \$1.93 trillion, up \$4.8 billion from December 31, 2016. Asset growth was predominantly driven by growth in trading assets and investment securities, which increased \$14.0 billion and \$6.7 billion, respectively, from December 31, 2016, partially offset by a \$15.7 billion decrease in loans. Total equity growth of \$6.3 billion from December 31, 2016, was the predominant source that funded our asset growth from December 31, 2016. Equity growth benefited from \$8.7 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, 2017 |                            |            | December 31, 2016 |                            |            |
|-------------------------------------|--------------------|----------------------------|------------|-------------------|----------------------------|------------|
|                                     | Amortized Cost     | Net unrealized gain (loss) | Fair value | Amortized Cost    | Net unrealized gain (loss) | Fair value |
| Available-for-sale securities:      |                    |                            |            |                   |                            |            |
| Debt securities                     | \$269,779          | 1,538                      | 271,317    | 309,447           | (2,294)                    | 307,153    |
| Marketable equity securities        | 606                | 287                        | 893        | 706               | 505                        | 1,211      |
| Total available-for-sale securities | 270,385            | 1,825                      | 272,210    | 310,153           | (1,789)                    | 308,364    |
| Held-to-maturity debt securities    | 142,423            | 395                        | 142,818    | 99,583            | (428)                      | 99,155     |
| Total investment securities (1)     | \$412,808          | 2,220                      | 415,028    | 409,736           | (2,217)                    | 407,519    |

(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 \$6.7 billion in balance sheet carrying value from December 31, 2016, predominantly due to purchases of federal agency mortgage-backed securities, partially offset by sales and paydowns on other security classes including securities of U.S. treasury and federal agencies and mortgage-backed securities.

The total net unrealized gains on available-for-sale securities were \$1.8 billion at September 30, 2017, up from net unrealized losses of \$1.8 billion at December 31, 2016, primarily due to lower long-term interest rates, tighter credit spreads and the transfer of available-for-sale securities to held-to-maturity. For a discussion of our investment management objectives and practices, see the “Balance Sheet Analysis” section in our 2016 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 \$293 million in OTTI write-downs recognized in earnings in the first nine months of 2017, \$107 million related to debt securities, \$5 million related to marketable equity securities, which are included in available-for-sale securities, and \$181 million related to nonmarketable equity investments, which are included in other assets. OTTI write-downs recognized in earnings related to oil and gas investments totaled \$77 million in the first nine months of 2017, of which \$24 million related to investment securities and \$53 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 2016 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At September 30, 2017, investment securities included \$59.1 billion of municipal bonds, of which 95.9% 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 6.8 years at September 30, 2017. The expected remaining maturity is shorter than the remaining contractual maturity for the 59% of this portfolio that is MBS 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, 2017       |            |                            |  |
| Actual                      | \$161.2    | 0.8                        | 6.5                                    |
| Assuming a 200 basis point: |            |                            |  |
| Increase in interest rates  | 143.9      | (16.5)                     | 8.5                                    |
| Decrease in interest rates  | 167.4      | 7.0                        | 2.6                                    |

The weighted-average expected maturity of debt securities held-to-maturity was 6.5 years at September 30, 2017. See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

## Balance Sheet Analysis (continued)

## Loan Portfolios

Table 7 provides a summary of total outstanding loans by portfolio segment. Total loans decreased \$15.7 billion from December 31, 2016, reflecting paydowns, a continued decline in

junior lien mortgage loans, and an expected decline in automobile loans as the effect of tighter underwriting standards implemented last year resulted in lower origination volume.

Table 7: Loan Portfolios

| (in millions)              | September 30,<br>2017 | December 31, 2016 |
|----------------------------|-----------------------|-------------------|
| Commercial                 | \$ 500,150            | 506,536           |
| Consumer                   | 451,723               | 461,068           |
| Total loans                | \$ 951,873            | 967,604           |
| Change from prior year-end | \$ (15,731            | ) 51,045          |

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, 2017    |  |                        |         | December 31, 2016     |  |                        |         |
|---|-----------------------|--|------------------------|---------|-----------------------|--|------------------------|---------|
|   | Within<br>one<br>year | After one<br>year<br>through<br>five years | After<br>five<br>years | Total   | Within<br>one<br>year | After one<br>year<br>through<br>five years | After<br>five<br>years | Total   |
| Selected loan maturities:                           |                       |  |                        |         |                       |  |                        |         |
| Commercial and industrial                           | \$98,776              | 203,785                                    | 25,383                 | 327,944 | 105,421               | 199,211                                    | 26,208                 | 330,840 |
| Real estate mortgage                                | 19,720                | 66,245                                     | 42,510                 | 128,475 | 22,713                | 68,928                                     | 40,850                 | 132,491 |
| Real estate construction                            | 10,431                | 12,801                                     | 1,288                  | 24,520  | 9,576                 | 13,102                                     | 1,238                  | 23,916  |
| Total selected loans                                | \$128,927             | 282,831                                    | 69,181                 | 480,939 | 137,710               | 281,241                                    | 68,296                 | 487,247 |
| Distribution of loans to changes in interest rates: |                       |  |                        |         |                       |  |                        |         |
| Loans at fixed interest rates                       | \$18,405              | 28,261                                     | 26,234                 | 72,900  | 19,389                | 29,748                                     | 26,859                 | 75,996  |
| Loans at floating/variable interest rates           | 110,522               | 254,570                                    | 42,947                 | 408,039 | 118,321               | 251,493                                    | 41,437                 | 411,251 |
| Total selected loans                                | \$128,927             | 282,831                                    | 69,181                 | 480,939 | 137,710               | 281,241                                    | 68,296                 | 487,247 |

## Deposits

Deposits were \$1.3 trillion at September 30, 2017, up \$627 million from December 31, 2016, reflecting growth in retail deposits and Treasury institutional certificates of deposit, partially offset by lower wealth and commercial 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,<br>2017 | % of<br>total<br>deposits | Dec 31,<br>2016 | % of<br>total<br>deposits | % Change |
|---------------------------------|-----------------|---------------------------|-----------------|---------------------------|----------|
| Noninterest-bearing             | \$366,528       | 28                        | % \$375,967     | 29                        | % (3 )   |
| Interest-bearing checking       | 47,366          | 4                         | 49,403          | 4                         | (4 )     |
| Market rate and other savings   | 687,323         | 52                        | 687,846         | 52                        | —        |
| Savings certificates            | 21,396          | 2                         | 23,968          | 2                         | (11 )    |
| Other time deposits             | 66,884          | 5                         | 52,649          | 4                         | 27       |
| Deposits in foreign offices (1) | 117,209         | 9                         | 116,246         | 9                         | 1        |
| Total deposits                  | \$1,306,706     | 100                       | % \$1,306,079   | 100                       | % —      |

(1) Includes Eurodollar sweep balances of \$72.8 billion and \$74.8 billion at September 30, 2017, and December 31, 2016, 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 2016 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, 2017 |             | December 31, 2016 |             |
|---|--------------------|-------------|-------------------|-------------|
|   | Total<br>balance   | Level 3 (1) | Total<br>balance  | Level 3 (1) |
| Assets carried<br>at fair value         | \$407.9            | 24.1        | 436.3             | 23.5        |
| As a percentage<br>of total assets      | 21                 | % 1         | 23                | 1           |
| Liabilities carried<br>at fair value    | \$28.6             | 2.0         | 30.9              | 1.7         |
| As a percentage of<br>total liabilities | 2                  | % *         | 2                 | *           |

\* Less than 1%.

(1) Before derivative netting adjustments.

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

## Equity

Total equity was \$206.8 billion at September 30, 2017, compared with \$200.5 billion at December 31, 2016. The increase was predominantly driven by a \$8.7 billion increase in retained earnings from earnings net of dividends paid, 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 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 2016 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements – Contractual Cash Obligations” section in our 2016 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 conduct risk, operational risk, credit risk, and asset/liability management related risks, which include interest rate risk, market risk, liquidity risk, and funding related risks. We operate under a Board-level approved risk framework which outlines our company-wide approach to risk management and oversight, and describes the structures and practices employed to manage current and emerging risks inherent to Wells Fargo. For more information about how we manage these risks, see the “Risk Management” section in our 2016 Form 10-K. The discussion that follows provides an update regarding these risks.

### Conduct Risk Management

Our Board oversees the alignment of team member conduct to the Company’s risk appetite (which the Board approves annually) and culture as reflected in our Vision and Values and Code of Ethics and Business Conduct. The Board’s Risk Committee has primary oversight responsibility for enterprise-wide conduct risk, while certain other Board committees have primary oversight responsibility for specific components of conduct risk.

At the management level, several committees have primary oversight responsibility for key elements of conduct risk, including internal investigations, sales practices oversight, complaints oversight, and ethics oversight. These management-level committees have escalation and informational reporting paths to the relevant Board committee.

Our Conduct Management Office, which reports to our Chief Risk Officer and has an informational reporting path to the Board’s Risk Committee, is responsible for fostering and promoting an enterprise-wide culture of prudent conduct risk management and compliance with internal directives, rules, regulations, and regulatory expectations throughout the Company and to provide assurance that the Company’s internal operations and its treatment of customers and other external stakeholders are safe and sound, fair, and ethical.

### 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, vendors that do not adequately or appropriately 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 2016 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,<br>2017 | Dec 31, 2016 |
|---|-----------------|--------------|
| Commercial:                                 |                 |              |
| Commercial and industrial                   | \$327,944       | 330,840      |
| Real estate mortgage                        | 128,475         | 132,491      |
| Real estate construction                    | 24,520          | 23,916       |
| Lease financing                             | 19,211          | 19,289       |
| Total commercial                            | 500,150         | 506,536      |
| Consumer:                                   |                 |              |
| Real estate 1-4 family first mortgage       | 280,173         | 275,579      |
| Real estate 1-4 family junior lien mortgage | 41,152          | 46,237       |
| Credit card                                 | 36,249          | 36,700       |
| Automobile                                  | 55,455          | 62,286       |
| Other revolving credit and installment      | 38,694          | 40,266       |
| Total consumer                              | 451,723         | 461,068      |
| Total loans                                 | \$951,873       | 967,604      |

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** Solid credit quality continued in third quarter 2017, as our net charge-off rate remained low at 0.30% (annualized) of average total loans. We continued to benefit from improvements in the performance of our residential real estate portfolio as well as reduced losses in our oil and gas portfolio. In particular:

Nonaccrual loans were \$8.6 billion at September 30, 2017, down from \$10.4 billion at December 31, 2016.

Commercial nonaccrual loans declined to \$3.1 billion at September 30, 2017, compared with \$4.1 billion at December 31, 2016, and consumer nonaccrual loans declined to \$5.5 billion at September 30, 2017, compared with \$6.3 billion at December 31, 2016. The decline in consumer nonaccrual loans reflected an improved housing market, while the decline in commercial nonaccrual loans was predominantly driven by loans in our oil and gas portfolio. Nonaccrual loans represented 0.91% of total loans at September 30, 2017, compared with 1.07% at December 31, 2016.

Net charge-offs (annualized) as a percentage of average total loans decreased to 0.30% in both the third quarter and first nine months of 2017, compared with 0.33% and 0.37% in the same periods a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.09% and 0.53% in the third quarter and 0.09% and 0.54% in the first nine months of 2017, respectively, compared with 0.17% and 0.51% in the third quarter and 0.22% and 0.52% in the first nine months of 2016.

Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were \$38 million and \$923 million in our commercial and consumer portfolios, respectively, at September 30, 2017, compared with \$64 million and \$908 million at December 31, 2016.

Our provision for credit losses was \$717 million and \$1.9 billion in the third quarter and first nine months of 2017, respectively, compared with \$805 million and \$3.0 billion for the same periods a year ago.

The allowance for credit losses totaled \$12.1 billion, or 1.27% of total loans, at September 30, 2017, down from \$12.5 billion, or 1.30%, at December 31, 2016.

During third quarter 2017, Hurricanes Harvey, Irma and Maria caused considerable damage in several geographic markets where the Company has significant lending exposure. The impact was in both our commercial and consumer lending portfolios. Based on our analysis to date of the level of insurance coverage, types of loans, location, and potential damage to collateral, we believe the ultimate collectability of these loans will be impacted. Our allowance for credit losses at September 30, 2017 included \$450 million for coverage of our preliminary estimate of potential hurricane-related losses. We will continue to assess the impact to our customers and our business as a result of the hurricanes and refine our estimates as more information becomes available. However, in light of the ongoing recovery challenges in Puerto Rico after Hurricane Maria, it may take longer to assess the hurricane's impact on our portfolios there.

We are still evaluating the impact on our portfolio from the California wildfires that occurred in October 2017. 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, 2017, totaled \$13.6 billion, compared with \$16.7 billion at December 31, 2016, and \$58.8 billion at December 31, 2008. The decrease from December 31, 2016, was due in part to higher prepayment trends observed in our Pick-a-Pay PCI portfolio, as home price appreciation and the resulting reduction in loan to collateral value ratios enabled more borrowers to qualify for

refinancing options, as well as the sale of \$569 million of Pick-a-Pay PCI loans in second quarter 2017. 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, 2017, was \$9.2 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 \$13.6 billion in nonaccretable difference, including \$11.6 billion transferred from the nonaccretable difference to the accretable yield due to decreases in our initial estimate of loss on contractual amounts, and \$2.0 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 \$11.9 billion reduction from December 31, 2008, through September 30, 2017, in our initial projected losses of \$41.0 billion on all PCI loans acquired in the Wachovia acquisition. At September 30, 2017, \$454 million in nonaccretable difference 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 2016 Form 10-K, and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

**Significant Loan Portfolio Reviews** Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, FICO scores, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of credit risk. Our credit risk monitoring process is designed to enable early identification of developing risk and to support our determination of an appropriate allowance for credit losses. The following discussion provides additional characteristics and analysis of our significant portfolios. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for more analysis and credit metric information for each of the following portfolios.

**COMMERCIAL AND INDUSTRIAL LOANS AND LEASE FINANCING** For purposes of portfolio risk management, we aggregate commercial and industrial loans and lease financing according to market segmentation and standard industry codes. We generally subject commercial and industrial loans and lease financing to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard, doubtful and loss categories.

The commercial and industrial loans and lease financing portfolio totaled \$347.2 billion, or 36% of total loans, at September 30, 2017. The annualized net charge-off rate for this portfolio was 0.15% in both the third quarter and first nine months of 2017, compared with 0.30% and 0.36% for the same periods a year ago. At September 30, 2017, 0.71% of this portfolio was nonaccruing, compared with 0.95% at December 31, 2016, reflecting a decrease of \$853 million in nonaccrual loans, predominantly due to improvement in the oil and gas portfolio. Also, \$20.0 billion of the commercial and industrial loan and lease financing portfolio was internally classified as criticized in accordance with regulatory guidance at September 30, 2017, compared with \$24.0 billion at December 31, 2016. The decrease in criticized loans, which also includes the decrease in nonaccrual loans, was primarily due to improvement in the oil and gas portfolio.

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 \$59.7 billion of foreign loans at September 30, 2017. Foreign loans totaled \$19.4 billion within the investor category, \$16.2 billion within the financial institutions category and \$1.4 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 \$16.2 billion of foreign loans in the financial institutions category were predominantly originated by our Financial Institutions business.

The oil and gas loan portfolio totaled \$12.8 billion, or 1% of total outstanding loans at September 30, 2017, compared with \$14.8 billion, or 2% of total outstanding loans, at December 31, 2016. Unfunded loan commitments in the oil and gas loan portfolio totaled \$22.6 billion at September 30, 2017. 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 decreased to \$1.6 billion at September 30, 2017, compared with \$2.4 billion at December 31, 2016, due to improved portfolio performance.

Table 12: Commercial and Industrial Loans and Lease Financing by Industry (1)  
September 30, 2017

| (in millions)          | Nonaccrual<br>loans | Total<br>portfolio | (2) % of<br>total<br>loans |
|------------------------|---------------------|--------------------|----------------------------|
| Investors              | \$6                 | 60,929             | 6 %                        |
| Financial institutions | 2                   | 37,951             | 4                          |
| Cyclical retailers     | 92                  | 25,919             | 3                          |
| Food and beverage      | 10                  | 16,876             | 2                          |
| Healthcare             | 27                  | 15,969             | 2                          |
| Industrial equipment   | 175                 | 15,177             | 2                          |
| Real estate lessor     | 10                  | 14,391             | 2                          |
| Technology             | 33                  | 13,737             | 1                          |
| Oil and gas            | 1,559               | 12,825             | 1                          |
| Transportation         | 130                 | 9,109              | 1                          |
| Public administration  | 28                  | 9,101              | 1                          |
| Business services      | 23                  | 8,474              | 1                          |
| Other                  | 383                 | 106,697            | (3) 10                     |
| Total                  | \$2,478             | 347,155            | 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 \$116 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 \$6.8 billion.

## Risk Management - Credit Risk Management (continued)

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 among special mention, substandard, doubtful and loss categories. The CRE portfolio, which included \$8.7 billion of foreign CRE loans, totaled \$153.0 billion, or 16% of total loans, at September 30, 2017, and consisted of \$128.5 billion of mortgage loans and \$24.5 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 0.4% of the CRE outstanding balance at September 30, 2017, compared with 0.5% at December 31, 2016. At September 30, 2017, we had \$4.8 billion of criticized CRE mortgage loans, compared with \$5.4 billion at December 31, 2016, and \$327 million of criticized CRE construction loans, compared with \$461 million at December 31, 2016.

At September 30, 2017, the recorded investment in PCI CRE loans totaled \$118 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

| (in millions)                      | September 30, 2017   |                 |                          |                 |                  |                 |                  | (1) | % |
|------------------------------------|----------------------|-----------------|--------------------------|-----------------|------------------|-----------------|------------------|-----|---|
|                                    | Real estate mortgage |                 | Real estate construction |                 | Total            |                 | % of total loans |     |   |
|                                    | Nonaccrual loans     | Total portfolio | Nonaccrual loans         | Total portfolio | Nonaccrual loans | Total portfolio |                  |     |   |
| By state:                          |                      |                 |                          |                 |                  |                 |                  |     |   |
| California                         | \$127                | 36,398          | 2                        | 4,245           | 129              | 40,643          | 4                | %   |   |
| New York                           | 12                   | 10,366          | —                        | 2,869           | 12               | 13,235          | 1                |     |   |
| Texas                              | 102                  | 9,245           | —                        | 2,160           | 102              | 11,405          | 1                |     |   |
| Florida                            | 33                   | 8,016           | —                        | 1,830           | 33               | 9,846           | 1                |     |   |
| North Carolina                     | 31                   | 4,100           | 6                        | 785             | 37               | 4,885           | 1                |     |   |
| Arizona                            | 27                   | 3,944           | —                        | 643             | 27               | 4,587           | *                |     |   |
| Georgia                            | 17                   | 3,356           | 1                        | 852             | 18               | 4,208           | *                |     |   |
| Virginia                           | 11                   | 3,230           | —                        | 893             | 11               | 4,123           | *                |     |   |
| Washington                         | 15                   | 3,381           | —                        | 619             | 15               | 4,000           | *                |     |   |
| Illinois                           | 5                    | 3,263           | —                        | 590             | 5                | 3,853           | *                |     |   |
| Other                              | 213                  | 43,176          | 29                       | 9,034           | 242              | 52,210          | (2) 5            |     |   |
| Total                              | \$593                | 128,475         | 38                       | 24,520          | 631              | 152,995         | 16               | %   |   |
| By property:                       |                      |                 |                          |                 |                  |                 |                  |     |   |
| Office buildings                   | \$130                | 39,959          | 2                        | 3,187           | 132              | 43,146          | 5                | %   |   |
| Apartments                         | 24                   | 15,417          | —                        | 8,857           | 24               | 24,274          | 3                |     |   |
| Industrial/warehouse               | 142                  | 15,801          | 2                        | 1,847           | 144              | 17,648          | 2                |     |   |
| Retail (excluding shopping center) | 66                   | 16,873          | —                        | 617             | 66               | 17,490          | 2                |     |   |
| Shopping center                    | 16                   | 11,835          | —                        | 1,158           | 16               | 12,993          | 1                |     |   |
| Hotel/motel                        | 8                    | 9,685           | 4                        | 1,716           | 12               | 11,401          | 1                |     |   |
| Real estate - other                | 90                   | 6,849           | —                        | 170             | 90               | 7,019           | 1                |     |   |
| Institutional                      | 36                   | 3,247           | —                        | 1,564           | 36               | 4,811           | 1                |     |   |
| Agriculture                        | 30                   | 2,613           | —                        | 19              | 30               | 2,632           | *                |     |   |
| 1-4 family structure               | —                    | 10              | 7                        | 2,460           | 7                | 2,470           | *                |     |   |
| Other                              | 51                   | 6,186           | 23                       | 2,925           | 74               | 9,111           | 1                |     |   |
| Total                              | \$593                | 128,475         | 38                       | 24,520          | 631              | 152,995         | 16               | %   |   |

\*Less than 1%.

Includes a total of \$118 million PCI loans, consisting of \$108 million of real estate mortgage and \$10 million of (1) real estate construction, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

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

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**FOREIGN LOANS AND COUNTRY RISK EXPOSURE** We classify loans for financial statement and certain regulatory purposes as foreign primarily based on whether the borrower's primary address is outside of the United States. At September 30, 2017, foreign loans totaled \$68.8 billion, representing approximately 7% of our total consolidated loans outstanding, compared with \$65.7 billion, or approximately 7% of total consolidated loans outstanding, at December 31, 2016. Foreign loans were approximately 4% of our consolidated total assets at September 30, 2017 and 3% at December 31, 2016.

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

We evaluate our individual country risk exposure based on our assessment of the borrower's ability to repay, which gives consideration for allowable transfers of risk such as guarantees and collateral and may be different from the reporting based on the borrower's primary address. Our largest single foreign country exposure based on our assessment of risk at September 30, 2017, was the United Kingdom, which totaled \$29.6 billion, or approximately 2% of our total assets, and included \$7.1 billion of sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch. The United Kingdom officially announced its intention to leave the European Union (Brexit) on March 29, 2017, starting the two-year negotiation process leading to its departure. We continue to conduct assessments and are executing our implementation plans to ensure we can continue to prudently serve our customers post-Brexit.

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

Table 14 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, based on our assessment of risk, which gives consideration to the country of any guarantors and/or underlying collateral. Our exposure to Puerto Rico (considered part of U.S. exposure) is largely through automobile lending and was not material to our consolidated country exposure. For information on potential credit impacts from recent hurricanes, see the "Risk Management – Credit Risk Management – Credit Quality Overview" section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

## Risk Management - Credit Risk Management (continued)

Table 14: Select Country Exposures-  
September 30, 2017

| (in millions)                                   | Lending (1) |               | Securities (2) |               | Derivatives and other (3) |               | Total exposure |               |           |
|---|-------------|---------------|----------------|---------------|---------------------------|---------------|----------------|---------------|-----------|
|   | Sovereign   | Non-sovereign | Sovereign      | Non-sovereign | Sovereign                 | Non-sovereign | Sovereign      | Non-sovereign | Total (4) |
| Top 20 country exposures:                       |             |               |                |               |                           |               |                |               |           |
| United Kingdom                                  | \$7,079     | 20,200        | —              | 1,852         | —                         | 473           | 7,079          | 22,525        | 29,604    |
| Canada  | 29          | 18,240        | 61             | 189           | —                         | 507           | 90             | 18,936        | 19,026    |
| Cayman Islands                                  | —           | 6,723         | —              | —             | —                         | 151           | —              | 6,874         | 6,874     |
| Germany   | 3,349       | 1,664         | 5              | 162           | 3                         | 392           | 3,357          | 2,218         | 5,575     |
| Ireland   | —           | 3,528         | —              | 118           | —                         | 140           | —              | 3,786         | 3,786     |
| Bermuda   | —           | 2,827         | —              | 112           | —                         | 196           | —              | 3,135         | 3,135     |
| China   | —           | 2,761         | (2             | ) 182         | 32                        | 30            | 30             | 2,973         | 3,003     |
| Netherlands                                     | —           | 2,278         | 22             | 285           | 2                         | 247           | 24             | 2,810         | 2,834     |
| India   | —           | 2,092         | —              | 112           | —                         | —             | —              | 2,204         | 2,204     |
| Luxembourg                                      | —           | 1,258         | —              | 656           | —                         | 120           | —              | 2,034         | 2,034     |
| Guernsey  | —           | 1,971         | —              | 3             | —                         | 3             | —              | 1,977         | 1,977     |
| Australia                                       | —           | 1,581         | —              | 282           | —                         | 78            | —              | 1,941         | 1,941     |
| Brazil  | —           | 1,689         | —              | 17            | —                         | —             | —              | 1,706         | 1,706     |
| Chile   | —           | 1,485         | —              | 21            | —                         | —             | —              | 1,506         | 1,506     |
| South Korea                                     | —           | 1,352         | 2              | 85            | 2                         | 8             | 4              | 1,445         | 1,449     |
| Switzerland                                     | —           | 1,210         | —              | (2            | ) —                       | 35            | —              | 1,243         | 1,243     |
| Jersey, Channel Islands                         | —           | 645           | —              | 469           | —                         | 14            | —              | 1,128         | 1,128     |
| Japan   | 285         | 710           | 6              | 42            | —                         | 63            | 291            | 815           | 1,106     |
| France  | —           | 798           | —              | 205           | —                         | 67            | —              | 1,070         | 1,070     |
| Mexico  | 56          | 925           | —              | 4             | —                         | 4             | 56             | 933           | 989       |
| Total top 20 country exposures                  | \$10,798    | 73,937        | 94             | 4,794         | 39                        | 2,528         | 10,931         | 81,259        | 92,190    |
| Eurozone exposure:                              |             |               |                |               |                           |               |                |               |           |
| Eurozone countries included in Top 20 above (5) | \$3,349     | 9,526         | 27             | 1,426         | 5                         | 966           | 3,381          | 11,918        | 15,299    |
| Austria   | —           | 590           | —              | 3             | —                         | 3             | —              | 596           | 596       |
| Spain   | —           | 362           | —              | 54            | —                         | 19            | —              | 435           | 435       |
| Belgium   | —           | 274           | —              | (45           | ) —                       | 5             | —              | 234           | 234       |
| Other Eurozone exposure (6)                     | 24          | 211           | —              | 47            | —                         | —             | 24             | 258           | 282       |
| Total Eurozone exposure                         | \$3,373     | 10,963        | 27             | 1,485         | 5                         | 993           | 3,405          | 13,441        | 16,846    |

Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under (1) the terms of the credit agreements. For the countries listed above, includes \$17 million in PCI loans to customers in Germany and the Netherlands, and \$680 million in defeased leases secured primarily by U.S. Treasury and government agency securities.

(2)



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

- Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used for market making activities in the U.S. and London based trading businesses, which sometimes results in selling and purchasing protection on the identical reference entities. Generally, we do not use market instruments such as CDS to hedge the credit risk of our investment or loan positions, although we do use them to manage risk in our trading businesses. At September 30, 2017, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries was \$348 million, which was offset by the notional amount of CDS purchased of \$469 million. We did not have any CDS purchased or sold that reference pools of assets that contain sovereign debt or where the reference asset was solely the sovereign debt of a foreign country.
- (3)
- (4) For countries presented in the table, total non-sovereign exposure comprises \$39.9 billion exposure to financial institutions and \$42.9 billion to non-financial corporations at September 30, 2017.
- (5) Consists of exposure to Germany, Ireland, Netherlands, Luxembourg, and France included in Top 20. Includes non-sovereign exposure to Italy, Portugal, and Greece in the amount of \$133 million, \$17 million and \$1
- (6) million, respectively. We had no sovereign debt exposure to Portugal and Greece, and the exposure to Italy was immaterial at September 30, 2017.

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

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

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

| (in millions)                               | September 30,<br>2017 |                   | December 31, 2016 |                   |
|---|-----------------------|-------------------|-------------------|-------------------|
|   | Balance               | % of<br>portfolio | Balance           | % of<br>portfolio |
| Real estate 1-4 family first mortgage       | \$280,173             | 87                | % \$275,579       | 86                |
| Real estate 1-4 family junior lien mortgage | 41,152                | 13                | 46,237            | 14                |
| Total real estate 1-4 family mortgage loans | \$321,325             | 100               | % \$321,816       | 100               |

The real estate 1-4 family mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 5% and 7% of total loans at September 30, 2017, and December 31, 2016, respectively. We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. The option ARMs we do have are included in the Pick-a-Pay portfolio which was acquired from Wachovia. Since our acquisition of the Pick-a-Pay loan portfolio at the end of 2008, the option payment portion of the portfolio has reduced from 86% to 36% at September 30, 2017, as a result of our modification and loss mitigation efforts. For more information, see the “Pick-a-Pay Portfolio” section in this Report. We continue to modify real estate 1-4 family mortgage loans to assist homeowners and other borrowers experiencing financial difficulties. For more information on our modification programs, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2016 Form 10-K. Part of our credit monitoring includes tracking delinquency, current FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These credit risk indicators, which exclude government insured/guaranteed loans, continued to improve in third quarter 2017 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at September 30, 2017, totaled \$5.3 billion, or 2% of total non-PCI mortgages, compared with \$5.9 billion, or 2%, at December 31, 2016. Loans with FICO scores lower than 640 totaled \$12.2 billion, or 4% of total non-PCI mortgages at September 30, 2017, compared with \$16.6 billion, or 5%, at December 31, 2016. Mortgages with a LTV/CLTV greater than 100% totaled \$6.7 billion at September 30, 2017, or 2% of total non-PCI mortgages, compared with \$8.9 billion, or 3%, at December 31, 2016. Information regarding credit quality indicators, including PCI credit quality indicators, can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 16. Our real estate 1-4 family mortgage loans (including PCI loans) to borrowers in California represented approximately 13% of total loans at September 30, 2017, located mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 5% of total loans. We monitor changes in real estate values and underlying economic or market conditions for all geographic areas of our real estate 1-4 family mortgage portfolio as part of

our credit risk management process. Our underwriting and periodic review of loans secured by residential real estate collateral includes appraisals or estimates from automated valuation models (AVMs) to support property values. Additional information about AVMs and our policy for their use can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report and the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2016 Form 10-K.

Table 16: Real Estate 1-4 Family First and Junior Lien Mortgage Loans by State  
September 30, 2017

| (in millions)                                 | Real<br>estate<br>1-4<br>family<br>first<br>mortgage | Real estate<br>1-4 family<br>junior lien<br>mortgage | Total real<br>estate 1-4<br>family<br>mortgage | % of<br>total<br>loans |   |
|---|--|--|--|------------------------|---|
| Real estate 1-4 family loans (excluding PCI): |  |  |  |                        |   |
| California                                    | \$99,380   | 11,006   | 110,386  | 12                     | % |
| New York                                      | 26,008   | 1,989  | 27,997   | 3                      |   |
| Florida                                       | 13,278   | 3,824  | 17,102   | 2                      |   |
| New Jersey                                    | 13,116   | 3,704  | 16,820   | 2                      |   |
| Virginia                                      | 7,899  | 2,442  | 10,341   | 1                      |   |
| Washington                                    | 8,589  | 900  | 9,489  | 1                      |   |
| Texas   | 8,732  | 746  | 9,478  | 1                      |   |
| North Carolina                                | 6,053  | 1,930  | 7,983  | 1                      |   |
| Pennsylvania                                  | 5,681  | 2,275  | 7,956  | 1                      |   |
| Other (1)                                     | 64,530   | 12,307   | 76,837   | 8                      |   |
| Government insured/<br>guaranteed loans (2)   | 13,606   | —  | 13,606   | 1                      |   |
| Real estate 1-4 family loans (excluding PCI)  | 266,872  | 41,123   | 307,995  | 33                     |   |
| Real estate 1-4 family PCI loans (3)          | 13,301   | 29   | 13,330   | 1                      |   |
| Total   | \$280,173  | 41,152   | 321,325  | 34                     | % |

(1) Consists of 41 states; no state had loans in excess of \$6.9 billion.

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

(3) Includes \$9.1 billion in real estate 1-4 family mortgage PCI loans in California.

## Risk Management - Credit Risk Management (continued)

**First Lien Mortgage Portfolio** Our total real estate 1-4 family first lien mortgage portfolio increased \$3.6 billion in third quarter 2017 and \$4.6 billion in the first nine months of 2017, as non-conforming loan growth was partially offset by a decline in Pick-a-Pay loan balances. We retained \$14.2 billion and \$36.6 billion in non-conforming originations, consisting of loans that exceed conventional conforming loan amount limits established by federal government-sponsored entities (GSEs) in the third quarter and first nine months of 2017, respectively.

The credit performance associated with our real estate 1-4 family first lien mortgage portfolio continued to improve in third quarter 2017, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average real estate 1-4 family first lien mortgage loans improved

to a net recovery of 0.02% and 0.01% in the third quarter and first nine months of 2017, respectively, compared with a net charge-off of 0.03% and 0.04% for the same periods a year ago. Nonaccrual loans were \$4.2 billion at September 30, 2017, compared with \$5.0 billion at December 31, 2016. Improvement in the credit performance was driven by an improving housing environment. Real estate 1-4 family first lien mortgage loans originated after 2008, which generally utilized tighter underwriting standards, have resulted in minimal losses to date and were approximately 77% of our total real estate 1-4 family first lien mortgage portfolio as of September 30, 2017.

Table 17 shows certain delinquency and loss information for the first lien mortgage portfolio and lists the top five states by outstanding balance.

Table 17: First Lien Mortgage Portfolio Performance

| (in millions)                       | Outstanding balance |              | % of loans 30 days or more past due |              | Loss (recovery) rate (annualized) quarter ended |              |              |              |              |
|-------------------------------------|---------------------|--------------|-------------------------------------|--------------|---|--------------|--------------|--------------|--------------|
|                                     | Sep 30, 2017        | Dec 31, 2016 | Sep 30, 2017                        | Dec 31, 2016 | Sep 30, 2017                                    | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 |
| California                          | \$99,380            | 94,015       | 0.97                                | % 1.21       | (0.09)  | (0.08)       | (0.05)       | (0.08)       | (0.08)       |
| New York                            | 26,008              | 23,815       | 1.75                                | 1.97         | 0.05  | 0.02         | 0.06         | 0.04         | 0.07         |
| Florida                             | 13,278              | 13,737       | 4.17                                | 3.62         | (0.22)  | (0.18)       | (0.08)       | (0.18)       | (0.04)       |
| New Jersey                          | 13,116              | 12,669       | 2.83                                | 3.66         | 0.15  | 0.17         | 0.22         | 0.21         | 0.37         |
| Texas                               | 8,732               | 8,584        | 2.60                                | 2.19         | —   | —            | (0.01)       | (0.01)       | 0.06         |
| Other                               | 92,752              | 91,136       | 2.11                                | 2.51         | 0.02  | 0.01         | 0.05         | 0.06         | 0.10         |
| Total                               | 253,266             | 243,956      | 1.79                                | 2.07         | (0.03)  | (0.03)       | 0.01         | —            | 0.03         |
| Government insured/guaranteed loans | 13,606              | 15,605       |                                     |              |   |              |              |              |              |
| PCI                                 | 13,301              | 16,018       |                                     |              |   |              |              |              |              |
| Total first lien mortgages          | \$280,173           | \$275,579    |                                     |              |   |              |              |              |              |

**Pick-a-Pay Portfolio** The Pick-a-Pay portfolio was one of the consumer residential first lien mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.

The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), and also includes loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The Pick-a-Pay portfolio is included in the consumer real estate 1-4 family

first mortgage class of loans throughout this Report. Table 18 provides balances by types of loans as of September 30, 2017, as a result of modification efforts, compared to the types of loans included in the portfolio at acquisition. Total adjusted unpaid principal balance of PCI Pick-a-Pay loans was \$17.3 billion at September 30, 2017, compared with \$61.0 billion at acquisition. Due to loan modification and loss mitigation efforts, the adjusted unpaid principal balance of option payment PCI loans has declined to 14% of the total Pick-a-Pay portfolio at September 30, 2017, compared with 51% at acquisition.

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

December 31,

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| (in millions)  | September 30,<br>2017                             |               | 2016  |               | 2008  |               |
|--|---|---------------|---|---------------|---|---------------|
|  | Adjusted<br>unpaid<br>principal<br>balance<br>(1) | % of<br>total | Adjusted<br>unpaid<br>principal<br>balance<br>(1) | % of<br>total | Adjusted<br>unpaid<br>principal<br>balance<br>(1) | % of<br>total |
| Option payment loans                                       | \$11,460  | 36 %          | \$13,618  | 37 %          | \$99,937  | 86 %          |
| Non-option payment adjustable-rate<br>and fixed-rate loans | 3,951   | 13            | 4,630   | 13            | 15,763  | 14            |
| Full-term loan modifications                               | 15,958  | 51            | 18,598  | 50            | —   | —             |
| Total adjusted unpaid principal balance                    | \$31,369  | 100 %         | \$36,846  | 100 %         | \$115,700   | 100 %         |
| Total carrying value                                       | \$27,295  |               | 32,292  |               | 95,315  |               |

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

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

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

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

| (in millions)          | September 30, 2017                    |                       |                    |  |                    |  |   |  |
|------------------------|---------------------------------------|-----------------------|--------------------|--|--------------------|--|---|--|
|                        | PCI loans                             |                       |                    |  | All other loans    |  |   |  |
|                        | Adjusted unpaid principal balance (2) | Current LTV ratio (3) | Carrying value (4) | Ratio of carrying value to current value (5) | Carrying value (4) | Ratio of carrying value to current value (5) |   |  |
| California             | \$ 11,753                             | 61                    | % \$ 9,033         | 47   | % \$ 6,703         | 44   | % |  |
| Florida                | 1,481                                 | 69                    | 1,076              | 49   | 1,439              | 54   |   |  |
| New Jersey             | 586                                   | 76                    | 429                | 55   | 953                | 62   |   |  |
| New York               | 446                                   | 69                    | 363                | 52   | 477                | 59   |   |  |
| Texas                  | 135                                   | 48                    | 102                | 36   | 570                | 37   |   |  |
| Other                  | 2,928                                 | 68                    | 2,208              | 51   | 3,942              | 56   |   |  |
| Total Pick-a-Pay loans | \$ 17,329                             | 64                    | \$ 13,211          | 48   | \$ 14,084          | 50   |   |  |

(1) The individual states shown in this table represent the top five states based on the total net carrying value of the Pick-a-Pay loans at the beginning of 2017.

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

The current LTV ratio is calculated as the adjusted unpaid principal balance divided by the collateral value.

(3) Collateral values are generally determined using automated valuation models (AVM) and are updated quarterly. AVMs are computer-based tools used to estimate market values of homes based on processing large volumes of market data including market comparables and price trends for local market areas.

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

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

Since the Wachovia acquisition, we have completed over 137,800 proprietary and Home Affordability Modification Program (HAMP) Pick-a-Pay loan modifications, including over 200 modifications in third quarter 2017. Pick-a-Pay loan modifications have resulted in over \$6.1 billion of principal forgiveness since December 31, 2008. We have also provided interest rate reductions and loan term extensions to enable sustainable homeownership for our Pick-a-Pay customers. As a result of these loss mitigation programs, approximately 71% of our Pick-a-Pay PCI adjusted unpaid principal balance as of September 30, 2017 has been modified.

The predominant portion of our PCI loans is included in the Pick-a-Pay portfolio. We regularly evaluate our estimates of cash flows expected to be collected on our PCI loans. Our cash flows expected to be collected have been favorably affected over time by lower expected defaults and losses as a result of observed and forecasted economic strengthening, particularly in housing prices, and our loan modification efforts. When we periodically update our cash flow estimates we have historically expected that the credit-stressed borrower characteristics and distressed collateral values associated with our Pick-a-Pay PCI loans would limit the ability of these borrowers to prepay their loans, thus increasing the future expected weighted-average life of the portfolio since acquisition. However, the higher prepayment trend that emerged in our Pick-a-Pay PCI loans portfolio in the prior year, which we attribute to the

benefits of home price appreciation has continued to result in more loan (unpaid principal balance) to value ratios reaching an important industry refinancing inflection point of below 80%. As a result, we have continued to experience an increased level of borrowers qualifying for products to refinance their loans which may not have previously been available to them. Therefore, during first quarter 2017, we revised our Pick-a-Pay PCI loan cash flow estimates to reflect our expectation that the modified portion of the portfolio will have higher prepayments over the remainder of

its life. The increase in expected prepayments in the first quarter and passage of time lowered our estimated weighted-average life to approximately 6.8 years at September 30, 2017, from 7.4 years at December 31, 2016. The accretable yield balance related to our Pick-a-Pay PCI loan portfolio declined \$104 million (\$126 million for all PCI loans) during third quarter 2017, driven by realized accretion of \$315 million (\$340 million for all PCI loans), \$233 million reclassification from nonaccretable difference for loans with improving cash flows and a \$22 million reduction in expected interest cash flows resulting from improved cash flow timing. The accretable yield percentage for Pick-a-Pay PCI loans for third quarter 2017 was 9.32%, up from 8.22% for fourth quarter 2016, due to an increase in the amount of accretable yield relative to the shortened weighted-average life. Due to the improving cash flow timing, we expect the accretable yield percentage to be 9.83% for fourth quarter 2017.

Since acquisition, due to better than expected performance observed on the PCI portion of the Pick-a-Pay portfolio compared with the original acquisition estimates, we have reclassified \$8.9 billion from the nonaccretable difference to the accretable yield. Fluctuations in the accretable yield are driven by changes in interest rate indices for variable rate PCI loans, prepayment assumptions, and expected principal and interest payments over the estimated life of the portfolio, which will be affected by the pace and degree of improvements in the U.S. economy and housing markets and projected lifetime performance resulting from loan modification activity. Changes in the projected timing of cash flow events, including loan liquidations, modifications and short sales, can also affect the accretable yield and the estimated weighted-average life of the portfolio.

For further information on the judgment involved in estimating expected cash flows for PCI loans, see the “Critical Accounting Policies – Purchased Credit-Impaired Loans” section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.

## Risk Management - Credit Risk Management (continued)

For further information on the Pick-a-Pay portfolio, including recast risk, deferral of interest and loan modifications, see the “Risk Management – Credit Risk Management – Pick-a-Pay Portfolio” section in our 2016 Form 10-K.

**Junior Lien Mortgage Portfolio** The junior lien mortgage portfolio consists of residential mortgage lines and loans that are subordinate in rights to an existing lien on the same property. It is not unusual for these lines and loans to have draw periods, interest only payments, balloon payments, adjustable rates and similar features. Junior lien loan products are mostly amortizing payment loans with fixed interest rates and repayment periods between five to 30 years.

We continuously monitor the credit performance of our junior lien mortgage portfolio for trends and factors that influence the frequency and severity of loss. We have observed that the severity of loss for junior lien mortgages is high and generally not affected by whether we or a third party own or service the related first lien mortgage, but the frequency of delinquency is typically lower when we own or service the first lien mortgage. In general, we have limited information available on the delinquency status of the third party owned or serviced senior lien where we also hold a junior lien. To capture this inherent loss content, our allowance process for junior lien mortgages considers the relative difference in loss experience for

junior lien mortgages behind first lien mortgage loans we own or service, compared with those behind first lien mortgage loans owned or serviced by third parties. In addition, our allowance process for junior lien mortgages that are current, but are in their revolving period, considers the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.

Table 20 shows certain delinquency and loss information for the junior lien mortgage portfolio and lists the top five states by outstanding balance. The decrease in outstanding balances since December 31, 2016, predominantly reflects loan paydowns. As of September 30, 2017, 10% of the outstanding balance of the junior lien mortgage portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. Of those junior lien mortgages with a CLTV ratio in excess of 100%, 2.96% were 30 days or more past due. CLTV means the ratio of the total loan balance of first lien mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 3% of the junior lien mortgage portfolio at September 30, 2017. For additional information on consumer loans by LTV/CLTV, see Table 5.12 in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 20: Junior Lien Mortgage Portfolio Performance

| (in millions)               | Outstanding balance |              | % of loans 30 days or more past due |              | Loss (recovery) rate (annualized) quarter ended |              |              |              |              |
|-----------------------------|---------------------|--------------|-------------------------------------|--------------|---|--------------|--------------|--------------|--------------|
|                             | Sep 30, 2017        | Dec 31, 2016 | Sep 30, 2017                        | Dec 31, 2016 | Sep 30, 2017                                    | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 |
| California                  | \$11,006            | 12,539       | 1.89                                | 1.86         | (0.46)  | (0.42)       | (0.37)       | (0.18)       | (0.13)       |
| Florida                     | 3,824               | 4,252        | 2.78                                | 2.17         | 0.06  | (0.10)       | 0.30         | 0.47         | 0.56         |
| New Jersey                  | 3,704               | 4,031        | 2.79                                | 2.79         | 0.58  | 0.44         | 1.06         | 1.36         | 0.96         |
| Virginia                    | 2,442               | 2,696        | 1.93                                | 1.97         | 0.33  | 0.17         | 0.48         | 0.67         | 0.55         |
| Pennsylvania                | 2,275               | 2,494        | 2.07                                | 2.07         | 0.47  | 0.29         | 0.67         | 1.01         | 0.75         |
| Other                       | 17,872              | 20,189       | 2.11                                | 2.09         | 0.06  | 0.05         | 0.28         | 0.39         | 0.51         |
| Total                       | 41,123              | 46,201       | 2.16                                | 2.09         | —   | (0.03)       | 0.21         | 0.38         | 0.40         |
| PCI                         | 29                  | 36           |                                     |              |   |              |              |              |              |
| Total junior lien mortgages | \$41,152            | 46,237       |                                     |              |   |              |              |              |              |



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

On a monthly basis, we monitor the payment characteristics of borrowers in our junior lien portfolio. In September 2017, approximately 48% of these borrowers paid only the minimum amount due and approximately 46% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due. For the borrowers with an

interest only payment feature, approximately 33% paid only the minimum amount due and approximately 62% paid more than the minimum amount due.

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

Table 21 reflects the outstanding balance of our portfolio of junior lien mortgages, including lines and loans, and senior lien lines segregated into scheduled end of draw or end of term periods and products that are currently amortizing, or in balloon repayment status. It excludes real estate 1-4 family first lien line reverse mortgages, which total \$144 million, because they are predominantly insured by the FHA, and it excludes PCI loans, which total \$51 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

Table 21: Junior Lien Mortgage Line and Loan and Senior Lien Mortgage Line Portfolios Payment Schedule  
Scheduled end of draw / term

| (in millions)               | Outstanding                      |                   | Scheduled end of draw / term |       |      |       |        | 2022 and thereafter (1) | Amortizing |
|-----------------------------|----------------------------------|-------------------|------------------------------|-------|------|-------|--------|-------------------------|------------|
|                             | balance<br>September 30,<br>2017 | Remainder of 2017 | 2018                         | 2019  | 2020 | 2021  |        |                         |            |
| Junior lien lines and loans | \$ 41,123                        | 538               | 1,771                        | 770   | 703  | 1,410 | 22,562 | 13,369                  |            |
| First lien lines            | 13,809                           | 89                | 578                          | 284   | 263  | 616   | 9,899  | 2,080                   |            |
| Total (2)(3)                | \$ 54,932                        | 627               | 2,349                        | 1,054 | 966  | 2,026 | 32,461 | 15,449                  |            |
| % of portfolios             | 100                              | % 1               | 4                            | 2     | 2    | 4     | 59     | 28                      |            |

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2026, with annual scheduled amounts through that date ranging from \$4.2 billion to \$7.2 billion and averaging \$6.1 billion per year.

(2) Junior and first lien lines are mostly interest-only during their draw period. The unfunded credit commitments for junior and first lien lines totaled \$63.1 billion at September 30, 2017.

Includes scheduled end-of-term balloon payments for lines and loans totaling \$52 million, \$257 million, \$278 million, \$304 million, \$479 million and \$279 million for 2017, 2018, 2019, 2020, 2021, and 2022 and thereafter, (3) respectively. Amortizing lines and loans include \$100 million of end-of-term balloon payments, which are past due. At September 30, 2017, \$533 million, or 4% of outstanding lines of credit that are amortizing, are 30 days or more past due compared to \$649 million or 2% for lines in their draw period.

CREDIT CARDS Our credit card portfolio totaled \$36.2 billion at September 30, 2017, which represented 4% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 3.08% for third quarter

2017, compared with 2.82% for third quarter 2016 and 3.43% and 3.07% for the first nine months of 2017 and 2016, respectively, principally from seasoning of newer vintages.

**AUTOMOBILE** Our automobile portfolio, predominantly composed of indirect loans, totaled \$55.5 billion at September 30, 2017. The net charge-off rate (annualized) for our automobile portfolio was 1.41% for third quarter 2017, compared with 0.87% for third quarter 2016 and 1.12% and 0.77% for the first nine months of 2017 and 2016, respectively. The increase in net charge-offs in 2017, compared with 2016, was due to increased loss severities resulting from a temporary moratorium on certain repossessions for customers who have had collateral protection insurance (CPI) policies purchased on their behalf while we remediate the previously disclosed CPI issues, as well as updated industry regulatory guidance regarding the timing of loss recognition for automobile loans in bankruptcy, and also reflected the current trend of increased charge-offs in the automobile lending industry.

**OTHER REVOLVING CREDIT AND INSTALLMENT** Other revolving credit and installment loans totaled \$38.7 billion at September 30, 2017, and primarily included student and securities-based loans. Our private student loan portfolio totaled \$12.2 billion at September 30, 2017. All remaining student loans guaranteed by agencies on behalf of the U.S. Department of Education under the Federal Family Education Loan Program (FFELP) were sold as of March 31, 2017. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.44% for third quarter 2017, compared with 1.40% for third quarter 2016 and 1.54% and 1.38% for the first nine months of 2017 and 2016, respectively.

## Risk Management - Credit Risk Management (continued)

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 22 summarizes nonperforming assets (NPAs) for each of the last four quarters. Total NPAs decreased \$512 million from second quarter 2017 to \$9.3 billion with improvement across our consumer and commercial portfolios. Nonaccrual loans decreased \$437 million from second quarter 2017 to \$8.6 billion reflecting declines in commercial and industrial nonaccruals, as well as continued lower consumer real estate nonaccruals. Foreclosed assets of \$706 million were down \$75 million from second quarter 2017.

We generally place loans on nonaccrual status when:

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

Credit card loans are not placed on nonaccrual status, but are generally fully charged off when the loan reaches 180 days past due.

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

| (\$ in millions)                            | September 30, 2017 |                  | June 30, 2017 |                  | March 31, 2017 |                  | December 31, 2016 |                  |
|---|--------------------|------------------|---------------|------------------|----------------|------------------|-------------------|------------------|
|   | Balance            | % of total loans | Balance       | % of total loans | Balance        | % of total loans | Balance           | % of total loans |
| Nonaccrual loans:                           |                    |                  |               |                  |                |                  |                   |                  |
| Commercial:                                 |                    |                  |               |                  |                |                  |                   |                  |
| Commercial and industrial                   | \$2,397            | 0.73 %           | \$2,632       | 0.79 %           | \$2,898        | 0.88 %           | \$3,216           | 0.97 %           |
| Real estate mortgage                        | 593                | 0.46             | 630           | 0.48             | 672            | 0.51             | 685               | 0.52             |
| Real estate construction                    | 38                 | 0.15             | 34            | 0.13             | 40             | 0.16             | 43                | 0.18             |
| Lease financing                             | 81                 | 0.42             | 89            | 0.46             | 96             | 0.50             | 115               | 0.60             |
| Total commercial                            | 3,109              | 0.62             | 3,385         | 0.67             | 3,706          | 0.73             | 4,059             | 0.80             |
| Consumer:                                   |                    |                  |               |                  |                |                  |                   |                  |
| Real estate 1-4 family first mortgage (1)   | 4,213              | 1.50             | 4,413         | 1.60             | 4,743          | 1.73             | 4,962             | 1.80             |
| Real estate 1-4 family junior lien mortgage | 1,101              | 2.68             | 1,095         | 2.56             | 1,153          | 2.60             | 1,206             | 2.61             |
| Automobile                                  | 137                | 0.25             | 104           | 0.18             | 101            | 0.17             | 106               | 0.17             |
| Other revolving credit and installment      | 59                 | 0.15             | 59            | 0.15             | 56             | 0.14             | 51                | 0.13             |
| Total consumer (2)                          | 5,510              | 1.22             | 5,671         | 1.26             | 6,053          | 1.34             | 6,325             | 1.37             |
| Total nonaccrual loans (3)(4)(5)            | 8,619              | 0.91             | 9,056         | 0.95             | 9,759          | 1.02             | 10,384            | 1.07             |
| Foreclosed assets:                          |                    |                  |               |                  |                |                  |                   |                  |
| Government insured/guaranteed (6)           | 137                |                  | 149           |                  | 179            |                  | 197               |                  |
| Non-government insured/guaranteed           | 569                |                  | 632           |                  | 726            |                  | 781               |                  |
| Total foreclosed assets                     | 706                |                  | 781           |                  | 905            |                  | 978               |                  |
| Total nonperforming assets                  | \$9,325            | 0.98 %           | \$9,837       | 1.03 %           | \$10,664       | 1.11 %           | \$11,362          | 1.17 %           |
| Change in NPAs from prior quarter           | \$(512 )           |                  | (827 )        |                  | (698 )         |                  | (644 )            |                  |

(1) Includes MHFS of \$133 million, \$140 million, \$145 million, and \$149 million at September 30, June 30, and March 31, 2017 and December 31, 2016, respectively.

- (2) Includes an incremental \$171 million of nonaccrual loans at September 30, 2017, reflecting updated industry regulatory guidance related to loans in bankruptcy.
- (3) Excludes PCI loans because they continue to earn interest income from accretable yield, independent of performance in accordance with their contractual terms.  
Real estate 1-4 family mortgage loans predominantly insured by the FHA or guaranteed by the VA and student loans largely guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP are not placed on nonaccrual status because they are insured or guaranteed. All remaining student loans guaranteed under the FFELP were sold as of March 31, 2017.
- (4) See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for further information on impaired loans.  
Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. However, both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Foreclosure of certain government guaranteed residential real estate mortgage loans that meet criteria specified by Accounting Standards Update (ASU) 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure, effective as of January 1, 2014 are excluded from this table and included in Accounts Receivable in Other Assets. For more information on the changes in foreclosures for government guaranteed residential real estate mortgage loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.
- (5)

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

Table 23: Analysis of Changes in Nonaccrual Loans

| (in millions)                      | Quarter ended   |                 |                 |                 |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                    | Sep 30,<br>2017 | Jun 30,<br>2017 | Mar 31,<br>2017 | Dec 31,<br>2016 | Sep 30,<br>2016 |
| <b>Commercial nonaccrual loans</b> |                 |                 |                 |                 |                 |
| Balance, beginning of period       | \$3,385         | 3,706           | 4,059           | 4,262           | 4,507           |
| Inflows                            | 627             | 704             | 945             | 951             | 1,180           |
| Outflows:                          |                 |                 |                 |                 |                 |
| Returned to accruing               | (97 )           | (61 )           | (133 )          | (59 )           | (80 )           |
| Foreclosures                       | (3 )            | (15 )           | (1 )            | (15 )           | (1 )            |
| Charge-offs                        | (173 )          | (116 )          | (202 )          | (292 )          | (290 )          |
| Payments, sales and other          | (630 )          | (833 )          | (962 )          | (788 )          | (1,054 )        |
| Total outflows                     | (903 )          | (1,025 )        | (1,298 )        | (1,154 )        | (1,425 )        |
| Balance, end of period             | 3,109           | 3,385           | 3,706           | 4,059           | 4,262           |
| <b>Consumer nonaccrual loans</b>   |                 |                 |                 |                 |                 |
| Balance, beginning of period       | 5,671           | 6,053           | 6,325           | 6,724           | 7,456           |
| Inflows (1)                        | 887             | 676             | 814             | 863             | 868             |
| Outflows:                          |                 |                 |                 |                 |                 |
| Returned to accruing               | (397 )          | (425 )          | (428 )          | (410 )          | (597 )          |
| Foreclosures                       | (56 )           | (72 )           | (81 )           | (59 )           | (85 )           |
| Charge-offs                        | (109 )          | (117 )          | (151 )          | (158 )          | (192 )          |
| Payments, sales and other          | (486 )          | (444 )          | (426 )          | (635 )          | (726 )          |
| Total outflows                     | (1,048 )        | (1,058 )        | (1,086 )        | (1,262 )        | (1,600 )        |
| Balance, end of period             | 5,510           | 5,671           | 6,053           | 6,325           | 6,724           |
| Total nonaccrual loans             | \$8,619         | 9,056           | 9,759           | 10,384          | 10,986          |

(1) Quarter ended September 30, 2017, includes an incremental \$171 million of nonaccrual loans, reflecting updated industry regulatory guidance related to loans in bankruptcy.

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

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by the following factors at September 30, 2017:

- 98% of total commercial nonaccrual loans and 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 96% are secured by real estate and 81% have a combined LTV (CLTV) ratio of 80% or less.

- losses of \$380 million and \$1.9 billion have already been recognized on 16% of commercial nonaccrual loans and 45% of consumer nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due (except when required earlier by guidance issued by bank regulatory agencies), we transfer it to nonaccrual status.

- When the loan reaches 180 days past due, or is discharged in bankruptcy, it is our policy to write these loans down to net realizable value (fair value of collateral less estimated costs to sell), except for modifications in their trial period that are not written down as long as trial payments are made on time. Thereafter, we reevaluate each loan regularly and record additional write-downs if needed.

- 88% of commercial nonaccrual loans were current on interest, but were on nonaccrual status because the full or timely collection of interest or principal had become uncertain.

82% of commercial nonaccrual loans were current on both principal and interest, and will remain on nonaccrual until the full and timely collection of principal and interest becomes certain.

the remaining risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.

of \$2.4 billion of consumer loans in bankruptcy or discharged in bankruptcy, and classified as nonaccrual, \$1.5 billion were current.

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

## Risk Management - Credit Risk Management (continued)

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

Table 24: Foreclosed Assets

| (in millions)                                   | Sep 30,<br>2017 | Jun 30,<br>2017 | Mar 31,<br>2017 | Dec 31,<br>2016 | Sep 30,<br>2016 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Summary by loan segment                         |                 |                 |                 |                 |                 |
| Government insured/guaranteed                   | \$ 137          | 149             | 179             | 197             | 282             |
| PCI loans:                                      |                 |                 |                 |                 |                 |
| Commercial                                      | 67              | 79              | 84              | 91              | 98              |
| Consumer  | 72              | 67              | 80              | 75              | 88              |
| Total PCI loans                                 | 139             | 146             | 164             | 166             | 186             |
| All other loans:                                |                 |                 |                 |                 |                 |
| Commercial                                      | 226             | 259             | 275             | 287             | 298             |
| Consumer  | 204             | 227             | 287             | 328             | 254             |
| Total all other loans                           | 430             | 486             | 562             | 615             | 552             |
| Total foreclosed assets                         | \$ 706          | 781             | 905             | 978             | 1,020           |
| Analysis of changes in foreclosed assets (1)    |                 |                 |                 |                 |                 |
| Balance, beginning of period                    | \$ 781          | 905             | 978             | 1,020           | 1,117           |
| Net change in government insured/guaranteed (2) | (12 )           | (30 )           | (18 )           | (85 )           | (39 )           |
| Additions to foreclosed assets (3)              | 198             | 233             | 288             | 405             | 261             |
| Reductions:                                     |                 |                 |                 |                 |                 |
| Sales   | (257 )          | (330 )          | (307 )          | (296 )          | (421 )          |
| Write-downs and gains (losses) on sales         | (4 )            | 3               | (36 )           | (66 )           | 102             |
| Total reductions                                | (261 )          | (327 )          | (343 )          | (362 )          | (319 )          |
| Balance, end of period                          | \$ 706          | 781             | 905             | 978             | 1,020           |

During fourth quarter 2016, we evaluated a population of foreclosed properties that were previously security for FHA insured loans, and made the decision to retain some of the properties as foreclosed real estate, thereby foregoing the FHA insurance claim. Accordingly, the loans for which we decided not to file a claim are reported as additions to foreclosed assets rather than included as net change in government insured/guaranteed foreclosures.

Foreclosed government insured/guaranteed loans are temporarily transferred to and held by us as servicer, until reimbursement is received from FHA or VA. The net change in government insured/guaranteed foreclosed assets is generally made up of inflows from mortgages held for investment and MHFS, and outflows when we are reimbursed by FHA/VA.

Includes loans moved into foreclosure from nonaccrual status, PCI loans transitioned directly to foreclosed assets and repossessed automobiles.

Foreclosed assets at September 30, 2017, included \$398 million of foreclosed residential real estate, of which 34% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining foreclosed assets balance of \$308 million has been written down to estimated net realizable value. Of the \$706 million in foreclosed assets at September 30, 2017, 56% have been in the foreclosed assets portfolio one year or less.

## TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 25: Troubled Debt Restructurings (TDRs)

| (in millions)                               | Sep 30,<br>2017 | Jun 30,<br>2017 | Mar 31,<br>2017 | Dec 31,<br>2016 | Sep 30,<br>2016 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Commercial:</b>                          |                 |                 |                 |                 |                 |
| Commercial and industrial                   | \$2,424         | 2,629           | 2,484           | 2,584           | 2,445           |
| Real estate mortgage                        | 953             | 1,024           | 1,090           | 1,119           | 1,256           |
| Real estate construction                    | 48              | 62              | 73              | 91              | 95              |
| Lease financing                             | 39              | 21              | 8               | 6               | 8               |
| Total commercial TDRs                       | 3,464           | 3,736           | 3,655           | 3,800           | 3,804           |
| <b>Consumer:</b>                            |                 |                 |                 |                 |                 |
| Real estate 1-4 family first mortgage       | 12,617          | 13,141          | 13,680          | 14,134          | 14,761          |
| Real estate 1-4 family junior lien mortgage | 1,919           | 1,975           | 2,027           | 2,074           | 2,144           |
| Credit Card                                 | 340             | 316             | 308             | 300             | 294             |
| Automobile                                  | 88              | 85              | 80              | 85              | 89              |
| Other revolving credit and installment      | 124             | 118             | 107             | 101             | 93              |
| Trial modifications                         | 183             | 215             | 261             | 299             | 348             |
| Total consumer TDRs (1)                     | 15,271          | 15,850          | 16,463          | 16,993          | 17,729          |
| Total TDRs                                  | \$18,735        | 19,586          | 20,118          | 20,793          | 21,533          |
| TDRs on nonaccrual status                   | \$5,218         | 5,637           | 5,819           | 6,193           | 6,429           |
| TDRs on accrual status (1)                  | 13,517          | 13,949          | 14,299          | 14,600          | 15,104          |
| Total TDRs                                  | \$18,735        | 19,586          | 20,118          | 20,793          | 21,533          |

TDR loans include \$1.4 billion, \$1.4 billion, \$1.5 billion, \$1.5 billion, and \$1.6 billion at September 30, June 30 (1) and March 31, 2017, and December 31 and September 30, 2016, respectively, of government insured/guaranteed loans that are predominantly insured by the FHA or guaranteed by the VA and accruing.

Table 25 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was \$1.6 billion and \$2.2 billion at September 30, 2017, and December 31, 2016, respectively. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs. In those situations where principal is forgiven, the entire amount of such forgiveness is immediately charged off to the extent not done so prior to the modification. When we delay the timing on the repayment of a portion of principal (principal forbearance), we charge off the amount of forbearance if that amount is not considered fully collectible.

For more information on our nonaccrual policies when a restructuring is involved, see the “Risk Management – Credit Risk Management – Troubled Debt Restructurings (TDRs)” section in our 2016 Form 10-K.

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



## Risk Management - Credit Risk Management (continued)

Table 26: Analysis of Changes in TDRs

| (in millions)                         | Quarter ended   |                 |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                       | Sep 30,<br>2017 | Jun 30,<br>2017 | Mar 31,<br>2017 | Dec 31,<br>2016 | Sep 30,<br>2016 |
| <b>Commercial:</b>                    |                 |                 |                 |                 |                 |
| Balance, beginning of quarter         | \$3,736         | 3,655           | 3,800           | 3,804           | 3,386           |
| Inflows (1)                           | 333             | 730             | 642             | 615             | 914             |
| <b>Outflows</b>                       |                 |                 |                 |                 |                 |
| Charge-offs                           | (74 )           | (59 )           | (108 )          | (120 )          | (76 )           |
| Foreclosures                          | (2 )            | (12 )           | —               | (13 )           | (2 )            |
| Payments, sales and other (2)         | (529 )          | (578 )          | (679 )          | (486 )          | (418 )          |
| Balance, end of quarter               | 3,464           | 3,736           | 3,655           | 3,800           | 3,804           |
| <b>Consumer:</b>                      |                 |                 |                 |                 |                 |
| Balance, beginning of quarter         | 15,850          | 16,463          | 16,993          | 17,729          | 18,565          |
| Inflows (1)                           | 461             | 444             | 517             | 513             | 542             |
| <b>Outflows</b>                       |                 |                 |                 |                 |                 |
| Charge-offs                           | (51 )           | (51 )           | (51 )           | (48 )           | (65 )           |
| Foreclosures                          | (146 )          | (159 )          | (179 )          | (166 )          | (230 )          |
| Payments, sales and other (2)         | (811 )          | (801 )          | (779 )          | (987 )          | (1,067 )        |
| Net change in trial modifications (3) | (32 )           | (46 )           | (38 )           | (48 )           | (16 )           |
| Balance, end of quarter               | 15,271          | 15,850          | 16,463          | 16,993          | 17,729          |
| Total TDRs                            | \$18,735        | 19,586          | 20,118          | 20,793          | 21,533          |

(1) Inflows include loans that modify, even if they resolve within the period as well as advances on loans that modified in a prior period.

Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. It also includes \$6 million and \$4 million of loans refinanced or restructured at market terms and (2) qualifying as new loans and removed from TDR classification for the quarters ended September 30, 2017 and December 31, 2016, respectively, while no loans were removed from TDR classification for the quarters ended June 30 and March 31, 2017, and September 30, 2016.

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

**LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING**

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

Excluding insured/guaranteed loans, loans 90 days or more past due and still accruing at September 30, 2017, were down \$11 million, or 1%, from December 31, 2016, due to payoffs, modifications and other loss mitigation activities and credit

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

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages were \$9.3 billion at September 30, 2017, down from \$10.9 billion at December 31, 2016, due to improving credit trends. All remaining student loans guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP were sold as of March 31, 2017.

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

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

| (in millions)  | Sep 30,<br>2017 | Jun 30,<br>2017 | Mar 31,<br>2017 | Dec 31,<br>2016 | Sep 30,<br>2016 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total (excluding PCI (1)):                               | \$10,227        | 9,716           | 10,525          | 11,858          | 12,068          |
| Less: FHA insured/VA guaranteed (2)(3)                   | 9,266           | 8,873           | 9,585           | 10,883          | 11,198          |
| Less: Student loans guaranteed under the FFELP (4)       | —               | —               | —               | 3               | 17              |
| Total, not government insured/guaranteed                 | \$961           | 843             | 940             | 972             | 853             |
| By segment and class, not government insured/guaranteed: |                 |                 |                 |                 |                 |
| Commercial:  |                 |                 |                 |                 |                 |
| Commercial and industrial                                | \$27            | 42              | 88              | 28              | 47              |
| Real estate mortgage                                     | 11              | 2               | 11              | 36              | 4               |
| Real estate construction                                 | —               | 10              | 3               | —               | —               |
| Total commercial   | 38              | 54              | 102             | 64              | 51              |
| Consumer:  |                 |                 |                 |                 |                 |
| Real estate 1-4 family first mortgage (3)                | 190             | 145             | 149             | 175             | 171             |
| Real estate 1-4 family junior lien mortgage (3)          | 49              | 44              | 42              | 56              | 54              |
| Credit card  | 475             | 411             | 453             | 452             | 392             |
| Automobile   | 111             | 91              | 79              | 112             | 81              |
| Other revolving credit and installment                   | 98              | 98              | 115             | 113             | 104             |
| Total consumer   | 923             | 789             | 838             | 908             | 802             |
| Total, not government insured/guaranteed                 | \$961           | 843             | 940             | 972             | 853             |

(1) PCI loans totaled \$1.4 billion, \$1.5 billion, \$1.8 billion, \$2.0 billion, and \$2.2 billion at September 30, June 30 and March 31, 2017 and December 31 and September 30, 2016, respectively.

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

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

Represents loans whose repayments are largely guaranteed by agencies on behalf of the U.S. Department of

(4) Education under the FFELP. All remaining student loans guaranteed under the FFELP were sold as of March 31, 2017.



## Risk Management - Credit Risk Management (continued)

## NET CHARGE-OFFS

Table 28: Net Charge-offs

| (\$ in millions)                            | Sep 30, 2017         |                    | Jun 30, 2017         |                     | Mar 31, 2017         |                     | Dec 31, 2016         |                     | Quarter ended Sep 30, 2016 |                     |   |
|---|----------------------|--------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------------|---------------------|---|
|   | Net loan charge-offs | % of avg. loans(1) | Net loan charge-offs | % of avg. loans (1) | Net loan charge-offs | % of avg. loans (1) | Net loan charge-offs | % of avg. loans (1) | Net loan charge-offs       | % of avg. loans (1) |   |
| Commercial:                                 |                      |                    |                      |                     |                      |                     |                      |                     |                            |                     |   |
| Commercial and industrial                   | \$125                | 0.15               | % \$78               | 0.10                | % \$171              | 0.21                | % \$256              | 0.31                | % \$259                    | 0.32                | % |
| Real estate mortgage                        | (3 )                 | (0.01 )            | (6 )                 | (0.02 )             | (25 )                | (0.08 )             | (12 )                | (0.04 )             | (28 )                      | (0.09 )             |   |
| Real estate construction                    | (15 )                | (0.24 )            | (4 )                 | (0.05 )             | (8 )                 | (0.15 )             | (8 )                 | (0.13 )             | (18 )                      | (0.32 )             |   |
| Lease financing                             | 6                    | 0.12               | 7                    | 0.15                | 5                    | 0.11                | 15                   | 0.32                | 2                          | 0.04                |   |
| Total commercial                            | 113                  | 0.09               | 75                   | 0.06                | 143                  | 0.11                | 251                  | 0.20                | 215                        | 0.17                |   |
| Consumer:                                   |                      |                    |                      |                     |                      |                     |                      |                     |                            |                     |   |
| Real estate 1-4 family first mortgage       | (16 )                | (0.02 )            | (16 )                | (0.02 )             | 7                    | 0.01                | (3 )                 | —                   | 20                         | 0.03                |   |
| Real estate 1-4 family junior lien mortgage | 1                    | —                  | (4 )                 | (0.03 )             | 23                   | 0.21                | 44                   | 0.38                | 49                         | 0.40                |   |
| Credit card                                 | 277                  | 3.08               | 320                  | 3.67                | 309                  | 3.54                | 275                  | 3.09                | 245                        | 2.82                |   |
| Automobile                                  | 202                  | 1.41               | 126                  | 0.86                | 167                  | 1.10                | 166                  | 1.05                | 137                        | 0.87                |   |
| Other revolving credit and installment      | 140                  | 1.44               | 154                  | 1.58                | 156                  | 1.60                | 172                  | 1.70                | 139                        | 1.40                |   |
| Total consumer (2)                          | 604                  | 0.53               | 580                  | 0.51                | 662                  | 0.59                | 654                  | 0.56                | 590                        | 0.51                |   |
| Total                                       | \$717                | 0.30               | % \$655              | 0.27                | % \$805              | 0.34                | % \$905              | 0.37                | % \$805                    | 0.33                | % |

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

Quarter ended September 30, 2017, includes an incremental \$29 million of charge-offs in accordance with updated (2) industry regulatory guidance regarding the timing of loss recognition for real estate 1-4 family mortgage and automobile loans in bankruptcy.

Table 28 presents net charge-offs for third quarter 2017 and the previous four quarters. Net charge-offs in third quarter 2017 were \$717 million (0.30% of average total loans outstanding) compared with \$805 million (0.33%) in third quarter 2016.

The decrease in commercial and industrial net charge-offs from third quarter 2016 reflected continued improvement in our oil and gas portfolio. Our commercial real estate portfolios were in a net recovery position. Total consumer net charge-offs increased slightly from the prior year due to an increase in credit card and automobile net charge-offs, partially offset by a decrease in residential real estate net charge-offs.

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

We apply a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. Our estimation approach for the commercial portfolio reflects the estimated probability of default in accordance with the borrower's financial strength, and the severity of loss in the event of default, considering the quality of any underlying collateral. Probability of default and severity at the time of default are statistically derived through historical observations of defaults and losses after default within each credit risk rating. Our estimation approach for the consumer portfolio uses forecasted losses that represent our best estimate of inherent loss based on historical experience, quantitative and other mathematical techniques. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2016 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

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

| (in millions)  | Sep 30, 2017 |                           | Dec 31, 2016 |                           | Dec 31, 2015 |                           | Dec 31, 2014 |                           | Dec 31, 2013 |                           |
|--|--------------|---------------------------|--------------|---------------------------|--------------|---------------------------|--------------|---------------------------|--------------|---------------------------|
|  | ACL          | Loans as % of total loans | ACL          | Loans as % of total loans | ACL          | Loans as % of total loans | ACL          | Loans as % of total loans | ACL          | Loans as % of total loans |
| <b>Commercial:</b>   |              |                           |              |                           |              |                           |              |                           |              |                           |
| Commercial and industrial  | \$4,076      | 34 %                      | \$4,560      | 34 %                      | \$4,231      | 33 %                      | \$3,506      | 32 %                      | \$3,040      | 29 %                      |
| Real estate mortgage   | 1,248        | 14                        | 1,320        | 14                        | 1,264        | 13                        | 1,576        | 13                        | 2,157        | 14                        |
| Real estate construction   | 1,262        | 3                         | 1,294        | 2                         | 1,210        | 3                         | 1,097        | 2                         | 775          | 2                         |
| Lease financing  | 246          | 2                         | 220          | 2                         | 167          | 1                         | 198          | 1                         | 131          | 1                         |
| Total commercial   | 6,832        | 53                        | 7,394        | 52                        | 6,872        | 50                        | 6,377        | 48                        | 6,103        | 46                        |
| <b>Consumer:</b>   |              |                           |              |                           |              |                           |              |                           |              |                           |
| Real estate 1-4 family first mortgage                                  | 1,173        | 29                        | 1,270        | 29                        | 1,895        | 30                        | 2,878        | 31                        | 4,087        | 32                        |
| Real estate 1-4 family junior lien mortgage                            | 672          | 4                         | 815          | 5                         | 1,223        | 6                         | 1,566        | 7                         | 2,534        | 8                         |
| Credit card  | 1,900        | 4                         | 1,605        | 4                         | 1,412        | 4                         | 1,271        | 4                         | 1,224        | 3                         |
| Automobile   | 853          | 6                         | 817          | 6                         | 529          | 6                         | 516          | 6                         | 475          | 6                         |
| Other revolving credit and installment                                 | 679          | 4                         | 639          | 4                         | 581          | 4                         | 561          | 4                         | 548          | 5                         |
| Total consumer   | 5,277        | 47                        | 5,146        | 48                        | 5,640        | 50                        | 6,792        | 52                        | 8,868        | 54                        |
| Total  | \$12,109     | 100 %                     | \$12,540     | 100 %                     | \$12,512     | 100 %                     | \$13,169     | 100 %                     | \$14,971     | 100 %                     |
| <b>Components:</b>   |              |                           |              |                           |              |                           |              |                           |              |                           |
| Allowance for loan losses  | \$11,078     |                           | 11,419       |                           | 11,545       |                           | 12,319       |                           | 14,502       |                           |
| Allowance for unfunded credit commitments                              | 1,031        |                           | 1,121        |                           | 967          |                           | 850          |                           | 469          |                           |
| Allowance for credit losses  | \$12,109     |                           | 12,540       |                           | 12,512       |                           | 13,169       |                           | 14,971       |                           |
| Allowance for loan losses as a percentage of total loans               | 1.16         | %                         | 1.18         | %                         | 1.26         | %                         | 1.43         | %                         | 1.76         | %                         |
| Allowance for loan losses as a percentage of total net charge-offs (1) | 390          |                           | 324          |                           | 399          |                           | 418          |                           | 322          |                           |
| Allowance for credit losses as a percentage of total loans             | 1.27         |                           | 1.30         |                           | 1.37         |                           | 1.53         |                           | 1.82         |                           |
| Allowance for credit losses as a percentage of total nonaccrual loans  | 141          |                           | 121          |                           | 110          |                           | 103          |                           | 96           |                           |

(1) Total net charge-offs are annualized for quarter ended September 30, 2017.

In addition to the allowance for credit losses, there was \$454 million at September 30, 2017, and \$954 million at December 31, 2016 of nonaccretable difference to absorb losses for PCI loans, which totaled \$13.6 billion at September 30, 2017. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with credit-related metrics for other financial institutions. Additionally, loans purchased at fair value, including loans from the GE Capital business acquisitions, generally reflect a lifetime credit loss adjustment and therefore do not initially require additions to the allowance as is typically associated with loan growth. For additional information on PCI loans, see the “Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans” section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

primarily of real estate 1-4 family first and junior lien mortgage loans at September 30, 2017.

The allowance for credit losses decreased \$431 million, or 3%, from December 31, 2016, due to a decrease in our commercial allowance reflecting credit quality improvement, including in the oil and gas portfolio, as well as improvement in our residential real estate portfolios, partially offset by increased allowance in the credit card, automobile and other revolving credit and installment portfolios. Total provision for credit losses was \$717 million in third quarter 2017, compared with \$805 million in third quarter 2016, reflecting the same changes mentioned above for the allowance for credit losses.

We believe the allowance for credit losses of \$12.1 billion at September 30, 2017, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. Approximately \$797 million of the allowance at September 30, 2017, was allocated to our oil and gas portfolio, compared with \$1.3 billion at December 31, 2016. This represented 6.2% and 8.5% of total oil and gas loans outstanding at September 30, 2017, and December 31, 2016, respectively. The allowance for credit losses at September 30, 2017 also included

## Risk Management - Credit Risk Management (continued)

\$450 million for coverage of our preliminary estimate of potential hurricane-related losses from Hurricanes Harvey, Irma and Maria. However, the entire allowance is available to absorb credit losses inherent in the total loan portfolio. The allowance for credit losses is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our process for determining the allowance for credit losses is discussed in the “Critical Accounting Policies – Allowance for Credit Losses” section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.

**LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES**

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

Because we typically retain the servicing for the mortgage loans we sell or securitize, we believe the quality of our residential mortgage loan servicing portfolio provides helpful information in evaluating our repurchase liability. Of the \$1.6 trillion in the residential mortgage loan servicing portfolio at September 30, 2017, 95% was current and less than 1% was subprime at origination. Our combined delinquency and foreclosure rate on this portfolio was 4.83% at September 30, 2017, and at December 31, 2016. Two percent of this portfolio is private label securitizations for which we originated the loans and, therefore have some repurchase risk.

The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at September 30, 2017, was \$120 million, representing 549 loans, up from a year ago both in number of outstanding loans and in total dollar balances. The increase was largely due to private investor demands we expect to resolve with minimal repurchase risk.

Our liability for mortgage repurchases, included in “Accrued expenses and other liabilities” in our consolidated balance sheet, represents our best estimate of the probable loss that we expect to incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. The liability was \$179 million at September 30, 2017, and \$229 million at December 31, 2016. In third quarter 2017, we released \$6 million due to re-estimation of our liability based on recently observed trends, which increased net gains on mortgage loan origination/sales activities, compared with a release of \$13 million in third quarter 2016. Additionally, in third quarter 2017, we recognized a \$10 million reserve build for an MSR acquisition. We incurred net losses on repurchased loans and investor reimbursements totaling \$3 million in third quarter 2017 and in third quarter 2016.

Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that are reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available information, significant judgment, and a number of assumptions that are subject to change. The high end of this range of reasonably possible losses exceeded our recorded liability by \$180 million at September 30, 2017, and was determined based upon modifying the assumptions (particularly to assume significant changes in investor repurchase demand practices) used in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions.

For additional information on our repurchase liability, see the “Risk Management – Credit Risk Management – Liability For Mortgage Loan Repurchase Losses” section in our 2016 Form 10-K and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

**RISKS RELATING TO SERVICING ACTIVITIES** In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations,



GNMA-guaranteed mortgage securitizations of FHA-insured/VA-guaranteed mortgages and private label mortgage securitizations, as well as for unsecuritized loans owned by institutional investors. In connection with our servicing activities, we have entered into various settlements with federal and state regulators to resolve certain alleged servicing issues and practices. In general, these settlements required us to provide customers with loan modification relief, refinancing relief, and foreclosure prevention and assistance, as well as imposed certain monetary penalties on us.

For additional information about the risks and various settlements related to our servicing activities, see the “Risk Management – Credit Risk Management – Risks Relating to Servicing Activities” section in our 2016 Form 10-K.

### Asset/Liability Management

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

**INTEREST RATE RISK** Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We are subject to interest rate risk because:

- assets and liabilities may mature or reprice at different times (for example, if assets reprice faster than liabilities and interest rates are generally falling, earnings will initially decline);
- assets and liabilities may reprice at the same time but by different amounts (for example, when the general level of interest rates is falling, we may reduce rates paid on checking and savings deposit accounts by an amount that is less than the general decline in market interest rates);
- short-term and long-term market interest rates may change by different amounts (for example, the shape of the yield curve may affect new loan yields and funding costs differently);
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (for example, if long-term mortgage interest rates decline sharply, MBS held in the investment securities portfolio may prepay significantly earlier than anticipated, which could reduce portfolio income); or
- interest rates may also have a direct or indirect effect on loan demand, collateral values, credit losses, mortgage origination volume, the fair value of MSRs and other financial instruments, the value of the pension liability and other items affecting earnings.

We assess interest rate risk by comparing outcomes under various net interest income simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. These simulations require assumptions regarding drivers of earnings and balance sheet composition such as loan originations, prepayment speeds on loans and investment securities, deposit flows and mix, as well as pricing strategies.

Currently, our profile is such that we project net interest income will benefit modestly from higher interest rates as our assets would reprice faster and to a greater degree than our liabilities, while in the case of lower interest rates, our assets would reprice downward and to a greater degree than our liabilities.

As of September 30, 2017, our most recent simulations estimate net interest income sensitivity over the next two years under a range of both lower and higher interest rates. Measured impacts from standardized ramps (gradual changes) and shocks

(instantaneous changes) are summarized in Table 30, indicating net interest income sensitivity relative to the Company's base net interest income plan. Ramp scenarios assume interest rates move gradually in parallel across the yield curve relative to the base scenario in year one, and the full amount of the ramp is held as a constant differential to the base scenario in year two. The following describes the simulation assumptions for the scenarios presented in Table 30:

• Simulations are dynamic and reflect anticipated growth across assets and liabilities.

- Other macroeconomic variables that could be correlated with the changes in interest rates are held constant.

• Mortgage prepayment and origination assumptions vary across scenarios and reflect only the impact of the higher or lower interest rates.

• Our base scenario deposit forecast incorporates mix changes consistent with the base interest rate trajectory. Deposit mix is modeled to be the same as in the base scenario across the alternative scenarios. In higher rate scenarios,

customer activity that shifts balances into higher-yielding products could reduce expected net interest income. We hold the size of the projected investment securities portfolio constant across scenarios.

Table 30: Net Interest Income Sensitivity Over Next Two-Year Horizon Relative to Base Expectation

| (\$ in billions)                                 | Base | Lower Rates                             |  | Higher Rates                            |           |
|--|------|---|--|---|-----------|
|  |      | 100 bps<br>Ramp<br>Parallel<br>Decrease | 100 bps<br>Instantaneous<br>Parallel<br>Increase | 200 bps<br>Ramp<br>Parallel<br>Increase |           |
| First Year of Forecasting Horizon                |      |   |  |   |           |
| Net Interest Income Sensitivity to Base Scenario |      | (0.7) - (0.2)                           | 1.1 - 1.6  |   | 0.9 - 1.4 |
| Key Rates at Horizon End                         |      |   |  |   |           |
| Fed Funds Target                                 | 2.09 | 1.09                                    | 3.09   |   | 4.09      |
| 10-year CMT (1)                                  | 2.97 | 1.97                                    | 3.97   |   | 4.97      |
| Second Year of Forecasting Horizon               |      |   |  |   |           |
| Net Interest Income Sensitivity to Base Scenario |      | (1.1) - (0.6)                           | 1.5 - 2.0  |   | 2.1 - 2.6 |
| Key Rates at Horizon End                         |      |   |  |   |           |
| Fed Funds Target                                 | 2.50 | 1.50                                    | 3.50   |   | 4.50      |
| 10-year CMT (1)                                  | 3.59 | 2.59                                    | 4.59   |   | 5.59      |

(1)U.S. Constant Maturity Treasury Rate

The sensitivity results above do not capture interest rate sensitive noninterest income and expense impacts. Our interest rate sensitive noninterest income and expense is significantly driven by mortgage activity, and may move in the opposite direction of our net interest income. Typically, in response to higher interest rates, mortgage activity, primarily refinancing activity, generally declines. And in response to lower interest rates, mortgage activity generally increases. Mortgage results are also impacted by the valuation of MSRs and related hedge positions. See the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in this Report for more information.

We use the investment securities portfolio and exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. See the “Balance Sheet Analysis – Investment Securities” section in this Report for more information on the use of the available-for-sale and held-to-

## Asset/Liability Management (continued)

maturity securities portfolios. The notional or contractual amount, credit risk amount and fair value of the derivatives used to hedge our interest rate risk exposures as of September 30, 2017, and December 31, 2016, are presented in Note 12 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

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

**MORTGAGE BANKING INTEREST RATE AND MARKET RISK** We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For more information on mortgage banking interest rate and market risk, see the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in our 2016 Form 10-K.

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

The total carrying value of our residential and commercial MSRs was \$14.7 billion at September 30, 2017, and \$14.4 billion at December 31, 2016. The weighted-average note rate on our portfolio of loans serviced for others was 4.23% at September 30, 2017, and 4.26% at December 31, 2016. The carrying value of our total MSRs represented 0.87% of mortgage loans serviced for others at September 30, 2017, and 0.85% at December 31, 2016.

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

Table 31 presents total revenue from trading activities.

Table 31: Net Gains (Losses) from Trading Activities

|   | Quarter ended |      | Nine months ended |       |
|---|---------------|------|-------------------|-------|
|   | September 30, |      | September 30,     |       |
| (in millions)                                   | 2017          | 2016 | 2017              | 2016  |
| Interest income (1)                             | \$754         | 593  | \$2,107           | 1,761 |
| Less: Interest expense (2)                      | 109           | 88   | 309               | 260   |
| Net interest income                             | 645           | 505  | 1,798             | 1,501 |
| Noninterest income:                             |               |      |                   |       |
| Net gains (losses) from trading activities (3): |               |      |                   |       |
| Customer accommodation                          | 188           | 348  | 720               | 947   |

|   |       |     |         |       |
|---|-------|-----|---------|-------|
| Economic hedges and other (4)                             | 57    | 67  | 201     | (4 )  |
| Total net gains from trading activities                   | 245   | 415 | 921     | 943   |
| Total trading-related net interest and noninterest income | \$890 | 920 | \$2,719 | 2,444 |

(1) Represents interest and dividend income earned on trading securities.

(2) Represents interest and dividend expense incurred on trading securities we have sold but have not yet purchased.

(3) Represents realized gains (losses) from our trading activity and unrealized gains (losses) due to changes in fair value of our trading positions, attributable to the type of business activity.

(4) Excludes economic hedging of mortgage banking and asset/liability management activities, for which hedge results (realized and unrealized) are reported with the respective hedged activities.

**Customer accommodation** Customer accommodation activities are conducted to help customers manage their investment and risk management needs. We engage in market-making activities or act as an intermediary to purchase or sell financial instruments in anticipation of or in response to customer needs. This category also includes positions we use to manage our exposure to customer transactions.

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

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

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

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

Table 32: Distribution of Daily Trading-Related Revenues

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

The Company uses value-at-risk (VaR) metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. VaR is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets. For more information on VaR, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in our 2016 Form 10-K.

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

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

## Asset/Liability Management (continued)

Table 33 shows the Company's Trading General VaR by risk category. As presented in the table, average Company Trading General VaR was \$15 million for the quarter ended September 30, 2017, compared with \$29 million for the quarter

ended June 30, 2017. The decrease was mainly driven by changes in historical VaR dates dropping out of the 1-year time horizon.

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

| (in millions)                               | Quarter ended      |         |     |      |               |         |     |      |
|---|--------------------|---------|-----|------|---------------|---------|-----|------|
|   | September 30, 2017 |         |     |      | June 30, 2017 |         |     |      |
|   | Period end         | Average | Low | High | Period end    | Average | Low | High |
| Company Trading General VaR Risk Categories |                    |         |     |      |               |         |     |      |
| Credit                                      | \$18               | 26      | 18  | 35   | 23            | 29      | 23  | 36   |
| Interest rate                               | 7                  | 13      | 7   | 20   | 10            | 20      | 10  | 27   |
| Equity                                      | 13                 | 11      | 9   | 14   | 10            | 11      | 9   | 14   |
| Commodity                                   | 2                  | 1       | 1   | 2    | 1             | 1       | 1   | 2    |
| Foreign exchange                            | 0                  | 1       | 0   | 1    | 1             | 1       | 0   | 1    |
| Diversification benefit (1)                 | (22)               | (37)    |     |      | (29)          | (33)    |     |      |
| Company Trading General VaR                 | \$18               | 15      |     |      | 16            | 29      |     |      |

The period-end VaR was less than the sum of the VaR components described above, which is due to portfolio diversification. The diversification effect arises because the risks are not perfectly correlated causing a portfolio of (1) positions to usually be less risky than the sum of the risks of the positions alone. The diversification benefit is not meaningful for low and high metrics since they may occur on different days.

Regulatory Market Risk Capital reflects U.S. regulatory agency risk-based capital regulations that are based on the Basel Committee Capital Accord of the Basel Committee on Banking Supervision. The Company must calculate regulatory capital under the Basel III market risk capital rule, which requires banking organizations with significant trading activities to adjust their capital requirements to reflect the market risks of those activities based on comprehensive and risk sensitive methods and models. The market risk capital rule is intended to cover the risk of loss in value of covered positions due to changes in market conditions.

Composition of Material Portfolio of Covered Positions The positions that are "covered" by the market risk capital rule are generally a subset of our trading assets, and derivative assets and liabilities, specifically those held by the Company for the purpose of short-term resale or with the intent of benefiting from actual or expected short-term price movements, or to lock in arbitrage profits. Positions excluded from market risk regulatory capital treatment are subject to the credit risk capital rules applicable to the "non-covered" trading positions.

The material portfolio of the Company's "covered" positions is mostly concentrated in the trading assets, and derivative assets and liabilities within Wholesale Banking where the substantial portion of market risk capital resides. Wholesale Banking engages in the fixed income, traded credit, foreign exchange, equities, and commodities markets businesses. Other business segments hold smaller trading positions covered under the market risk capital rule.

Regulatory Market Risk Capital Components The capital required for market risk on the Company's "covered" positions is determined by internally developed models or standardized specific risk charges. The market risk regulatory capital models are subject to internal model risk management and validation. The models are continuously monitored and enhanced in response to changes in market conditions, improvements in system capabilities, and changes in the Company's market risk exposure. The Company is required to obtain and has received prior written approval from its regulators before using its internally developed models to calculate the market risk capital charge.

Basel III prescribes various VaR measures in the determination of regulatory capital and RWAs. The Company uses the same VaR models for both market risk management purposes as well as regulatory capital calculations. For

regulatory purposes, we use the following metrics to determine the Company's market risk capital requirements:

General VaR measures the risk of broad market movements such as changes in the level of credit spreads, interest rates, equity prices, commodity prices, and foreign exchange rates. General VaR uses historical simulation analysis based on 99% confidence level and a 10-day holding period.

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Table 34 shows the General VaR measure categorized by major risk categories. Average 10-day Company Regulatory General VaR was \$31 million for the quarter ended September 30, 2017, compared with \$30 million for the quarter

ended June 30, 2017. The increase was primarily driven by changes in portfolio composition.

Table 34: Regulatory 10-Day 99% General VaR by Risk Category

| (in millions)                                    | Quarter ended      |         |     |      |               |         |     |      |
|--|--------------------|---------|-----|------|---------------|---------|-----|------|
|  | September 30, 2017 |         |     |      | June 30, 2017 |         |     |      |
|  | Period end         | Average | Low | High | Period end    | Average | Low | High |
| Wholesale Regulatory General VaR Risk Categories |                    |         |     |      |               |         |     |      |
| Credit   | \$51               | 66      | 45  | 86   | 60            | 72      | 57  | 93   |
| Interest rate                                    | 14                 | 23      | 14  | 38   | 17            | 39      | 17  | 71   |
| Equity (1)                                       | 7                  | 12      | 4   | 23   | 6             | 4       | 2   | 7    |
| Commodity  | 6                  | 8       | 4   | 21   | 11            | 4       | 3   | 11   |
| Foreign exchange                                 | 3                  | 6       | 2   | 16   | 8             | 6       | 3   | 29   |
| Diversification benefit (2)                      | (57)               | (86)    |     |      | (71)          | (96)    |     |      |
| Wholesale Regulatory General VaR                 | \$24               | 29      | 20  | 36   | 31            | 29      | 24  | 37   |
| Company Regulatory General VaR                   | 26                 | 31      | 22  | 39   | 35            | 30      | 25  | 40   |

The period-end VaR was less than the sum of the VaR components described above, which is due to portfolio diversification. The diversification benefit arises because the risks are not perfectly correlated causing a portfolio (1) of positions to usually be less risky than the sum of the risks of the positions alone. The diversification benefit is not meaningful for low and high metrics since they may occur on different days.

Specific Risk measures the risk of loss that could result from factors other than broad market movements, or name-specific market risk. Specific Risk uses Monte Carlo simulation analysis based on a 99% confidence level and a 10-day holding period.

Total VaR (as presented in Table 35) is composed of General VaR and Specific Risk and uses the previous 12 months of historical market data in compliance with regulatory requirements.

Total Stressed VaR (as presented in Table 35) uses a historical period of significant financial stress over a continuous 12 month period using historically available market data and is composed of Stressed General VaR and Stressed Specific Risk. Total Stressed VaR uses the same methodology and models as Total VaR.

Incremental Risk Charge (as presented in Table 35) captures losses due to both issuer default and migration risk at the 99.9% confidence level over the one-year capital horizon under the assumption of constant level of risk or a constant position assumption. The model covers non-securitized credit-sensitive trading products.

The Company calculates Incremental Risk by generating a portfolio loss distribution using Monte Carlo simulation, which assumes numerous scenarios, where an assumption is made that the portfolio's composition remains constant for a one-year time horizon. Individual issuer credit grade migration and issuer default risk is modeled through generation of the issuer's credit rating transition based upon statistical modeling. Correlation between credit grade migration and default is captured by a multifactor proprietary model which takes into account industry classifications as well as regional effects. Additionally, the impact of market and issuer specific concentrations is reflected in the modeling framework by assignment of a higher charge for portfolios that have increasing concentrations in particular issuers or sectors. Lastly, the model captures product basis risk; that is, it reflects the material disparity between a position and its hedge.

Table 35 provides information on Total VaR, Total Stressed VaR and the Incremental Risk Charge results for the quarter ended September 30, 2017. Incremental Risk Charge uses the higher of the quarterly average or the quarter

end result. For third quarter 2017, the required capital for market risk equals the quarter end results.

Table 35: Market Risk Regulatory Capital Modeled Components

| (in millions)           | Quarter ended September 30, 2017 |     |      |            | September 30, 2017     |                          |
|-------------------------|----------------------------------|-----|------|------------|------------------------|--------------------------|
|                         | Average                          | Low | High | Period end | Risk-based capital (1) | Risk-weighted assets (1) |
| Total VaR               | \$54                             | 47  | 65   | 62         | 163                    | 2,039                    |
| Total Stressed VaR      | 279                              | 232 | 321  | 292        | 837                    | 10,461                   |
| Incremental Risk Charge | 32                               | 26  | 38   | 34         | 34                     | 423                      |

(1) Results represent the risk-based capital and RWAs based on the VaR and Incremental Risk Charge models.

**Securitized Products Charge** Basel III requires a separate market risk capital charge for positions classified as a securitization or re-securitization. The primary criteria for classification as a securitization are whether there is a transfer of risk and whether the credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of

seniority. Covered trading securitizations positions include consumer and commercial asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), and collateralized loan and other debt obligations (CLO/CDO) positions. The securitization capital requirements are the greater of the capital requirements

## Asset/Liability Management (continued)

of the net long or short exposure, and are capped at the maximum loss that could be incurred on any given transaction. Table 36 shows the aggregate net fair market value of securities and derivative securitization positions by exposure type that meet the regulatory definition of a covered trading securitization position at September 30, 2017, and December 31, 2016.

Table 36: Covered Securitization Positions by Exposure Type (Net Market Value)

(in millions)      ABS   CMBS   RMBS   CLO/CDO

September 30, 2017

Securitization exposure:

|             |       |     |     |     |
|-------------|-------|-----|-----|-----|
| Securities  | \$559 | 220 | 744 | 738 |
| Derivatives | 3     | (4) | 1   | (2) |
| Total       | \$562 | 216 | 745 | 736 |

December 31, 2016

Securitization exposure:

|             |       |     |     |     |
|-------------|-------|-----|-----|-----|
| Securities  | \$801 | 397 | 911 | 791 |
| Derivatives | 3     | 4   | 1   | (8) |
| Total       | \$804 | 401 | 912 | 783 |

**Securitization Due Diligence and Risk Monitoring** The market risk capital rule requires that the Company conduct due diligence on the risk of each securitization position within three days of its purchase. The Company's due diligence seeks to provide an understanding of the features that would materially affect the performance of a securitization or re-securitization. The due diligence analysis is re-performed on a quarterly basis for each

securitization and re-securitization position. The Company uses an automated solution to track the due diligence associated with securitization activity. The Company aims to manage the risks associated with securitization and re-securitization positions through the use of offsetting positions and portfolio diversification.

**Standardized Specific Risk Charge** For debt and equity positions that are not evaluated by the approved internal specific risk models, a regulatory prescribed standard specific risk charge is applied. The standard specific risk add-on for sovereign entities, public sector entities, and depository institutions is based on the Organization for Economic Co-operation and Development (OECD) country risk classifications (CRC) and the remaining contractual maturity of the position. These risk add-ons for debt positions range from 0.25% to 12%. The add-on for corporate debt is based on creditworthiness and the remaining contractual maturity of the position. All other types of debt positions are subject to an 8% add-on. The standard specific risk add-on for equity positions is generally 8%.

**Comprehensive Risk Charge / Correlation Trading** The market risk capital rule requires capital for correlation trading positions. The Company's remaining correlation trading exposure covered under the market risk capital rule matured in fourth quarter 2014.

Table 37 summarizes the market risk-based capital requirements charge and market RWAs in accordance with the Basel III market risk capital rule as of September 30, 2017, and December 31, 2016. The market RWAs are calculated as the sum of the components in the table below.

Table 37: Market Risk Regulatory Capital and RWAs

| (in millions)           | September 30,<br>2017     |                             | December 31,<br>2016      |                             |
|-------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
|                         | Risk-<br>based<br>capital | Risk-<br>weighted<br>assets | Risk-<br>based<br>capital | Risk-<br>weighted<br>assets |
| Total VaR               | \$163                     | 2,039                       | 247                       | 3,091                       |
| Total Stressed VaR      | 837                       | 10,461                      | 1,135                     | 14,183                      |
| Incremental Risk Charge | 34                        | 423                         | 217                       | 2,710                       |

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|   |         |        |       |        |
|---|---------|--------|-------|--------|
| Securitized Products Charge                           | 678     | 8,469  | 561   | 7,007  |
| Standardized Specific Risk Charge                     | 1,248   | 15,606 | 1,357 | 16,962 |
| De minimis Charges (positions not included in models) | 10      | 132    | 11    | 147    |
| Total   | \$2,970 | 37,130 | 3,528 | 44,100 |

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RWA Rollforward Table 38 depicts the changes in the market risk regulatory capital and RWAs under Basel III for the first nine months and third quarter of 2017.

Table 38: Analysis of Changes in Market Risk Regulatory Capital and RWAs

| (in millions)                     | Risk-<br>based<br>capital | Risk-<br>weighted<br>assets |
|-----------------------------------|---------------------------|-----------------------------|
| Balance, December 31, 2016        | \$3,528                   | 44,100                      |
| Total VaR                         | (84 )                     | (1,052 )                    |
| Total Stressed VaR                | (298 )                    | (3,722 )                    |
| Incremental Risk Charge           | (183 )                    | (2,288 )                    |
| Securitized Products Charge       | 117                       | 1,461                       |
| Standardized Specific Risk Charge | (108 )                    | (1,356 )                    |
| De minimis Charges                | (2 )                      | (13 )                       |
| Balance, September 30, 2017       | \$2,970                   | 37,130                      |
| Balance, June 30, 2017            | \$3,026                   | 37,827                      |
| Total VaR                         | 11                        | 141                         |
| Total Stressed VaR                | (62 )                     | (774 )                      |
| Incremental Risk Charge           | 4                         | 47                          |
| Securitized Products Charge       | 55                        | 689                         |
| Standardized Specific Risk Charge | (66 )                     | (831 )                      |
| De minimis Charges                | 2                         | 31                          |
| Balance, September 30, 2017       | \$2,970                   | 37,130                      |

The largest contributor to the changes to market risk regulatory capital and RWAs in the first nine months of 2017 was associated with changes in positions due to normal trading activity.

**VaR Backtesting** The market risk capital rule requires backtesting as one form of validation of the VaR model. Backtesting is a comparison of the daily VaR estimate with the actual clean profit and loss (clean P&L) as defined by the market risk capital rule. Clean P&L is the change in the value of the Company's covered trading positions that would have occurred had previous end-of-day covered trading positions remained unchanged (therefore, excluding fees, commissions, net interest income, and intraday trading gains and losses). The backtesting analysis compares the daily Total VaR for each of the trading days in the preceding 12 months with the net clean P&L. Clean P&L does not include credit adjustments and other activity not representative of daily price changes driven by market risk factors. The clean P&L measure of revenue is used to evaluate the performance of the Total VaR and is not comparable to our actual daily trading net revenues, as reported elsewhere in this Report.

Any observed clean P&L loss in excess of the Total VaR is considered a market risk regulatory capital backtesting exception. The actual number of exceptions (that is, the number of business days for which the clean P&L losses exceed the corresponding 1-day, 99% Total VaR measure) over the preceding 12 months is used to determine the capital multiplier for the capital calculation. The number of actual backtesting exceptions is dependent on current market performance relative to historic market volatility in addition to model performance and assumptions. This capital multiplier increases from a minimum of three to a maximum of four, depending on the number of exceptions. No backtesting exceptions occurred over the preceding 12 months. Backtesting is also performed at line of business levels within the Company.

Table 39 shows daily Total VaR (1-day, 99%) used for regulatory market risk capital backtesting for the 12 months ended September 30, 2017. The Company's average Total VaR for third quarter 2017 was \$19 million with a low of \$17 million and a high of \$21 million. The decrease in Total 1-day VaR in second quarter 2017 was attributable to a decline in modeled Specific Risk.



## Asset/Liability Management (continued)

Table 39: Daily Total 1-Day 99% VaR Measure (Rolling 12 Months)

**Market Risk Governance, Measurement, Monitoring and Model Risk Management** We employ a well-defined and structured market risk governance process and market risk measurement process, which incorporates value-at-risk (VaR) measurements combined with sensitivity analysis and stress testing to help us monitor our market risk. These monitoring measurements require the use of market risk models, which we govern by our Corporate Model Risk policies and procedures. For more information on our governance, measurement, monitoring, and model risk management practices, see the “Risk Management – Asset/Liability Management – Market Risk – Trading Activities” section in our 2016 Form 10-K.

**MARKET RISK – EQUITY INVESTMENTS** We are directly and indirectly affected by changes in the equity markets. We make and manage direct equity investments in start-up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. We also invest in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by management and the Board. The Board’s policy is to review business developments, key risks and historical returns for the private equity investment portfolio at least annually. Management reviews these investments at least quarterly and assesses them for possible OTTI. For nonmarketable investments, the analysis is based on facts and circumstances of each individual investment and the expectations for that investment’s cash flows and capital needs, the viability of its business model and our exit strategy. Nonmarketable investments include private equity investments accounted for under the cost method, equity method and fair value option.

In conjunction with the March 2008 initial public offering (IPO) of Visa, Inc. (Visa), we received approximately 20.7 million shares of Visa Class B common stock, the class which was apportioned to member banks of Visa at the time of the IPO. To

manage our exposure to Visa and realize the value of the appreciated Visa shares, we incrementally sold these shares through a series of sales over the past few years, thereby eliminating this position as of September 30, 2015. As part of these sales, we agreed to compensate the buyer for any additional contributions to a litigation settlement fund for the litigation matters associated with the Class B shares we sold. Our exposure to this retained litigation risk has been updated quarterly and is reflected on our balance sheet. For additional information about the associated litigation matters, see the “Interchange Litigation” section in Note 11 (Legal Actions) to Financial Statements in this Report. As part of our business to support our customers, we trade public equities, listed/OTC equity derivatives and convertible bonds. We have parameters that govern these activities. We also have marketable equity securities in the available-for-sale securities portfolio, including securities relating to our venture capital activities. We manage these investments within capital risk limits approved by management and the Board and monitored by Corporate ALCO and the Corporate Market Risk Committee. Gains and losses on these securities are recognized in net income when realized and periodically include OTTI charges.

Changes in equity market prices may also indirectly affect our net income by (1) the value of third party assets under management and, hence, fee income, (2) borrowers whose ability to repay principal and/or interest may be affected by the stock market, or (3) brokerage activity, related commission income and other business activities. Each business line monitors and manages these indirect risks.

Table 40 provides information regarding our marketable and nonmarketable equity investments as of September 30, 2017, and December 31, 2016.

Table 40: Nonmarketable and Marketable Equity Investments

| (in millions)                              | Sep 30,<br>2017 | Dec 31,<br>2016 |
|--|-----------------|-----------------|
| Nonmarketable equity investments:          |                 |                 |
| Cost method:                               |                 |                 |
| Federal bank stock                         | \$5,839         | 6,407           |
| Private equity                             | 1,428           | 1,465           |
| Auction rate securities                    | 400             | 525             |
| Total cost method                          | 7,667           | 8,397           |
| Equity method:                             |                 |                 |
| LIHTC (1)                                  | 9,884           | 9,714           |
| Private equity                             | 3,758           | 3,635           |
| Tax-advantaged renewable energy            | 1,954           | 2,054           |
| New market tax credit and other            | 291             | 305             |
| Total equity method                        | 15,887          | 15,708          |
| Fair value (2)                             | 4,523           | 3,275           |
| Total nonmarketable equity investments (3) | \$28,077        | 27,380          |
| Marketable equity securities:              |                 |                 |
| Cost                                       | \$606           | 706             |
| Net unrealized gains                       | 287             | 505             |
| Total marketable equity securities (4)     | \$893           | 1,211           |

(1) Represents low income housing tax credit investments.

(2) Represents nonmarketable equity investments for which we have elected the fair value option. See Note 6 (Other Assets) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information.

(3) Included in other assets on the balance sheet. See Note 6 (Other Assets) to Financial Statements in this Report for additional information.

(4) Included in available-for-sale securities. See Note 4 (Investment Securities) to Financial Statements in this Report for additional information.

**LIQUIDITY AND FUNDING** The objective of effective liquidity management is to ensure that we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under periods of Wells Fargo-specific and/or market stress. To achieve this objective, the Board of Directors establishes liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. These guidelines are monitored on a monthly basis by the Corporate ALCO and on a quarterly basis by the Board of Directors. These guidelines are established and monitored for both the consolidated company and for the Parent on a stand-alone basis to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries.

**Liquidity Standards** On September 3, 2014, the FRB, OCC and FDIC issued a final rule that implements a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision (BCBS). The rule requires banking institutions, such as Wells Fargo, to hold high-quality liquid assets (HQLA), such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash, in an amount equal to or greater than its projected net cash outflows during a 30-day stress period. The rule is applicable to the Company on a consolidated basis and to our insured depository institutions with total assets greater than \$10 billion. In addition, the FRB finalized rules imposing enhanced liquidity management standards on large bank holding companies (BHC) such as Wells Fargo, and finalized a rule that requires large bank holding companies to publicly disclose on a quarterly basis beginning

April 1, 2017, certain quantitative and qualitative information regarding their LCR calculations.



The FRB, OCC and FDIC have proposed a rule that would implement a stable funding requirement, the net stable funding ratio (NSFR), which would require large banking organizations, such as Wells Fargo, to maintain a sufficient amount of stable funding in relation to their assets, derivative exposures and commitments over a one-year horizon period. As proposed, the rule would become effective on January 1, 2018.

Liquidity Coverage Ratio As of September 30, 2017, the consolidated Company and Wells Fargo Bank, N.A. were above the minimum LCR requirement of 100%, which is calculated as HQLA divided by projected net cash outflows, as each is defined under the LCR rule. Table 41 presents the Company's quarterly average values for the daily-calculated LCR and its components calculated pursuant to the LCR rule requirements.

Table 41: Liquidity Coverage Ratio

| (in millions)                                 | Average for<br>Quarter ended<br>September 30,<br>2017 |   |
|---|---|---|
| HQLA (1)(2)                                   | \$ 398,381  |   |
| Projected net cash outflows                   | 311,592   |   |
| LCR   | 128   | % |
| HQLA in excess of projected net cash outflows | \$ 86,789   |   |

(1) Excludes excess HQLA at Wells Fargo Bank, N.A.

(2) Net of applicable haircuts required under the LCR rule.

**Liquidity Sources** We maintain liquidity in the form of cash, cash equivalents and unencumbered high-quality, liquid securities. These assets make up our primary sources of liquidity which are presented in Table 42. Our primary sources of liquidity are substantially the same in composition as HQLA under the LCR rule; however, our primary sources of liquidity will generally exceed HQLA calculated under the LCR rule due to the applicable haircuts to HQLA and the exclusion of excess HQLA at our subsidiary insured depository institutions required under the LCR rule.

Our cash is predominantly on deposit with the Federal Reserve. Securities included as part of our primary sources of liquidity are comprised of U.S. Treasury and federal agency debt, and mortgage-backed securities issued by federal agencies within our investment securities portfolio. We believe these securities provide quick sources of liquidity through sales or by pledging to obtain financing, regardless of market conditions. Some of these securities are within the held-to-maturity portion of our investment securities portfolio and as such are not intended for sale but may be pledged to obtain financing. Some of the legal entities within our consolidated group of companies are subject to various regulatory, tax, legal and other restrictions that can limit the transferability of their funds. We believe we maintain adequate liquidity for these entities in consideration of such funds transfer restrictions.

## Asset/Liability Management (continued)

Table 42: Primary Sources of Liquidity

| (in millions)                                      | September 30, 2017 |            |              | December 31, 2016 |            |              |
|--|--------------------|------------|--------------|-------------------|------------|--------------|
|  | Total              | Encumbered | Unencumbered | Total             | Encumbered | Unencumbered |
| Interest-earning deposits                          | \$205,648          | —          | 205,648      | \$200,671         | —          | 200,671      |
| Securities of U.S. Treasury and federal agencies   | 51,632             | 1,101      | 50,531       | 70,898            | 1,160      | 69,738       |
| Mortgage-backed securities of federal agencies (1) | 239,798            | 46,137     | 193,661      | 205,655           | 52,672     | 152,983      |
| Total  | \$497,078          | 47,238     | 449,840      | \$477,224         | 53,832     | 423,392      |

(1) Included in encumbered securities at September 30, 2017, were securities with a fair value of \$8.0 billion which were purchased in September 2017, but settled in October 2017.

In addition to our primary sources of liquidity shown in Table 42, liquidity is also available through the sale or financing of other securities including trading and/or available-for-sale securities, as well as through the sale, securitization or financing of loans, to the extent such securities and loans are not encumbered. In addition, other securities in our held-to-maturity portfolio, to the extent not encumbered, may be pledged to obtain financing. Deposits have historically provided a sizable source of relatively low-cost funds. Deposits were 137% of total loans at September 30, 2017 and 135% at December 31, 2016.

Additional funding is provided by long-term debt and short-term borrowings. We access domestic and international capital markets for long-term funding (generally greater than one year) through issuances of registered debt securities, private placements and asset-backed secured funding.

Table 43 shows selected information for short-term borrowings, which generally mature in less than 30 days.

Table 43: Short-Term Borrowings

| (in millions)  | Quarter ended |              |              |              |              |
|--|---------------|--------------|--------------|--------------|--------------|
|  | Sep 30, 2017  | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 |
| Balance, period end  |               |              |              |              |              |
| Federal funds purchased and securities sold under agreements to repurchase     | \$79,824      | 78,683       | 76,366       | 78,124       | 108,468      |
| Commercial paper   | —             | 11           | 10           | 120          | 123          |
| Other short-term borrowings  | 13,987        | 16,662       | 18,495       | 18,537       | 16,077       |
| Total  | \$93,811      | 95,356       | 94,871       | 96,781       | 124,668      |
| Average daily balance for period   |               |              |              |              |              |
| Federal funds purchased and securities sold under agreements to repurchase     | \$81,980      | 79,826       | 79,942       | 107,271      | 101,252      |
| Commercial paper   | 4             | 10           | 51           | 121          | 137          |
| Other short-term borrowings  | 17,209        | 15,927       | 18,556       | 17,306       | 14,839       |
| Total  | \$99,193      | 95,763       | 98,549       | 124,698      | 116,228      |
| Maximum month-end balance for period   |               |              |              |              |              |
| Federal funds purchased and securities sold under agreements to repurchase (1) | \$83,260      | 78,683       | 81,284       | 109,645      | 108,468      |
| Commercial paper (2)   | 11            | 11           | 78           | 121          | 138          |
| Other short-term borrowings (3)  | 18,301        | 18,281       | 19,439       | 18,537       | 16,077       |

(1) Highest month-end balance in each of the last five quarters was in August, June and February 2017, October and September 2016.

(2) Highest month-end balance in each of the last five quarters was in July, June and January 2017, November and July 2016.

(3)

Highest month-end balance in each of the last five quarters was in July, April and February 2017, December and September 2016.

**Long-Term Debt** We issue long-term debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. Long-term debt of \$238.9 billion at September 30, 2017, decreased \$16.2 billion from December 31, 2016. We issued \$10.4 billion and \$38.4 billion of long-term debt in the third quarter and first nine months of 2017, respectively. Table 44 provides the aggregate carrying value of long-term debt maturities (based on contractual payment dates) for the remainder of 2017 and the following years thereafter, as of September 30, 2017.

Table 44: Maturity of Long-Term Debt

| (in millions)  | September 30, 2017 |        |        |        |        |            | Total   |
|--|--------------------|--------|--------|--------|--------|------------|---------|
|  | Remaining<br>2017  | 2018   | 2019   | 2020   | 2021   | Thereafter |         |
| <b>Wells Fargo &amp; Company (Parent Only)</b>               |                    |        |        |        |        |            |         |
| Senior notes   | \$3,084            | 8,002  | 6,791  | 13,300 | 18,036 | 71,083     | 120,296 |
| Subordinated notes   | —                  | 608    | —      | —      | —      | 26,380     | 26,988  |
| Junior subordinated notes                                    | —                  | —      | —      | —      | —      | 1,658      | 1,658   |
| Total long-term debt - Parent                                | \$3,084            | 8,610  | 6,791  | 13,300 | 18,036 | 99,121     | 148,942 |
| <b>Wells Fargo Bank, N.A. and other bank entities (Bank)</b> |                    |        |        |        |        |            |         |
| Senior notes   | \$4,512            | 31,622 | 18,888 | 5,511  | 10,238 | 240        | 71,011  |
| Subordinated notes   | 1,026              | —      | —      | —      | —      | 5,406      | 6,432   |
| Junior subordinated notes                                    | —                  | —      | —      | —      | —      | 340        | 340     |
| Securitized and other bank debt                              | 1,732              | 1,803  | 728    | 649    | 117    | 3,639      | 8,668   |
| Total long-term debt - Bank                                  | \$7,270            | 33,425 | 19,616 | 6,160  | 10,355 | 9,625      | 86,451  |
| <b>Other consolidated subsidiaries</b>                       |                    |        |        |        |        |            |         |
| Senior notes   | \$—                | 807    | 1,200  | —      | 1,016  | 404        | 3,427   |
| Junior subordinated notes                                    | —                  | —      | —      | —      | —      | —          | —       |
| Securitized and other bank debt                              | —                  | 73     | —      | —      | —      | —          | 73      |
| Total long-term debt - Other consolidated subsidiaries       | \$—                | 880    | 1,200  | —      | 1,016  | 404        | 3,500   |
| Total long-term debt   | \$10,354           | 42,915 | 27,607 | 19,460 | 29,407 | 109,150    | 238,893 |

Parent In February 2017, the Parent filed a registration statement with the SEC for the issuance of senior and subordinated notes, preferred stock and other securities. The Parent's ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. As of September 30, 2017, the Parent was authorized by the Board to issue up to \$50 billion in outstanding short-term debt and \$180 billion in outstanding long-term debt. The Parent's short-term debt issuance authority granted by the Board is limited to debt issued to affiliates, while the Parent's long-term debt issuance authority granted by the Board includes debt issued to affiliates and others. At September 30, 2017, the Parent had available \$50.0 billion in short-term debt issuance authority and \$26.9 billion in long-term debt issuance authority. During the first nine months of 2017, the Parent issued \$21.9 billion of senior notes, of which \$16.1 billion were registered with the SEC.

The Parent's proceeds from securities issued were used for general corporate purposes, and, unless otherwise specified in the applicable prospectus or prospectus supplement, we expect the proceeds from securities issued in the future will be used for the same purposes. Depending on market conditions, we may purchase our outstanding debt securities from time to time in privately negotiated or open market transactions, by tender offer, or otherwise.

Wells Fargo Bank, N.A. As of September 30, 2017, Wells Fargo Bank, N.A. was authorized by its board of directors to issue \$100 billion in outstanding short-term debt and \$175 billion in outstanding long-term debt and had available \$97.4 billion in short-term debt issuance authority and \$98.2 billion in long-term debt issuance authority. In April 2015, Wells Fargo Bank, N.A. established a \$100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue \$50 billion in outstanding short-term senior notes and \$50 billion in outstanding long-term senior or subordinated notes. At September 30, 2017, Wells Fargo Bank, N.A. had remaining issuance capacity under the bank note program of \$50.0 billion

in short-term senior notes and \$38.0 billion in long-term senior or subordinated notes. During the first nine months of 2017, Wells Fargo Bank, N.A. issued \$1.0 billion of unregistered senior notes, none of which were issued under the bank note program. In addition, during the first nine months of 2017, Wells Fargo Bank, N.A. executed advances of \$20.4 billion with the Federal Home Loan Bank of Des Moines, and as of September 30, 2017, Wells Fargo Bank, N.A. had outstanding advances of \$60.0 billion across the Federal Home Loan Bank System.

**Credit Ratings** Investors in the long-term capital markets, as well as other market participants, generally will consider, among other factors, a company's debt rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a reduction of our credit rating; however, our debt securities do not contain credit rating covenants.

On September 18, 2017, S&P Global Ratings affirmed all of the Company's ratings and maintained its negative ratings outlook. On September 20, 2017, DBRS, Inc. (DBRS) downgraded the Company's long-term ratings by one notch and affirmed the Company's short-term ratings. DBRS revised the trend on the Company's long-term ratings from negative to stable. On October 3, 2017, Fitch Ratings, Inc. downgraded certain of the Company's ratings by one notch and revised the ratings outlook from negative to stable. Both the Parent and Wells Fargo Bank, N.A. remain among the top-rated financial firms in the U.S.

See the "Risk Factors" section in our 2016 Form 10-K for additional information regarding our credit ratings and the potential impact a credit rating downgrade would have on our liquidity and operations, as well as Note 12 (Derivatives) to Financial Statements in this Report for information regarding additional collateral and funding obligations required for certain

## Asset/Liability Management (continued)

derivative instruments in the event our credit ratings were to fall below investment grade.

The credit ratings of the Parent and Wells Fargo Bank, N.A. as of September 30, 2017, are presented in Table 45.

Table 45: Credit Ratings as of September 30, 2017

|                     | Wells Fargo & Company |                          | Wells Fargo Bank,<br>N.A. |                          |
|---------------------|-----------------------|--------------------------|---------------------------|--------------------------|
|                     | Senior debt           | Short-term<br>borrowings | Long-term<br>deposits     | Short-term<br>borrowings |
| Moody's             | A2                    | P-1                      | Aa1                       | P-1                      |
| S&P                 | A                     | A-1                      | AA-                       | A-1+                     |
| Fitch Ratings, Inc. | A+                    | F1                       | AA                        | F1+                      |
| DBRS                | AA(low)               | R-1(middle)              | AA                        | R-1(high)                |

**FEDERAL HOME LOAN BANK MEMBERSHIP** The Federal Home Loan Banks (the FHLBs) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. We are a member of the FHLBs based in Dallas, Des Moines and San Francisco. Each member of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Board. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

## Capital Management

We have an active program for managing capital through a comprehensive process for assessing the Company's overall capital adequacy. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily fund our capital needs through the retention of earnings net of both dividends and share repurchases, as well as through the issuance of preferred stock and long and short-term debt. Retained earnings increased \$8.7 billion from December 31, 2016, predominantly from Wells Fargo net income of \$15.9 billion, less common and preferred stock dividends of \$7.0 billion. During third quarter 2017, we issued 10.1 million shares of common stock. During third quarter 2017, we repurchased 49.0 million shares of common stock in open market transactions, private transactions and from employee benefit plans, at a cost of \$2.6 billion. We also entered into a \$1 billion forward repurchase contract with an unrelated third party in October 2017 that is expected to settle in first quarter 2018 for approximately 19 million shares. For additional information about our forward repurchase agreements, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

### Regulatory Capital Guidelines

The Company and each of our insured depository institutions are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC. Risk-based capital (RBC) guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures as discussed below.

**RISK-BASED CAPITAL AND RISK-WEIGHTED ASSETS** The Company is subject to final and interim final rules issued by federal banking regulators to implement Basel III capital requirements for U.S. banking organizations. These rules are based on international guidelines for determining regulatory capital issued by the Basel Committee on Banking Supervision (BCBS). The federal banking regulators' capital rules, among other things, require on a fully phased-in basis:

- a minimum Common Equity Tier 1 (CET1) ratio of 9.0%, comprised of a 4.5% minimum requirement plus a capital conservation buffer of 2.5% and for us, as a global systemically important bank (G-SIB), a capital surcharge to be calculated annually, which is 2.0% based on our year-end 2015 data;

- a minimum tier 1 capital ratio of 10.5%, comprised of a 6.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;

- a minimum total capital ratio of 12.5%, comprised of a 8.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;

- a potential countercyclical buffer of up to 2.5% to be added to the minimum capital ratios, which is currently not in effect but could be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in systemic risk;

- a minimum tier 1 leverage ratio of 4.0%; and

- a minimum supplementary leverage ratio (SLR) of 5.0% (comprised of a 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) for large and internationally active bank holding companies (BHCs).

We were required to comply with the final Basel III capital rules beginning January 2014, with certain provisions subject to phase-in periods. The Basel III capital rules are scheduled to be fully phased in by the end of 2021. The Basel III capital rules contain two frameworks for calculating capital requirements, a Standardized Approach, which replaced Basel I, and an Advanced Approach applicable to certain institutions, including Wells Fargo. Accordingly, in the assessment of our capital adequacy, we must report the lower of our CET1, tier 1 and total capital ratios calculated under the Standardized Approach and under the Advanced Approach.

Because the Company has been designated as a G-SIB, we will also be subject to the FRB's rule implementing the additional capital surcharge of between 1.0-4.5% on G-SIBs. Under the rule, we must annually calculate our surcharge under two methods and use the higher of the two surcharges. The first method (method one) will consider our size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, consistent with a methodology

developed by the BCBS and the Financial Stability Board (FSB). The second (method two) will use similar inputs, but will replace substitutability with use of short-term wholesale funding and will generally result in higher surcharges than the BCBS methodology. The phase-in period for the G-SIB surcharge began on January 1, 2016 and will become fully effective on January 1, 2019. Based on year-end 2015 data, our 2017 G-SIB surcharge under method two is 2.0% of the Company's RWAs, which is the higher of method one and method two. Because the G-SIB surcharge is calculated annually based on data that can differ over time, the amount of the surcharge is subject to change in future years. Under the Standardized Approach (fully phased-in), our CET1 ratio of 11.82% exceeded the minimum of 9.0% by 282 basis points at September 30, 2017.

The tables that follow provide information about our risk-based capital and related ratios as calculated under Basel III capital guidelines. For banking industry regulatory reporting purposes, we report our capital in accordance with Transition Requirements but are managing our capital based on a fully phased-in calculation. For information about our capital requirements calculated in accordance with Transition Requirements, see Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.



## Capital Management (continued)

Table 46 summarizes our CET1, tier 1 capital, total capital, risk-weighted assets and capital ratios on a fully phased-in basis at September 30, 2017 and December 31, 2016. As of September 30, 2017, our CET1 and tier 1 capital ratios were lower using RWAs calculated under the Standardized Approach.

Table 46: Capital Components and Ratios (Fully Phased-In) (1)

| (in millions)                      | September 30, 2017 |                       | December 31, 2016 |                       |   |
|------------------------------------|--------------------|-----------------------|-------------------|-----------------------|---|
|                                    | Advanced Approach  | Standardized Approach | Advanced Approach | Standardized Approach |   |
| Common Equity Tier 1               | (A) \$ 152,808     | 152,808               | 146,424           | 146,424               |   |
| Tier 1 Capital                     | (B) 176,263        | 176,263               | 169,063           | 169,063               |   |
| Total Capital                      | (C) 207,593        | 217,279               | 200,344           | 210,796               |   |
| Risk-Weighted Assets               | (D) 1,243,355      | 1,292,841             | 1,298,688         | 1,358,933             |   |
| Common Equity Tier 1 Capital Ratio | (A)/(D) 12.29      | % 11.82               | * 11.27           | 10.77                 | * |
| Tier 1 Capital Ratio               | (B)/(D) 14.18      | 13.63                 | * 13.02           | 12.44                 | * |
| Total Capital Ratio                | (C)/(D) 16.70      | * 16.81               | 15.43             | * 15.51               |   |

\*Denotes the lowest capital ratio as determined under the Advanced and Standardized Approaches.

Fully phased-in regulatory capital amounts, ratios and RWAs are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's (1) capital position. See Table 47 for information regarding the calculation and components of CET1, tier 1 capital, total capital and RWAs, as well as the corresponding reconciliation of our regulatory capital amounts to GAAP financial measures.

Table 47 provides information regarding the calculation and composition of our risk-based capital under the Advanced and Standardized Approaches at September 30, 2017 and December 31, 2016.

Table 47: Risk-Based Capital Calculation and Components

| (in millions)   | September 30, 2017 |                       | December 31, 2016 |                       |
|---|--------------------|-----------------------|-------------------|-----------------------|
|   | Advanced Approach  | Standardized Approach | Advanced Approach | Standardized Approach |
| Total equity  | \$206,824          | 206,824               | 200,497           | 200,497               |
| Adjustments:  |                    |                       |                   |                       |
| Preferred stock   | (25,576            | ) (25,576             | ) (24,551         | ) (24,551             |
| Additional paid-in capital on ESOP preferred stock        | (130               | ) (130                | ) (126            | ) (126                |
| Unearned ESOP shares                                      | 1,904              | 1,904                 | 1,565             | 1,565                 |
| Noncontrolling interests                                  | (895               | ) (895                | ) (916            | ) (916                |
| Total common stockholders' equity                         | 182,127            | 182,127               | 176,469           | 176,469               |
| Adjustments:  |                    |                       |                   |                       |
| Goodwill  | (26,581            | ) (26,581             | ) (26,693         | ) (26,693             |
| Certain identifiable intangible assets (other than MSRs)  | (1,913             | ) (1,913              | ) (2,723          | ) (2,723              |
| Other assets (1)  | (2,282             | ) (2,282              | ) (2,088          | ) (2,088              |
| Applicable deferred taxes (2)                             | 1,550              | 1,550                 | 1,772             | 1,772                 |
| Investment in certain subsidiaries and other              | (93                | ) (93                 | ) (313            | ) (313                |
| Common Equity Tier 1 (Fully Phased-In)                    | 152,808            | 152,808               | 146,424           | 146,424               |
| Effect of Transition Requirements                         | 740                | 740                   | 2,361             | 2,361                 |
| Common Equity Tier 1 (Transition Requirements)            | \$153,548          | 153,548               | 148,785           | 148,785               |
| Common Equity Tier 1 (Fully Phased-In)                    | \$152,808          | 152,808               | 146,424           | 146,424               |
| Preferred stock   | 25,576             | 25,576                | 24,551            | 24,551                |
| Additional paid-in capital on ESOP preferred stock        | 130                | 130                   | 126               | 126                   |
| Unearned ESOP shares                                      | (1,904             | ) (1,904              | ) (1,565          | ) (1,565              |
| Other   | (347               | ) (347                | ) (473            | ) (473                |
| Total Tier 1 capital (Fully Phased-In) (A)                | 176,263            | 176,263               | 169,063           | 169,063               |
| Effect of Transition Requirements                         | 733                | 733                   | 2,301             | 2,301                 |
| Total Tier 1 capital (Transition Requirements)            | \$176,996          | 176,996               | 171,364           | 171,364               |
| Total Tier 1 capital (Fully Phased-In)                    | \$176,263          | 176,263               | 169,063           | 169,063               |
| Long-term debt and other instruments qualifying as Tier 2 | 29,183             | 29,183                | 29,465            | 29,465                |
| Qualifying allowance for credit losses (3)                | 2,423              | 12,109                | 2,088             | 12,540                |
| Other   | (276               | ) (276                | ) (272            | ) (272                |
| Total Tier 2 capital (Fully Phased-In) (B)                | 31,330             | 41,016                | 31,281            | 41,733                |

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|  |                  |           |           |           |
|--|------------------|-----------|-----------|-----------|
| Effect of Transition Requirements                  | 1,196            | 1,196     | 1,780     | 1,780     |
| Total Tier 2 capital (Transition Requirements)     | \$32,526         | 42,212    | 33,061    | 43,513    |
| Total qualifying capital (Fully Phased-In)         | (A)+(B)\$207,593 | 217,279   | 200,344   | 210,796   |
| Total Effect of Transition Requirements            | 1,929            | 1,929     | 4,081     | 4,081     |
| Total qualifying capital (Transition Requirements) | \$209,522        | 219,208   | 204,425   | 214,877   |
| Risk-Weighted Assets (RWAs)                        |                  |           |           |           |
| (4)(5):  |                  |           |           |           |
| Credit risk  | \$910,562        | 1,255,711 | 960,763   | 1,314,833 |
| Market risk  | 37,130           | 37,130    | 44,100    | 44,100    |
| Operational risk                                   | 295,663          | N/A       | 293,825   | N/A       |
| Total RWAs (Fully Phased-In)                       | \$1,243,355      | 1,292,841 | 1,298,688 | 1,358,933 |
| Credit risk  | \$884,907        | 1,231,508 | 936,664   | 1,292,098 |
| Market risk  | 37,130           | 37,130    | 44,100    | 44,100    |
| Operational risk                                   | 295,663          | N/A       | 293,825   | N/A       |
| Total RWAs (Transition Requirements)               | \$1,217,700      | 1,268,638 | 1,274,589 | 1,336,198 |

(1) Represents goodwill and other intangibles on nonmarketable equity investments and on held-for-sale assets, which are included in other assets.

(2) Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

(3) Under the Advanced Approach the allowance for credit losses that exceeds expected credit losses is eligible for inclusion in Tier 2 Capital, to the extent the excess allowance does not exceed 0.6% of Advanced credit RWAs, and under the Standardized Approach, the allowance for credit losses is includable in Tier 2 Capital up to 1.25% of Standardized credit RWAs, with any excess allowance for credit losses being deducted from total RWAs.

(4) RWAs calculated under the Advanced Approach utilize a risk-sensitive methodology, which relies upon the use of internal credit models based upon our experience with internal rating grades. Advanced Approach also includes an operational risk component, which reflects the risk of operating loss resulting from inadequate or failed internal processes or systems.

(5) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total RWAs.

## Capital Management (continued)

Table 48 presents the changes in Common Equity Tier 1 under the Advanced Approach for the nine months ended September 30, 2017.

Table 48: Analysis of Changes in Common Equity Tier 1  
(in millions)

|  |            |
|--|------------|
| Common Equity Tier 1 (Fully Phased-In) at December 31, 2016            | \$ 146,424 |
| Net income   | 14,645     |
| Common stock dividends   | (5,738 )   |
| Common stock issued, repurchased, and stock compensation-related items | (4,750 )   |
| Goodwill   | 112        |
| Certain identifiable intangible assets (other than MSRs)               | 811        |
| Other assets (1)   | (195 )     |
| Applicable deferred taxes (2)  | (221 )     |
| Investment in certain subsidiaries and other                           | 1,720      |
| Change in Common Equity Tier 1   | 6,384      |
| Common Equity Tier 1 (Fully Phased-In) at September 30, 2017           | \$ 152,808 |

(1) Represents goodwill and other intangibles on nonmarketable equity investments and on held-for-sale assets, which are included in other assets.

(2) Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

Table 49 presents net changes in the components of RWAs under the Advanced and Standardized Approaches for the nine months ended September 30, 2017.

Table 49: Analysis of Changes in RWAs

| (in millions)  | Advanced<br>Approach | Standardized<br>Approach |
|--|----------------------|--------------------------|
| RWAs (Fully Phased-In) at December 31, 2016          | \$ 1,298,688         | 1,358,933                |
| Net change in credit risk RWAs                       | (50,201 )            | (59,122 )                |
| Net change in market risk RWAs                       | (6,970 )             | (6,970 )                 |
| Net change in operational risk RWAs                  | 1,838                | N/A                      |
| Total change in RWAs                                 | (55,333 )            | (66,092 )                |
| RWAs (Fully Phased-In) at September 30, 2017         | 1,243,355            | 1,292,841                |
| Effect of Transition Requirements                    | (25,655 )            | (24,203 )                |
| RWAs (Transition Requirements) at September 30, 2017 | \$ 1,217,700         | 1,268,638                |

**TANGIBLE COMMON EQUITY** We also evaluate our business based on certain ratios that utilize tangible common equity. 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. These tangible common equity ratios are as follows:

- Tangible book value per common share, which represents tangible common equity divided by common shares outstanding.

- Return on average tangible common equity (ROTCE), which represents our annualized earnings contribution as a percentage of tangible common equity.

The methodology of determining tangible common equity may differ among companies. Management believes that tangible book value per common share and return on average tangible common equity, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. Table 50 provides a reconciliation of these non-GAAP financial measures to GAAP financial measures.

Table 50: Tangible Common Equity

| (in millions, except ratios)   | Balance at period end |              |              | Average balance |              |              | Nine months ended |              |
|--|-----------------------|--------------|--------------|-----------------|--------------|--------------|-------------------|--------------|
|  | Quarter ended         |              |              | Quarter ended   |              |              | ended             |              |
|  | Sep 30, 2017          | Jun 30, 2017 | Sep 30, 2016 | Sep 30, 2017    | Jun 30, 2017 | Sep 30, 2016 | Sep 30, 2017      | Sep 30, 2016 |
| Total equity   | \$206,824             | 206,145      | 203,958      | 207,934         | 205,968      | 203,883      | 205,246           | 200,502      |
| Adjustments:   |                       |              |              |                 |              |              |                   |              |
| Preferred stock  | (25,576 )             | (25,785 )    | (24,594 )    | (25,780 )       | (25,849 )    | (24,813 )    | (25,600 )         | (24,291 )    |
| Additional paid-in capital on ESOP preferred stock                       | (130 )                | (136 )       | (130 )       | (136 )          | (144 )       | (148 )       | (142 )            | (172 )       |
| Unearned ESOP shares   | 1,904                 | 2,119        | 1,612        | 2,114           | 2,366        | 1,850        | 2,226             | 2,150        |
| Noncontrolling interests   | (895 )                | (915 )       | (930 )       | (926 )          | (910 )       | (927 )       | (931 )            | (938 )       |
| Total common stockholders' equity (A)                                    | 182,127               | 181,428      | 179,916      | 183,206         | 181,431      | 179,845      | 180,799           | 177,251      |
| Adjustments:   |                       |              |              |                 |              |              |                   |              |
| Goodwill   | (26,581 )             | (26,573 )    | (26,688 )    | (26,600 )       | (26,664 )    | (26,979 )    | (26,645 )         | (26,696 )    |
| Certain identifiable intangible assets (other than MSR's)                | (1,913 )              | (2,147 )     | (3,001 )     | (2,056 )        | (2,303 )     | (3,145 )     | (2,314 )          | (3,383 )     |
| Other assets (1)   | (2,282 )              | (2,268 )     | (2,230 )     | (2,231 )        | (2,160 )     | (2,131 )     | (2,163 )          | (2,097 )     |
| Applicable deferred taxes (2)  | 1,550                 | 1,624        | 1,832        | 1,579           | 1,648        | 1,855        | 1,650             | 1,973        |
| Tangible common equity (B)   | \$152,901             | 152,064      | 149,829      | 153,898         | 151,952      | 149,445      | 151,327           | 147,048      |
| Common shares outstanding (C)  | 4,927.9               | 4,966.8      | 5,023.9      | N/A             | N/A          | N/A          | N/A               | N/A          |
| Net income applicable to common stock (3)                                | (D) N/A               | N/A          | N/A          | \$4,185         | 5,404        | 5,243        | 14,645            | 15,501       |
| Book value per common share (A)/(C)                                      | \$36.96               | 36.53        | 35.81        | N/A             | N/A          | N/A          | N/A               | N/A          |
| Tangible book value per common share (B)/(C)                             | 31.03                 | 30.62        | 29.82        | N/A             | N/A          | N/A          | N/A               | N/A          |
| Return on average common stockholders' equity (ROE) (annualized) (D)/(A) | N/A                   | N/A          | N/A          | 9.06            | % 11.95      | 11.60        | 10.83             | 11.68        |
| Return on average tangible common equity (ROTCE) (D)/(B)                 | N/A                   | N/A          | N/A          | 10.79           | 14.26        | 13.96        | 12.94             | 14.08        |

(annualized)

(1) Represents goodwill and other intangibles on nonmarketable equity investments and on held-for-sale assets, which are included in other assets.

Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the (2) combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

(3) Quarter ended net income applicable to common stock is annualized for the respective ROE and ROTCE ratios.

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## Capital Management (continued)

**SUPPLEMENTARY LEVERAGE RATIO** In April 2014, federal banking regulators finalized a rule that enhances the SLR requirements for BHCs, like Wells Fargo, and their insured depository institutions. The SLR consists of Tier 1 capital divided by the Company's total leverage exposure. Total leverage exposure consists of the total average on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments and derivative exposures, less amounts permitted to be deducted from Tier 1 capital. The rule, which becomes effective on January 1, 2018, will require a covered BHC to maintain a SLR of at least 5.0% (comprised of the 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) to avoid restrictions on capital distributions and discretionary bonus payments. The rule will also require that all of our insured depository institutions maintain a SLR of 6.0% under applicable regulatory capital adequacy guidelines. In September 2014, federal banking regulators finalized additional changes to the SLR requirements to implement revisions to the Basel III leverage framework finalized by the BCBS in January 2014. These additional changes, among other things, modify the methodology for including off-balance sheet items, including credit derivatives, repo-style transactions and lines of credit, in the denominator of the SLR, and will become effective on January 1, 2018. At September 30, 2017, our SLR for the Company was 7.9% assuming full phase-in of the Advanced Approach capital framework. Based on our review, our current leverage levels would exceed the applicable requirements for each of our insured depository institutions as well. The fully phased-in SLR is considered a non-GAAP financial measure that is used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's leverage exposure. See Table 51 for information regarding the calculation and components of the SLR.

Table 51: Fully Phased-In SLR

| (in millions, except ratio)          | September 30,<br>2017 |
|--------------------------------------|-----------------------|
| Tier 1 capital                       | \$176,263             |
| Total average assets                 | 1,938,522             |
| Less: deductions from Tier 1 capital | 29,705                |
| Total adjusted average assets        | 1,908,817             |
| Adjustments:                         |                       |
| Derivative exposures                 | 73,681                |
| Repo-style transactions              | 3,055                 |
| Other off-balance sheet exposures    | 243,339               |
| Total adjustments                    | 320,075               |
| Total leverage exposure              | \$2,228,892           |
| Supplementary leverage ratio         | 7.9 %                 |

**OTHER REGULATORY CAPITAL MATTERS** In December 2016, the FRB finalized rules to address the amount of equity and unsecured long-term debt a U.S. G-SIB must hold to improve its resolvability and resiliency, often referred to as Total Loss Absorbing Capacity (TLAC). Under the rules, which become effective on January 1, 2019, U.S. G-SIBs will be required to have a minimum TLAC amount (consisting of CET1 capital and additional tier 1 capital issued directly by the top-tier or covered BHC plus eligible external long-term debt) equal to the greater of (i) 18% of RWAs and (ii) 7.5% of total leverage exposure (the denominator of the SLR calculation). Additionally, U.S. G-SIBs will be required to maintain (i) a TLAC buffer equal to 2.5% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method one plus any applicable countercyclical buffer that will be added to the 18% minimum and (ii) an external

TLAC leverage buffer equal to 2.0% of total leverage exposure that will be added to the 7.5% minimum, in order to avoid restrictions on capital distributions and discretionary bonus payments. The rules will also require U.S. G-SIBs to have a minimum amount of eligible unsecured long-term debt equal to the greater of (i) 6.0% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method two and (ii) 4.5% of the total leverage exposure. In addition, the rules will impose certain restrictions on the operations and liabilities of the top-tier or covered BHC in order to further facilitate an orderly resolution, including prohibitions on the issuance of short-term debt to external investors and on entering into derivatives and certain other types of financial contracts with external counterparties.

While the rules permit permanent grandfathering of a significant portion of otherwise ineligible long-term debt that was issued prior to December 31, 2016, long-term debt issued after that date must be fully compliant with the eligibility requirements of the rules in order to count toward the minimum TLAC amount. As a result of the rules, we will need to issue additional long-term debt to remain compliant with the requirements.

In addition, as discussed in the “Risk Management – Asset/ Liability Management – Liquidity and Funding – Liquidity Standards” section in this Report, federal banking regulators have issued a final rule regarding the U.S. implementation of the Basel III LCR and a proposed rule regarding the NSFR.

#### Capital Planning and Stress Testing

Our planned long-term capital structure is designed to meet regulatory and market expectations. We believe that our long-term targeted capital structure enables us to invest in and grow our business, satisfy our customers’ financial needs in varying environments, access markets, and maintain flexibility to return capital to our shareholders. Our long-term targeted capital structure also considers capital levels sufficient to exceed capital requirements including the G-SIB surcharge. Accordingly, based on the final Basel III capital rules under the lower of the Standardized or Advanced Approaches CET1 capital ratios, we currently target a long-term CET1 capital ratio at or in excess of 10%, which includes a 2% G-SIB surcharge. Our capital targets are subject to change based on various factors, including changes to the regulatory capital framework and expectations for large banks promulgated by bank regulatory agencies, planned capital actions, changes in our risk profile and other factors.

Under the FRB’s capital plan rule, large BHCs are required to submit capital plans annually for review to determine if the FRB has any objections before making any capital distributions. The rule requires updates to capital plans in the event of material changes in a BHC’s risk profile, including as a result of any significant acquisitions. The FRB assesses the overall financial condition, risk profile, and capital adequacy of BHCs while considering both quantitative and qualitative factors when evaluating capital plans.

Our 2017 capital plan, which was submitted on April 4, 2017, as part of CCAR, included a comprehensive capital outlook supported by an assessment of expected sources and uses of capital over a given planning horizon under a range of expected and stress scenarios. As part of the 2017 CCAR, the FRB also generated a supervisory stress test, which assumed a sharp decline in the economy and significant decline in asset pricing using the information provided by the Company to estimate performance. The FRB reviewed the supervisory stress results both as required under the Dodd-Frank Act using a common set of capital actions for all large BHCs and by taking into account the Company’s proposed capital actions. The FRB published its



supervisory stress test results as required under the Dodd-Frank Act on June 22, 2017. On June 28, 2017, the FRB notified us that it did not object to our capital plan included in the 2017 CCAR.

Federal banking regulators require stress tests to evaluate whether an institution has sufficient capital to continue to operate during periods of adverse economic and financial conditions. These stress testing requirements set forth the timing and type of stress test activities large BHCs and banks must undertake as well as rules governing stress testing controls, oversight and disclosure requirements. The rules also limit a large BHC's ability to make capital distributions to the extent its actual capital issuances were less than amounts indicated in its capital plan. As required under the FRB's stress testing rule, we must submit a mid-cycle stress test based on second quarter data and scenarios developed by the Company. We submitted the results of the mid-cycle stress test to the FRB and disclosed a summary of the results in October 2017.

#### Securities Repurchases

From time to time the Board authorizes the Company to repurchase shares of our common stock. Although we announce when the Board authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Future stock repurchases may be private or open-market repurchases, including block transactions, accelerated or delayed block transactions, forward transactions, and similar transactions. Additionally, we may enter into plans to purchase stock that satisfy the conditions of Rule 10b5-1 of the Securities Exchange Act of 1934. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for employee benefit plans and acquisitions, market conditions (including the trading price of our stock), and regulatory and legal considerations, including the FRB's response to our capital plan and to changes in our risk profile.

In January 2016, the Board authorized the repurchase of 350 million shares of our common stock. At September 30, 2017, we had remaining authority to repurchase approximately 122 million shares, subject to regulatory and legal conditions. For more information about share repurchases during third quarter 2017, see Part II, Item 2 in this Report.

Historically, our policy has been to repurchase shares under the "safe harbor" conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.

In connection with our participation in the Capital Purchase Program (CPP), a part of the Troubled Asset Relief Program (TARP), we issued to the U.S. Treasury Department warrants to purchase 110,261,688 shares of our common stock with an original exercise price of \$34.01 per share expiring on October 28, 2018. The terms of the warrants require the exercise price to be adjusted under certain circumstances when the Company's quarterly common stock dividend exceeds \$0.34 per share, which began occurring in second quarter 2014. Accordingly, with each quarterly common stock dividend above \$0.34 per share, we must calculate whether an adjustment to the exercise price is required by the terms of the warrants, including whether certain minimum thresholds have been met to trigger an adjustment, and notify the holders of any such change. The Board authorized the repurchase by the Company of up to \$1 billion of the warrants. At September 30, 2017, there were 26,560,862 warrants outstanding, exercisable at \$33.731 per share, and \$452 million of unused warrant repurchase authority. Depending on market conditions, we may purchase from time to time additional warrants in privately negotiated or open market transactions, by tender offer or otherwise.

Regulatory Matters (continued)

Regulatory Matters

Since the enactment of the Dodd-Frank Act in 2010, the U.S. financial services industry has been subject to a significant increase in regulation and regulatory oversight initiatives. This increased regulation and oversight has substantially changed how most U.S. financial services companies conduct business and has increased their regulatory compliance costs.

The following supplements our discussion of the significant regulations and regulatory oversight initiatives that have affected or may affect our business contained in the “Regulatory Matters” and “Risk Factors” sections in our 2016 Form 10-K and the “Regulatory Matters” section in our 2017 First and Second Quarter Reports on Form 10-Q.

**REGULATION OF CONSUMER FINANCIAL PRODUCTS** The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) to ensure consumers receive clear and accurate disclosures regarding financial products and to protect them from hidden fees and unfair or abusive practices. With respect to residential mortgage lending, the CFPB issued a number of final rules implementing new origination, notification, disclosure and other requirements, as well as additional limitations on the fees and charges that may be increased from the estimates provided by lenders. In October 2015, the CFPB finalized amendments to the rule implementing the Home Mortgage Disclosure Act, resulting in a significant expansion of the data points lenders will be required to collect beginning January 1, 2018 and report to the CFPB beginning January 1, 2019. The CFPB also expanded the transactions covered by the rule and increased the reporting frequency from annual to quarterly for large volume lenders, such as Wells Fargo, beginning January 1, 2020. With respect to other financial products, in October 2016, the CFPB finalized rules, most of which become effective on April 1, 2018, to make prepaid cards subject to similar consumer protections as those provided by more traditional debit and credit cards such as fraud protection and expanded access to account information. In July 2017, the CFPB finalized a rule, which became effective on September 18, 2017, prohibiting covered providers of certain consumer financial products and services, such as Wells Fargo, from using arbitration agreements that prevent consumers from filing or participating in class action litigation. However, Congress subsequently used its powers under the Congressional Review Act to overturn the CFPB's arbitration rule and prohibited the CFPB from writing a “substantially similar” rule in the future without congressional action. In addition to these rulemaking activities, the CFPB is continuing its on-going supervisory examination activities of the financial services industry with respect to a number of consumer businesses and products, including mortgage lending and servicing, fair lending requirements, student lending activities, and automobile finance. At this time, the Company cannot predict the full impact of the CFPB’s rulemaking and supervisory authority on our business practices or financial results.

**“LIVING WILL” REQUIREMENTS AND RELATED MATTERS**

Rules adopted by the FRB and the FDIC under the Dodd-Frank Act require large financial institutions, including Wells Fargo, to prepare and periodically revise resolution plans, so-called “living-wills”, that would facilitate their resolution in the event of material distress or failure. Under the rules, resolution plans are required to provide strategies for resolution under the Bankruptcy Code and other applicable insolvency regimes that can be accomplished in a reasonable period of time and in a

manner that mitigates the risk that failure would have serious adverse effects on the financial stability of the United States. We submitted our 2017 resolution plan to the FRB and FDIC on June 30, 2017, but have not yet received regulatory feedback on the plan. If the FRB and FDIC determine that our 2017 resolution plan has deficiencies, they may impose more stringent capital, leverage or liquidity requirements on us or restrict our growth, activities or operations until we adequately remedy the deficiencies. If the FRB and FDIC ultimately determine that we have been unable to remedy any deficiencies, they could require us to divest certain assets or operations.

We must also prepare and submit to the FRB a recovery plan that identifies a range of options that we may consider during times of idiosyncratic or systemic economic stress to remedy any financial weaknesses and restore market confidence without extraordinary government support. Recovery options include the possible sale, transfer or disposal of assets, securities, loan portfolios or businesses. Our insured national bank subsidiary, Wells Fargo Bank, N.A. (the

“Bank”), must also prepare and submit to the OCC a recovery plan that sets forth the bank’s plan to remain a going concern when the bank is experiencing considerable financial or operational stress, but has not yet deteriorated to the point where liquidation or resolution is imminent. If either the FRB or the OCC determine that our recovery plan is deficient, they may impose fines, restrictions on our business or ultimately require us to divest assets.

If Wells Fargo were to fail, it may be resolved in a bankruptcy proceeding or, if certain conditions are met, under the resolution regime created by the Dodd-Frank Act known as the “orderly liquidation authority.” The orderly liquidation authority allows for the appointment of the FDIC as receiver for a systemically important financial institution that is in default or in danger of default if, among other things, the resolution of the institution under the U.S. Bankruptcy Code would have serious adverse effects on financial stability in the United States. If the FDIC is appointed as receiver for Wells Fargo & Company (the “Parent”), then the orderly liquidation authority, rather than the U.S. Bankruptcy Code, would determine the powers of the receiver and the rights and obligations of our security holders. The FDIC’s orderly liquidation authority requires that security holders of a company in receivership bear all losses before U.S. taxpayers are exposed to any losses, and allows the FDIC to disregard the strict priority of creditor claims under the U.S.

Bankruptcy Code in certain circumstances.

Whether under the U.S. Bankruptcy Code or by the FDIC under the orderly liquidation authority, Wells Fargo could be resolved using a “multiple point of entry” strategy, in which the Parent and one or more of its subsidiaries would each undergo separate resolution proceedings, or a “single point of entry” strategy, in which the Parent would likely be the only material legal entity to enter resolution proceedings. The FDIC has announced that a single point of entry strategy may be a desirable strategy under its implementation of the orderly liquidation authority, but not all aspects of how the FDIC might exercise this authority are known and additional rulemaking is possible.

The strategy described in our most recent resolution plan submission is a multiple point of entry strategy; however, we have made a decision to move to a single point of entry strategy for our next resolution plan submission. We are not obligated to maintain either a single point of entry or multiple point of entry strategy, and the strategies reflected in our resolution plan submissions are not binding in the event of an actual resolution

of Wells Fargo, whether conducted under the U.S. Bankruptcy Code or by the FDIC under the orderly liquidation authority.

To facilitate the orderly resolution of systemically important financial institutions in case of material distress or failure, federal banking regulations require that institutions, such as Wells Fargo, maintain a minimum amount of equity and unsecured debt to absorb losses and recapitalize operating subsidiaries. Federal banking regulators have also required measures to facilitate the continued operation of operating subsidiaries notwithstanding the failure of their parent companies, such as limitations on parent guarantees, and have issued guidance encouraging institutions to take legally binding measures to provide capital and liquidity resources to certain subsidiaries in order to facilitate an orderly resolution. In response to the regulators' guidance and to facilitate the orderly resolution of the Company using either a single point of entry or multiple point of entry resolution strategy, on June 28, 2017, the Parent entered into a support agreement (the "Support Agreement") with WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the "IHC"), and the Bank, Wells Fargo Securities, LLC ("WFS"), and Wells Fargo Clearing Services, LLC ("WFCS"), each an indirect subsidiary of the Parent. Pursuant to the Support Agreement, the Parent transferred a significant amount of its assets, including the majority of its cash, deposits, liquid securities and intercompany loans (but excluding its equity interests in its subsidiaries and certain other assets), to the IHC

and will continue to transfer those types of assets to the IHC from time to time. In the event of our material financial distress or failure, the IHC will be obligated to use the transferred assets to provide capital and/or liquidity to the Bank pursuant to the Support Agreement and to WFS and WFCS through repurchase facilities entered into in connection with the Support Agreement. Under the Support Agreement, the IHC will also provide funding and liquidity to the Parent through subordinated notes and a committed line of credit, which, together with the issuance of dividends, is expected to provide the Parent, during business as usual operating conditions, with the same access to cash necessary to service its debts, pay dividends, repurchase its shares, and perform its other obligations as it would have had if it had not entered into these arrangements and transferred any assets. If certain liquidity and/or capital metrics fall below defined triggers, the subordinated notes would be forgiven and the committed line of credit would terminate, which could materially and adversely impact the Parent's liquidity and its ability to satisfy its debts and other obligations, and could result in the commencement of bankruptcy proceedings by the Parent at an earlier time than might have otherwise occurred if the Support Agreement were not implemented. The Parent's and the IHC's respective obligations under the Support Agreement are secured pursuant to a related security agreement.

#### Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K) are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Six of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- the allowance for credit losses;
- PCI loans;
- the valuation of residential MSRs;
- the fair value of financial instruments;
- income taxes; and
- liability for contingent litigation losses.

Starting second quarter 2017, the liability for contingent litigation losses has been designated as one of our critical accounting policies. The remaining five of these policies are described further in the "Financial Review – Critical Accounting Policies" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K.

#### Liability for Contingent Litigation Losses

The Company is involved in a number of judicial, regulatory, arbitration and other proceedings concerning matters arising from the conduct of its business activities, and many of those proceedings expose the Company to potential financial loss. We establish accruals for these legal actions when potential losses associated with the actions become probable and the costs can be reasonably estimated. For such accruals, we record the amount we consider to be the best estimate within a range of potential losses that are both probable and estimable; however, if we

cannot determine a best estimate, then we record the low end of the range of those potential losses. The actual costs of resolving legal actions may be substantially higher or lower than the amounts accrued for those actions.

We apply judgment when establishing an accrual for potential losses associated with legal actions and in establishing the range of reasonably possible losses in excess of the accrual. Our judgment in establishing accruals and the range of reasonably possible losses in excess of the Company's accrual for probable and estimable losses is influenced by our understanding of information currently available related to the legal evaluation and potential outcome of actions, including input and advice on these matters from our internal counsel, external counsel and senior management. These matters may be in various stages of investigation, discovery or proceedings. They may also involve a wide variety of claims across our businesses, legal entities and jurisdictions. The eventual outcome may be a scenario that was not considered or was considered remote in anticipated occurrence. Accordingly, our estimate of potential losses will change over time and the actual losses may vary significantly.

The outcomes of legal actions are unpredictable and subject to significant uncertainties, and it is inherently difficult to determine whether any loss is probable or even possible. It is also inherently difficult to estimate the amount of any loss and there may be matters for which a loss is probable or reasonably possible but not currently estimable.

Accordingly, actual losses may be in excess of the established accrual or the range of reasonably possible loss.

See Note 11 (Legal Actions) to Financial Statements in this Report for further information.

Management and the Board's Audit and Examination Committee have reviewed and approved these critical accounting policies.

## Current Accounting Developments (continued)

## Current Accounting Developments

Table 52 provides accounting pronouncements applicable to us that have been issued by the FASB but are not yet effective.

Table 52: Current Accounting Developments – Issued Standards

| Standard  | Description  | Effective date and financial statement impact   |
|---|--|---|
| Accounting Standards Update (ASU or Update) 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities | The Update makes targeted changes to the hedge accounting model intended to facilitate financial reporting that more closely reflects an entity's risk management activities and to simplify application of hedge accounting. Changes include expanding the types of risk management strategies eligible for hedge accounting, easing the documentation and effectiveness assessment requirements, changing how ineffectiveness is measured and changing the presentation and disclosure requirements for hedge accounting activities. | <p>Effective date and financial statement impact</p> <p>We adopted the Update in fourth quarter 2017. Our financial statements for the year ended December 31, 2017, will include a cumulative-effect adjustment to opening retained earnings and adjustments to our 2017 earnings to reflect application of the new guidance effective January 1, 2017. The new guidance significantly reduces but does not eliminate interest-rate and foreign-currency related hedge ineffectiveness. However, we may continue to experience hedge ineffectiveness volatility related to certain hedges of foreign-currency denominated debt liabilities. The adjustment as of January 1, 2017, reduced retained earnings by approximately \$381 million and increased other comprehensive income by approximately \$168 million. Through September 30, 2017, year-to-date net income will increase approximately \$169 million (\$242 million pre-tax) and other comprehensive income will decrease by \$163 million upon application of the new guidance.</p> <p>We expect to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Our investment securities portfolio includes holdings of available-for-sale (AFS) and held-to-maturity (HTM) callable debt securities held at a premium. At adoption, the guidance is expected to result in a cumulative effect adjustment which will be primarily offset with a corresponding adjustment to other comprehensive income related to AFS securities. After adoption, the guidance will reduce interest income prior to the call date because the premium will be amortized over a shorter time period. Our implementation effort includes identifying the population of debt securities subject to the new guidance, which are primarily obligations of U.S. states and political subdivisions, and quantifying the expected impacts. The impact of the Update on our consolidated financial statements will be affected by our portfolio composition at the time of adoption, which may change between September 30, 2017 and the adoption date.</p> |
| ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities          | The Update changes the accounting for certain purchased callable debt securities held at a premium to shorten the amortization period for the premium to the earliest call date rather than to the maturity date. Accounting for purchased callable debt securities held at a discount does not change. The discount would continue to amortize to the maturity date.  | <p>Effective date and financial statement impact</p> <p>We adopted the Update in fourth quarter 2017. Our financial statements for the year ended December 31, 2017, will include a cumulative-effect adjustment to opening retained earnings and adjustments to our 2017 earnings to reflect application of the new guidance effective January 1, 2017. The new guidance significantly reduces but does not eliminate interest-rate and foreign-currency related hedge ineffectiveness. However, we may continue to experience hedge ineffectiveness volatility related to certain hedges of foreign-currency denominated debt liabilities. The adjustment as of January 1, 2017, reduced retained earnings by approximately \$381 million and increased other comprehensive income by approximately \$168 million. Through September 30, 2017, year-to-date net income will increase approximately \$169 million (\$242 million pre-tax) and other comprehensive income will decrease by \$163 million upon application of the new guidance.</p> <p>We expect to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Our investment securities portfolio includes holdings of available-for-sale (AFS) and held-to-maturity (HTM) callable debt securities held at a premium. At adoption, the guidance is expected to result in a cumulative effect adjustment which will be primarily offset with a corresponding adjustment to other comprehensive income related to AFS securities. After adoption, the guidance will reduce interest income prior to the call date because the premium will be amortized over a shorter time period. Our implementation effort includes identifying the population of debt securities subject to the new guidance, which are primarily obligations of U.S. states and political subdivisions, and quantifying the expected impacts. The impact of the Update on our consolidated financial statements will be affected by our portfolio composition at the time of adoption, which may change between September 30, 2017 and the adoption date.</p> |

| Standard   | Description  | Effective date and financial statement impact   |
|--|--|---|
| ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments | <p>The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. Also, the Update eliminates the existing guidance for PCI loans, but requires an allowance for purchased financial assets with more than insignificant deterioration since origination. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</p> | <p>The guidance is effective in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the Update on our consolidated financial statements. We expect the Update will result in an increase in the allowance for credit losses given the change to estimated losses over the contractual life adjusted for expected prepayments with an anticipated material impact from longer duration portfolios, as well as the addition of an allowance for debt securities. The amount of the increase will be impacted by the portfolio composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.</p>   |
| ASU 2016-02 – Leases (Topic 842)   | <p>The Update requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.</p>   | <p>We expect to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started our implementation of the Update which has included an initial evaluation of our leasing contracts and activities. As a lessee we are developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments (the December 31, 2016 future minimum lease payments were \$6.9 billion). We do not expect a material change to the timing of expense recognition. Given the limited changes to lessor accounting, we do not expect material changes to recognition or measurement, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the Update.</p> |

## Current Accounting Developments (continued)

| Standard   | Description   | Effective date and financial statement impact   |
|--|---|---|
| ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities | The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. | <p>We will adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which are applied prospectively.</p> <p>Our investments in marketable equity securities classified as available-for-sale as of the adoption date will be accounted for at fair value with unrealized gains or losses reflected in earnings. As of September 30, 2017, the carrying value of these securities was \$893 million, which included a \$287 million net unrealized pre-tax gain reflected in other comprehensive income. Upon adoption, the amount of net unrealized gain or loss related to our available-for-sale equity securities portfolio as of December 31, 2017 will be reclassified from other comprehensive income to retained earnings.</p> <p>Our investments in nonmarketable equity instruments accounted for under the cost method of accounting, except for Federal bank stock, will be measured either at fair value with unrealized gains and losses reflected in earnings or the measurement alternative. The measurement alternative is similar to the cost method of accounting, except the carrying value is adjusted, through earnings, for subsequent observable transactions in the same or similar investment. We expect to account for substantially all of our private equity cost method investments using the measurement alternative and our auction rate securities portfolio at fair value with unrealized gains and losses reflected in earnings. Upon adoption, we do not expect a significant transition adjustment for the accounting change related to our nonmarketable cost method equity investments.</p> <p>Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, we are evaluating our valuation methods to determine the necessary changes to present fair value disclosures based on “exit price” as required by the Update. Accordingly, the fair value amounts disclosed for such loans may change upon adoption.</p> |



| Standard   | Description   | Effective date and financial statement impact  |
|--|---|--|
| ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates | The Update modifies the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The Update also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. | We will adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings. Our revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of our revenues will not be affected. We have performed an assessment of our revenue contracts as well as worked with industry participants on matters of interpretation and application. Our accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices applied by our businesses. We have not identified material changes to the timing or amount of revenue recognition. Based on changes to guidance applied by broker-dealers, we expect a minor change to the presentation of our broker-dealer's costs for underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. We will provide qualitative disclosures of our performance obligations related to our revenue recognition and we continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance. |

In addition to the list above, the following updates are applicable to us but, subject to completion of our assessment, are not expected to have a material impact on our consolidated financial statements:

ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception

ASU 2017-09 – Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting

ASU 2017-04 – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

ASU 2017-03 – Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs

Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)

ASU 2017-01 – Business Combinations (Topic 805): Clarifying the Definition of a Business

ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash

ASU 2016-16 – Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory

ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

ASU 2016-04 – Liabilities – Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products

We have determined that other existing accounting updates are either not applicable to us or have completed our assessment and determined will not have a material impact on our consolidated financial statements.

Forward-Looking Statements (continued)

Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make forward-looking statements in our other documents filed or furnished with the SEC, and our management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “target,” “projects,” “outlook,” “forecast,” “will,” “may,” “could,” “should,” “can” and similar future periods. In particular, forward-looking statements include, but are not limited to, statements we make about: (i) the future operating or financial performance of the Company, including our outlook for future growth; (ii) our noninterest expense and efficiency ratio; (iii) future credit quality and performance, including our expectations regarding future loan losses and allowance levels; (iv) the appropriateness of the allowance for credit losses; (v) our expectations regarding net interest income and net interest margin; (vi) loan growth or the reduction or mitigation of risk in our loan portfolios; (vii) future capital or liquidity levels or targets and our estimated Common Equity Tier 1 ratio under Basel III capital standards; (viii) the performance of our mortgage business and any related exposures; (ix) the expected outcome and impact of legal, regulatory and legislative developments, as well as our expectations regarding compliance therewith; (x) future common stock dividends, common share repurchases and other uses of capital; (xi) our targeted range for return on assets and return on equity; (xii) the outcome of contingencies, such as legal proceedings; and (xiii) the Company’s plans, objectives and strategies.

Forward-looking statements are not based on historical facts but instead represent our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of declines in housing prices, high unemployment rates, U.S. fiscal debt, budget and tax matters, geopolitical matters, and the overall slowdown in global economic growth;

- our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;

- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;

- the extent of our success in our loan modification efforts, as well as the effects of regulatory requirements or guidance regarding loan modifications;

- the amount of mortgage loan repurchase demands that we receive and our ability to satisfy any such demands without having to repurchase loans related thereto or otherwise indemnify or reimburse third parties, and the credit quality of or losses on such repurchased mortgage loans;

- negative effects relating to our mortgage servicing and foreclosure practices, as well as changes in industry standards or practices, regulatory or judicial requirements, penalties or fines, increased servicing and other costs or obligations, including loan modification requirements, or delays or moratoriums on foreclosures;

- our ability to realize our efficiency ratio target as part of our expense management initiatives, including as a result of business and economic cyclicalities, seasonality, changes in our business composition and operating environment, growth in our businesses and/or acquisitions, and unexpected expenses relating to, among other things, litigation and regulatory matters;

- losses related to recent hurricanes, which primarily affected Texas, Florida and Puerto Rico, and related to recent California wildfires, in each case including from damage or loss to our collateral for loans in our consumer and commercial loan portfolios and from the impact on the ability of our borrowers to repay their loans;

the effect of the current low interest rate environment or changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale; significant turbulence or a disruption in the capital or financial markets, which could result in, among other things, reduced investor demand for mortgage loans, a reduction in the availability of funding or increased funding costs, and declines in asset values and/or recognition of other-than-temporary impairment on securities held in our investment securities portfolio;

the effect of a fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;

negative effects from the retail banking sales practices matter, including on our legal, operational and compliance costs, our ability to engage in certain business activities or offer certain products or services, our ability to keep and attract customers, our ability to attract and retain qualified team members, and our reputation;

reputational damage from negative publicity, protests, fines, penalties and other negative consequences from regulatory violations and legal actions;

a failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber attacks;

the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin; fiscal and monetary policies of the Federal Reserve Board; and

the other risk factors and uncertainties described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or repurchases will depend on the earnings, cash requirements and

financial condition of the Company, market conditions, capital requirements (including under Basel capital standards), common stock issuance requirements, applicable law and regulations (including federal securities laws and federal banking regulations), and other factors deemed relevant by the Company's Board of Directors, and may be subject to regulatory approval or conditions.

For more information about factors that could cause actual results to differ materially from our expectations, refer to our reports filed with the Securities and Exchange Commission, including the discussion under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission and available on its website at [www.sec.gov](http://www.sec.gov).

Any forward-looking statement made by us speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

**Risk Factors**

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. For a discussion of risk factors that could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company, we refer you to the “Risk Factors” section in our 2016 Form 10-K.

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## Controls and Procedures

### Disclosure Controls and Procedures

The Company's management evaluated the effectiveness, as of September 30, 2017, of the Company's disclosure controls and procedures. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2017.

### Internal Control Over Financial Reporting

Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during third quarter 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Wells Fargo & Company and Subsidiaries  
Consolidated Statement of Income (Unaudited)

| (in millions, except per share amounts)               | Quarter ended |               | Nine months ended |               |
|---|---------------|---------------|-------------------|---------------|
|   | September 30, | September 30, | September 30,     | September 30, |
|   | 2017          | 2016          | 2017              | 2016          |
| Interest income                                       |               |               |                   |               |
| Trading assets  | \$754         | 593           | 2,107             | 1,761         |
| Investment securities                                 | 2,662         | 2,298         | 8,035             | 6,736         |
| Mortgages held for sale                               | 219           | 207           | 598               | 549           |
| Loans held for sale                                   | 5             | 2             | 10                | 7             |
| Loans   | 10,522        | 9,978         | 31,021            | 29,377        |
| Other interest income                                 | 896           | 409           | 2,228             | 1,175         |
| Total interest income                                 | 15,058        | 13,487        | 43,999            | 39,605        |
| Interest expense                                      |               |               |                   |               |
| Deposits  | 870           | 356           | 2,090             | 995           |
| Short-term borrowings                                 | 226           | 85            | 503               | 229           |
| Long-term debt  | 1,377         | 1,006         | 3,838             | 2,769         |
| Other interest expense                                | 109           | 88            | 309               | 260           |
| Total interest expense                                | 2,582         | 1,535         | 6,740             | 4,253         |
| Net interest income                                   | 12,476        | 11,952        | 37,259            | 35,352        |
| Provision for credit losses                           | 717           | 805           | 1,877             | 2,965         |
| Net interest income after provision for credit losses | 11,759        | 11,147        | 35,382            | 32,387        |
| Noninterest income                                    |               |               |                   |               |
| Service charges on deposit accounts                   | 1,276         | 1,370         | 3,865             | 4,015         |
| Trust and investment fees                             | 3,609         | 3,613         | 10,808            | 10,545        |
| Card fees   | 1,000         | 997           | 2,964             | 2,935         |
| Other fees  | 877           | 926           | 2,644             | 2,765         |
| Mortgage banking                                      | 1,046         | 1,667         | 3,422             | 4,679         |
| Insurance   | 269           | 293           | 826               | 1,006         |
| Net gains from trading activities                     | 245           | 415           | 921               | 943           |
| Net gains on debt securities (1)                      | 166           | 106           | 322               | 797           |
| Net gains from equity investments (2)                 | 238           | 140           | 829               | 573           |
| Lease income  | 475           | 534           | 1,449             | 1,404         |
| Other   | 249           | 315           | 788               | 1,671         |
| Total noninterest income                              | 9,450         | 10,376        | 28,838            | 31,333        |
| Noninterest expense                                   |               |               |                   |               |
| Salaries  | 4,356         | 4,224         | 12,960            | 12,359        |
| Commission and incentive compensation                 | 2,553         | 2,520         | 7,777             | 7,769         |
| Employee benefits                                     | 1,279         | 1,223         | 4,273             | 3,993         |
| Equipment   | 523           | 491           | 1,629             | 1,512         |
| Net occupancy   | 716           | 718           | 2,134             | 2,145         |
| Core deposit and other intangibles                    | 288           | 299           | 864               | 891           |
| FDIC and other deposit assessments                    | 314           | 310           | 975               | 815           |
| Other   | 4,322         | 3,483         | 11,072            | 9,678         |
| Total noninterest expense                             | 14,351        | 13,268        | 41,684            | 39,162        |
| Income before income tax expense                      | 6,858         | 8,255         | 22,536            | 24,558        |
| Income tax expense                                    | 2,204         | 2,601         | 6,486             | 7,817         |
| Net income before noncontrolling interests            | 4,654         | 5,654         | 16,050            | 16,741        |
| Less: Net income from noncontrolling interests        | 58            | 10            | 187               | 77            |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Wells Fargo net income                            | \$4,596 | 5,644   | 15,863  | 16,664  |
| Less: Preferred stock dividends and other         | 411     | 401     | 1,218   | 1,163   |
| Wells Fargo net income applicable to common stock | \$4,185 | 5,243   | 14,645  | 15,501  |
| Per share information                             |         |         |         |         |
| Earnings per common share                         | \$0.85  | 1.04    | 2.94    | 3.06    |
| Diluted earnings per common share                 | 0.84    | 1.03    | 2.91    | 3.03    |
| Dividends declared per common share               | 0.390   | 0.380   | 1.150   | 1.135   |
| Average common shares outstanding                 | 4,948.6 | 5,043.4 | 4,982.1 | 5,061.9 |
| Diluted average common shares outstanding         | 4,996.8 | 5,094.6 | 5,035.4 | 5,118.2 |

- Total other-than-temporary impairment (OTTI) losses were \$5 million and \$36 million for third quarter 2017 and 2016, respectively. Of total OTTI, losses of \$7 million and \$51 million were recognized in earnings, and reversal of losses of \$(2) million and \$(15) million were recognized as non-credit-related OTTI in other comprehensive (1) income for third quarter 2017 and 2016, respectively. Total OTTI losses were \$54 million and \$123 million for the first nine months of 2017 and 2016, respectively. Of total OTTI, losses of \$107 million and \$142 million were recognized in earnings, and reversal of losses of \$(53) million and \$(19) million were recognized as non-credit-related OTTI in other comprehensive income for the first nine months of 2017 and 2016, respectively.
- (2) Includes OTTI losses of \$84 million and \$85 million for third quarter 2017 and 2016, respectively, and \$186 million and \$322 million for the first nine months of 2017 and 2016, respectively.

The accompanying notes are an integral part of these statements.



Wells Fargo & Company and Subsidiaries  
 Consolidated Statement of Comprehensive Income (Unaudited)

| (in millions)  | Quarter ended<br>September 30, |         | Nine months<br>ended<br>September 30, |          |
|--|--------------------------------|---------|---------------------------------------|----------|
|  | 2017                           | 2016    | 2017                                  | 2016     |
| Wells Fargo net income   | \$4,596                        | 5,644   | 15,863                                | 16,664   |
| Other comprehensive income (loss), before tax:                           |                                |         |                                       |          |
| Investment securities:   |                                |         |                                       |          |
| Net unrealized gains arising during the period                           | 891                            | 112     | 2,825                                 | 2,478    |
| Reclassification of net gains to net income                              | (200 )                         | (193 )  | (522 )                                | (1,001 ) |
| Derivatives and hedging activities:                                      |                                |         |                                       |          |
| Net unrealized gains (losses) arising during the period                  | 36                             | (445 )  | 279                                   | 2,611    |
| Reclassification of net gains on cash flow hedges to net income          | (105 )                         | (262 )  | (460 )                                | (783 )   |
| Defined benefit plans adjustments:                                       |                                |         |                                       |          |
| Net actuarial and prior service gains (losses) arising during the period | 11                             | (447 )  | 4                                     | (474 )   |
| Amortization of net actuarial loss, settlements and other to net income  | 41                             | 39      | 120                                   | 115      |
| Foreign currency translation adjustments:                                |                                |         |                                       |          |
| Net unrealized gains (losses) arising during the period                  | 40                             | (10 )   | 87                                    | 27       |
| Other comprehensive income (loss), before tax                            | 714                            | (1,206) | 2,333                                 | 2,973    |
| Income tax benefit (expense) related to other comprehensive income       | (265 )                         | 461     | (852 )                                | (1,110 ) |
| Other comprehensive income (loss), net of tax                            | 449                            | (745 )  | 1,481                                 | 1,863    |
| Less: Other comprehensive income (loss) from noncontrolling interests    | (34 )                          | 19      | (29 )                                 | (24 )    |
| Wells Fargo other comprehensive income (loss), net of tax                | 483                            | (764 )  | 1,510                                 | 1,887    |
| Wells Fargo comprehensive income   | 5,079                          | 4,880   | 17,373                                | 18,551   |
| Comprehensive income from noncontrolling interests                       | 24                             | 29      | 158                                   | 53       |
| Total comprehensive income   | \$5,103                        | 4,909   | 17,531                                | 18,604   |

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries  
Consolidated Balance Sheet

| (in millions, except shares)  | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| Assets  | (Unaudited)     |                 |
| Cash and due from banks   | \$ 19,206       | 20,729          |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | 273,105         | 266,038         |
| Trading assets  | 88,404          | 74,397          |
| Investment securities:  |                 |                 |
| Available-for-sale, at fair value   | 272,210         | 308,364         |
| Held-to-maturity, at cost (fair value \$142,818 and \$99,155)                                     | 142,423         | 99,583          |
| Mortgages held for sale (includes \$16,484 and \$22,042 carried at fair value) (1)                | 20,009          | 26,309          |
| Loans held for sale   | 157             | 80              |
| Loans (includes \$410 and \$758 carried at fair value) (1)  | 951,873         | 967,604         |
| Allowance for loan losses   | (11,078)        | (11,419)        |
| Net loans   | 940,795         | 956,185         |
| Mortgage servicing rights:  |                 |                 |
| Measured at fair value  | 13,338          | 12,959          |
| Amortized   | 1,406           | 1,406           |
| Premises and equipment, net   | 8,449           | 8,333           |
| Goodwill  | 26,581          | 26,693          |
| Derivative assets   | 12,580          | 14,498          |
| Other assets (includes \$4,523 and \$3,275 carried at fair value) (1)                             | 116,276         | 114,541         |
| Total assets (2)  | \$ 1,934,939    | 1,930,115       |
| Liabilities   |                 |                 |
| Noninterest-bearing deposits  | \$ 366,528      | 375,967         |
| Interest-bearing deposits   | 940,178         | 930,112         |
| Total deposits  | 1,306,706       | 1,306,079       |
| Short-term borrowings   | 93,811          | 96,781          |
| Derivative liabilities  | 9,497           | 14,492          |
| Accrued expenses and other liabilities  | 79,208          | 57,189          |
| Long-term debt  | 238,893         | 255,077         |
| Total liabilities (3)   | 1,728,115       | 1,729,618       |
| Equity  |                 |                 |
| Wells Fargo stockholders' equity:   |                 |                 |
| Preferred stock   | 25,576          | 24,551          |
| Common stock – \$1-2/3 par value, authorized 9,000,000,000 shares; issued 5,481,811,474 shares    | 9,136           | 9,136           |
| Additional paid-in capital  | 60,759          | 60,234          |
| Retained earnings   | 141,761         | 133,075         |
| Cumulative other comprehensive income (loss)  | (1,627)         | (3,137)         |
| Treasury stock – 553,940,326 shares and 465,702,148 shares  | (27,772)        | (22,713)        |
| Unearned ESOP shares  | (1,904)         | (1,565)         |
| Total Wells Fargo stockholders' equity  | 205,929         | 199,581         |
| Noncontrolling interests  | 895             | 916             |
| Total equity  | 206,824         | 200,497         |
| Total liabilities and equity  | \$ 1,934,939    | 1,930,115       |

(1) Parenthetical amounts represent assets and liabilities for which we have elected the fair value option.

Our consolidated assets at September 30, 2017, and December 31, 2016, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash and due from banks, \$115 million and \$168 million; Federal funds sold, securities purchased under resale agreements and other (2) short-term investments, \$402 million and \$74 million; Trading assets, \$130 million at both period ends; Investment securities, \$0 million at both period ends; Net loans, \$11.9 billion and \$12.6 billion; Derivative assets, \$0 million and \$1 million; Other assets, \$352 million and \$452 million; and Total assets, \$12.9 billion and \$13.4 billion, respectively.

Our consolidated liabilities at September 30, 2017, and December 31, 2016, include the following VIE liabilities (3) for which the VIE creditors do not have recourse to Wells Fargo: Derivative liabilities, \$26 million and \$33 million; Accrued expenses and other liabilities, \$141 million and \$107 million; Long-term debt, \$2.1 billion and \$3.7 billion; and Total liabilities, \$2.3 billion and \$3.8 billion, respectively.

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries  
Consolidated Statement of Changes in Equity (Unaudited)

| (in millions, except shares)                                  | Preferred stock |          | Common stock   |         |
|---|-----------------|----------|----------------|---------|
|   | Shares          | Amount   | Shares         | Amount  |
| Balance December 31, 2015                                     | 11,259,917      | \$22,214 | 5,092,128,810  | \$9,136 |
| Cumulative effect from change in consolidation accounting (1) |                 |          |                |         |
| Balance January 1, 2016                                       | 11,259,917      | \$22,214 | 5,092,128,810  | \$9,136 |
| Net income  |                 |          |                |         |
| Other comprehensive income (loss), net of tax                 |                 |          |                |         |
| Noncontrolling interests                                      |                 |          |                |         |
| Common stock issued   |                 |          | 47,151,609     |         |
| Common stock repurchased                                      |                 |          | (134,787,773 ) |         |
| Preferred stock issued to ESOP                                | 1,150,000       | 1,150    |                |         |
| Preferred stock released by ESOP                              |                 |          |                |         |
| Preferred stock converted to common shares                    | (920,314 )      | (920 )   | 19,396,555     |         |
| Common stock warrants repurchased/exercised                   |                 |          |                |         |
| Preferred stock issued  | 86,000          | 2,150    |                |         |
| Common stock dividends  |                 |          |                |         |
| Preferred stock dividends                                     |                 |          |                |         |
| Tax benefit from stock incentive compensation                 |                 |          |                |         |
| Stock incentive compensation expense                          |                 |          |                |         |
| Net change in deferred compensation and related plans         |                 |          |                |         |
| Net change  | 315,686         | 2,380    | (68,239,609 )  | —       |
| Balance September 30, 2016                                    | 11,575,603      | \$24,594 | 5,023,889,201  | \$9,136 |
| Balance January 1, 2017                                       | 11,532,712      | \$24,551 | 5,016,109,326  | \$9,136 |
| Net income  |                 |          |                |         |
| Other comprehensive income, net of tax                        |                 |          |                |         |
| Noncontrolling interests                                      |                 |          |                |         |
| Common stock issued   |                 |          | 45,738,310     |         |
| Common stock repurchased                                      |                 |          | (145,143,692 ) |         |
| Preferred stock issued to ESOP                                | 950,000         | 950      |                |         |
| Preferred stock released by ESOP                              |                 |          |                |         |
| Preferred stock converted to common shares                    | (614,529 )      | (615 )   | 11,167,204     |         |
| Common stock warrants repurchased/exercised                   |                 |          |                |         |
| Preferred stock issued  | 27,600          | 690      |                |         |
| Common stock dividends  |                 |          |                |         |
| Preferred stock dividends                                     |                 |          |                |         |
| Tax benefit from stock incentive compensation (2)             |                 |          |                |         |
| Stock incentive compensation expense                          |                 |          |                |         |
| Net change in deferred compensation and related plans         |                 |          |                |         |
| Net change  | 363,071         | 1,025    | (88,238,178 )  | —       |
| Balance September 30, 2017                                    | 11,895,783      | \$25,576 | 4,927,871,148  | \$9,136 |

Effective January 1, 2016, we adopted changes in consolidation accounting pursuant to ASU 2015-02 (1) (Amendments to the Consolidation Analysis). Accordingly, we recorded a \$121 million increase to beginning noncontrolling interests as a cumulative-effect adjustment.

Effective January 1, 2017, we adopted Accounting Standards Update 2016-09 (Improvements to Employee (2) Share-Based Payment Accounting). Accordingly, tax benefit from stock incentive compensation is reported in income tax expense in the consolidated statement of income.

The accompanying notes are an integral part of these statements.

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| Additional<br>paid-in<br>capital | Retained<br>earnings | Cumulative<br>other<br>comprehensive<br>income | Wells Fargo stockholders' equity |                            |   |                             | Total<br>equity |
|----------------------------------|----------------------|--|----------------------------------|----------------------------|---|-----------------------------|-----------------|
|                                  |                      |  | Treasury<br>stock                | Unearned<br>ESOP<br>shares | Total<br>Wells Fargo<br>stockholders'<br>equity | Noncontrolling<br>interests |                 |
| 60,714                           | 120,866              | 297  | (18,867 )                        | (1,362 )                   | 192,998   | 893                         | 193,891         |
|                                  |                      |  |                                  |                            |   | 121                         | 121             |
| 60,714                           | 120,866              | 297  | (18,867 )                        | (1,362 )                   | 192,998   | 1,014                       | 194,012         |
|                                  | 16,664               |  |                                  |                            | 16,664  | 77                          | 16,741          |
|                                  |                      | 1,887  |                                  |                            | 1,887   | (24 )                       | 1,863           |
| 1                                |                      |  |                                  |                            | 1   | (137 )                      | (136 )          |
| (194 )                           | (286 )               |  | 2,256                            |                            | 1,776   |                             | 1,776           |
| 500                              |                      |  | (6,582 )                         |                            | (6,082 )  |                             | (6,082 )        |
| 99                               |                      |  |                                  | (1,249 )                   | —   |                             | —               |
| (79 )                            |                      |  |                                  | 999                        | 920   |                             | 920             |
| (16 )                            |                      |  | 936                              |                            | —   |                             | —               |
| (17 )                            |                      |  |                                  |                            | (17 )   |                             | (17 )           |
| (49 )                            |                      |  |                                  |                            | 2,101   |                             | 2,101           |
| 39                               | (5,791 )             |  |                                  |                            | (5,752 )  |                             | (5,752 )        |
|                                  | (1,165 )             |  |                                  |                            | (1,165 )  |                             | (1,165 )        |
| 203                              |                      |  |                                  |                            | 203   |                             | 203             |
| 547                              |                      |  |                                  |                            | 547   |                             | 547             |
| (1,063 )                         |                      |  | 10                               |                            | (1,053 )  |                             | (1,053 )        |
| (29 )                            | 9,422                | 1,887  | (3,380 )                         | (250 )                     | 10,030  | (84 )                       | 9,946           |
| 60,685                           | 130,288              | 2,184  | (22,247 )                        | (1,612 )                   | 203,028   | 930                         | 203,958         |
| 60,234                           | 133,075              | (3,137 )                                       | (22,713 )                        | (1,565 )                   | 199,581   | 916                         | 200,497         |
|                                  | 15,863               |  |                                  |                            | 15,863  | 187                         | 16,050          |
|                                  |                      | 1,510  |                                  |                            | 1,510   | (29 )                       | 1,481           |
| 1                                |                      |  |                                  |                            | 1   | (179 )                      | (178 )          |
| (87 )                            | (184 )               |  | 2,183                            |                            | 1,912   |                             | 1,912           |
| 750                              |                      |  | (7,813 )                         |                            | (7,063 )  |                             | (7,063 )        |
| 31                               |                      |  |                                  | (981 )                     | —   |                             | —               |
| (27 )                            |                      |  |                                  | 642                        | 615   |                             | 615             |
| 61                               |                      |  | 554                              |                            | —   |                             | —               |
| (87 )                            |                      |  |                                  |                            | (87 )   |                             | (87 )           |
| (13 )                            |                      |  |                                  |                            | 677   |                             | 677             |
| 37                               | (5,775 )             |  |                                  |                            | (5,738 )  |                             | (5,738 )        |
|                                  | (1,218 )             |  |                                  |                            | (1,218 )  |                             | (1,218 )        |
| —                                |                      |  |                                  |                            | —   |                             | —               |
| 669                              |                      |  |                                  |                            | 669   |                             | 669             |
| (810 )                           |                      |  | 17                               |                            | (793 )  |                             | (793 )          |
| 525                              | 8,686                | 1,510  | (5,059 )                         | (339 )                     | 6,348   | (21 )                       | 6,327           |
| 60,759                           | 141,761              | (1,627 )                                       | (27,772 )                        | (1,904 )                   | 205,929   | 895                         | 206,824         |

Wells Fargo & Company and Subsidiaries  
Consolidated Statement of Cash Flows (Unaudited)

| (in millions)   | Nine months ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2017                               | 2016      |
| Cash flows from operating activities:   |                                    |           |
| Net income before noncontrolling interests  | \$ 16,050                          | 16,741    |
| Adjustments to reconcile net income to net cash provided by operating activities:                 |                                    |           |
| Provision for credit losses   | 1,877                              | 2,965     |
| Changes in fair value of MSRs, MHFS and LHFS carried at fair value                                | 828                                | 1,695     |
| Depreciation, amortization and accretion  | 3,794                              | 3,598     |
| Other net (gains) losses  | 659                                | (74 )     |
| Stock-based compensation  | 1,595                              | 1,474     |
| Originations and purchases of MHFS and LHFS (1)   | (134,363)                          | (144,022) |
| Proceeds from sales of and paydowns on mortgages originated for sale and LHFS (1)                 | 97,116                             | 91,877    |
| Net change in:  |                                    |           |
| Trading assets (1)  | 28,463                             | 30,774    |
| Deferred income taxes   | 1,748                              | (1,617 )  |
| Derivative assets and liabilities (1)   | (3,777 )                           | (836 )    |
| Other assets (1)  | 2,115                              | (7,895 )  |
| Other accrued expenses and liabilities (1)  | 2,375                              | 1,502     |
| Net cash provided (used) by operating activities  | 18,480                             | (3,818 )  |
| Cash flows from investing activities:   |                                    |           |
| Net change in:  |                                    |           |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | (13,896 )                          | (28,296 ) |
| Available-for-sale securities:  |                                    |           |
| Sales proceeds  | 37,520                             | 28,147    |
| Prepayments and maturities  | 35,392                             | 27,768    |
| Purchases   | (74,260 )                          | (66,685 ) |
| Held-to-maturity securities:  |                                    |           |
| Paydowns and maturities   | 7,557                              | 5,085     |
| Purchases   | —                                  | (23,593 ) |
| Nonmarketable equity investments:   |                                    |           |
| Sales proceeds  | 2,838                              | 1,298     |
| Purchases   | (2,027 )                           | (3,001 )  |
| Loans:  |                                    |           |
| Loans originated by banking subsidiaries, net of principal collected                              | 5,665                              | (28,155 ) |
| Proceeds from sales (including participations) of loans held for investment                       | 8,473                              | 6,958     |
| Purchases (including participations) of loans   | (2,436 )                           | (4,007 )  |
| Principal collected on nonbank entities' loans  | 9,072                              | 8,736     |
| Loans originated by nonbank entities  | (7,400 )                           | (9,091 )  |
| Net cash paid for acquisitions  | (23 )                              | (29,797 ) |
| Proceeds from sales of foreclosed assets and short sales  | 4,175                              | 5,560     |
| Other, net (1)  | (1,336 )                           | (115 )    |
| Net cash provided (used) by investing activities  | 9,314                              | (109,188) |
| Cash flows from financing activities:   |                                    |           |
| Net change in:  |                                    |           |
| Deposits  | 627                                | 52,582    |

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|   |           |           |
|---|-----------|-----------|
| Short-term borrowings                               | 4,655     | 26,882    |
| Long-term debt:                                     |           |           |
| Proceeds from issuance                              | 38,358    | 67,677    |
| Repayment   | (60,103 ) | (23,505 ) |
| Preferred stock:                                    |           |           |
| Proceeds from issuance                              | 677       | 2,101     |
| Cash dividends paid                                 | (1,226 )  | (1,173 )  |
| Common stock:                                       |           |           |
| Proceeds from issuance                              | 905       | 1,024     |
| Stock tendered for payment of withholding taxes (1) | (376 )    | (486 )    |
| Repurchased   | (7,063 )  | (6,082 )  |
| Cash dividends paid                                 | (5,605 )  | (5,609 )  |
| Net change in noncontrolling interests              | (72 )     | (159 )    |
| Other, net  | (94 )     | (70 )     |
| Net cash provided (used) by financing activities    | (29,317 ) | 113,182   |
| Net change in cash and due from banks               | (1,523 )  | 176       |
| Cash and due from banks at beginning of period      | 20,729    | 19,111    |
| Cash and due from banks at end of period            | \$ 19,206 | 19,287    |
| Supplemental cash flow disclosures:                 |           |           |
| Cash paid for interest                              | \$ 6,514  | 3,920     |
| Cash paid for income taxes                          | 4,687     | 7,158     |

(1) Prior periods have been revised to conform to the current period presentation.

The accompanying notes are an integral part of these statements. See Note 1 (Summary of Significant Accounting Policies) for noncash activities.



Note 1: Summary of Significant Accounting Policies (continued)

See the Glossary of Acronyms at the end of this Report for terms used throughout the Financial Statements and related Notes.

Note 1: Summary of Significant Accounting Policies

Wells Fargo & Company is a diversified financial services company. We provide banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage, and consumer and commercial finance through branches, the internet and other distribution channels to consumers, businesses and institutions in all 50 states, the District of Columbia, and in foreign countries. When we refer to “Wells Fargo,” “the Company,” “we,” “our” or “us,” we mean Wells Fargo & Company and Subsidiaries (consolidated). Wells Fargo & Company (the Parent) is a financial holding company and a bank holding company. We also hold a majority interest in a real estate investment trust, which has publicly traded preferred stock outstanding.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. For discussion of our significant accounting policies, see Note 1 (Summary of Significant Accounting Policies) in our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K). To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period and the related disclosures. Although our estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be significantly different than anticipated in those estimates, which could materially affect our results of operations and financial condition. Management has made significant estimates in several areas, including:

- allowance for credit losses and purchased credit-impaired (PCI) loans (Note 5 (Loans and Allowance for Credit Losses));
- valuations of residential mortgage servicing rights (MSRs) (Note 7 (Securitizations and Variable Interest Entities) and Note 8 (Mortgage Banking Activities)) and financial instruments (Note 13 (Fair Values of Assets and Liabilities));
- income taxes; and
- liabilities for contingent litigation losses (Note 11 (Legal Actions)).

Actual results could differ from those estimates.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our 2016 Form 10-K.

Accounting Standards Adopted in 2017

In first quarter 2017, we adopted the following new accounting guidance:

- Accounting Standards Update (ASU or Update) 2016-09 – Compensation – Stock Compensation (Topic 718):

Improvements to Employee Share-Based Payment Accounting;

- ASU 2016-07 - Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting;

- ASU 2016-06 - Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments; and

- ASU 2016-05 - Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.

ASU 2016-09 Simplifies the accounting for share-based payment awards issued to employees. We have income tax effects based on changes in our stock price from the grant date to the vesting date of the employee stock compensation. The Update requires these income tax effects to be recognized in the statement of income within

income tax expense instead of within additional paid-in capital. In addition, the Update requires changes to the Statement of Cash Flows including the classification between the operating and financing section for tax activity related to employee stock compensation, which we adopted retrospectively. We recorded excess tax benefits and tax deficiencies within income tax expense in the statement of income in first quarter 2017, on a prospective basis.

ASU 2016-07 eliminates the requirement for companies to retroactively apply the equity method of accounting for investments when increases in ownership interests or degree of influence result in the adoption of the equity method. Under the guidance, the equity method should be applied prospectively in the period in which the ownership changes occur. We adopted this change in first quarter 2017. The Update did not impact our consolidated financial statements, as the standard is applied on a prospective basis.

ASU 2016-06 clarifies the criteria entities should use when evaluating whether embedded contingent put and call options in debt instruments should be separated from the debt instrument and accounted for separately as derivatives. The Update clarifies that companies should not consider whether the event that triggers the ability to exercise put or call options is related to interest rates or credit risk. We adopted this change in first quarter 2017. The Update did not have a material impact on our consolidated financial statements.

ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as an accounting hedge does not require the hedging relationship to be dedesignated as long as all other hedge accounting criteria continue to be met. We adopted the guidance in first quarter 2017. The Update did not have a material impact on our consolidated financial statements.

#### Accounting Standards with Retrospective Application

The following accounting pronouncements have been issued by the FASB but are not yet effective:

▲ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

## Note 1: Summary of Significant Accounting Policies (continued)

## ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash

ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for reporting in the Statement of Cash Flows. The Update is effective for us in first quarter 2018 with retrospective application. Subject to completion of our assessment, we are not expecting this Update to have a material impact on our financial statements.

ASU 2016-18 requires that amounts described as restricted cash and cash equivalents be included with cash and cash equivalents in the statement of cash flows. In addition, we will be required to disclose information in our footnotes about the nature of the restriction on cash and cash equivalents. The Update is effective for us in first quarter 2018 with retrospective application. Subject to completion of our assessment, we are not expecting this Update to have a material impact on our financial statements.

## Private Share Repurchases

From time to time we enter into private forward repurchase transactions with unrelated third parties to complement our open-market common stock repurchase strategies, to allow us to manage our share repurchases in a manner consistent with our

capital plans submitted annually under the Comprehensive Capital Analysis and Review (CCAR) and to provide an economic benefit to the Company.

Our payments to the counterparties for these contracts are recorded in permanent equity in the quarter paid and are not subject to re-measurement. The classification of the up-front payments as permanent equity assures that we have appropriate repurchase timing consistent with our capital plans, which contemplate a fixed dollar amount available per quarter for share repurchases pursuant to Federal Reserve Board (FRB) supervisory guidance. In return, the counterparty agrees to deliver a variable number of shares based on a per share discount to the volume-weighted average stock price over the contract period. There are no scenarios where the contracts would not either physically settle in shares or allow us to choose the settlement method. Our total number of outstanding shares of common stock is not reduced until settlement of the private share repurchase contract.

We had no unsettled private share repurchase contracts at both September 30, 2017 and September 30, 2016.

## Supplemental Cash Flow Information

Significant noncash activities are presented below.

Table 1.1: Supplemental Cash Flow Information

| (in millions)  | Nine months ended  |                    |
|--|--------------------|--------------------|
|  | September 30, 2017 | September 30, 2016 |
| Trading assets retained from securitization of MHFS              | \$43,394           | 47,291             |
| Transfers from loans to MHFS                                     | 4,015              | 5,257              |
| Transfers from available-for-sale to held-to-maturity securities | 50,405             | 816                |

## Subsequent Events

We have evaluated the effects of events that have occurred subsequent to September 30, 2017, and there have been no material events that would require recognition in our third quarter 2017 consolidated financial statements or disclosure in the Notes to the consolidated financial statements.



### Note 2: Business Combinations

We regularly explore opportunities to acquire financial services companies and businesses. Generally, we do not make a public announcement about an acquisition opportunity until a definitive agreement has been signed. For information on additional contingent consideration related to acquisitions, which is considered to be a guarantee, see Note 10 (Guarantees, Pledged Assets and Collateral).

On July 1, 2017, we completed a step acquisition involving an investment management firm with approximately \$10 billion of

assets under management. We had previously been the majority owner.

At September 30, 2017, we had no pending business combinations.

### Note 3: Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments

Table 3.1 provides the detail of federal funds sold, securities purchased under short-term resale agreements (generally less than one year) and other short-term investments. Substantially all of the interest-earning deposits at September 30, 2017, and December 31, 2016, were held at Federal Reserve Banks.

Table 3.1: Fed Funds Sold and Other Short-Term Investments

| (in millions)   | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| Federal funds sold and securities purchased under resale agreements | \$66,156        | 58,215          |
| Interest-earning deposits   | 205,648         | 200,671         |
| Other short-term investments  | 1,301           | 7,152           |
| Total   | \$273,105       | 266,038         |

As part of maintaining our memberships in certain clearing organizations, we are required to stand ready to provide liquidity meant to sustain market clearing activity in the event unforeseen events occur or are deemed likely to occur. This includes commitments we have entered into to purchase securities under resale agreements from a central clearing organization that, at its option, require us to provide funding under such agreements. We do not have any outstanding amounts funded, and the amount of our unfunded contractual commitment was \$1.5 billion and \$2.9 billion as of September 30, 2017, and December 31, 2016, respectively.

We have classified securities purchased under long-term resale agreements (generally one year or more), which totaled \$20.6 billion and \$21.3 billion in loans at September 30, 2017, and December 31, 2016, respectively. For additional information on the collateral we receive from other entities under resale agreements and securities borrowings, see the “Offsetting of Resale and Repurchase Agreements and Securities Borrowing and Lending Agreements” section in Note 10 (Guarantees, Pledged Assets and Collateral).

## Note 4: Investment Securities

Table 4.1 provides the amortized cost and fair value by major categories of available-for-sale securities, which are carried at fair value, and held-to-maturity debt securities, which are carried at

amortized cost. The net unrealized gains (losses) for available-for-sale securities are reported on an after-tax basis as a component of cumulative OCI.

Table 4.1: Amortized Cost and Fair Value

| (in millions)   | Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|----------------|------------------------|-------------------------|------------|
| September 30, 2017                                      |                |                        |                         |            |
| Available-for-sale securities:                          |                |                        |                         |            |
| Securities of U.S. Treasury and federal agencies        | \$ 6,408       | 8                      | (66)                    | ) 6,350    |
| Securities of U.S. states and political subdivisions    | 52,854         | 774                    | (854)                   | ) 52,774   |
| Mortgage-backed securities:                             |                |                        |                         |            |
| Federal agencies  | 149,872        | 1,237                  | (928)                   | ) 150,181  |
| Residential   | 5,942          | 455                    | (3)                     | ) 6,394    |
| Commercial  | 4,586          | 74                     | (8)                     | ) 4,652    |
| Total mortgage-backed securities                        | 160,400        | 1,766                  | (939)                   | ) 161,227  |
| Corporate debt securities                               | 8,962          | 443                    | (65)                    | ) 9,340    |
| Collateralized loan and other debt obligations (1)      | 35,298         | 317                    | (7)                     | ) 35,608   |
| Other (2)   | 5,857          | 168                    | (7)                     | ) 6,018    |
| Total debt securities                                   | 269,779        | 3,476                  | (1,938)                 | ) 271,317  |
| Marketable equity securities:                           |                |                        |                         |            |
| Perpetual preferred securities                          | 412            | 12                     | (5)                     | ) 419      |
| Other marketable equity securities                      | 194            | 282                    | (2)                     | ) 474      |
| Total marketable equity securities                      | 606            | 294                    | (7)                     | ) 893      |
| Total available-for-sale securities                     | 270,385        | 3,770                  | (1,945)                 | ) 272,210  |
| Held-to-maturity securities:                            |                |                        |                         |            |
| Securities of U.S. Treasury and federal agencies        | 44,712         | 606                    | (36)                    | ) 45,282   |
| Securities of U.S. states and political subdivisions    | 6,321          | 70                     | (45)                    | ) 6,346    |
| Federal agency and other mortgage-backed securities (3) | 90,071         | 305                    | (509)                   | ) 89,867   |
| Collateralized loan obligations                         | 661            | 3                      | —                       | ) 664      |
| Other (2)   | 658            | 1                      | —                       | ) 659      |
| Total held-to-maturity securities                       | 142,423        | 985                    | (590)                   | ) 142,818  |
| Total   | \$ 412,808     | 4,755                  | (2,535)                 | ) 415,028  |
| December 31, 2016                                       |                |                        |                         |            |
| Available-for-sale securities:                          |                |                        |                         |            |
| Securities of U.S. Treasury and federal agencies        | \$ 25,874      | 54                     | (109)                   | ) 25,819   |
| Securities of U.S. states and political subdivisions    | 52,121         | 551                    | (1,571)                 | ) 51,101   |
| Mortgage-backed securities:                             |                |                        |                         |            |
| Federal agencies  | 163,513        | 1,175                  | (3,458)                 | ) 161,230  |
| Residential   | 7,375          | 449                    | (8)                     | ) 7,816    |
| Commercial  | 8,475          | 101                    | (74)                    | ) 8,502    |
| Total mortgage-backed securities                        | 179,363        | 1,725                  | (3,540)                 | ) 177,548  |
| Corporate debt securities                               | 11,186         | 381                    | (110)                   | ) 11,457   |
| Collateralized loan and other debt obligations (1)      | 34,764         | 287                    | (31)                    | ) 35,020   |
| Other (2)   | 6,139          | 104                    | (35)                    | ) 6,208    |
| Total debt securities                                   | 309,447        | 3,102                  | (5,396)                 | ) 307,153  |
| Marketable equity securities:                           |                |                        |                         |            |

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|   |            |       |        |           |
|---|------------|-------|--------|-----------|
| Perpetual preferred securities                          | 445        | 35    | (11    | ) 469     |
| Other marketable equity securities                      | 261        | 481   | —      | 742       |
| Total marketable equity securities                      | 706        | 516   | (11    | ) 1,211   |
| Total available-for-sale securities                     | 310,153    | 3,618 | (5,407 | ) 308,364 |
| Held-to-maturity securities:                            |            |       |        |           |
| Securities of U.S. Treasury and federal agencies        | 44,690     | 466   | (77    | ) 45,079  |
| Securities of U.S. states and political subdivisions    | 6,336      | 17    | (144   | ) 6,209   |
| Federal agency and other mortgage-backed securities (3) | 45,161     | 100   | (804   | ) 44,457  |
| Collateralized loan obligations                         | 1,065      | 6     | (1     | ) 1,070   |
| Other (2)   | 2,331      | 10    | (1     | ) 2,340   |
| Total held-to-maturity securities                       | 99,583     | 599   | (1,027 | ) 99,155  |
| Total   | \$ 409,736 | 4,217 | (6,434 | ) 407,519 |

The available-for-sale portfolio includes collateralized debt obligations (CDOs) with a cost basis and fair value of (1) \$914 million and \$1.0 billion, respectively, at September 30, 2017, and \$819 million and \$847 million, respectively, at December 31, 2016.

The “Other” category of available-for-sale securities largely includes asset-backed securities collateralized by student loans. Included in the “Other” category of held-to-maturity securities are asset-backed securities collateralized by automobile leases or loans and cash with a cost basis and fair value of \$158 million each at September 30, 2017, (2) and \$1.3 billion each at December 31, 2016. Also included in the “Other” category of held-to-maturity securities are asset-backed securities collateralized by dealer floorplan loans with a cost basis and fair value of \$500 million and \$501 million, respectively at September 30, 2017, and \$1.1 billion each at December 31, 2016.

(3) Predominantly consists of federal agency mortgage-backed securities at both September 30, 2017 and December 31, 2016.

## Note 4: Investment Securities (continued)

## Gross Unrealized Losses and Fair Value

Table 4.2 shows the gross unrealized losses and fair value of securities in the investment securities portfolio by length of time that individual securities in each category have been in a continuous loss position. Debt securities on which we have taken credit-related OTTI write-downs are categorized as being “less

than 12 months” or “12 months or more” in a continuous loss position based on the point in time that the fair value declined to below the cost basis and not the period of time since the credit-related OTTI write-down.

Table 4.2: Gross Unrealized Losses and Fair Value

| (in millions)  | Less than 12 months     |            | 12 months or more       |            | Total                   |            |
|--|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|  | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value |
| September 30, 2017                                   |                         |            |                         |            |                         |            |
| Available-for-sale securities:                       |                         |            |                         |            |                         |            |
| Securities of U.S. Treasury and federal agencies     | \$(4 )                  | 2,582      | (62 )                   | 1,968      | (66 )                   | 4,550      |
| Securities of U.S. states and political subdivisions | (23 )                   | 6,117      | (831 )                  | 19,188     | (854 )                  | 25,305     |
| Mortgage-backed securities:                          |                         |            |                         |            |                         |            |
| Federal agencies                                     | (383 )                  | 50,708     | (545 )                  | 22,103     | (928 )                  | 72,811     |
| Residential  | (2 )                    | 145        | (1 )                    | 64         | (3 )                    | 209        |
| Commercial   | (1 )                    | 393        | (7 )                    | 348        | (8 )                    | 741        |
| Total mortgage-backed securities                     | (386 )                  | 51,246     | (553 )                  | 22,515     | (939 )                  | 73,761     |
| Corporate debt securities                            | (5 )                    | 305        | (60 )                   | 886        | (65 )                   | 1,191      |
| Collateralized loan and other debt obligations       | (1 )                    | 3,171      | (6 )                    | 581        | (7 )                    | 3,752      |
| Other  | (1 )                    | 494        | (6 )                    | 526        | (7 )                    | 1,020      |
| Total debt securities                                | (420 )                  | 63,915     | (1,518 )                | 45,664     | (1,938 )                | 109,579    |
| Marketable equity securities:                        |                         |            |                         |            |                         |            |
| Perpetual preferred securities                       | (1 )                    | 21         | (4 )                    | 67         | (5 )                    | 88         |
| Other marketable equity securities                   | (2 )                    | 10         | —                       | —          | (2 )                    | 10         |
| Total marketable equity securities                   | (3 )                    | 31         | (4 )                    | 67         | (7 )                    | 98         |
| Total available-for-sale securities                  | (423 )                  | 63,946     | (1,522 )                | 45,731     | (1,945 )                | 109,677    |
| Held-to-maturity securities:                         |                         |            |                         |            |                         |            |
| Securities of U.S. Treasury and federal agencies     | (36 )                   | 3,345      | —                       | —          | (36 )                   | 3,345      |
| Securities of U.S. states and political subdivisions | (19 )                   | 2,016      | (26 )                   | 785        | (45 )                   | 2,801      |
| Federal agency and other mortgage-backed securities  | (465 )                  | 53,128     | (44 )                   | 5,212      | (509 )                  | 58,340     |
| Collateralized loan obligations                      | —                       | —          | —                       | —          | —                       | —          |
| Other  | —                       | —          | —                       | —          | —                       | —          |
| Total held-to-maturity securities                    | (520 )                  | 58,489     | (70 )                   | 5,997      | (590 )                  | 64,486     |
| Total  | \$(943 )                | 122,435    | (1,592 )                | 51,728     | (2,535 )                | 174,163    |
| December 31, 2016                                    |                         |            |                         |            |                         |            |
| Available-for-sale securities:                       |                         |            |                         |            |                         |            |
| Securities of U.S. Treasury and federal agencies     | \$(109 )                | 10,816     | —                       | —          | (109 )                  | 10,816     |
| Securities of U.S. states and political subdivisions | (341 )                  | 17,412     | (1,230 )                | 16,213     | (1,571 )                | 33,625     |
| Mortgage-backed securities:                          |                         |            |                         |            |                         |            |
| Federal agencies                                     | (3,338 )                | 120,735    | (120 )                  | 3,481      | (3,458 )                | 124,216    |
| Residential  | (4 )                    | 527        | (4 )                    | 245        | (8 )                    | 772        |
| Commercial   | (43 )                   | 1,459      | (31 )                   | 1,690      | (74 )                   | 3,149      |
| Total mortgage-backed securities                     | (3,385 )                | 122,721    | (155 )                  | 5,416      | (3,540 )                | 128,137    |



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|  |           |         |          |        |          |         |
|--|-----------|---------|----------|--------|----------|---------|
| Corporate debt securities                            | (11 )     | 946     | (99 )    | 1,229  | (110 )   | 2,175   |
| Collateralized loan and other debt obligations       | (2 )      | 1,899   | (29 )    | 3,197  | (31 )    | 5,096   |
| Other  | (9 )      | 971     | (26 )    | 1,262  | (35 )    | 2,233   |
| Total debt securities                                | (3,857 )  | 154,765 | (1,539 ) | 27,317 | (5,396 ) | 182,082 |
| Marketable equity securities:                        |           |         |          |        |          |         |
| Perpetual preferred securities                       | (3 )      | 41      | (8 )     | 45     | (11 )    | 86      |
| Other marketable equity securities                   | —         | —       | —        | —      | —        | —       |
| Total marketable equity securities                   | (3 )      | 41      | (8 )     | 45     | (11 )    | 86      |
| Total available-for-sale securities                  | (3,860 )  | 154,806 | (1,547 ) | 27,362 | (5,407 ) | 182,168 |
| Held-to-maturity securities:                         |           |         |          |        |          |         |
| Securities of U.S. Treasury and federal agencies     | (77 )     | 6,351   | —        | —      | (77 )    | 6,351   |
| Securities of U.S. states and political subdivisions | (144 )    | 4,871   | —        | —      | (144 )   | 4,871   |
| Federal agency and other mortgage-backed securities  | (804 )    | 40,095  | —        | —      | (804 )   | 40,095  |
| Collateralized loan obligations                      | —         | —       | (1 )     | 266    | (1 )     | 266     |
| Other  | —         | —       | (1 )     | 633    | (1 )     | 633     |
| Total held-to-maturity securities                    | (1,025 )  | 51,317  | (2 )     | 899    | (1,027 ) | 52,216  |
| Total  | \$(4,885) | 206,123 | (1,549 ) | 28,261 | (6,434 ) | 234,384 |

We have assessed each security with gross unrealized losses included in the previous table for credit impairment. As part of that assessment we evaluated and concluded that we do not intend to sell any of the securities and that it is more likely than not that we will not be required to sell prior to recovery of the amortized cost basis. For debt securities, we evaluate, where necessary, whether credit impairment exists by comparing the present value of the expected cash flows to the securities' amortized cost basis. For equity securities, we consider numerous factors in determining whether impairment exists, including our intent and ability to hold the securities for a period of time sufficient to recover the cost basis of the securities.

For descriptions of the factors we consider when analyzing securities for impairment, see Note 1 (Summary of Significant Accounting Policies) and Note 5 (Investment Securities) to Financial Statements in our 2016 Form 10-K. There were no material changes to our methodologies for assessing impairment in the first nine months of 2017. Table 4.3 shows the gross unrealized losses and fair value of debt and perpetual preferred investment securities by those rated investment grade and those rated less than investment grade,

according to their lowest credit rating by Standard & Poor's Rating Services (S&P) or Moody's Investors Service (Moody's). Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by S&P or Baa3 or higher by Moody's, are generally considered by the rating agencies and market participants to be low credit risk. Conversely, securities rated below investment grade, labeled as "speculative grade" by the rating agencies, are considered to be distinctively higher credit risk than investment grade securities. We have also included securities not rated by S&P or Moody's in the table below based on our internal credit grade of the securities (used for credit risk management purposes) equivalent to the credit rating assigned by major credit agencies. The unrealized losses and fair value of unrated securities categorized as investment grade based on internal credit grades were \$27 million and \$5.7 billion, respectively, at September 30, 2017, and \$54 million and \$7.0 billion, respectively, at December 31, 2016. If an internal credit grade was not assigned, we categorized the security as non-investment grade.

Table 4.3: Gross Unrealized Losses and Fair Value by Investment Grade

| (in millions)  | Investment grade        |            | Non-investment grade    |            |
|--|-------------------------|------------|-------------------------|------------|
|  | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value |
| September 30, 2017                                   |                         |            |                         |            |
| Available-for-sale securities:                       |                         |            |                         |            |
| Securities of U.S. Treasury and federal agencies     | \$(66 )                 | 4,550      | —                       | —          |
| Securities of U.S. states and political subdivisions | (822 )                  | 25,098     | (32 )                   | 207        |
| Mortgage-backed securities:                          |                         |            |                         |            |
| Federal agencies                                     | (928 )                  | 72,811     | —                       | —          |
| Residential  | (1 )                    | 134        | (2 )                    | 75         |
| Commercial   | (2 )                    | 527        | (6 )                    | 214        |
| Total mortgage-backed securities                     | (931 )                  | 73,472     | (8 )                    | 289        |
| Corporate debt securities                            | (14 )                   | 674        | (51 )                   | 517        |
| Collateralized loan and other debt obligations       | (7 )                    | 3,752      | —                       | —          |
| Other  | (5 )                    | 781        | (2 )                    | 239        |
| Total debt securities                                | (1,845 )                | 108,327    | (93 )                   | 1,252      |
| Perpetual preferred securities                       | (4 )                    | 70         | (1 )                    | 18         |
| Total available-for-sale securities                  | (1,849 )                | 108,397    | (94 )                   | 1,270      |
| Held-to-maturity securities:                         |                         |            |                         |            |
| Securities of U.S. Treasury and federal agencies     | (36 )                   | 3,345      | —                       | —          |
| Securities of U.S. states and political subdivisions | (45 )                   | 2,801      | —                       | —          |
| Federal agency and other mortgage-backed securities  | (508 )                  | 58,248     | (1 )                    | 92         |
| Collateralized loan obligations                      | —                       | —          | —                       | —          |

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|  |           |           |      |         |
|--|-----------|-----------|------|---------|
| Other  | —         | —         | —    | —       |
| Total held-to-maturity securities                    | (589      | ) 64,394  | (1   | ) 92    |
| Total  | \$(2,438) | 172,791   | (95  | ) 1,362 |
| December 31, 2016                                    |           |           |      |         |
| Available-for-sale securities:                       |           |           |      |         |
| Securities of U.S. Treasury and federal agencies     | \$(109    | ) 10,816  | —    | —       |
| Securities of U.S. states and political subdivisions | (1,517    | ) 33,271  | (54  | ) 354   |
| Mortgage-backed securities:                          |           |           |      |         |
| Federal agencies                                     | (3,458    | ) 124,216 | —    | —       |
| Residential  | (1        | ) 176     | (7   | ) 596   |
| Commercial   | (15       | ) 2,585   | (59  | ) 564   |
| Total mortgage-backed securities                     | (3,474    | ) 126,977 | (66  | ) 1,160 |
| Corporate debt securities                            | (31       | ) 1,238   | (79  | ) 937   |
| Collateralized loan and other debt obligations       | (31       | ) 5,096   | —    | —       |
| Other  | (30       | ) 1,842   | (5   | ) 391   |
| Total debt securities                                | (5,192    | ) 179,240 | (204 | ) 2,842 |
| Perpetual preferred securities                       | (10       | ) 68      | (1   | ) 18    |
| Total available-for-sale securities                  | (5,202    | ) 179,308 | (205 | ) 2,860 |
| Held-to-maturity securities:                         |           |           |      |         |
| Securities of U.S. Treasury and federal agencies     | (77       | ) 6,351   | —    | —       |
| Securities of U.S. states and political subdivisions | (144      | ) 4,871   | —    | —       |
| Federal agency and other mortgage-backed securities  | (803      | ) 40,078  | (1   | ) 17    |
| Collateralized loan obligations                      | (1        | ) 266     | —    | —       |
| Other  | (1        | ) 633     | —    | —       |
| Total held-to-maturity securities                    | (1,026    | ) 52,199  | (1   | ) 17    |
| Total  | \$(6,228) | 231,507   | (206 | ) 2,877 |

## Note 4: Investment Securities (continued)

## Contractual Maturities

Table 4.4 shows the remaining contractual maturities and contractual weighted-average yields (taxable-equivalent basis) of available-for-sale debt securities. The remaining contractual principal maturities for MBS do not consider

prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

Table 4.4: Contractual Maturities

|  | Total     |        | Remaining contractual maturity |        |                                   |        |                                    |        |                 |        |
|--|-----------|--------|--------------------------------|--------|-----------------------------------|--------|------------------------------------|--------|-----------------|--------|
|  |           |        | Within one year                |        | After one year through five years |        | After five years through ten years |        | After ten years |        |
| (in millions)  | amount    | Yield  | Amount                         | Yield  | Amount                            | Yield  | Amount                             | Yield  | Amount          | Yield  |
| September 30, 2017                                     |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Available-for-sale debt securities (1):                |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Fair value:  |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Securities of U.S.                                     |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Treasury and federal agencies                          | \$6,350   | 1.60 % | \$81                           | 1.36 % | \$6,221                           | 1.60 % | \$48                               | 1.88 % | \$—             | — %    |
| Securities of U.S. states and political subdivisions   | 52,774    | 5.77   | 1,375                          | 2.32   | 10,788                            | 2.93   | 2,237                              | 4.65   | 38,374          | 6.76   |
| Mortgage-backed securities:                            |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Federal agencies                                       | 150,181   | 3.24   | 1                              | 5.03   | 223                               | 2.78   | 5,927                              | 2.83   | 144,030         | 3.26   |
| Residential  | 6,394     | 3.88   | —                              | —      | 27                                | 5.66   | 11                                 | 2.42   | 6,356           | 3.88   |
| Commercial   | 4,652     | 3.74   | —                              | —      | —                                 | —      | 64                                 | 2.76   | 4,588           | 3.75   |
| Total mortgage-backed securities                       | 161,227   | 3.28   | 1                              | 5.03   | 250                               | 3.09   | 6,002                              | 2.83   | 154,974         | 3.30   |
| Corporate debt securities                              | 9,340     | 4.94   | 976                            | 4.08   | 3,009                             | 5.57   | 4,373                              | 4.61   | 982             | 5.28   |
| Collateralized loan and other debt obligations         | 35,608    | 2.97   | —                              | —      | 100                               | 1.83   | 16,498                             | 2.95   | 19,010          | 3.00   |
| Other  | 6,018     | 2.29   | 44                             | 3.42   | 525                               | 2.69   | 1,584                              | 1.97   | 3,865           | 2.35   |
| Total available-for-sale debt securities at fair value | \$271,317 | 3.72 % | \$2,477                        | 3.00 % | \$20,893                          | 2.90 % | \$30,742                           | 3.23 % | \$217,205       | 3.88 % |
| December 31, 2016                                      |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Available-for-sale debt securities (1):                |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Fair value:  |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Securities of U.S.                                     |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Treasury and federal agencies                          | \$25,819  | 1.44 % | \$1,328                        | 0.92 % | \$23,477                          | 1.45 % | \$1,014                            | 1.80 % | \$—             | — %    |
| Securities of U.S. states and political subdivisions   | 51,101    | 5.65   | 2,990                          | 1.69   | 9,299                             | 2.74   | 2,391                              | 4.71   | 36,421          | 6.78   |
| Mortgage-backed securities:                            |           |        |                                |        |                                   |        |                                    |        |                 |        |
| Federal agencies                                       | 161,230   | 3.09   | —                              | —      | 128                               | 2.98   | 5,363                              | 3.16   | 155,739         | 3.09   |

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|  |           |        |         |        |          |        |          |        |           |        |
|--|-----------|--------|---------|--------|----------|--------|----------|--------|-----------|--------|
| Residential  | 7,816     | 3.84   | —       | —      | 25       | 5.21   | 35       | 4.34   | 7,756     | 3.83   |
| Commercial   | 8,502     | 4.58   | —       | —      | —        | —      | 30       | 3.13   | 8,472     | 4.59   |
| Total mortgage-backed securities                       | 177,548   | 3.19   | —       | —      | 153      | 3.34   | 5,428    | 3.16   | 171,967   | 3.19   |
| Corporate debt securities                              | 11,457    | 4.81   | 2,043   | 2.90   | 3,374    | 5.89   | 4,741    | 4.71   | 1,299     | 5.38   |
| Collateralized loan and other debt obligations         | 35,020    | 2.70   | —       | —      | 168      | 1.34   | 16,482   | 2.66   | 18,370    | 2.74   |
| Other  | 6,208     | 2.18   | 57      | 3.06   | 971      | 2.35   | 1,146    | 2.04   | 4,034     | 2.17   |
| Total available-for-sale debt securities at fair value | \$307,153 | 3.44 % | \$6,418 | 1.93 % | \$37,442 | 2.20 % | \$31,202 | 3.17 % | \$232,091 | 3.72 % |

(1) Weighted-average yields displayed by maturity bucket are weighted based on fair value and predominantly represent contractual coupon rates without effect for any related hedging derivatives.

Table 4.5 shows the amortized cost and weighted-average yields of held-to-maturity debt securities by contractual maturity.

Table 4.5: Amortized Cost by Contractual Maturity

|  | Total     |        | Remaining contractual maturity |                                   |                                    |                 |          |        |          |        |
|--|-----------|--------|--------------------------------|-----------------------------------|------------------------------------|-----------------|----------|--------|----------|--------|
|  |           |        | Within one year                | After one year through five years | After five years through ten years | After ten years |          |        |          |        |
| (in millions)  | amount    | Yield  | Amount                         | Yield                             | Amount                             | Yield           | Amount   | Yield  | Amount   | Yield  |
| September 30, 2017                                       |           |        |                                |                                   |                                    |                 |          |        |          |        |
| Held-to-maturity securities (1):                         |           |        |                                |                                   |                                    |                 |          |        |          |        |
| Amortized cost:  |           |        |                                |                                   |                                    |                 |          |        |          |        |
| Securities of U.S. Treasury and federal agencies         | \$44,712  | 2.12 % | \$—                            | %                                 | \$32,323                           | 2.04 %          | \$12,389 | 2.32 % | \$—      | — %    |
| Securities of U.S. states and political subdivisions     | 6,321     | 6.04   | —                              |                                   | 49                                 | 7.71            | 655      | 6.44   | 5,617    | 5.98   |
| Federal agency and other mortgage-backed securities      | 90,071    | 3.11   | —                              |                                   | —                                  | —               | —        | —      | 90,071   | 3.11   |
| Collateralized loan obligations                          | 661       | 2.81   | —                              |                                   | —                                  | —               | 661      | 2.81   | —        | —      |
| Other  | 658       | 2.17   | —                              |                                   | 658                                | 2.17            | —        | —      | —        | —      |
| Total held-to-maturity debt securities at amortized cost | \$142,423 | 2.92 % | \$—                            | %                                 | \$33,030                           | 2.05 %          | \$13,705 | 2.54 % | \$95,688 | 3.27 % |
| December 31, 2016  |           |        |                                |                                   |                                    |                 |          |        |          |        |
| Held-to-maturity securities (1):                         |           |        |                                |                                   |                                    |                 |          |        |          |        |
| Amortized cost:  |           |        |                                |                                   |                                    |                 |          |        |          |        |
| Securities of U.S. Treasury and federal agencies         | \$44,690  | 2.12 % | \$—                            | %                                 | \$31,956                           | 2.05 %          | \$12,734 | 2.30 % | \$—      | — %    |
| Securities of U.S. states and political subdivisions     | 6,336     | 6.04   | —                              |                                   | 24                                 | 8.20            | 436      | 6.76   | 5,876    | 5.98   |
| Federal agency and other mortgage-backed securities      | 45,161    | 3.23   | —                              |                                   | —                                  | —               | —        | —      | 45,161   | 3.23   |
| Collateralized loan obligations                          | 1,065     | 2.58   | —                              |                                   | —                                  | —               | 1,065    | 2.58   | —        | —      |
| Other  | 2,331     | 1.83   | —                              |                                   | 1,683                              | 1.81            | 648      | 1.89   | —        | —      |
| Total held-to-maturity debt securities at amortized cost | \$99,583  | 2.87 % | \$—                            | %                                 | \$33,663                           | 2.04 %          | \$14,883 | 2.43 % | \$51,037 | 3.55 % |

(1) Weighted-average yields displayed by maturity bucket are weighted based on amortized cost and predominantly represent contractual coupon rates.

Table 4.6 shows the fair value of held-to-maturity debt securities by contractual maturity.

Table 4.6: Fair Value by Contractual Maturity

|                              | Remaining contractual maturity |                 |                                   |                                    |                 |
|------------------------------|--------------------------------|-----------------|-----------------------------------|------------------------------------|-----------------|
|                              | Total                          | Within one year | After one year through five years | After five years through ten years | After ten years |
| (in millions)                | amount                         | Amount          | Amount                            | Amount                             | Amount          |
| September 30, 2017           |                                |                 |                                   |                                    |                 |
| Held-to-maturity securities: |                                |                 |                                   |                                    |                 |

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Fair value:

|  |           |   |        |        |        |
|--|-----------|---|--------|--------|--------|
| Securities of U.S. Treasury and federal agencies     | \$45,282  | — | 32,733 | 12,549 | —      |
| Securities of U.S. states and political subdivisions | 6,346     | — | 48     | 664    | 5,634  |
| Federal agency and other mortgage-backed securities  | 89,867    | — | —      | —      | 89,867 |
| Collateralized loan obligations                      | 664       | — | —      | 664    | —      |
| Other  | 659       | — | 659    | —      | —      |
| Total held-to-maturity debt securities at fair value | \$142,818 | — | 33,440 | 13,877 | 95,501 |

December 31, 2016

Held-to-maturity securities:

Fair value:

|  |          |   |        |        |        |
|--|----------|---|--------|--------|--------|
| Securities of U.S. Treasury and federal agencies     | \$45,079 | — | 32,313 | 12,766 | —      |
| Securities of U.S. states and political subdivisions | 6,209    | — | 24     | 430    | 5,755  |
| Federal agency and other mortgage-backed securities  | 44,457   | — | —      | —      | 44,457 |
| Collateralized loan obligations                      | 1,070    | — | —      | 1,070  | —      |
| Other  | 2,340    | — | 1,688  | 652    | —      |
| Total held-to-maturity debt securities at fair value | \$99,155 | — | 34,025 | 14,918 | 50,212 |

## Note 4: Investment Securities (continued)

## Realized Gains and Losses

Table 4.7 shows the gross realized gains and losses on sales and OTTI write-downs related to the available-for-sale securities

portfolio, which includes marketable equity securities, as well as net realized gains and losses on nonmarketable equity investments (see Note 6 (Other Assets)).

Table 4.7: Realized Gains and Losses

|  | Quarter ended |       | Nine months ended |        |
|--|---------------|-------|-------------------|--------|
|  | September 30, |       | September 30,     |        |
| (in millions)  | 2017          | 2016  | 2017              | 2016   |
| Gross realized gains   | \$298         | 266   | 859               | 1,215  |
| Gross realized losses  | (18 )         | (23 ) | (102 )            | (67 )  |
| OTTI write-downs   | (8 )          | (52 ) | (112 )            | (147 ) |
| Net realized gains from available-for-sale securities          | 272           | 191   | 645               | 1,001  |
| Net realized gains from nonmarketable equity investments       | 132           | 55    | 506               | 369    |
| Net realized gains from debt securities and equity investments | \$404         | 246   | 1,151             | 1,370  |

## Other-Than-Temporary Impairment

Table 4.8 shows the detail of total OTTI write-downs included in earnings for available-for-sale debt securities, marketable equity

securities and nonmarketable equity investments. There were no OTTI write-downs on held-to-maturity securities during the first nine months of 2017 and 2016.

Table 4.8: OTTI Write-downs

|  | Quarter ended |      | Nine months ended |      |
|--|---------------|------|-------------------|------|
|  | September 30, |      | September 30,     |      |
| (in millions)  | 2017          | 2016 | 2017              | 2016 |
| OTTI write-downs included in earnings                |               |      |                   |      |
| Debt securities:                                     |               |      |                   |      |
| Securities of U.S. states and political subdivisions | \$ 1          | 30   | 9                 | 40   |
| Mortgage-backed securities:                          |               |      |                   |      |
| Residential  | 1             | 4    | 7                 | 28   |
| Commercial   | 4             | 10   | 70                | 11   |
| Corporate debt securities                            | 1             | 7    | 21                | 57   |
| Other debt securities                                | —             | —    | —                 | 6    |
| Total debt securities                                | 7             | 51   | 107               | 142  |
| Equity securities:                                   |               |      |                   |      |
| Marketable equity securities:                        |               |      |                   |      |
| Other marketable equity securities                   | 1             | 1    | 5                 | 5    |
| Total marketable equity securities                   | 1             | 1    | 5                 | 5    |
| Total investment securities (1)                      | 8             | 52   | 112               | 147  |
| Nonmarketable equity investments (1)                 | 83            | 84   | 181               | 317  |
| Total OTTI write-downs included in earnings (1)      | \$ 91         | 136  | 293               | 464  |

(1)



The quarters ended September 30, 2017 and 2016, include \$19 million and \$32 million, respectively, in OTTI write-downs of oil and gas investments, of which \$2 million and \$6 million, respectively, related to investment securities and \$17 million and \$26 million, respectively, related to nonmarketable equity investments. Oil and gas related OTTI for the first nine months of 2017 and 2016, totaled \$77 million and \$185 million, respectively, of which \$24 million and \$57 million, respectively, related to investment securities and \$53 million and \$128 million, respectively, related to nonmarketable equity investments.

## Other-Than-Temporarily Impaired Debt Securities

Table 4.9 shows the detail of OTTI write-downs on available-for-sale debt securities included in earnings and the related changes in OCI for the same securities.

Table 4.9: OTTI Write-downs Included in Earnings

| (in millions)  | Quarter ended      |       | Nine months ended  |       |
|--|--------------------|-------|--------------------|-------|
|  | September 30, 2017 | 2016  | September 30, 2017 | 2016  |
| OTTI on debt securities  |                    |       |                    |       |
| Recorded as part of gross realized losses:                                     |                    |       |                    |       |
| Credit-related OTTI  | \$ 6               | 21    | 105                | 102   |
| Intent-to-sell OTTI  | 1                  | 30    | 2                  | 40    |
| Total recorded as part of gross realized losses                                | 7                  | 51    | 107                | 142   |
| Changes to OCI for losses (reversal of losses) in non-credit-related OTTI (1): |                    |       |                    |       |
| Securities of U.S. states and political subdivisions                           | —                  | —     | (5 )               | —     |
| Residential mortgage-backed securities   | (1 )               | (4 )  | (1 )               | 1     |
| Commercial mortgage-backed securities  | —                  | (11 ) | (47 )              | (9 )  |
| Corporate debt securities  | —                  | —     | 1                  | (13 ) |
| Other debt securities  | (1 )               | —     | (1 )               | 2     |
| Total changes to OCI for non-credit-related OTTI                               | (2 )               | (15 ) | (53 )              | (19 ) |
| Total OTTI losses recorded on debt securities                                  | \$ 5               | 36    | 54                 | 123   |

Represents amounts recorded to OCI for impairment, due to factors other than credit, on debt securities that have also had credit-related OTTI write-downs during the period. Increases represent initial or subsequent non-credit-related OTTI on debt securities. Decreases represent partial to full reversal of impairment due to recoveries in the fair value of securities due to non-credit factors.

Table 4.10 presents a rollforward of the OTTI credit loss that has been recognized in earnings as a write-down of available-for-sale debt securities we still own (referred to as “credit-impaired” debt securities) and do not intend to sell. Recognized credit loss

represents the difference between the present value of expected future cash flows discounted using the security’s current effective interest rate and the amortized cost basis of the security prior to considering credit loss.

Table 4.10: Rollforward of OTTI Credit Loss

| (in millions)   | Quarter ended      |       | Nine months ended  |        |
|---|--------------------|-------|--------------------|--------|
|   | September 30, 2017 | 2016  | September 30, 2017 | 2016   |
| Credit loss recognized, beginning of period                   | \$ 1,120           | 1,080 | 1,043              | 1,092  |
| Additions:  |                    |       |                    |        |
| For securities with initial credit impairments                | —                  | 16    | 8                  | 54     |
| For securities with previous credit impairments               | 6                  | 5     | 97                 | 48     |
| Total additions   | 6                  | 21    | 105                | 102    |
| Reductions:   |                    |       |                    |        |
| For securities sold, matured, or intended/required to be sold | (96 )              | (22 ) | (114 )             | (111 ) |
| For recoveries of previous credit impairments (1)             | (1 )               | (2 )  | (5 )               | (6 )   |
| Total reductions  | (97 )              | (24 ) | (119 )             | (117 ) |
| Credit loss recognized, end of period                         | \$ 1,029           | 1,077 | 1,029              | 1,077  |

(1)

Recoveries of previous credit impairments result from increases in expected cash flows subsequent to credit loss recognition. Such recoveries are reflected prospectively as interest yield adjustments using the effective interest method.

## Note 5: Loans and Allowance for Credit Losses (continued)

## Note 5: Loans and Allowance for Credit Losses

Table 5.1 presents total loans outstanding by portfolio segment and class of financing receivable. Outstanding balances include a total net reduction of \$3.7 billion and \$4.4 billion at September 30, 2017, and December 31, 2016, respectively, for

unearned income, net deferred loan fees, and unamortized discounts and premiums.

Table 5.1: Loans Outstanding

| (in millions)                               | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| Commercial:                                 |                 |                 |
| Commercial and industrial                   | \$327,944       | 330,840         |
| Real estate mortgage                        | 128,475         | 132,491         |
| Real estate construction                    | 24,520          | 23,916          |
| Lease financing                             | 19,211          | 19,289          |
| Total commercial                            | 500,150         | 506,536         |
| Consumer:                                   |                 |                 |
| Real estate 1-4 family first mortgage       | 280,173         | 275,579         |
| Real estate 1-4 family junior lien mortgage | 41,152          | 46,237          |
| Credit card                                 | 36,249          | 36,700          |
| Automobile                                  | 55,455          | 62,286          |
| Other revolving credit and installment      | 38,694          | 40,266          |
| Total consumer                              | 451,723         | 461,068         |
| Total loans                                 | \$951,873       | 967,604         |

Our foreign loans are reported by respective class of financing receivable in the table above. Substantially all of our foreign loan portfolio is commercial loans. Loans are classified as foreign primarily based on whether the borrower's primary

address is outside of the United States. Table 5.2 presents total commercial foreign loans outstanding by class of financing receivable.

Table 5.2: Commercial Foreign Loans Outstanding

| (in millions)                  | Sep 30,<br>2017 | Dec 31,<br>2016 |
|--------------------------------|-----------------|-----------------|
| Commercial foreign loans:      |                 |                 |
| Commercial and industrial      | \$58,570        | 55,396          |
| Real estate mortgage           | 8,032           | 8,541           |
| Real estate construction       | 647             | 375             |
| Lease financing                | 1,141           | 972             |
| Total commercial foreign loans | \$68,390        | 65,284          |

## Loan Purchases, Sales, and Transfers

Table 5.3 summarizes the proceeds paid or received for purchases and sales of loans and transfers from loans held for investment to mortgages/loans held for sale at lower of cost or fair value. This loan activity also includes participating interests, whereby we

receive or transfer a portion of a loan. The table excludes PCI loans and loans for which we have elected the fair value option, including loans originated for sale because their loan activity normally does not impact the allowance for credit losses.

Table 5.3: Loan Purchases, Sales, and Transfers

| (in millions)                   | 2017       |              |          | 2016           |              |          |
|---------------------------------|------------|--------------|----------|----------------|--------------|----------|
|                                 | Commercial | Consumer (1) | Total    | Commercial (2) | Consumer (1) | Total    |
| Quarter ended September 30,     |            |              |          |                |              |          |
| Purchases                       | \$449      | —            | 449      | 1,902          | —            | 1,902    |
| Sales                           | (310 )     | (145 )       | (455 )   | (324 )         | (306 )       | (630 )   |
| Transfers to MHFS/LHFS          | 374        | —            | 374      | (44 )          | (1 )         | (45 )    |
| Nine months ended September 30, |            |              |          |                |              |          |
| Purchases                       | \$2,418    | 2            | 2,420    | 29,155         | —            | 29,155   |
| Sales                           | (1,649 )   | (291 )       | (1,940 ) | (932 )         | (985 )       | (1,917 ) |
| Transfers to MHFS/LHFS          | (284 )     | (1 )         | (285 )   | (145 )         | (5 )         | (150 )   |

Excludes activity in government insured/guaranteed real estate 1-4 family first mortgage loans. As servicer, we are able to buy delinquent insured/guaranteed loans out of the Government National Mortgage Association (GNMA) (1) pools, and manage and/or resell them in accordance with applicable requirements. These loans are predominantly insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

Accordingly, these loans have limited impact on the allowance for loan losses.

(2) Purchases include loans and capital leases from the 2016 GE Capital business acquisitions.

## Commitments to Lend

A commitment to lend is a legally binding agreement to lend funds to a customer, usually at a stated interest rate, if funded, and for specific purposes and time periods. We generally require a fee to extend such commitments. Certain commitments are subject to loan agreements with covenants regarding the financial performance of the customer or borrowing base formulas on an ongoing basis that must be met before we are required to fund the commitment. We may reduce or cancel consumer commitments, including home equity lines and credit card lines, in accordance with the contracts and applicable law.

We may, as a representative for other lenders, advance funds or provide for the issuance of letters of credit under syndicated loan or letter of credit agreements. Any advances are generally repaid in less than a week and would normally require default of both the customer and another lender to expose us to loss. These temporary advance arrangements totaled approximately \$84 billion and \$77 billion at September 30, 2017 and December 31, 2016, respectively.

We issue commercial letters of credit to assist customers in purchasing goods or services, typically for international trade. At September 30, 2017, and December 31, 2016, we had \$1.2 billion and \$1.1 billion, respectively, of outstanding issued commercial letters of credit. We also originate multipurpose lending commitments under which borrowers have the option to draw on the facility for different purposes in one of several forms, including a standby letter of credit. See Note 10 (Guarantees, Pledged Assets and Collateral) for additional information on standby letters of credit.

When we make commitments, we are exposed to credit risk. 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. In addition, we manage the potential risk in commitments to lend by limiting the total amount of commitments, both by individual customer and in total, by monitoring the size and maturity structure of these commitments and by applying the same credit standards for these commitments as for all of our credit activities.

For loans and commitments to lend, we generally require collateral or a guarantee. We may require various types of collateral, including commercial and consumer real estate, automobiles, other short-term liquid assets such as accounts receivable or inventory and long-lived assets, such as equipment and other business assets. Collateral requirements for each loan or commitment may vary based on the loan product and our assessment of a customer's credit risk according to the specific credit underwriting, including credit terms and structure.

The contractual amount of our unfunded credit commitments, including unissued standby and commercial letters of credit, is summarized by portfolio segment and class of financing receivable in Table 5.4. The table excludes the issued standby and commercial letters of credit and temporary advance arrangements described above.

Table 5.4: Unfunded Credit Commitments

| (in millions)                               | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| Commercial:                                 |                 |                 |
| Commercial and industrial                   | \$321,797       | 319,662         |
| Real estate mortgage                        | 7,686           | 7,833           |
| Real estate construction                    | 16,025          | 18,840          |
| Lease financing                             | —               | 16              |
| Total commercial                            | 345,508         | 346,351         |
| Consumer:                                   |                 |                 |
| Real estate 1-4 family first mortgage       | 33,985          | 33,498          |
| Real estate 1-4 family junior lien mortgage | 39,437          | 41,431          |
| Credit card                                 | 108,240         | 101,895         |
| Other revolving credit and installment      | 27,796          | 28,349          |
| Total consumer                              | 209,458         | 205,173         |
| Total unfunded credit commitments           | \$554,966       | 551,524         |

## Note 5: Loans and Allowance for Credit Losses (continued)

## Allowance for Credit Losses

During third quarter 2017, Hurricanes Harvey, Irma and Maria caused considerable damage in several geographic markets where the Company has significant lending exposure. The impact was in both our commercial and consumer lending portfolios. Based on our analysis to date of the level of insurance coverage, types of loans, location, and potential damage to collateral, we believe the ultimate collectability of these loans will be impacted. Our allowance for credit losses at September 30, 2017, included \$450 million for coverage of our preliminary estimate of potential hurricane-related losses. We will continue to assess the

impact to our customers and our business as a result of the hurricanes and refine our estimates as more information becomes available. However, in light of the ongoing recovery challenges in Puerto Rico after Hurricane Maria, it may take longer to assess the hurricane's impact on our portfolios there. We are still evaluating the impact on our portfolio from the California wildfires that occurred in October 2017.

Table 5.5 presents the allowance for credit losses, which consists of the allowance for loan losses and the allowance for unfunded credit commitments.

Table 5.5: Allowance for Credit Losses

| (in millions)                                 | Quarter ended<br>September 30, |          | Nine months<br>ended September<br>30, |          |
|---|--------------------------------|----------|---------------------------------------|----------|
|   | 2017                           | 2016     | 2017                                  | 2016     |
| Balance, beginning of period                  | \$12,146                       | 12,749   | 12,540                                | 12,512   |
| Provision for credit losses                   | 717                            | 805      | 1,877                                 | 2,965    |
| Interest income on certain impaired loans (1) | (43 )                          | (54 )    | (137 )                                | (153 )   |
| Loan charge-offs:                             |                                |          |                                       |          |
| Commercial:                                   |                                |          |                                       |          |
| Commercial and industrial                     | (194 )                         | (324 )   | (608 )                                | (1,110 ) |
| Real estate mortgage                          | (21 )                          | (7 )     | (34 )                                 | (13 )    |
| Real estate construction                      | —                              | —        | —                                     | (1 )     |
| Lease financing                               | (11 )                          | (4 )     | (31 )                                 | (25 )    |
| Total commercial                              | (226 )                         | (335 )   | (673 )                                | (1,149 ) |
| Consumer:                                     |                                |          |                                       |          |
| Real estate 1-4 family first mortgage         | (67 )                          | (106 )   | (191 )                                | (366 )   |
| Real estate 1-4 family junior lien mortgage   | (70 )                          | (119 )   | (225 )                                | (385 )   |
| Credit card                                   | (337 )                         | (296 )   | (1,083 )                              | (930 )   |
| Automobile                                    | (274 )                         | (215 )   | (741 )                                | (602 )   |
| Other revolving credit and installment        | (170 )                         | (170 )   | (544 )                                | (508 )   |
| Total consumer (2)                            | (918 )                         | (906 )   | (2,784 )                              | (2,791 ) |
| Total loan charge-offs                        | (1,144 )                       | (1,241 ) | (3,457 )                              | (3,940 ) |
| Loan recoveries:                              |                                |          |                                       |          |
| Commercial:                                   |                                |          |                                       |          |
| Commercial and industrial                     | 69                             | 65       | 234                                   | 210      |
| Real estate mortgage                          | 24                             | 35       | 68                                    | 90       |
| Real estate construction                      | 15                             | 18       | 27                                    | 30       |
| Lease financing                               | 5                              | 2        | 13                                    | 10       |
| Total commercial                              | 113                            | 120      | 342                                   | 340      |
| Consumer:                                     |                                |          |                                       |          |
| Real estate 1-4 family first mortgage         | 83                             | 86       | 216                                   | 284      |
| Real estate 1-4 family junior lien mortgage   | 69                             | 70       | 205                                   | 200      |
| Credit card                                   | 60                             | 51       | 177                                   | 153      |
| Automobile                                    | 72                             | 78       | 246                                   | 248      |

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|  |          |        |          |          |
|--|----------|--------|----------|----------|
| Other revolving credit and installment                                   | 30       | 31     | 94       | 100      |
| Total consumer   | 314      | 316    | 938      | 985      |
| Total loan recoveries  | 427      | 436    | 1,280    | 1,325    |
| Net loan charge-offs   | (717 )   | (805 ) | (2,177 ) | (2,615 ) |
| Other  | 6        | (1 )   | 6        | (15 )    |
| Balance, end of period   | \$12,109 | 12,694 | 12,109   | 12,694   |
| Components:  |          |        |          |          |
| Allowance for loan losses  | \$11,078 | 11,583 | 11,078   | 11,583   |
| Allowance for unfunded credit commitments                                | 1,031    | 1,111  | 1,031    | 1,111    |
| Allowance for credit losses  | \$12,109 | 12,694 | 12,109   | 12,694   |
| Net loan charge-offs (annualized) as a percentage of average total loans | 0.30     | % 0.33 | 0.30     | 0.37     |
| Allowance for loan losses as a percentage of total loans                 | 1.16     | 1.20   | 1.16     | 1.20     |
| Allowance for credit losses as a percentage of total loans               | 1.27     | 1.32   | 1.27     | 1.32     |

Certain impaired loans with an allowance calculated by discounting expected cash flows using the loan's effective (1) interest rate over the remaining life of the loan recognize changes in allowance attributable to the passage of time as interest income.

Quarter and nine months ended September 30, 2017, include an incremental \$29 million of charge-offs in (2) accordance with updated industry regulatory guidance regarding the timing of loss recognition for real estate 1-4 family mortgage and automobile loans in bankruptcy.



Table 5.6 summarizes the activity in the allowance for credit losses by our commercial and consumer portfolio segments.

Table 5.6: Allowance Activity by Portfolio Segment

| (in millions)                                       | 2017       |          |          | 2016       |          |          |
|---|------------|----------|----------|------------|----------|----------|
|   | Commercial | Consumer | Total    | Commercial | Consumer | Total    |
| Quarter ended September 30,                         |            |          |          |            |          |          |
| Balance, beginning of period                        | \$ 6,961   | 5,185    | 12,146   | 7,441      | 5,308    | 12,749   |
| Provision (reversal of provision) for credit losses | (9         | ) 726    | 717      | 158        | 647      | 805      |
| Interest income on certain impaired loans           | (13        | ) (30    | ) (43    | ) (14      | ) (40    | ) (54    |
| Loan charge-offs                                    | (226       | ) (918   | ) (1,144 | ) (335     | ) (906   | ) (1,241 |
| Loan recoveries                                     | 113        | 314      | 427      | 120        | 316      | 436      |
| Net loan charge-offs                                | (113       | ) (604   | ) (717   | ) (215     | ) (590   | ) (805   |
| Other   | 6          | —        | 6        | (1         | ) —      | (1       |
| Balance, end of period                              | \$ 6,832   | 5,277    | 12,109   | 7,369      | 5,325    | 12,694   |
| Nine months ended September 30,                     |            |          |          |            |          |          |
| Balance, beginning of period                        | \$ 7,394   | 5,146    | 12,540   | 6,872      | 5,640    | 12,512   |
| Provision (reversal of provision) for credit losses | (195       | ) 2,072  | 1,877    | 1,350      | 1,615    | 2,965    |
| Interest income on certain impaired loans           | (42        | ) (95    | ) (137   | ) (29      | ) (124   | ) (153   |
| Loan charge-offs                                    | (673       | ) (2,784 | ) (3,457 | ) (1,149   | ) (2,791 | ) (3,940 |
| Loan recoveries                                     | 342        | 938      | 1,280    | 340        | 985      | 1,325    |
| Net loan charge-offs                                | (331       | ) (1,846 | ) (2,177 | ) (809     | ) (1,806 | ) (2,615 |
| Other   | 6          | —        | 6        | (15        | ) —      | (15      |
| Balance, end of period                              | \$ 6,832   | 5,277    | 12,109   | 7,369      | 5,325    | 12,694   |

Table 5.7 disaggregates our allowance for credit losses and recorded investment in loans by impairment methodology.

Table 5.7: Allowance by Impairment Methodology

| (in millions)              | Allowance for credit losses |          |        | Recorded investment in loans |          |         |
|----------------------------|-----------------------------|----------|--------|------------------------------|----------|---------|
|                            | Commercial                  | Consumer | Total  | Commercial                   | Consumer | Total   |
| September 30, 2017         |                             |          |        |                              |          |         |
| Collectively evaluated (1) | \$6,032                     | 4,094    | 10,126 | 495,395                      | 423,102  | 918,497 |
| Individually evaluated (2) | 786                         | 1,183    | 1,969  | 4,521                        | 15,291   | 19,812  |
| PCI (3)                    | 14                          | —        | 14     | 234                          | 13,330   | 13,564  |
| Total                      | \$6,832                     | 5,277    | 12,109 | 500,150                      | 451,723  | 951,873 |
| December 31, 2016          |                             |          |        |                              |          |         |
| Collectively evaluated (1) | \$6,392                     | 3,553    | 9,945  | 500,487                      | 428,009  | 928,496 |
| Individually evaluated (2) | 1,000                       | 1,593    | 2,593  | 5,372                        | 17,005   | 22,377  |
| PCI (3)                    | 2                           | —        | 2      | 677                          | 16,054   | 16,731  |
| Total                      | \$7,394                     | 5,146    | 12,540 | 506,536                      | 461,068  | 967,604 |

Represents loans collectively evaluated for impairment in accordance with Accounting Standards Codification (1)(ASC) 450-20, Loss Contingencies (formerly FAS 5), and pursuant to amendments by ASU 2010-20 regarding allowance for non-impaired loans.

(2) Represents loans individually evaluated for impairment in accordance with ASC 310-10, Receivables (formerly FAS 114), and pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans.

Represents the allowance and related loan carrying value determined in accordance with ASC 310-30, Receivables – (3)Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly SOP 03-3) and pursuant to amendments by ASU 2010-20 regarding allowance for PCI loans.

### Credit Quality

We monitor credit quality by evaluating various attributes and utilize such information in our evaluation of the appropriateness of the allowance for credit losses. The following sections provide the credit quality indicators we most closely monitor. The credit quality indicators are generally based on information as of our financial statement date, with the exception of updated Fair Isaac Corporation (FICO) scores and updated loan-to-value (LTV)/

combined LTV (CLTV). We obtain FICO scores at loan origination and the scores are generally updated at least quarterly, except in limited circumstances, including compliance with the Fair Credit Reporting Act (FCRA). Generally, the LTV and CLTV indicators are updated in the second month of each quarter, with updates no older than June 30, 2017. See the “Purchased Credit-Impaired Loans” section in this Note for credit quality information on our PCI portfolio.

## Note 5: Loans and Allowance for Credit Losses (continued)

**COMMERCIAL CREDIT QUALITY INDICATORS** In addition to monitoring commercial loan concentration risk, we manage a consistent process for assessing commercial loan credit quality. Generally, commercial loans are subject to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to Pass and Criticized categories. The Criticized category includes Special Mention, Substandard, and Doubtful categories which are defined by bank regulatory agencies.

Table 5.8 provides a breakdown of outstanding commercial loans by risk category. Of the \$18.7 billion in criticized commercial and industrial loans and \$5.1 billion in criticized commercial real estate (CRE) loans at September 30, 2017, \$2.4 billion and \$631 million, respectively, have been placed on nonaccrual status and written down to net realizable collateral value.

Table 5.8: Commercial Loans by Risk Category

| (in millions)                               | Commercial and industrial | Real estate mortgage | Real estate construction | Lease financing | Total   |
|---|---------------------------|----------------------|--------------------------|-----------------|---------|
| September 30, 2017                          |                           |                      |                          |                 |         |
| By risk category:                           |                           |                      |                          |                 |         |
| Pass  | \$ 309,149                | 123,547              | 24,189                   | 18,004          | 474,889 |
| Criticized                                  | 18,679                    | 4,820                | 321                      | 1,207           | 25,027  |
| Total commercial loans (excluding PCI)      | 327,828                   | 128,367              | 24,510                   | 19,211          | 499,916 |
| Total commercial PCI loans (carrying value) | 116                       | 108                  | 10                       | —               | 234     |
| Total commercial loans                      | \$ 327,944                | 128,475              | 24,520                   | 19,211          | 500,150 |
| December 31, 2016                           |                           |                      |                          |                 |         |
| By risk category:                           |                           |                      |                          |                 |         |
| Pass  | \$ 308,166                | 126,793              | 23,408                   | 17,899          | 476,266 |
| Criticized                                  | 22,437                    | 5,315                | 451                      | 1,390           | 29,593  |
| Total commercial loans (excluding PCI)      | 330,603                   | 132,108              | 23,859                   | 19,289          | 505,859 |
| Total commercial PCI loans (carrying value) | 237                       | 383                  | 57                       | —               | 677     |
| Total commercial loans                      | \$ 330,840                | 132,491              | 23,916                   | 19,289          | 506,536 |

Table 5.9 provides past due information for commercial loans, which we monitor as part of our credit risk management practices.

Table 5.9: Commercial Loans by Delinquency Status

| (in millions)                                     | Commercial and industrial | Real estate mortgage | Real estate construction | Lease financing | Total   |
|---|---------------------------|----------------------|--------------------------|-----------------|---------|
| September 30, 2017                                |                           |                      |                          |                 |         |
| By delinquency status:                            |                           |                      |                          |                 |         |
| Current-29 days past due (DPD) and still accruing | \$ 324,706                | 127,438              | 24,378                   | 18,993          | 495,515 |
| 30-89 DPD and still accruing                      | 698                       | 325                  | 94                       | 137             | 1,254   |
| 90+ DPD and still accruing                        | 27                        | 11                   | —                        | —               | 38      |
| Nonaccrual loans                                  | 2,397                     | 593                  | 38                       | 81              | 3,109   |
| Total commercial loans (excluding PCI)            | 327,828                   | 128,367              | 24,510                   | 19,211          | 499,916 |
| Total commercial PCI loans (carrying value)       | 116                       | 108                  | 10                       | —               | 234     |
| Total commercial loans                            | \$ 327,944                | 128,475              | 24,520                   | 19,211          | 500,150 |
| December 31, 2016                                 |                           |                      |                          |                 |         |
| By delinquency status:                            |                           |                      |                          |                 |         |

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|   |            |         |        |        |         |
|---|------------|---------|--------|--------|---------|
| Current-29 DPD and still accruing           | \$ 326,765 | 131,165 | 23,776 | 19,042 | 500,748 |
| 30-89 DPD and still accruing                | 594        | 222     | 40     | 132    | 988     |
| 90+ DPD and still accruing                  | 28         | 36      | —      | —      | 64      |
| Nonaccrual loans                            | 3,216      | 685     | 43     | 115    | 4,059   |
| Total commercial loans (excluding PCI)      | 330,603    | 132,108 | 23,859 | 19,289 | 505,859 |
| Total commercial PCI loans (carrying value) | 237        | 383     | 57     | —      | 677     |
| Total commercial loans                      | \$ 330,840 | 132,491 | 23,916 | 19,289 | 506,536 |

**CONSUMER CREDIT QUALITY INDICATORS** We have various classes of consumer loans that present unique risks. Loan delinquency, FICO credit scores and LTV for loan types are common credit quality indicators that we monitor and utilize in our evaluation of the appropriateness of the allowance for credit losses for the consumer portfolio segment.

Many of our loss estimation techniques used for the allowance for credit losses rely on delinquency-based models; therefore, delinquency is an important indicator of credit quality and the establishment of our allowance for credit losses. Table 5.10 provides the outstanding balances of our consumer portfolio by delinquency status.

Table 5.10: Consumer Loans by Delinquency Status

| (in millions)                             | Real estate               |   | Credit card | Automobile | Other revolving credit and installment | Total   |
|---|---------------------------|---|-------------|------------|--|---------|
|   | 1-4 family first mortgage | Real estate 1-4 family junior lien mortgage |             |            |  |         |
| September 30, 2017                        |                           |   |             |            |  |         |
| By delinquency status:                    |                           |   |             |            |  |         |
| Current-29 DPD                            | \$248,896                 | 40,242                                      | 35,297      | 53,684     | 38,316                                 | 416,435 |
| 30-59 DPD                                 | 1,895                     | 308   | 282         | 1,287      | 146                                    | 3,918   |
| 60-89 DPD                                 | 687                       | 147   | 195         | 349        | 102                                    | 1,480   |
| 90-119 DPD                                | 339                       | 86  | 168         | 127        | 79                                     | 799     |
| 120-179 DPD                               | 263                       | 94  | 288         | 7          | 26                                     | 678     |
| 180+ DPD                                  | 1,186                     | 246   | 19          | 1          | 25                                     | 1,477   |
| Government insured/guaranteed loans (1)   | 13,606                    | —   | —           | —          | —                                      | 13,606  |
| Total consumer loans (excluding PCI)      | 266,872                   | 41,123                                      | 36,249      | 55,455     | 38,694                                 | 438,393 |
| Total consumer PCI loans (carrying value) | 13,301                    | 29  | —           | —          | —                                      | 13,330  |
| Total consumer loans                      | \$280,173                 | 41,152                                      | 36,249      | 55,455     | 38,694                                 | 451,723 |
| December 31, 2016                         |                           |   |             |            |  |         |
| By delinquency status:                    |                           |   |             |            |  |         |
| Current-29 DPD                            | \$239,061                 | 45,238                                      | 35,773      | 60,572     | 39,833                                 | 420,477 |
| 30-59 DPD                                 | 1,904                     | 296   | 275         | 1,262      | 177                                    | 3,914   |
| 60-89 DPD                                 | 700                       | 160   | 200         | 330        | 111                                    | 1,501   |
| 90-119 DPD                                | 307                       | 102   | 169         | 116        | 93                                     | 787     |
| 120-179 DPD                               | 323                       | 108   | 279         | 5          | 30                                     | 745     |
| 180+ DPD                                  | 1,661                     | 297   | 4           | 1          | 22                                     | 1,985   |
| Government insured/guaranteed loans (1)   | 15,605                    | —   | —           | —          | —                                      | 15,605  |
| Total consumer loans (excluding PCI)      | 259,561                   | 46,201                                      | 36,700      | 62,286     | 40,266                                 | 445,014 |
| Total consumer PCI loans (carrying value) | 16,018                    | 36  | —           | —          | —                                      | 16,054  |
| Total consumer loans                      | \$275,579                 | 46,237                                      | 36,700      | 62,286     | 40,266                                 | 461,068 |

Represents loans whose repayments are predominantly insured by the FHA or guaranteed by the VA. Loans (1) insured/guaranteed by the FHA/VA and 90+ DPD totaled \$8.8 billion at September 30, 2017, compared with \$10.1 billion at December 31, 2016.

Of the \$3.0 billion of consumer loans not government insured/guaranteed that are 90 days or more past due at September 30, 2017, \$923 million was accruing, compared with \$3.5 billion past due and \$908 million accruing at December 31, 2016.

Real estate 1-4 family first mortgage loans 180 days or more past due totaled \$1.2 billion, or 0.4% of total first mortgages (excluding PCI), at September 30, 2017, compared with \$1.7 billion, or 0.6%, at December 31, 2016.

## Note 5: Loans and Allowance for Credit Losses (continued)

Table 5.11 provides a breakdown of our consumer portfolio by FICO. The September 30, 2017 FICO scores for real estate 1-4 family first and junior lien mortgages reflect a new FICO score version we adopted in first quarter 2017 to monitor and manage those portfolios. In general the impact for us is a shift to higher scores, particularly to the 800+ level, as the new FICO score version utilizes a more refined approach that better distinguishes borrower credit risk. Most of the scored consumer portfolio has

an updated FICO of 680 and above, reflecting a strong current borrower credit profile. FICO is not available for certain loan types, or may not be required if we deem it unnecessary due to strong collateral and other borrower attributes. Substantially all loans not requiring a FICO score are securities-based loans originated through retail brokerage, and totaled \$8.1 billion at September 30, 2017, and \$8.0 billion at December 31, 2016.

Table 5.11: Consumer Loans by FICO

| (in millions)                             | Real estate 1-4 family first mortgage (1) | Real estate 1-4 family junior lien mortgage (1) | Credit card | Automobile | Other revolving credit and installment (1) | Total   |
|---|---|---|-------------|------------|--|---------|
| September 30, 2017                        |   |   |             |            |  |         |
| By FICO:                                  |   |   |             |            |  |         |
| < 600                                     | \$5,416                                   | 1,842   | 3,436       | 9,245      | 871  | 20,810  |
| 600-639                                   | 3,630                                     | 1,313   | 2,970       | 5,961      | 919  | 14,793  |
| 640-679                                   | 7,123                                     | 2,512   | 5,468       | 8,146      | 1,994                                      | 25,243  |
| 680-719                                   | 15,039                                    | 5,001   | 7,300       | 9,189      | 3,696                                      | 40,225  |
| 720-759                                   | 28,453                                    | 6,506   | 7,721       | 8,018      | 5,203                                      | 55,901  |
| 760-799                                   | 54,885                                    | 7,561   | 6,108       | 6,612      | 6,493                                      | 81,659  |
| 800+                                      | 133,164                                   | 15,574  | 2,880       | 7,987      | 8,620                                      | 168,225 |
| No FICO available                         | 5,556                                     | 814   | 366         | 297        | 2,761                                      | 9,794   |
| FICO not required                         | —   | —   | —           | —          | 8,137                                      | 8,137   |
| Government insured/guaranteed loans (2)   | 13,606                                    | —   | —           | —          | —  | 13,606  |
| Total consumer loans (excluding PCI)      | 266,872                                   | 41,123  | 36,249      | 55,455     | 38,694                                     | 438,393 |
| Total consumer PCI loans (carrying value) | 13,301                                    | 29  | —           | —          | —  | 13,330  |
| Total consumer loans                      | \$280,173                                 | 41,152  | 36,249      | 55,455     | 38,694                                     | 451,723 |
| December 31, 2016                         |   |   |             |            |  |         |
| By FICO:                                  |   |   |             |            |  |         |
| < 600                                     | \$6,720                                   | 2,591   | 3,475       | 9,934      | 976  | 23,696  |
| 600-639                                   | 5,400                                     | 1,917   | 3,109       | 6,705      | 1,056                                      | 18,187  |
| 640-679                                   | 10,975                                    | 3,747   | 5,678       | 10,204     | 2,333                                      | 32,937  |
| 680-719                                   | 23,300                                    | 6,432   | 7,382       | 11,233     | 4,302                                      | 52,649  |
| 720-759                                   | 38,832                                    | 9,413   | 7,632       | 8,769      | 5,869                                      | 70,515  |
| 760-799                                   | 103,608                                   | 14,929  | 6,191       | 8,164      | 8,348                                      | 141,240 |
| 800+                                      | 49,508                                    | 6,391   | 2,868       | 6,856      | 6,434                                      | 72,057  |
| No FICO available                         | 5,613                                     | 781   | 365         | 421        | 2,906                                      | 10,086  |
| FICO not required                         | —   | —   | —           | —          | 8,042                                      | 8,042   |
| Government insured/guaranteed loans (2)   | 15,605                                    | —   | —           | —          | —  | 15,605  |
| Total consumer loans (excluding PCI)      | 259,561                                   | 46,201  | 36,700      | 62,286     | 40,266                                     | 445,014 |
| Total consumer PCI loans (carrying value) | 16,018                                    | 36  | —           | —          | —  | 16,054  |
| Total consumer loans                      | \$275,579                                 | 46,237  | 36,700      | 62,286     | 40,266                                     | 461,068 |

(1) The September 30, 2017, amounts reflect updated FICO score version implemented in first quarter 2017.

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

LTV refers to the ratio comparing the loan's unpaid principal balance to the property's collateral value. CLTV refers to the combination of first mortgage and junior lien mortgage (including unused line amounts for credit line products) ratios. LTVs and CLTVs are updated quarterly using a cascade approach which first uses values provided by automated valuation models (AVMs) for the property. If an AVM is not available, then the value is estimated using the original appraised value adjusted by the change in Home Price Index (HPI) for the property location. If an HPI is not available, the original appraised value is used. The HPI value is normally the only method considered for high value properties, generally with an original value of \$1 million or more, as the AVM values have proven less accurate for these properties.

Table 5.12 shows the most updated LTV and CLTV distribution of the real estate 1-4 family first and junior lien mortgage loan portfolios. We consider the trends in residential real estate markets as we monitor credit risk and establish our allowance for credit losses. In the event of a default, any loss should be limited to the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral value. Certain loans do not have an LTV or CLTV due to industry data availability and portfolios acquired from or serviced by other institutions.

Table 5.12: Consumer Loans by LTV/CLTV

| (in millions)                             | September 30, 2017               |   |         | December 31, 2016                |   |         |
|---|----------------------------------|---|---------|----------------------------------|---|---------|
|   | Real estate                      |   |         | Real estate                      |   |         |
|   | 1-4 family first mortgage by LTV | Real estate 1-4 family junior lien mortgage by CLTV | Total   | 1-4 family first mortgage by LTV | Real estate 1-4 family junior lien mortgage by CLTV | Total   |
|   |                                  |   |         |                                  |   |         |
| By LTV/CLTV:                              |                                  |   |         |                                  |   |         |
| 0-60%                                     | \$ 130,463                       | 16,168  | 146,631 | 121,430                          | 16,464  | 137,894 |
| 60.01-80%                                 | 104,674                          | 13,447  | 118,121 | 101,726                          | 15,262  | 116,988 |
| 80.01-100%                                | 14,179                           | 7,136   | 21,315  | 15,795                           | 8,765   | 24,560  |
| 100.01-120% (1)                           | 2,000                            | 2,746   | 4,746   | 2,644                            | 3,589   | 6,233   |
| > 120% (1)                                | 840                              | 1,154   | 1,994   | 1,066                            | 1,613   | 2,679   |
| No LTV/CLTV available                     | 1,110                            | 472   | 1,582   | 1,295                            | 508   | 1,803   |
| Government insured/guaranteed loans (2)   | 13,606                           | —   | 13,606  | 15,605                           | —   | 15,605  |
| Total consumer loans (excluding PCI)      | 266,872                          | 41,123  | 307,995 | 259,561                          | 46,201  | 305,762 |
| Total consumer PCI loans (carrying value) | 13,301                           | 29  | 13,330  | 16,018                           | 36  | 16,054  |
| Total consumer loans                      | \$ 280,173                       | 41,152  | 321,325 | 275,579                          | 46,237  | 321,816 |

(1) Reflects total loan balances with LTV/CLTV amounts in excess of 100%. In the event of default, the loss content would generally be limited to only the amount in excess of 100% LTV/CLTV.

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

NONACCRUAL LOANS Table 5.13 provides loans on nonaccrual status. PCI loans are excluded from this table because they continue to earn interest from accretable yield, independent of performance in accordance with their contractual terms.

Table 5.13: Nonaccrual Loans

| (in millions)                               | Sep 30, 2017 | Dec 31, 2016 |
|---|--------------|--------------|
| Commercial:                                 |              |              |
| Commercial and industrial                   | \$ 2,397     | 3,216        |
| Real estate mortgage                        | 593          | 685          |
| Real estate construction                    | 38           | 43           |
| Lease financing                             | 81           | 115          |
| Total commercial                            | 3,109        | 4,059        |
| Consumer:                                   |              |              |
| Real estate 1-4 family first mortgage (1)   | 4,213        | 4,962        |
| Real estate 1-4 family junior lien mortgage | 1,101        | 1,206        |
| Automobile                                  | 137          | 106          |
| Other revolving credit and installment      | 59           | 51           |
| Total consumer (2)                          | 5,510        | 6,325        |
| Total nonaccrual loans (excluding PCI)      | \$ 8,619     | 10,384       |

(1) Includes MHFS of \$133 million and \$149 million at September 30, 2017, and December 31, 2016, respectively.

(2) Includes an incremental \$171 million of nonaccrual loans at September 30, 2017, reflecting updated industry regulatory guidance related to loans in bankruptcy.



**LOANS IN PROCESS OF FORECLOSURE** Our recorded investment in consumer mortgage loans collateralized by residential real estate property that are in process of foreclosure was \$6.7 billion and \$8.1 billion at September 30, 2017 and December 31, 2016, respectively, which included \$4.1 billion and \$4.8 billion, respectively, of loans that are government insured/guaranteed. We commence the foreclosure process on consumer real estate loans when a borrower becomes 120 days delinquent in accordance with Consumer Finance Protection Bureau Guidelines. Foreclosure procedures and timelines vary depending on whether the property address resides in a judicial or non-judicial state. Judicial states require the foreclosure to be processed through the state's courts while non-judicial states are processed without court intervention. Foreclosure timelines vary according to state law.

## Note 5: Loans and Allowance for Credit Losses (continued)

**LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING** Certain loans 90 days or more past due as to interest or principal are still accruing, because they are (1) well-secured and in the process of collection or (2) real estate 1-4 family mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due. PCI loans of \$1.4 billion at September 30, 2017, and \$2.0 billion at December 31, 2016, are not included in these past due and still accruing loans even when they are 90 days or more contractually past due. These PCI loans are considered to be accruing because they continue to earn interest from accretable yield, independent of performance in accordance with their contractual terms.

Table 5.14 shows non-PCI loans 90 days or more past due and still accruing by class for loans not government insured/guaranteed.

Table 5.14: Loans 90 Days or More Past Due and Still Accruing

| (in millions)   | Sep 30,<br>2017 | Dec 31, 2016 |
|---|-----------------|--------------|
| Total (excluding PCI):  | \$10,227        | 11,858       |
| Less: FHA insured/guaranteed by the VA (1)(2)   | 9,266           | 10,883       |
| Less: Student loans guaranteed under the Federal Family Education Loan Program (FFELP) (3)— | —               | 3            |
| Total, not government insured/guaranteed  | \$961           | 972          |
| By segment and class, not government insured/guaranteed:                                    |                 |              |
| Commercial:   |                 |              |
| Commercial and industrial   | \$27            | 28           |
| Real estate mortgage  | 11              | 36           |
| Total commercial  | 38              | 64           |
| Consumer:   |                 |              |
| Real estate 1-4 family first mortgage (2)   | 190             | 175          |
| Real estate 1-4 family junior lien mortgage (2)   | 49              | 56           |
| Credit card   | 475             | 452          |
| Automobile  | 111             | 112          |
| Other revolving credit and installment  | 98              | 113          |
| Total consumer  | 923             | 908          |
| Total, not government insured/guaranteed  | \$961           | 972          |

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

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

Represents loans whose repayments are largely guaranteed by agencies on behalf of the U.S. Department of

(3) Education under the FFELP. All remaining student loans guaranteed under the FFELP were sold as of March 31, 2017.

IMPAIRED LOANS Table 5.15 summarizes key information for impaired loans. Our impaired loans predominantly include loans on nonaccrual status in the commercial portfolio segment and loans modified in a TDR, whether on accrual or nonaccrual status. These impaired loans generally have estimated losses which are included in the allowance for credit losses. We have impaired loans with no allowance for credit losses when loss content has been previously recognized through charge-offs and we do not anticipate additional charge-offs or losses, or certain

loans are currently performing in accordance with their terms and for which no loss has been estimated. Impaired loans exclude PCI loans. Table 5.15 includes trial modifications that totaled \$183 million at September 30, 2017, and \$299 million at December 31, 2016.

For additional information on our impaired loans and allowance for credit losses, see Note 1 (Summary of Significant Accounting Policies) in our 2016 Form 10-K.

Table 5.15: Impaired Loans Summary

| (in millions)                               | Unpaid principal balance<br>(1) | Recorded investment |   | Related allowance for credit losses |
|---|---------------------------------|---------------------|---|-------------------------------------|
|   |                                 | Impaired loans      | Impaired loans with related allowance for credit losses |                                     |
| September 30, 2017                          |                                 |                     |   |                                     |
| Commercial:                                 |                                 |                     |   |                                     |
| Commercial and industrial                   | \$ 4,259                        | 3,098               | 2,779   | 518                                 |
| Real estate mortgage                        | 1,541                           | 1,263               | 1,243   | 230                                 |
| Real estate construction                    | 87                              | 53                  | 53  | 11                                  |
| Lease financing                             | 143                             | 107                 | 107   | 27                                  |
| Total commercial                            | 6,030                           | 4,521               | 4,182   | 786                                 |
| Consumer:                                   |                                 |                     |   |                                     |
| Real estate 1-4 family first mortgage       | 14,635                          | 12,756              | 6,353   | 781                                 |
| Real estate 1-4 family junior lien mortgage | 2,206                           | 1,981               | 1,466   | 237                                 |
| Credit card                                 | 341                             | 340                 | 340   | 129                                 |
| Automobile                                  | 158                             | 88                  | 33  | 5                                   |
| Other revolving credit and installment      | 134                             | 126                 | 115   | 31                                  |
| Total consumer (2)                          | 17,474                          | 15,291              | 8,307   | 1,183                               |
| Total impaired loans (excluding PCI)        | \$ 23,504                       | 19,812              | 12,489  | 1,969                               |
| December 31, 2016                           |                                 |                     |   |                                     |
| Commercial:                                 |                                 |                     |   |                                     |
| Commercial and industrial                   | \$ 5,058                        | 3,742               | 3,418   | 675                                 |
| Real estate mortgage                        | 1,777                           | 1,418               | 1,396   | 280                                 |
| Real estate construction                    | 167                             | 93                  | 93  | 22                                  |
| Lease financing                             | 146                             | 119                 | 119   | 23                                  |
| Total commercial                            | 7,148                           | 5,372               | 5,026   | 1,000                               |
| Consumer:                                   |                                 |                     |   |                                     |
| Real estate 1-4 family first mortgage       | 16,438                          | 14,362              | 9,475   | 1,117                               |
| Real estate 1-4 family junior lien mortgage | 2,399                           | 2,156               | 1,681   | 350                                 |
| Credit card                                 | 300                             | 300                 | 300   | 104                                 |
| Automobile                                  | 153                             | 85                  | 31  | 5                                   |
| Other revolving credit and installment      | 109                             | 102                 | 91  | 17                                  |
| Total consumer (2)                          | 19,399                          | 17,005              | 11,578  | 1,593                               |
| Total impaired loans (excluding PCI)        | \$ 26,547                       | 22,377              | 16,604  | 2,593                               |

(1) Excludes the unpaid principal balance for loans that have been fully charged off or otherwise have zero recorded investment.

Includes the recorded investment of \$1.4 billion and \$1.5 billion at September 30, 2017 and December 31, 2016, respectively, of government insured/guaranteed loans that are predominantly insured by the FHA or guaranteed by (2) the VA and generally do not have an allowance. Impaired loans may also have limited, if any, allowance when the recorded investment of the loan approximates estimated net realizable value as a result of charge-offs prior to a TDR modification.

## Note 5: Loans and Allowance for Credit Losses (continued)

Commitments to lend additional funds on loans whose terms have been modified in a TDR amounted to \$628 million and \$403 million at September 30, 2017 and December 31, 2016, respectively.

Table 5.16 provides the average recorded investment in impaired loans and the amount of interest income recognized on impaired loans by portfolio segment and class.

Table 5.16: Average Recorded Investment in Impaired Loans

| (in millions)                               | Quarter ended September 30, |                            |                             |                            | Nine months ended September 30, |                            |                             |                            |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|---------------------------------|----------------------------|-----------------------------|----------------------------|
|   | 2017                        |                            | 2016                        |                            | 2017                            |                            | 2016                        |                            |
|   | Average recorded investment | Recognized interest income | Average recorded investment | Recognized interest income | Average recorded investment     | Recognized interest income | Average recorded investment | Recognized interest income |
| <b>Commercial:</b>                          |                             |                            |                             |                            |                                 |                            |                             |                            |
| Commercial and industrial                   | \$3,208                     | 22                         | 3,961                       | 25                         | 3,460                           | 91                         | 3,350                       | 65                         |
| Real estate mortgage                        | 1,293                       | 19                         | 1,644                       | 33                         | 1,351                           | 70                         | 1,699                       | 99                         |
| Real estate construction                    | 58                          | —                          | 108                         | 3                          | 69                              | 3                          | 117                         | 8                          |
| Lease financing                             | 105                         | 1                          | 99                          | —                          | 110                             | 1                          | 89                          | —                          |
| Total commercial                            | 4,664                       | 42                         | 5,812                       | 61                         | 4,990                           | 165                        | 5,255                       | 172                        |
| <b>Consumer:</b>                            |                             |                            |                             |                            |                                 |                            |                             |                            |
| Real estate 1-4 family first mortgage       | 13,044                      | 180                        | 15,471                      | 203                        | 13,594                          | 555                        | 16,224                      | 635                        |
| Real estate 1-4 family junior lien mortgage | 2,009                       | 30                         | 2,268                       | 32                         | 2,072                           | 92                         | 2,327                       | 99                         |
| Credit card                                 | 326                         | 9                          | 292                         | 9                          | 314                             | 26                         | 294                         | 26                         |
| Automobile                                  | 86                          | 2                          | 90                          | 3                          | 84                              | 8                          | 95                          | 9                          |
| Other revolving credit and installment      | 123                         | 2                          | 91                          | 2                          | 114                             | 6                          | 84                          | 5                          |
| Total consumer                              | 15,588                      | 223                        | 18,212                      | 249                        | 16,178                          | 687                        | 19,024                      | 774                        |
| Total impaired loans (excluding PCI)        | \$20,252                    | 265                        | 24,024                      | 310                        | 21,168                          | 852                        | 24,279                      | 946                        |
| <b>Interest income:</b>                     |                             |                            |                             |                            |                                 |                            |                             |                            |
| Cash basis of accounting                    |                             | \$ 64                      |                             | 87                         |                                 | 219                        |                             | 274                        |
| Other (1)                                   |                             | 201                        |                             | 223                        |                                 | 633                        |                             | 672                        |
| Total interest income                       |                             | \$ 265                     |                             | 310                        |                                 | 852                        |                             | 946                        |

Includes interest recognized on accruing TDRs, interest recognized related to certain impaired loans which have an (1) allowance calculated using discounting, and amortization of purchase accounting adjustments related to certain impaired loans.

**TROUBLED DEBT RESTRUCTURINGS (TDRs)** When, for economic or legal reasons related to a borrower's financial difficulties, we grant a concession for other than an insignificant period of time to a borrower that we would not otherwise consider, the related loan is classified as a TDR, the balance of which totaled \$18.7 billion and \$20.8 billion at September 30, 2017 and December 31, 2016, respectively. We do not consider loan resolutions such as foreclosure or short sale to be a TDR.

We may require some consumer borrowers experiencing financial difficulty to make trial payments generally for a period of three to four months, according to the terms of a planned permanent modification, to determine if they can perform according to those terms. These arrangements represent trial modifications, which we classify and account for as TDRs. While loans are in trial payment programs, their original terms are not considered modified and they continue to advance through delinquency status and accrue interest according to their original terms.

Table 5.17 summarizes our TDR modifications for the periods presented by primary modification type and includes the financial effects of these modifications. For those loans that modify more than once, the table reflects each modification that occurred during the period. Loans that both modify and pay off

within the period, as well as changes in recorded investment during the period for loans modified in prior periods, are not included in the table.

Table 5.17: TDR Modifications

| (in millions)                               | Primary modification type (1) |                         |                       | Financial effects of modifications |                 |  | Recorded investment related to interest rate reduction (5) |
|---|-------------------------------|-------------------------|-----------------------|------------------------------------|-----------------|--|--|
|   | Principal (2)                 | Interest rate reduction | Other concessions (3) | Total                              | Charge-offs (4) | Weighted average interest rate reduction |  |
| Quarter ended September 30, 2017            |                               |                         |                       |                                    |                 |  |  |
| Commercial:                                 |                               |                         |                       |                                    |                 |  |  |
| Commercial and industrial                   | \$—                           | 19                      | 481                   | 500                                | 60              | 0.34                                     | % \$ 18  |
| Real estate mortgage                        | 1                             | 12                      | 98                    | 111                                | 7               | 1.58                                     | 13   |
| Real estate construction                    | —                             | —                       | 1                     | 1                                  | —               | 1.85                                     | —  |
| Lease financing                             | —                             | —                       | 23                    | 23                                 | —               | —  | —  |
| Total commercial                            | 1                             | 31                      | 603                   | 635                                | 67              | 0.85                                     | 31   |
| Consumer:                                   |                               |                         |                       |                                    |                 |  |  |
| Real estate 1-4 family first mortgage       | 48                            | 15                      | 272                   | 335                                | 2               | 2.62                                     | 41   |
| Real estate 1-4 family junior lien mortgage | 3                             | 23                      | 20                    | 46                                 | 4               | 3.97                                     | 26   |
| Credit card                                 | —                             | 74                      | —                     | 74                                 | —               | 12.00                                    | 74   |
| Automobile                                  | 1                             | 4                       | 20                    | 25                                 | 12              | 5.53                                     | 4  |
| Other revolving credit and installment      | —                             | 11                      | 1                     | 12                                 | —               | 7.72                                     | 12   |
| Trial modifications (6)                     | —                             | —                       | (10                   | ) (10                              | ) —             | —  | —  |
| Total consumer                              | 52                            | 127                     | 303                   | 482                                | 18              | 7.68                                     | 157  |
| Total                                       | \$53                          | 158                     | 906                   | 1,117                              | 85              | 6.56                                     | % \$ 188   |
| Quarter ended September 30, 2016            |                               |                         |                       |                                    |                 |  |  |
| Commercial:                                 |                               |                         |                       |                                    |                 |  |  |
| Commercial and industrial                   | \$—                           | 10                      | 1,032                 | 1,042                              | 61              | 1.28                                     | % \$ 10  |
| Real estate mortgage                        | —                             | 28                      | 168                   | 196                                | 1               | 0.99                                     | 29   |
| Real estate construction                    | —                             | 12                      | —                     | 12                                 | —               | 0.80                                     | 12   |
| Lease financing                             | —                             | —                       | 4                     | 4                                  | —               | —  | —  |
| Total commercial                            | —                             | 50                      | 1,204                 | 1,254                              | 62              | 1.01                                     | 51   |
| Consumer:                                   |                               |                         |                       |                                    |                 |  |  |
| Real estate 1-4 family first mortgage       | 84                            | 79                      | 330                   | 493                                | 11              | 2.56                                     | 138  |
| Real estate 1-4 family junior lien mortgage | 5                             | 25                      | 22                    | 52                                 | 9               | 3.08                                     | 29   |
| Credit card                                 | —                             | 46                      | —                     | 46                                 | —               | 12.13                                    | 46   |
| Automobile                                  | 1                             | 4                       | 15                    | 20                                 | 11              | 6.42                                     | 4  |
| Other revolving credit and installment      | —                             | 9                       | 3                     | 12                                 | —               | 6.86                                     | 9  |
| Trial modifications (6)                     | —                             | —                       | 15                    | 15                                 | —               | —  | —  |
| Total consumer                              | 90                            | 163                     | 385                   | 638                                | 31              | 4.82                                     | 226  |
| Total                                       | \$90                          | 213                     | 1,589                 | 1,892                              | 93              | 4.13                                     | % \$ 277   |





## Note 5: Loans and Allowance for Credit Losses (continued)

| (in millions)                               | Primary modification type (1) |                         |                       | Total | Financial effects of modifications |  |  |
|---|-------------------------------|-------------------------|-----------------------|-------|------------------------------------|--|--|
|   | Principal (2)                 | Interest rate reduction | Other concessions (3) |       | Charge-offs (4)                    | Weighted average interest rate reduction | Recorded investment related to interest rate reduction (5) |
| Nine months ended September 30, 2017        |                               |                         |                       |       |                                    |  |  |
| Commercial:                                 |                               |                         |                       |       |                                    |  |  |
| Commercial and industrial                   | \$17                          | 38                      | 2,323                 | 2,378 | 154                                | 0.61                                     | % \$ 37  |
| Real estate mortgage                        | 5                             | 51                      | 416                   | 472   | 20                                 | 1.31                                     | 52   |
| Real estate construction                    | —                             | 1                       | 24                    | 25    | —                                  | 0.90                                     | 1  |
| Lease financing                             | —                             | —                       | 37                    | 37    | —                                  | —  | —  |
| Total commercial                            | 22                            | 90                      | 2,800                 | 2,912 | 174                                | 1.02                                     | 90   |
| Consumer:                                   |                               |                         |                       |       |                                    |  |  |
| Real estate 1-4 family first mortgage       | 196                           | 132                     | 797                   | 1,125 | 14                                 | 2.59                                     | 227  |
| Real estate 1-4 family junior lien mortgage | 23                            | 70                      | 64                    | 157   | 13                                 | 3.26                                     | 80   |
| Credit card                                 | —                             | 188                     | —                     | 188   | —                                  | 12.21                                    | 188  |
| Automobile                                  | 2                             | 11                      | 52                    | 65    | 30                                 | 5.92                                     | 11   |
| Other revolving credit and installment      | —                             | 38                      | 5                     | 43    | 1                                  | 7.41                                     | 38   |
| Trial modifications (6)                     | —                             | —                       | (54)                  | (54)  | —                                  | —  | —  |
| Total consumer                              | 221                           | 439                     | 864                   | 1,524 | 58                                 | 6.41                                     | 544  |
| Total                                       | \$243                         | 529                     | 3,664                 | 4,436 | 232                                | 5.64                                     | % \$ 634   |
| Nine months ended September 30, 2016        |                               |                         |                       |       |                                    |  |  |
| Commercial:                                 |                               |                         |                       |       |                                    |  |  |
| Commercial and industrial                   | \$42                          | 123                     | 2,361                 | 2,526 | 304                                | 1.95                                     | % \$ 123   |
| Real estate mortgage                        | —                             | 81                      | 462                   | 543   | 1                                  | 1.14                                     | 81   |
| Real estate construction                    | —                             | 26                      | 62                    | 88    | —                                  | 0.94                                     | 26   |
| Lease financing                             | —                             | —                       | 8                     | 8     | —                                  | —  | —  |
| Total commercial                            | 42                            | 230                     | 2,893                 | 3,165 | 305                                | 1.55                                     | 230  |
| Consumer:                                   |                               |                         |                       |       |                                    |  |  |
| Real estate 1-4 family first mortgage       | 272                           | 222                     | 1,094                 | 1,588 | 36                                 | 2.66                                     | 395  |
| Real estate 1-4 family junior lien mortgage | 17                            | 81                      | 82                    | 180   | 30                                 | 3.03                                     | 96   |
| Credit card                                 | —                             | 131                     | —                     | 131   | —                                  | 12.02                                    | 131  |
| Automobile                                  | 2                             | 11                      | 44                    | 57    | 27                                 | 6.45                                     | 11   |
| Other revolving credit and installment      | —                             | 25                      | 8                     | 33    | 1                                  | 6.64                                     | 25   |
| Trial modifications (6)                     | —                             | —                       | 47                    | 47    | —                                  | —  | —  |
| Total consumer                              | 291                           | 470                     | 1,275                 | 2,036 | 94                                 | 4.80                                     | 658  |
| Total                                       | \$333                         | 700                     | 4,168                 | 5,201 | 399                                | 3.96                                     | % \$ 888   |

Amounts represent the recorded investment in loans after recognizing the effects of the TDR, if any. TDRs may have multiple types of concessions, but are presented only once in the first modification type based on the order (1) presented in the table above. The reported amounts include loans remodified of \$394 million and \$484 million for the quarters ended September 30, 2017 and 2016, and \$1.7 billion and \$1.1 billion, for the first nine months of 2017 and 2016, respectively.

Principal modifications include principal forgiveness at the time of the modification, contingent principal (2) forgiveness granted over the life of the loan based on borrower performance, and principal that has been legally separated and deferred to the end of the loan, with a zero percent contractual interest rate.

Other concessions include loans discharged in bankruptcy, loan renewals, term extensions and other interest and (3) noninterest adjustments, but exclude modifications that also forgive principal and/or reduce the contractual interest rate.

Charge-offs include write-downs of the investment in the loan in the period it is contractually modified. The amount of charge-off will differ from the modification terms if the loan has been charged down prior to the modification based on our policies. In addition, there may be cases where we have a charge-off/down with no legal (4) principal modification. Modifications resulted in legally forgiving principal (actual, contingent or deferred) of \$4 million and \$16 million for the quarters ended September 30, 2017 and 2016, and \$23 million and \$54 million for the first nine months of 2017 and 2016, respectively.

Reflects the effect of reduced interest rates on loans with an interest rate concession as one of their concession (5) types, which includes loans reported as a principal primary modification type that also have an interest rate concession.

Trial modifications are granted a delay in payments due under the original terms during the trial payment period. However, these loans continue to advance through delinquency status and accrue interest according to their original (6) terms. Any subsequent permanent modification generally includes interest rate related concessions; however, the exact concession type and resulting financial effect are usually not known until the loan is permanently modified. Trial modifications for the period are presented net of previously reported trial modifications that became permanent in the current period.

Table 5.18 summarizes permanent modification TDRs that have defaulted in the current period within 12 months of their permanent modification date. We are reporting these defaulted TDRs based on a payment default definition of 90 days past due for the commercial portfolio segment and 60 days past due for the consumer portfolio segment.

Table 5.18: Defaulted TDRs

| (in millions)                               | Recorded investment of defaults |      |                                 |      |
|---|---------------------------------|------|---------------------------------|------|
|   | Quarter ended September 30,     |      | Nine months ended September 30, |      |
|   | 2017                            | 2016 | 2017                            | 2016 |
| <b>Commercial:</b>                          |                                 |      |                                 |      |
| Commercial and industrial                   | \$14                            | 39   | 106                             | 84   |
| Real estate mortgage                        | 16                              | 7    | 47                              | 58   |
| Real estate construction                    | 4                               | —    | 4                               | 3    |
| Total commercial                            | 34                              | 46   | 157                             | 145  |
| <b>Consumer:</b>                            |                                 |      |                                 |      |
| Real estate 1-4 family first mortgage       | 32                              | 36   | 83                              | 97   |
| Real estate 1-4 family junior lien mortgage | 5                               | 6    | 14                              | 15   |
| Credit card                                 | 20                              | 15   | 52                              | 41   |
| Automobile                                  | 4                               | 4    | 11                              | 10   |
| Other revolving credit and installment      | 1                               | —    | 3                               | 2    |
| Total consumer                              | 62                              | 61   | 163                             | 165  |
| Total                                       | \$96                            | 107  | 320                             | 310  |

#### Purchased Credit-Impaired Loans

Substantially all of our PCI loans were acquired from Wachovia on December 31, 2008, at which time we acquired commercial and consumer loans with a carrying value of \$18.7 billion and \$40.1 billion, respectively. The unpaid principal balance on December 31, 2008 was \$98.2 billion for the total of commercial and consumer PCI loans. Table 5.19 presents PCI loans net of any remaining purchase accounting adjustments. Real estate 1-4 family first mortgage PCI loans are predominantly Pick-a-Pay loans.

Table 5.19: PCI Loans

| (in millions)                               | Sep 30, 2017 | Dec 31, 2016 |
|---|--------------|--------------|
| <b>Commercial:</b>                          |              |              |
| Commercial and industrial                   | \$116        | 237          |
| Real estate mortgage                        | 108          | 383          |
| Real estate construction                    | 10           | 57           |
| Total commercial                            | 234          | 677          |
| <b>Consumer:</b>                            |              |              |
| Real estate 1-4 family first mortgage       | 13,301       | 16,018       |
| Real estate 1-4 family junior lien mortgage | 29           | 36           |
| Total consumer                              | 13,330       | 16,054       |
| Total PCI loans (carrying value)            | \$13,564     | 16,731       |
| Total PCI loans (unpaid principal balance)  | \$20,023     | 24,136       |



## Note 5: Loans and Allowance for Credit Losses (continued)

**ACCRETABLE YIELD** The excess of cash flows expected to be collected over the carrying value of PCI loans is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loan, or pools of loans. The accretable yield is affected by:

- changes in interest rate indices for variable rate PCI loans – expected future cash flows are based on the variable rates in effect at the time of the regular evaluations of cash flows expected to be collected;
- changes in prepayment assumptions – prepayments affect the estimated life of PCI loans which may change the amount of interest income, and possibly principal, expected to be collected; and
- changes in the expected principal and interest payments over the estimated weighted-average life – updates to expected cash flows are driven by the credit outlook and actions taken

with borrowers. Changes in expected future cash flows from loan modifications are included in the regular evaluations of cash flows expected to be collected.

The change in the accretable yield related to PCI loans since the merger with Wachovia is presented in Table 5.20. Changes during the first nine months of 2017 reflect an expectation, as a result of our quarterly evaluation of PCI cash flows, that prepayment of modified Pick-a-Pay loans will increase over their estimated weighted-average life and that expected loss has decreased as a result of reduced loan to value ratios and sustained higher housing prices in addition to improved cash flow timing. Changes during the first nine months of 2017 also reflect a \$309 million gain on the sale of \$569 million Pick-a-Pay PCI loans in second quarter 2017.

Table 5.20: Change in Accretable Yield

| (in millions)   | Quarter                  | Nine months              | 2009-2016 |
|---|--------------------------|--------------------------|-----------|
|   | ended<br>Sep 30,<br>2017 | ended<br>Sep 30,<br>2017 |           |
| Balance, beginning of period  | \$9,369                  | 11,216                   | 10,447    |
| Change in accretable yield due to acquisitions  | —                        | 2                        | 159       |
| Accretion into interest income (1)  | (340)                    | (1,071)                  | (15,577)  |
| Accretion into noninterest income due to sales (2)  | —                        | (334)                    | (467)     |
| Reclassification from nonaccretable difference for loans with improving credit-related cash flows | 234                      | 640                      | 10,955    |
| Changes in expected cash flows that do not affect nonaccretable difference (3)                    | (20)                     | (1,210)                  | 5,699     |
| Balance, end of period  | \$9,243                  | 9,243                    | 11,216    |

(1) Includes accretable yield released as a result of settlements with borrowers, which is included in interest income.

(2) Includes accretable yield released as a result of sales to third parties, which is included in noninterest income.

(3) Represents changes in cash flows expected to be collected due to the impact of modifications, changes in prepayment assumptions, changes in interest rates on variable rate PCI loans and sales to third parties.

**COMMERCIAL PCI CREDIT QUALITY INDICATORS** Table 5.21 provides a breakdown of commercial PCI loans by risk category.

Table 5.21: Commercial PCI Loans by Risk Category

| (in millions)      | Commercial<br>and<br>industrial | Real<br>estate<br>mortgage | Real<br>estate<br>construction | Total |
|--------------------|---------------------------------|----------------------------|--------------------------------|-------|
| September 30, 2017 |                                 |                            |                                |       |
| By risk category:  |                                 |                            |                                |       |
| Pass               | \$ 18                           | 81                         | 4                              | 103   |

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|                            |        |     |    |     |
|----------------------------|--------|-----|----|-----|
| Criticized                 | 98     | 27  | 6  | 131 |
| Total commercial PCI loans | \$ 116 | 108 | 10 | 234 |
| December 31, 2016          |        |     |    |     |
| By risk category:          |        |     |    |     |
| Pass                       | \$ 92  | 263 | 47 | 402 |
| Criticized                 | 145    | 120 | 10 | 275 |
| Total commercial PCI loans | \$ 237 | 383 | 57 | 677 |

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Table 5.22 provides past due information for commercial PCI loans.

Table 5.22: Commercial PCI Loans by Delinquency Status

| (in millions)                     | Commercial and industrial | Real estate mortgage | Real estate construction | Total |
|-----------------------------------|---------------------------|----------------------|--------------------------|-------|
| September 30, 2017                |                           |                      |                          |       |
| By delinquency status:            |                           |                      |                          |       |
| Current-29 DPD and still accruing | \$ 114                    | 87                   | 10                       | 211   |
| 30-89 DPD and still accruing      | 2                         | —                    | —                        | 2     |
| 90+ DPD and still accruing        | —                         | 21                   | —                        | 21    |
| Total commercial PCI loans        | \$ 116                    | 108                  | 10                       | 234   |
| December 31, 2016                 |                           |                      |                          |       |
| By delinquency status:            |                           |                      |                          |       |
| Current-29 DPD and still accruing | \$ 235                    | 353                  | 48                       | 636   |
| 30-89 DPD and still accruing      | 2                         | 10                   | —                        | 12    |
| 90+ DPD and still accruing        | —                         | 20                   | 9                        | 29    |
| Total commercial PCI loans        | \$ 237                    | 383                  | 57                       | 677   |

**CONSUMER PCI CREDIT QUALITY INDICATORS** Our consumer PCI loans were aggregated into several pools of loans at acquisition. Below, we have provided credit quality indicators based on the unpaid principal balance (adjusted for write-downs) of the individual loans included in the pool, but we have not

allocated the remaining purchase accounting adjustments, which were established at a pool level. Table 5.23 provides the delinquency status of consumer PCI loans.

Table 5.23: Consumer PCI Loans by Delinquency Status -

| (in millions)  | September 30, 2017                    |   |        | December 31, 2016                     |   |        |
|--|---------------------------------------|---|--------|---------------------------------------|---|--------|
|  | Real estate 1-4 family first mortgage | Real estate 1-4 family junior lien mortgage | Total  | Real estate 1-4 family first mortgage | Real estate 1-4 family junior lien mortgage | Total  |
| By delinquency status:                                       |                                       |   |        |                                       |   |        |
| Current-29 DPD and still accruing                            | \$13,672                              | 149   | 13,821 | 16,095                                | 171   | 16,266 |
| 30-59 DPD and still accruing                                 | 1,410                                 | 6   | 1,416  | 1,488                                 | 7   | 1,495  |
| 60-89 DPD and still accruing                                 | 605                                   | 3   | 608    | 668                                   | 2   | 670    |
| 90-119 DPD and still accruing                                | 257                                   | 1   | 258    | 233                                   | 2   | 235    |
| 120-179 DPD and still accruing                               | 191                                   | 1   | 192    | 238                                   | 2   | 240    |
| 180+ DPD and still accruing                                  | 1,425                                 | 5   | 1,430  | 2,081                                 | 8   | 2,089  |
| Total consumer PCI loans (adjusted unpaid principal balance) | \$17,560                              | 165   | 17,725 | 20,803                                | 192   | 20,995 |
| Total consumer PCI loans (carrying value)                    | \$13,301                              | 29  | 13,330 | 16,018                                | 36  | 16,054 |

Note 5: Loans and Allowance for Credit Losses (continued)

Table 5.24 provides FICO scores for consumer PCI loans.

Table 5.24: Consumer PCI Loans by FICO

| (in millions)  | September 30, 2017 (1)                |   |        | December 31, 2016                     |   |        |
|--|---------------------------------------|---|--------|---------------------------------------|---|--------|
|  | Real estate 1-4 family first mortgage | Real estate 1-4 family junior lien mortgage | Total  | Real estate 1-4 family first mortgage | Real estate 1-4 family junior lien mortgage | Total  |
| By FICO:   |                                       |   |        |                                       |   |        |
| < 600  | \$4,175                               | 37  | 4,212  | 4,292                                 | 46  | 4,338  |
| 600-639  | 2,153                                 | 21  | 2,174  | 3,001                                 | 26  | 3,027  |
| 640-679  | 2,496                                 | 27  | 2,523  | 3,972                                 | 35  | 4,007  |
| 680-719  | 2,359                                 | 32  | 2,391  | 3,170                                 | 37  | 3,207  |
| 720-759  | 1,840                                 | 23  | 1,863  | 1,767                                 | 24  | 1,791  |
| 760-799  | 957                                   | 13  | 970    | 962                                   | 15  | 977    |
| 800+   | 471                                   | 7   | 478    | 254                                   | 4   | 258    |
| No FICO available  | 3,109                                 | 5   | 3,114  | 3,385                                 | 5   | 3,390  |
| Total consumer PCI loans (adjusted unpaid principal balance) | \$17,560                              | 165   | 17,725 | 20,803                                | 192   | 20,995 |
| Total consumer PCI loans (carrying value)                    | \$13,301                              | 29  | 13,330 | 16,018                                | 36  | 16,054 |

(1) September 30, 2017 amounts reflect updated FICO score version implemented in first quarter 2017.

Table 5.25 shows the distribution of consumer PCI loans by LTV for real estate 1-4 family first mortgages and by CLTV for real estate 1-4 family junior lien mortgages.

Table 5.25: Consumer PCI Loans by LTV/CLTV

| (in millions)  | September 30, 2017                           |   |        | December 31, 2016                            |   |        |
|--|--|---|--------|--|---|--------|
|  | Real estate 1-4 family first mortgage by LTV | Real estate 1-4 family junior lien mortgage by CLTV | Total  | Real estate 1-4 family first mortgage by LTV | Real estate 1-4 family junior lien mortgage by CLTV | Total  |
| By LTV/CLTV:   |  |   |        |  |   |        |
| 0-60%  | \$7,642                                      | 41  | 7,683  | 7,513  | 38  | 7,551  |
| 60.01-80%  | 7,079  | 66  | 7,145  | 9,000  | 76  | 9,076  |
| 80.01-100%   | 2,358  | 42  | 2,400  | 3,458  | 54  | 3,512  |
| 100.01-120% (1)  | 392  | 12  | 404    | 669  | 18  | 687    |
| > 120% (1)   | 87   | 3   | 90     | 161  | 5   | 166    |
| No LTV/CLTV available  | 2  | 1   | 3      | 2  | 1   | 3      |
| Total consumer PCI loans (adjusted unpaid principal balance) | \$17,560                                     | 165   | 17,725 | 20,803                                       | 192   | 20,995 |
| Total consumer PCI loans (carrying value)                    | \$13,301                                     | 29  | 13,330 | 16,018                                       | 36  | 16,054 |

(1) Reflects total loan balances with LTV/CLTV amounts in excess of 100%. In the event of default, the loss content would generally be limited to only the amount in excess of 100% LTV/CLTV.





## Note 6: Other Assets

Table 6.1 presents the components of other assets.

Table 6.1: Other Assets

| (in millions)   | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| Nonmarketable equity investments:                     |                 |                 |
| Cost method:  |                 |                 |
| Federal bank stock                                    | \$5,839         | 6,407           |
| Private equity  | 1,428           | 1,465           |
| Auction rate securities                               | 400             | 525             |
| Total cost method                                     | 7,667           | 8,397           |
| Equity method:  |                 |                 |
| LIHTC (1)   | 9,884           | 9,714           |
| Private equity  | 3,758           | 3,635           |
| Tax-advantaged renewable energy                       | 1,954           | 2,054           |
| New market tax credit and other                       | 291             | 305             |
| Total equity method                                   | 15,887          | 15,708          |
| Fair value (2)  | 4,523           | 3,275           |
| Total nonmarketable equity investments                | 28,077          | 27,380          |
| Corporate/bank-owned life insurance                   | 19,479          | 19,325          |
| Accounts receivable (3)                               | 38,284          | 31,056          |
| Interest receivable                                   | 5,579           | 5,339           |
| Core deposit intangibles                              | 981             | 1,620           |
| Customer relationship and other amortized intangibles | 918             | 1,089           |
| Foreclosed assets:                                    |                 |                 |
| Residential real estate:                              |                 |                 |
| Government insured/guaranteed (3)                     | 137             | 197             |
| Non-government insured/guaranteed                     | 261             | 378             |
| Non-residential real estate                           | 308             | 403             |
| Operating lease assets                                | 9,672           | 10,089          |
| Due from customers on acceptances                     | 228             | 196             |
| Other   | 12,352          | 17,469          |
| Total other assets                                    | \$116,276       | 114,541         |

(1) Represents low income housing tax credit investments.

(2) Represents nonmarketable equity investments for which we have elected the fair value option. See Note 13 (Fair Values of Assets and Liabilities) for additional information.

Certain government-guaranteed residential real estate mortgage loans upon foreclosure are included in Accounts receivable. Both principal and interest related to these foreclosed real estate assets are collectible because the loans (3) were predominantly insured by the FHA or guaranteed by the VA. For more information on the classification of certain government-guaranteed mortgage loans upon foreclosure, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 10-K.

Table 6.2 presents income (expense) related to nonmarketable equity investments.

Table 6.2: Nonmarketable Equity Investments

| Quarter<br>ended<br>September<br>30, | Nine<br>months<br>ended<br>September |
|--------------------------------------|--------------------------------------|
|--------------------------------------|--------------------------------------|

|  |        |      | 30,   |       |
|--|--------|------|-------|-------|
| (in millions)  | 2017   | 2016 | 2017  | 2016  |
| Net realized gains from nonmarketable equity investments | \$132  | 55   | 506   | 369   |
| All other  | (184)  | (83) | (424) | (404) |
| Total  | \$(52) | (28) | 82    | (35)  |

**Low Income Housing Tax Credit Investments** We invest in affordable housing projects that qualify for the low income housing tax credit (LIHTC), which is designed to promote private development of low income housing. These investments generate a return mostly through realization of federal tax credits.

Total LIHTC investments were \$9.9 billion and \$9.7 billion at September 30, 2017 and December 31, 2016, respectively. In the third quarter and first nine months of 2017, we recognized pre-tax losses of \$227 million and \$684 million, respectively, related to our LIHTC investments, compared with \$199 million and \$600 million, respectively, for the same periods a year ago. We also recognized total tax benefits of \$360 million and \$1.1 billion in the third quarter and first nine months of 2017, which included tax credits recorded in income taxes of \$275 million and \$796 million for the same periods, respectively. In the third quarter and first nine months of 2016, total tax benefits were \$308 million and \$919 million, respectively, which included tax credits of \$233 million and \$693 million for the same periods, respectively. We are periodically required to provide additional financial support during the investment period. Our liability for these unfunded commitments was \$3.1 billion at September 30, 2017 and \$3.6 billion at December 31, 2016. Predominantly all of this liability is expected to be paid over the next three years. This liability is included in long-term debt.

## Note 7: Securitizations and Variable Interest Entities (continued)

## Note 7: Securitizations and Variable Interest Entities

## Involvement with SPEs

In the normal course of business, we enter into various types of on- and off-balance sheet transactions with 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 further description of our involvement with SPEs, see Note 8 (Securitizations and Variable Interest Entities) to Financial Statements in our 2016 Form 10-K.

We have segregated our involvement with VIEs between those VIEs which we consolidate, those which we do not consolidate and those for which we account for the transfers of financial assets as secured borrowings. Secured borrowings are transactions involving transfers of our financial assets to third parties that are accounted for as financings with the assets pledged as collateral. Accordingly, the transferred assets remain recognized on our balance sheet. Subsequent tables within this Note further segregate these transactions by structure type.

Table 7.1 provides the classifications of assets and liabilities in our balance sheet for our transactions with VIEs.

Table 7.1: Balance Sheet Transactions with VIEs

| (in millions)   | VIEs that<br>we<br>do not<br>consolidate | VIEs<br>that we<br>consolidate | Transfers<br>that<br>we account<br>for as<br>secured<br>borrowings | Total  |
|---|--|--------------------------------|--|--------|
| September 30, 2017  |  |                                |  |        |
| Cash  | \$ —                                     | 115                            | —  | 115    |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | —  | 402                            | —  | 402    |
| Trading assets  | 1,150                                    | 130                            | 201  | 1,481  |
| Investment securities (1)   | 4,944                                    | —                              | 364  | 5,308  |
| Loans   | 4,491                                    | 11,905                         | 508  | 16,904 |
| Mortgage servicing rights   | 13,340                                   | —                              | —  | 13,340 |
| Derivative assets   | 80                                       | —                              | —  | 80     |
| Other assets  | 10,355                                   | 352                            | 7  | 10,714 |
| Total assets  | 34,360                                   | 12,904                         | 1,080  | 48,344 |
| Short-term borrowings   | —  | —                              | 523  | 523    |
| Derivative liabilities  | 101                                      | 26                             | (2) —  | 127    |
| Accrued expenses and other liabilities  | 240                                      | 141                            | (2) 32   | 413    |
| Long-term debt  | 3,103                                    | 2,103                          | (2) 489  | 5,695  |
| Total liabilities   | 3,444                                    | 2,270                          | 1,044  | 6,758  |
| Noncontrolling interests  | —  | 119                            | —  | 119    |
| Net assets  | \$ 30,916                                | 10,515                         | 36   | 41,467 |
| December 31, 2016   |  |                                |  |        |
| Cash  | \$ —                                     | 168                            | —  | 168    |
| Federal funds sold, securities purchased under resale agreements and other short-term investments | —  | 74                             | —  | 74     |
| Trading assets  | 2,034                                    | 130                            | 201  | 2,365  |
| Investment securities (1)   | 8,530                                    | —                              | 786  | 9,316  |
| Loans   | 6,698                                    | 12,589                         | 138  | 19,425 |
| Mortgage servicing rights   | 13,386                                   | —                              | —  | 13,386 |
| Derivative assets   | 91                                       | 1                              | —  | 92     |
| Other assets  | 10,281                                   | 452                            | 11   | 10,744 |

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|  |           |        |         |        |
|--|-----------|--------|---------|--------|
| Total assets                           | 41,020    | 13,414 | 1,136   | 55,570 |
| Short-term borrowings                  | —         | —      | 905     | 905    |
| Derivative liabilities                 | 59        | 33     | (2) —   | 92     |
| Accrued expenses and other liabilities | 306       | 107    | (2) 2   | 415    |
| Long-term debt                         | 3,598     | 3,694  | (2) 136 | 7,428  |
| Total liabilities                      | 3,963     | 3,834  | 1,043   | 8,840  |
| Noncontrolling interests               | —         | 138    | —       | 138    |
| Net assets                             | \$ 37,057 | 9,442  | 93      | 46,592 |

(1) Excludes certain debt securities related to loans serviced for the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and GNMA.

(2) There were no VIE liabilities with recourse to the general credit of Wells Fargo for the periods presented.

## Transactions with Unconsolidated VIEs

Our transactions with unconsolidated VIEs include securitizations of residential mortgage loans, CRE loans, student loans, automobile loans and leases, certain dealer floorplan loans; investment and financing activities involving collateralized debt obligations (CDOs) backed by asset-backed and CRE securities, tax credit structures, collateralized loan obligations (CLOs) backed by corporate loans, and other types of structured financing. We have various forms of involvement with VIEs, including servicing, holding senior or subordinated interests, entering into liquidity arrangements, credit default swaps and other derivative contracts. Involvements with these unconsolidated VIEs are recorded on our balance sheet in trading assets, investment securities, loans, MSRs, derivative assets and liabilities, other assets, other liabilities, and long-term debt, as appropriate.

Table 7.2 provides a summary of unconsolidated VIEs with which we have significant continuing involvement, but we are not the primary beneficiary. We do not consider our continuing involvement in an unconsolidated VIE to be significant when it relates to third-party sponsored VIEs for which we were not the transferor (unless we are servicer and have other significant forms of involvement) or if we were the sponsor only or sponsor

and servicer but do not have any other forms of significant involvement.

Significant continuing involvement includes transactions where we were the sponsor or transferor and have other significant forms of involvement. Sponsorship includes transactions with unconsolidated VIEs where we solely or materially participated in the initial design or structuring of the entity or marketing of the transaction to investors. When we transfer assets to a VIE and account for the transfer as a sale, we are considered the transferor. We consider investments in securities (other than those held temporarily in trading), loans, guarantees, liquidity agreements, written options and servicing of collateral to be other forms of involvement that may be significant. We have excluded certain transactions with unconsolidated VIEs from the balances presented in the following table where we have determined that our continuing involvement is not significant due to the temporary nature and size of our variable interests, because we were not the transferor or because we were not involved in the design of the unconsolidated VIEs. We also exclude from the table secured borrowing transactions with unconsolidated VIEs (for information on these transactions, see the Transactions with Consolidated VIEs and Secured Borrowings section in this Note).

Table 7.2: Unconsolidated VIEs

| (in millions)                              | Total<br>VIE<br>assets | Carrying value – asset (liability)        |                     |             |                      | Other<br>commitments<br>and<br>guarantees | Net<br>assets     |        |
|--|------------------------|---|---------------------|-------------|----------------------|---|-------------------|--------|
|  |                        | Debt<br>and<br>equity<br>interests<br>(1) | Servicing<br>assets | Derivatives |                      |   |                   |        |
| September 30, 2017                         |                        |   |                     |             |                      |   |                   |        |
| Residential mortgage loan securitizations: |                        |   |                     |             |                      |   |                   |        |
| Conforming (2)                             | \$1,172,135            | 2,056                                     | 12,387              | —           | (188                 | )   | 14,255            |        |
| Other/nonconforming                        | 15,226                 | 774                                       | 85                  | —           | —                    |   | 859               |        |
| Commercial mortgage securitizations        | 142,525                | 2,535                                     | 868                 | 70          | (33                  | )   | 3,440             |        |
| Collateralized debt obligations:           |                        |   |                     |             |                      |   |                   |        |
| Debt securities                            | 1,074                  | —   | —                   | 5           | (20                  | )   | (15 )             |        |
| Loans (3)                                  | 1,494                  | 1,457                                     | —                   | —           | —                    |   | 1,457             |        |
| Asset-based finance structures             | 3,569                  | 2,666                                     | —                   | —           | —                    |   | 2,666             |        |
| Tax credit structures                      | 29,295                 | 10,820                                    | —                   | —           | (3,103               | )   | 7,717             |        |
| Collateralized loan obligations            | 18                     | 4   | —                   | —           | —                    |   | 4                 |        |
| Investment funds                           | 216                    | 51  | —                   | —           | —                    |   | 51                |        |
| Other (4)                                  | 2,521                  | 577                                       | —                   | (95         | )                    | —   | 482               |        |
| Total                                      | \$1,368,073            | 20,940                                    | 13,340              | (20         | )                    | (3,344                                    | )                 | 30,916 |
| Maximum exposure to loss                   |                        |   |                     |             |                      |   |                   |        |
|  |                        | Debt<br>and                               | Servicing<br>assets | Derivatives | Other<br>commitments |   | Total<br>exposure |        |

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|  | equity<br>interests<br>(1) |        |     | and<br>guarantees |        |
|--|----------------------------|--------|-----|-------------------|--------|
| Residential mortgage loan securitizations: |                            |        |     |                   |        |
| Conforming                                 | \$2,056                    | 12,387 | —   | 976               | 15,419 |
| Other/nonconforming                        | 774                        | 85     | —   | —                 | 859    |
| Commercial mortgage securitizations        | 2,535                      | 868    | 73  | 9,901             | 13,377 |
| Collateralized debt obligations:           |                            |        |     |                   |        |
| Debt securities                            | —                          | —      | 5   | 20                | 25     |
| Loans (3)                                  | 1,457                      | —      | —   | —                 | 1,457  |
| Asset-based finance structures             | 2,666                      | —      | —   | 71                | 2,737  |
| Tax credit structures                      | 10,820                     | —      | —   | 947               | 11,767 |
| Collateralized loan obligations            | 4                          | —      | —   | —                 | 4      |
| Investment funds                           | 51                         | —      | —   | —                 | 51     |
| Other (4)                                  | 577                        | —      | 120 | 157               | 854    |
| Total                                      | \$20,940                   | 13,340 | 198 | 12,072            | 46,550 |
| (continued on following page)              |                            |        |     |                   |        |

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## Note 7: Securitizations and Variable Interest Entities (continued)

(continued from previous page)

| (in millions)                              | Total<br>VIE<br>assets | Carrying value – asset (liability)        |                     |             |   | Other<br>commitments<br>and<br>guarantees | Net<br>assets     |
|--|------------------------|---|---------------------|-------------|---|---|-------------------|
|  |                        | Debt<br>and<br>equity<br>interests<br>(1) | Servicing<br>assets | Derivatives |   |   |                   |
| December 31, 2016                          |                        |   |                     |             |   |   |                   |
| Residential mortgage loan securitizations: |                        |   |                     |             |   |   |                   |
| Conforming (2)                             | \$1,166,296            | 3,026                                     | 12,434              | —           | (232                                      | )   | 15,228            |
| Other/nonconforming                        | 18,805                 | 873                                       | 109                 | —           | (2  | )   | 980               |
| Commercial mortgage securitizations        | 166,596                | 4,258                                     | 843                 | 87          | (35                                       | )   | 5,153             |
| Collateralized debt obligations:           |                        |   |                     |             |   |   |                   |
| Debt securities                            | 1,472                  | —   | —                   | —           | (25                                       | )   | (25               |
| Loans (3)                                  | 1,545                  | 1,507                                     | —                   | —           | —   |   | 1,507             |
| Asset-based finance structures             | 9,152                  | 6,522                                     | —                   | —           | —   |   | 6,522             |
| Tax credit structures                      | 29,713                 | 10,669                                    | —                   | —           | (3,609                                    | )   | 7,060             |
| Collateralized loan obligations            | 78                     | 10  | —                   | —           | —   |   | 10                |
| Investment funds                           | 214                    | 48  | —                   | —           | —   |   | 48                |
| Other (4)                                  | 1,733                  | 630                                       | —                   | (56         | )   |   | 574               |
| Total                                      | \$1,395,604            | 27,543                                    | 13,386              | 31          | (3,903                                    | )   | 37,057            |
| Maximum exposure to loss                   |                        |   |                     |             |   |   |                   |
|  |                        | Debt<br>and<br>equity<br>interests<br>(1) | Servicing<br>assets | Derivatives | Other<br>commitments<br>and<br>guarantees |   | Total<br>exposure |
| Residential mortgage loan securitizations: |                        |   |                     |             |   |   |                   |
| Conforming                                 |                        | \$3,026                                   | 12,434              | —           | 979                                       |   | 16,439            |
| Other/nonconforming                        |                        | 873                                       | 109                 | —           | 2   |   | 984               |
| Commercial mortgage securitizations        |                        | 4,258                                     | 843                 | 94          | 9,566                                     |   | 14,761            |
| Collateralized debt obligations:           |                        |   |                     |             |   |   |                   |
| Debt securities                            |                        | —   | —                   | —           | 25  |   | 25                |
| Loans (3)                                  |                        | 1,507                                     | —                   | —           | —   |   | 1,507             |
| Asset-based finance structures             |                        | 6,522                                     | —                   | —           | 72  |   | 6,594             |
| Tax credit structures                      |                        | 10,669                                    | —                   | —           | 1,104                                     |   | 11,773            |
| Collateralized loan obligations            |                        | 10  | —                   | —           | —   |   | 10                |
| Investment funds                           |                        | 48  | —                   | —           | —   |   | 48                |
| Other (4)                                  |                        | 630                                       | —                   | 93          | —   |   | 723               |
| Total                                      |                        | \$27,543                                  | 13,386              | 187         | 11,748                                    |   | 52,864            |

Includes total equity interests of \$10.4 billion and \$10.3 billion at September 30, 2017, and December 31, 2016, (1) respectively. Also includes debt interests in the form of both loans and securities. Excludes certain debt securities held related to loans serviced for FNMA, FHLMC and GNMA.

Excludes assets and related liabilities with a recorded carrying value on our balance sheet of \$1.3 billion and \$1.2 billion at September 30, 2017, and December 31, 2016, respectively, for certain delinquent loans that are eligible (2) for repurchase from GNMA loan securitizations. The recorded carrying value represents the amount that would be payable if the Company was to exercise the repurchase option. The carrying amounts are excluded from the table because the loans eligible for repurchase do not represent interests in the VIEs.

(3)



Represents senior loans to trusts that are collateralized by asset-backed securities. The trusts invest in senior tranches from a diversified pool of U.S. asset securitizations, of which all are current and 100% were rated as investment grade by the primary rating agencies at both September 30, 2017, and December 31, 2016. These senior loans are accounted for at amortized cost and are subject to the Company's allowance and credit charge-off policies.

(4) Includes structured financing and credit-linked note structures. Also contains investments in auction rate securities (ARS) issued by VIEs that we do not sponsor and, accordingly, are unable to obtain the total assets of the entity.

In Table 7.2, "Total VIE assets" represents the remaining principal balance of assets held by unconsolidated VIEs using the most current information available. For VIEs that obtain exposure to assets synthetically through derivative instruments, the remaining notional amount of the derivative is included in the asset balance. "Carrying value" is the amount in our consolidated balance sheet related to our involvement with the unconsolidated VIEs. "Maximum exposure to loss" from our involvement with off-balance sheet entities, which is a required disclosure under GAAP, is determined as the carrying value of our involvement with off-balance sheet (unconsolidated) VIEs plus the remaining undrawn liquidity and lending commitments, the notional amount of net written derivative contracts, and generally the notional amount of, or stressed loss estimate for, other commitments and guarantees. It represents estimated loss that would be incurred under severe, hypothetical circumstances, for which we believe the possibility is extremely remote, such as where the value of our interests and any associated collateral declines to zero, without any consideration of recovery or offset from any economic hedges. Accordingly, this required disclosure is not an indication of expected loss.

For complete descriptions of our types of transactions with unconsolidated VIEs with which we have a significant continuing involvement, but we are not the primary beneficiary, see Note 8

(Securitizations and Variable Interest Entities) to Financial Statements in our 2016 Form 10-K.

**INVESTMENT FUNDS** Subsequent to adopting ASU 2015-02 (Amendments to the Consolidation Analysis) in first quarter 2016, we do not consolidate these investment funds because we do not hold variable interests that are considered significant to the funds.

We voluntarily waived a portion of our management fees for certain money market funds that are exempt from the consolidation analysis to ensure the funds maintained a minimum level of daily net investment income. The amount of fees waived in the third quarter and first nine months of 2017 was \$12 million and \$39 million, respectively, compared with \$28 million and \$84 million, respectively, in the same periods of 2016.

**OTHER TRANSACTIONS WITH VIEs** Other VIEs include certain entities that issue auction rate securities (ARS) which are debt instruments with long-term maturities, that re-price more frequently, and preferred equities with no maturity. At September 30, 2017, we held \$400 million of ARS issued by VIEs compared with \$453 million at December 31, 2016. We acquired the ARS pursuant to agreements entered into in 2008 and 2009.

We do not consolidate the VIEs that issued the ARS because we do not have power over the activities of the VIEs.

**TRUST PREFERRED SECURITIES** VIEs that we wholly own issue debt securities or preferred equity to third party investors. All of the proceeds of the issuance are invested in debt securities or preferred equity that we issue to the VIEs. The VIEs' operations and cash flows relate only to the issuance, administration and repayment of the securities held by third parties. We do not consolidate these VIEs because the sole assets of the VIEs are receivables from us, even though we own all of the voting equity shares of the VIEs, have fully guaranteed the obligations of the VIEs and may have the right to redeem the third party securities under certain circumstances. In our consolidated balance sheet at September 30, 2017, and December 31, 2016, we reported the debt securities issued to the VIEs as long-term junior subordinated debt with a carrying value of \$2.0 billion and \$2.1 billion, respectively, and the preferred equity securities issued to the VIEs as preferred stock with a carrying value of \$2.5 billion at both dates. These amounts are in addition to the involvements in these VIEs included in the preceding table.

In the first nine months of 2017, we redeemed \$150 million of trust preferred securities which were partially included in Tier 2 capital (50% credit in 2017) in the transitional framework and were not included under the fully-phased framework under the Basel III standards.

#### Loan Sales and Securitization Activity

We periodically transfer consumer and CRE loans and other types of financial assets in securitization and whole loan sale transactions. We typically retain the servicing rights from these sales and may continue to hold other beneficial interests in the transferred financial assets. We may also provide liquidity to investors in the beneficial interests and credit enhancements in the form of standby letters of credit. Through these transfers we may be exposed to liability under limited amounts of recourse as well as standard representations and warranties we make to purchasers and issuers. Table 7.3 presents the cash flows for our transfers accounted for as sales.

Table 7.3: Cash Flows From Sales and Securitization Activity

| (in millions)  | 2017           |                        | 2016           |                        |
|--|----------------|------------------------|----------------|------------------------|
|  | Mortgage loans | Other financial assets | Mortgage loans | Other financial assets |
| Quarter ended September 30,                            |                |                        |                |                        |
| Proceeds from securitizations and whole loan sales     | \$61,756       | —                      | 66,830         | 53                     |
| Fees from servicing rights retained                    | 826            | —                      | 891            | —                      |
| Cash flows from other interests held (1)               | 408            | —                      | 930            | —                      |
| Repurchases of assets/loss reimbursements (2):         |                |                        |                |                        |
| Non-agency securitizations and whole loan transactions | 5              | —                      | 4              | —                      |
| Agency securitizations (3)                             | 20             | —                      | 22             | —                      |
| Servicing advances, net of repayments                  | (90)           | ) —                    | (52)           | ) —                    |
| Nine months ended September 30,                        |                |                        |                |                        |
| Proceeds from securitizations and whole loan sales     | \$172,837      | 25                     | 178,301        | 186                    |
| Fees from servicing rights retained                    | 2,520          | —                      | 2,636          | —                      |
| Cash flows from other interests held (1)               | 1,883          | —                      | 1,964          | 1                      |
| Repurchases of assets/loss reimbursements (2):         |                |                        |                |                        |
| Non-agency securitizations and whole loan transactions | 12             | —                      | 22             | —                      |
| Agency securitizations (3)                             | 66             | —                      | 104            | —                      |
| Servicing advances, net of repayments                  | (252)          | ) —                    | (159)          | ) —                    |

(1) Cash flows from other interests held include principal and interest payments received on retained bonds and excess cash flows received on interest-only strips.

(2) Consists of cash paid to repurchase loans from investors and cash paid to investors to reimburse them for losses on individual loans that are already liquidated.

(3)

Represent loans repurchased from GNMA, FNMA, and FHLMC under representation and warranty provisions included in our loan sales contracts. Third quarter and first nine months of 2017 exclude \$2.1 billion and \$6.0 billion, respectively in delinquent insured/guaranteed loans that we service and have exercised our option to purchase out of GNMA pools, compared with \$2.4 billion and \$7.3 billion, respectively, in the same periods of 2016. These loans are predominantly insured by the FHA or guaranteed by the VA.

In the third quarter and first nine months of 2017, we recognized net gains of \$91 million and \$616 million, respectively, from transfers accounted for as sales of financial assets, compared with \$141 million and \$436 million, respectively, in the same periods of 2016. These net gains largely relate to commercial mortgage securitizations and residential mortgage securitizations where the loans were not already carried at fair value.

Sales with continuing involvement during the third quarter and first nine months of 2017 and 2016 largely related to securitizations of residential mortgages that are sold to the government-sponsored entities (GSEs), including FNMA, FHLMC and GNMA (conforming residential mortgage

securitizations). During the third quarter and first nine months of 2017, we transferred \$57.8 billion and \$163.0 billion, respectively, in fair value of residential mortgages to unconsolidated VIEs and third-party investors and recorded the transfers as sales, compared with \$63.3 billion and \$165.6 billion, respectively, in the same periods of 2016. Substantially all of these transfers did not result in a gain or loss because the loans were already carried at fair value. In connection with all of these transfers, in the first nine months of 2017, we recorded a \$1.5 billion servicing asset, measured at fair value using a Level 3 measurement technique, securities of \$2.2 billion, classified as Level 2, and a \$20 million liability for repurchase losses which reflects management's estimate of probable losses related to

## Note 7: Securitizations and Variable Interest Entities (continued)

various representations and warranties for the loans transferred, initially measured at fair value. In the first nine months of 2016, we recorded a \$1.3 billion servicing asset, securities of \$3.0 billion, and a \$26 million liability. Table 7.4 presents the key weighted-average assumptions we used to measure residential mortgage servicing rights at the date of securitization.

Table 7.4: Residential Mortgage Servicing Rights

|                                   | Residential<br>mortgage<br>servicing<br>rights |      |
|-----------------------------------|--|------|
|                                   | 2017   | 2016 |
| Quarter ended September 30,       |  |      |
| Prepayment speed (1)              | 12.1 %   | 12.4 |
| Discount rate                     | 6.9  | 6.2  |
| Cost to service (\$ per loan) (2) | \$122  | 124  |
| Nine months ended September 30,   |  |      |
| Prepayment speed (1)              | 11.7 %   | 12.5 |
| Discount rate                     | 6.9  | 6.5  |
| Cost to service (\$ per loan) (2) | \$135  | 136  |

The prepayment speed assumption for residential mortgage servicing rights includes a blend of prepayment speeds (1) and default rates. Prepayment speed assumptions are influenced by mortgage interest rate inputs as well as our estimation of drivers of borrower behavior.

(2) Includes costs to service and unreimbursed foreclosure costs, which can vary period to period depending on the mix of modified government-guaranteed loans sold to GNMA.

During the third quarter and first nine months of 2017, we transferred \$4.6 billion and \$11.2 billion, respectively, in carrying value of commercial mortgages to unconsolidated VIEs and third-party investors and recorded the transfers as sales, compared with \$4.0 billion and \$13.9 billion, respectively, in the same periods of 2016. These transfers resulted in gains of \$89 million and \$265 million in the third quarter and first nine months of 2017, respectively, because the loans were carried at lower of cost or market value (LOCOM), compared with gains of \$134 million and \$327 million, respectively, in the same periods of 2016. In connection with these transfers, in the first nine months of 2017, we recorded a servicing asset of \$123 million, initially measured at fair value using a Level 3 measurement technique, and securities of \$65 million, classified as Level 2. In the first nine months of 2016, we recorded a servicing asset of \$204 million and securities of \$236 million.

## Retained Interests from Unconsolidated VIEs

Table 7.5 provides key economic assumptions and the sensitivity of the current fair value of residential mortgage servicing rights and other interests held to immediate adverse changes in those assumptions. "Other interests held" relate to residential and commercial mortgage loan securitizations. Residential mortgage-backed securities retained in securitizations issued through GSEs, such as FNMA, FHLMC and GNMA, are excluded from the table because these securities have a remote risk of credit loss due to

the GSE guarantee. These securities also have economic characteristics similar to GSE mortgage-backed securities that we purchase, which are not included in the table. Subordinated interests include only those bonds whose credit rating was below AAA by a major rating agency at issuance. Senior interests include only those bonds whose credit rating was AAA by a major rating agency at issuance. The information presented excludes trading positions held in inventory.

Table 7.5: Retained Interests from Unconsolidated VIEs

| (\$ in millions, except cost to service amounts)   | Residential mortgage servicing rights (1) |                      | Other interests held        |                                   |              |
|--|---|----------------------|-----------------------------|-----------------------------------|--------------|
|  | Residential mortgage servicing rights     | Interest-only strips | Consumer Subordinated bonds | Commercial (2) Subordinated bonds | Senior bonds |
| Fair value of interests held at September 30, 2017 | \$ 13,338                                 | 23                   | —                           | 561                               | 526          |
| Expected weighted-average life (in years)          | 6.1                                       | 3.8                  | 0.0                         | 5.7                               | 5.2          |
| Key economic assumptions:                          |   |                      |                             |                                   |              |
| Prepayment speed assumption (3)                    | 10.8                                      | % 17.4               | —                           |                                   |              |
| Decrease in fair value from:                       |   |                      |                             |                                   |              |
| 10% adverse change                                 | \$ 575                                    | 1                    | —                           |                                   |              |
| 25% adverse change                                 | 1,359                                     | 2                    | —                           |                                   |              |
| Discount rate assumption                           | 6.7                                       | % 12.7               | —                           | 3.0                               | 2.9          |
| Decrease in fair value from:                       |   |                      |                             |                                   |              |
| 100 basis point increase                           | \$ 647                                    | —                    | —                           | 25                                | 22           |
| 200 basis point increase                           | 1,236                                     | 1                    | —                           | 47                                | 44           |
| Cost to service assumption (\$ per loan)           | 145                                       |                      |                             |                                   |              |
| Decrease in fair value from:                       |   |                      |                             |                                   |              |
| 10% adverse change                                 | 476                                       |                      |                             |                                   |              |
| 25% adverse change                                 | 1,189                                     |                      |                             |                                   |              |
| Credit loss assumption                             |   |                      | — %                         | 2.0                               | —            |
| Decrease in fair value from:                       |   |                      |                             |                                   |              |
| 10% higher losses                                  |   |                      | \$ —                        | —                                 | —            |
| 25% higher losses                                  |   |                      | —                           | —                                 | —            |
| Fair value of interests held at December 31, 2016  | \$ 12,959                                 | 28                   | 1                           | 249                               | 552          |
| Expected weighted-average life (in years)          | 6.3                                       | 3.9                  | 8.3                         | 3.1                               | 5.1          |
| Key economic assumptions:                          |   |                      |                             |                                   |              |
| Prepayment speed assumption (3)                    | 10.3                                      | % 17.4               | 13.5                        |                                   |              |
| Decrease in fair value from:                       |   |                      |                             |                                   |              |
| 10% adverse change                                 | \$ 583                                    | 1                    | —                           |                                   |              |
| 25% adverse change                                 | 1,385                                     | 2                    | —                           |                                   |              |
| Discount rate assumption                           | 6.8                                       | % 13.3               | 10.7                        | 5.2                               | 2.7          |
| Decrease in fair value from:                       |   |                      |                             |                                   |              |
| 100 basis point increase                           | \$ 649                                    | 1                    | —                           | 7                                 | 23           |
| 200 basis point increase                           | 1,239                                     | 1                    | —                           | 12                                | 45           |
| Cost to service assumption (\$ per loan)           | 155                                       |                      |                             |                                   |              |

|                              |       |     |   |     |
|------------------------------|-------|-----|---|-----|
| Decrease in fair value from: |       |     |   |     |
| 10% adverse change           | 515   |     |   |     |
| 25% adverse change           | 1,282 |     |   |     |
| Credit loss assumption       |       | 3.0 | % | 4.7 |
| Decrease in fair value from: |       |     |   |     |
| 10% higher losses            |       | \$  | — | —   |
| 25% higher losses            |       | —   | — | —   |

(1) See narrative following this table for a discussion of commercial mortgage servicing rights.

Prepayment speed assumptions do not significantly impact the value of commercial mortgage securitization bonds (2) as the underlying commercial mortgage loans experience significantly lower prepayments due to certain contractual restrictions, impacting the borrower's ability to prepay the mortgage.

The prepayment speed assumption for residential mortgage servicing rights includes a blend of prepayment speeds (3) and default rates. Prepayment speed assumptions are influenced by mortgage interest rate inputs as well as our estimation of drivers of borrower behavior.

## Note 7: Securitizations and Variable Interest Entities (continued)

In addition to residential mortgage servicing rights (MSRs) included in the previous table, we have a small portfolio of commercial MSRs with a fair value of \$2.0 billion at both September 30, 2017, and December 31, 2016. The nature of our commercial MSRs, which are carried at LOCOM, is different from our residential MSRs. Prepayment activity on serviced loans does not significantly impact the value of commercial MSRs because, unlike residential mortgages, commercial mortgages experience significantly lower prepayments due to certain contractual restrictions, impacting the borrower's ability to prepay the mortgage. Additionally, for our commercial MSR portfolio, we are typically master/primary servicer, but not the special servicer, who is separately responsible for the servicing and workout of delinquent and foreclosed loans. It is the special servicer, similar to our role as servicer of residential mortgage loans, who is affected by higher servicing and foreclosure costs due to an increase in delinquent and foreclosed loans. Accordingly, prepayment speeds and costs to service are not key assumptions for commercial MSRs as they do not significantly impact the valuation. The primary economic driver impacting the fair value of our commercial MSRs is forward interest rates, which are derived from market observable yield curves used to price capital markets instruments. Market interest rates significantly affect interest earned on custodial deposit balances. The sensitivity of the current fair value to an immediate adverse 25% change in the assumption about interest earned on deposit balances at September 30, 2017, and December 31, 2016, results in a decrease in fair value of \$238 million and \$259 million, respectively. See Note 8 (Mortgage Banking Activities) for further information on our commercial MSRs.

We also have a loan to an unconsolidated third party VIE that we extended in fourth quarter 2014 in conjunction with our sale of government guaranteed student loans. The loan is carried at amortized cost and approximates fair value at September 30, 2017, and December 31, 2016. The carrying amount of the loan at September 30, 2017, and December 31, 2016, was \$1.3 billion and \$3.2 billion, respectively. The estimated fair value of the loan is considered a Level 3 measurement that is determined using

discounted cash flows that are based on changes in the discount rate due to changes in the risk premium component (credit spreads). The primary economic assumption impacting the fair value of our loan is the discount rate. Changes in the credit loss assumption are not expected to affect the estimated fair value of the loan due to the government guarantee of the underlying collateral. The sensitivity of the current fair value to an immediate adverse increase of 200 basis points in the risk premium component of the discount rate assumption is a decrease in fair value of \$23 million and \$154 million at September 30, 2017, and December 31, 2016, respectively.

The sensitivities in the preceding paragraphs and table are hypothetical and caution should be exercised when relying on this data. Changes in value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in value may not be linear. Also, the effect of a variation in a particular assumption on the value of the other interests held is calculated independently without changing any other assumptions. In reality, changes in one factor may result in changes in others (for example, changes in prepayment speed estimates could result in changes in the credit losses), which might magnify or counteract the sensitivities.

## Off-Balance Sheet Loans

Table 7.6 presents information about the principal balances of off-balance sheet loans that were sold or securitized, including residential mortgage loans sold to FNMA, FHLMC, GNMA and other investors, for which we have some form of continuing involvement (including servicer). Delinquent loans include loans 90 days or more past due and loans in bankruptcy, regardless of delinquency status. For loans sold or securitized where servicing is our only form of continuing involvement, we would only experience a loss if we were required to repurchase a delinquent loan or foreclosed asset due to a breach in representations and warranties associated with our loan sale or servicing contracts.

Table 7.6: Off-Balance Sheet Loans Sold or Securitized

| (in millions) | Total loans     |                 | Delinquent loans and foreclosed assets (1) |                 | Net charge-offs<br>Nine months<br>ended September<br>30, |      |
|---------------|-----------------|-----------------|--|-----------------|--|------|
|               | Sep 30,<br>2017 | Dec 31,<br>2016 | Sep 30,<br>2017                            | Dec 31,<br>2016 | 2017   | 2016 |
|               |                 |                 |  |                 |  |      |

|   |             |           |        |        |       |     |  |
|---|-------------|-----------|--------|--------|-------|-----|--|
| Commercial:   |             |           |        |        |       |     |  |
| Real estate mortgage                                  | \$98,350    | 106,745   | 2,879  | 3,325  | 718   | 210 |  |
| Total commercial                                      | 98,350      | 106,745   | 2,879  | 3,325  | 718   | 210 |  |
| Consumer:   |             |           |        |        |       |     |  |
| Real estate 1-4 family first mortgage                 | 1,135,409   | 1,160,191 | 12,434 | 16,453 | 546   | 764 |  |
| Total consumer  | 1,135,409   | 1,160,191 | 12,434 | 16,453 | 546   | 764 |  |
| Total off-balance sheet sold or securitized loans (2) | \$1,233,759 | 1,266,936 | 15,313 | 19,778 | 1,264 | 974 |  |

(1) Includes \$1.4 billion and \$1.7 billion of commercial foreclosed assets and \$1.1 billion and \$1.8 billion of consumer foreclosed assets at September 30, 2017, and December 31, 2016, respectively.

At September 30, 2017, and December 31, 2016, the table includes total loans of \$1.2 trillion at both dates, delinquent loans of \$7.6 billion and \$9.8 billion, and foreclosed assets of \$730 million and \$1.3 billion, respectively, for FNMA, FHLMC and GNMA. Net charge-offs exclude loans sold to FNMA, FHLMC and GNMA as we do not service or manage the underlying real estate upon foreclosure and, as such, do not have access to net charge-off information.



## Transactions with Consolidated VIEs and Secured Borrowings

Table 7.7 presents a summary of financial assets and liabilities for asset transfers accounted for as secured borrowings and involvements with consolidated VIEs. Carrying values of “Assets” are presented using GAAP measurement methods, which may include fair value, credit impairment or other adjustments, and

therefore in some instances will differ from “Total VIE assets.” For VIEs that obtain exposure synthetically through derivative instruments, the remaining notional amount of the derivative is included in “Total VIE assets.” On the consolidated balance sheet, we separately disclose the consolidated assets of certain VIEs that can only be used to settle the liabilities of those VIEs.

Table 7.7: Transactions with Consolidated VIEs and Secured Borrowings

| (in millions)   | Total<br>VIE<br>assets | Carrying value |             | Noncontrolling<br>interests | Net assets |
|---|------------------------|----------------|-------------|-----------------------------|------------|
|   |                        | Assets         | Liabilities |                             |            |
| September 30, 2017                                      |                        |                |             |                             |            |
| Secured borrowings:                                     |                        |                |             |                             |            |
| Municipal tender option bond securitizations            | \$670                  | 572            | (539)       | ) —                         | 33         |
| Commercial real estate loans                            | 392                    | 392            | (388)       | ) —                         | 4          |
| Residential mortgage securitizations                    | 119                    | 116            | (117)       | ) —                         | (1)        |
| Total secured borrowings                                | 1,181                  | 1,080          | (1,044)     | ) —                         | 36         |
| Consolidated VIEs:                                      |                        |                |             |                             |            |
| Commercial and industrial loans and leases              | 8,546                  | 8,051          | (1,425)     | ) (14)                      | ) 6,612    |
| Nonconforming residential mortgage loan securitizations | 2,812                  | 2,486          | (837)       | ) —                         | 1,649      |
| Commercial real estate loans                            | 2,120                  | 2,120          | —           | —                           | 2,120      |
| Structured asset finance                                | 13                     | 8              | (6)         | ) —                         | 2          |
| Investment funds  | 135                    | 135            | (1)         | ) (72)                      | ) 62       |
| Other   | 118                    | 104            | (1)         | ) (33)                      | ) 70       |
| Total consolidated VIEs                                 | 13,744                 | 12,904         | (2,270)     | ) (119)                     | ) 10,515   |
| Total secured borrowings and consolidated VIEs          | \$14,925               | 13,984         | (3,314)     | ) (119)                     | ) 10,551   |
| December 31, 2016                                       |                        |                |             |                             |            |
| Secured borrowings:                                     |                        |                |             |                             |            |
| Municipal tender option bond securitizations            | \$1,473                | 998            | (907)       | ) —                         | 91         |
| Residential mortgage securitizations                    | 139                    | 138            | (136)       | ) —                         | 2          |
| Total secured borrowings                                | 1,612                  | 1,136          | (1,043)     | ) —                         | 93         |
| Consolidated VIEs:                                      |                        |                |             |                             |            |
| Commercial and industrial loans and leases              | 8,821                  | 8,623          | (2,819)     | ) (14)                      | ) 5,790    |
| Nonconforming residential mortgage loan securitizations | 3,349                  | 2,974          | (1,003)     | ) —                         | 1,971      |
| Commercial real estate loans                            | 1,516                  | 1,516          | —           | —                           | 1,516      |
| Structured asset finance                                | 23                     | 13             | (9)         | ) —                         | 4          |
| Investment funds  | 142                    | 142            | (2)         | ) (67)                      | ) 73       |
| Other   | 166                    | 146            | (1)         | ) (57)                      | ) 88       |
| Total consolidated VIEs                                 | 14,017                 | 13,414         | (3,834)     | ) (138)                     | ) 9,442    |
| Total secured borrowings and consolidated VIEs          | \$15,629               | 14,550         | (4,877)     | ) (138)                     | ) 9,535    |

INVESTMENT FUNDS Subsequent to adopting ASU 2015-02 (Amendments to the Consolidation Analysis) in first quarter 2016, we consolidate certain investment funds because we have both the power to manage fund assets and hold variable interests that are considered significant.

OTHER CONSOLIDATED VIE STRUCTURES In addition to the structure types included in the previous table, at December 31, 2016, we had approximately \$6.0 billion of private placement debt financing issued through a consolidated VIE. The issuance was classified as long-term debt in our consolidated financial statements. At

December 31, 2016, we pledged approximately \$434 million in loans (principal and interest eligible to be capitalized) and \$6.1 billion in available-for-sale securities to collateralize the VIE's borrowings. These assets were not transferred to the VIE, and accordingly we excluded the VIE from the previous table. During second quarter 2017, the private

placement debt financing was repaid, and the entity was no longer considered a VIE.

For complete descriptions of our accounting for transfers accounted for as secured borrowings and involvements with consolidated VIEs, see Note 8 (Securitizations and Variable Interest Entities) to Financial Statements in our 2016 Form 10-K.

## Note 8: Mortgage Banking Activities (continued)

## Note 8: Mortgage Banking Activities

Mortgage banking activities, included in the Community Banking and Wholesale Banking operating segments, consist of residential and commercial mortgage originations, sale activity and servicing.

We apply the amortization method to commercial MSRs and apply the fair value method to residential MSRs. Table 8.1 presents the changes in MSRs measured using the fair value method.

Table 8.1: Analysis of Changes in Fair Value MSRs

| (in millions)  | Quarter ended |        | Nine months   |          |
|--|---------------|--------|---------------|----------|
|  | Sep 30,       |        | ended Sep 30, |          |
|  | 2017          | 2016   | 2017          | 2016     |
| Fair value, beginning of period  | \$12,789      | 10,396 | 12,959        | 12,415   |
| Purchases  | 541           | —      | 541           | —        |
| Servicing from securitizations or asset transfers (1)                  | 605           | 609    | 1,624         | 1,452    |
| Sales and other (2)  | 64            | 4      | 9             | (18 )    |
| Net additions  | 1,210         | 613    | 2,174         | 1,434    |
| Changes in fair value:   |               |        |               |          |
| Due to changes in valuation model inputs or assumptions:               |               |        |               |          |
| Mortgage interest rates (3)  | (171 )        | 39     | (324 )        | (1,824 ) |
| Servicing and foreclosure costs (4)                                    | 60            | (10 )  | 73            | 13       |
| Prepayment estimates and other (5)                                     | (31 )         | (37 )  | (77 )         | 22       |
| Net changes in valuation model inputs or assumptions                   | (142 )        | (8 )   | (328 )        | (1,789 ) |
| Changes due to collection/realization of expected cash flows over time | (519 )        | (586 ) | (1,467 )      | (1,645 ) |
| Total changes in fair value  | (661 )        | (594 ) | (1,795 )      | (3,434 ) |
| Fair value, end of period  | \$13,338      | 10,415 | 13,338        | 10,415   |

(1) Includes impacts associated with exercising our right to repurchase delinquent loans from GNMA loan securitization pools.

(2) Includes sales and transfers of MSRs, which can result in an increase of total reported MSRs if the sales or transfers are related to nonperforming loan portfolios or portfolios with servicing liabilities.

(3) Includes prepayment speed changes as well as other valuation changes due to changes in mortgage interest rates (such as changes in estimated interest earned on custodial deposit balances).

(4) Includes costs to service and unreimbursed foreclosure costs.

(5) Represents changes driven by other valuation model inputs or assumptions including prepayment speed estimation

(5) changes and other assumption updates. Prepayment speed estimation changes are influenced by observed changes in borrower behavior and other external factors that occur independent of interest rate changes.

Table 8.2 presents the changes in amortized MSRs.

Table 8.2: Analysis of Changes in Amortized MSRs

| (in millions)                                     | Quarter ended |       | Nine months |        |
|---|---------------|-------|-------------|--------|
|   | Sep 30,       |       | ended Sep   |        |
|   | 2017          | 2016  | 2017        | 2016   |
| Balance, beginning of period                      | \$1,399       | 1,353 | 1,406       | 1,308  |
| Purchases   | 31            | 18    | 75          | 63     |
| Servicing from securitizations or asset transfers | 41            | 69    | 123         | 204    |
| Amortization                                      | (65 )         | (67 ) | (198 )      | (202 ) |
| Balance, end of period (1)                        | \$1,406       | 1,373 | 1,406       | 1,373  |

Fair value of amortized MSR:

|                     |         |       |       |       |
|---------------------|---------|-------|-------|-------|
| Beginning of period | \$1,989 | 1,620 | 1,956 | 1,680 |
| End of period       | 1,990   | 1,627 | 1,990 | 1,627 |

Commercial amortized MSR are evaluated for impairment purposes by the following risk strata: agency (GSEs) (1) for multi-family properties and non-agency. There was no valuation allowance recorded for the periods presented on the commercial amortized MSR.

We present the components of our managed servicing portfolio in Table 8.3 at unpaid principal balance for loans serviced and subserviced for others and at book value for owned loans serviced.

Table 8.3: Managed Servicing Portfolio

| (in billions)                                     | Sep 30,<br>2017 | Dec 31, 2016 |
|---|-----------------|--------------|
| Residential mortgage servicing:                   |                 |              |
| Serviced for others                               | \$ 1,223        | 1,205        |
| Owned loans serviced                              | 340             | 347          |
| Subserviced for others                            | 3               | 8            |
| Total residential servicing                       | 1,566           | 1,560        |
| Commercial mortgage servicing:                    |                 |              |
| Serviced for others                               | 480             | 479          |
| Owned loans serviced                              | 128             | 132          |
| Subserviced for others                            | 8               | 8            |
| Total commercial servicing                        | 616             | 619          |
| Total managed servicing portfolio                 | \$2,182         | 2,179        |
| Total serviced for others                         | \$ 1,703        | 1,684        |
| Ratio of MSR to related loans serviced for others | 0.87            | % 0.85       |

Table 8.4 presents the components of mortgage banking noninterest income.

Table 8.4: Mortgage Banking Noninterest Income

| (in millions)  | Quarter ended |               | Nine months   |               |         |
|--|---------------|---------------|---------------|---------------|---------|
|  | Sep 30,       | ended Sep 30, | ended Sep 30, | ended Sep 30, |         |
|  | 2017          | 2016          | 2017          | 2016          |         |
| Servicing income, net:   |               |               |               |               |         |
| Servicing fees:  |               |               |               |               |         |
| Contractually specified servicing fees                                 | \$889         | 954           | 2,696         | 2,857         |         |
| Late charges   | 41            | 45            | 133           | 135           |         |
| Ancillary fees   | 51            | 56            | 160           | 171           |         |
| Unreimbursed direct servicing costs (1)                                | (186 )        | (177 )        | (430 )        | (533 )        |         |
| Net servicing fees   | 795           | 878           | 2,559         | 2,630         |         |
| Changes in fair value of MSR carried at fair value:                    |               |               |               |               |         |
| Due to changes in valuation model inputs or assumptions (2)            | (A)           | (142 )        | (8 )          | (328 )        | (1,789) |
| Changes due to collection/realization of expected cash flows over time |               | (519 )        | (586 )        | (1,467)       | (1,645) |
| Total changes in fair value of MSR carried at fair value               |               | (661 )        | (594 )        | (1,795)       | (3,434) |
| Amortization   |               | (65 )         | (67 )         | (198 )        | (202 )  |
| Net derivative gains from economic hedges (3)                          | (B)           | 240           | 142           | 599           | 2,575   |
| Total servicing income, net  |               | 309           | 359           | 1,165         | 1,569   |
| Net gains on mortgage loan origination/sales activities                |               | 737           | 1,308         | 2,257         | 3,110   |
| Total mortgage banking noninterest income                              |               | \$1,046       | 1,667         | 3,422         | 4,679   |
| Market-related valuation changes to MSR, net of hedge results (2)(3)   | (A)+(B)       | \$98          | 134           | 271           | 786     |

(1) Includes costs associated with foreclosures, unreimbursed interest advances to investors, and other interest costs.

(2) Refer to the analysis of changes in fair value MSR presented in Table 8.1 in this Note for more detail.

(3) Represents results from economic hedges used to hedge the risk of changes in fair value of MSR. See Note 12

(3) (Derivatives Not Designated as Hedging Instruments) for additional discussion and detail.



## Note 8: Mortgage Banking Activities (continued)

Table 8.5 summarizes the changes in our liability for mortgage loan repurchase losses. This liability is in “Accrued expenses and other liabilities” in our consolidated balance sheet and adjustments to the repurchase liability are recorded in net gains on mortgage loan origination/sales activities in “Mortgage banking” in our consolidated income statement. Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that is reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable

loss, and is based on currently available information, significant judgment, and a number of assumptions that are subject to change. The high end of this range of reasonably possible losses exceeded our recorded liability by \$180 million at September 30, 2017, and was determined based upon modifying the assumptions (particularly to assume significant changes in investor repurchase demand practices) used in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions.

Table 8.5: Analysis of Changes in Liability for Mortgage Loan Repurchase Losses

|                                  | Quarter<br>ended Sep<br>30, |       | Nine<br>months<br>ended Sep<br>30, |        |
|----------------------------------|-----------------------------|-------|------------------------------------|--------|
| (in millions)                    | 2017                        | 2016  | 2017                               | 2016   |
| Balance, beginning of period     | \$178                       | 255   | 229                                | 378    |
| Assumed with MSR purchases (1)   | 10                          | —     | 10                                 | —      |
| Provision for repurchase losses: |                             |       |                                    |        |
| Loan sales                       | 6                           | 11    | 20                                 | 26     |
| Change in estimate (2)           | (12 )                       | (24 ) | (65 )                              | (132 ) |
| Net reductions to provision      | (6 )                        | (13 ) | (45 )                              | (106 ) |
| Losses                           | (3 )                        | (3 )  | (15 )                              | (33 )  |
| Balance, end of period           | \$179                       | 239   | 179                                | 239    |

(1) Represents repurchase liability associated with portfolio of loans underlying mortgage servicing rights acquired during the period.

(2) Results from changes in investor demand and mortgage insurer practices, credit deterioration and changes in the financial stability of correspondent lenders.

## Note 9: Intangible Assets

Table 9.1 presents the gross carrying value of intangible assets and accumulated amortization.

Table 9.1: Intangible Assets

| (in millions)                               | September 30, 2017   |                          |                    | December 31, 2016    |                          |                    |
|---|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|   | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| Amortized intangible assets (1):            |                      |                          |                    |                      |                          |                    |
| MSRs (2)                                    | \$3,793              | (2,387)                  | ) 1,406            | 3,595                | (2,189)                  | ) 1,406            |
| Core deposit intangibles                    | 12,834               | (11,853)                 | ) 981              | 12,834               | (11,214)                 | ) 1,620            |
| Customer relationship and other intangibles | 3,991                | (3,073)                  | ) 918              | 3,928                | (2,839)                  | ) 1,089            |
| Total amortized intangible assets           | \$20,618             | (17,313)                 | ) 3,305            | 20,357               | (16,242)                 | ) 4,115            |
| Unamortized intangible assets:              |                      |                          |                    |                      |                          |                    |
| MSRs (carried at fair value) (2)            | \$13,338             |                          |                    | 12,959               |                          |                    |
| Goodwill                                    | 26,581               |                          |                    | 26,693               |                          |                    |
| Trademark                                   | 14                   |                          |                    | 14                   |                          |                    |

(1) Excludes fully amortized intangible assets.

(2) See Note 8 (Mortgage Banking Activities) for additional information on MSRs.

Table 9.2 provides the current year and estimated future amortization expense for amortized intangible assets. We based our projections of amortization expense shown below on existing

asset balances at September 30, 2017. Future amortization expense may vary from these projections.

Table 9.2: Amortization Expense for Intangible Assets

| (in millions)                                 | Amortized MSRs | Core deposit intangibles | Customer relationship and other intangibles (1) | Total |
|---|----------------|--------------------------|---|-------|
| Nine months ended September 30, 2017 (actual) | \$ 198         | 639                      | 235   | 1,072 |
| Estimate for the remainder of 2017            | \$ 64          | 212                      | 76  | 352   |
| Estimate for year ended December 31,          |                |                          |   |       |
| 2018  | 240            | 769                      | 301   | 1,310 |
| 2019  | 212            | —                        | 116   | 328   |
| 2020  | 192            | —                        | 96  | 288   |
| 2021  | 166            | —                        | 82  | 248   |
| 2022  | 146            | —                        | 68  | 214   |

(1) The nine months ended September 30, 2017 balance includes \$11 million for lease intangible amortization.



Table 9.3 shows the allocation of goodwill to our reportable operating segments.

Table 9.3: Goodwill

| (in millions)   | Community<br>Banking | Wholesale<br>Banking | Wealth and Investment<br>Management | Consolidated<br>Company |
|---|----------------------|----------------------|-------------------------------------|-------------------------|
| December 31, 2015   | \$ 16,849            | 7,475                | 1,205                               | 25,529                  |
| Reduction in goodwill related to divested<br>businesses and other | —                    | (84                  | ) (2                                | ) (86                   |
| Goodwill from business combinations                               | —                    | 1,245                | —                                   | 1,245                   |
| September 30, 2016  | \$ 16,849            | 8,636                | 1,203                               | 26,688                  |
| December 31, 2016   | \$ 16,849            | 8,585                | 1,259                               | 26,693                  |
| Reclassification of goodwill held for sale to<br>Other Assets (1) | —                    | (116                 | ) —                                 | (116                    |
| Reduction in goodwill related to divested<br>businesses and other | —                    | (20                  | ) —                                 | (20                     |
| Goodwill from business combinations                               | —                    | —                    | 24                                  | 24                      |
| September 30, 2017 (1)  | \$ 16,849            | 8,449                | 1,283                               | 26,581                  |

Goodwill reclassified to held-for-sale in other assets of \$116 million for the nine months ended September 30, 2017 relates to the sales agreement for Wells Fargo Insurance Services USA (and related businesses) and Wells Fargo Shareowner Services. No goodwill was classified as held-for-sale in other assets at December 31, 2016 and 2015.

We assess goodwill for impairment at a reporting unit level, which is one level below the operating segments. See Note 18 (Operating Segments) for further information on management reporting.

## Note 10: Guarantees, Pledged Assets and Collateral

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 arrangements. For complete

descriptions of our guarantees, see Note 14 (Guarantees, Pledged Assets and Collateral) to Financial Statements in our 2016 Form 10-K. Table 10.1 shows carrying value, maximum exposure to loss on our guarantees and the related non-investment grade amounts.

Table 10.1: Guarantees – Carrying Value and Maximum Exposure to Loss

| (in millions)                                     | Carrying value of obligation (asset) | Maximum exposure to loss    |  |  |                          | Total  | Non-investment grade |
|---|--------------------------------------|-----------------------------|--|--|--------------------------|--------|----------------------|
|   |                                      | Expires in one year or less | Expires after one year through three years | Expires after three years through five years | Expires after five years |        |                      |
| September 30, 2017                                |                                      |                             |  |  |                          |        |                      |
| Standby letters of credit (1)                     | \$ 37                                | 14,045                      | 8,621                                      | 3,251  | 689                      | 26,606 | 8,325                |
| Securities lending and other indemnifications (2) | —                                    | —                           | —  | 2  | 929                      | 931    | 2                    |
| Written put options (3)                           | (407)                                | 15,576                      | 11,921                                     | 4,392  | 1,260                    | 33,149 | 19,817               |
| Loans and MHFS sold with recourse (4)             | 51                                   | 203                         | 508  | 914  | 9,160                    | 10,785 | 7,964                |
| Factoring guarantees (5)                          | —                                    | 775                         | —  | —  | —                        | 775    | 711                  |
| Other guarantees                                  | 1                                    | 4                           | 4  | 2  | 4,093                    | 4,103  | 7                    |
| Total guarantees                                  | \$ (318)                             | 30,603                      | 21,054                                     | 8,561  | 16,131                   | 76,349 | 36,826               |
| December 31, 2016                                 |                                      |                             |  |  |                          |        |                      |
| Standby letters of credit (1)                     | \$ 38                                | 16,050                      | 8,727                                      | 3,194  | 658                      | 28,629 | 9,898                |
| Securities lending and other indemnifications (2) | —                                    | —                           | —  | 1  | 1,166                    | 1,167  | 2                    |
| Written put options (3)                           | 37                                   | 10,427                      | 10,805                                     | 4,573  | 1,216                    | 27,021 | 15,915               |
| Loans and MHFS sold with recourse (4)             | 55                                   | 84                          | 637  | 947  | 8,592                    | 10,260 | 7,228                |
| Factoring guarantees (5)                          | —                                    | 1,109                       | —  | —  | —                        | 1,109  | 1,109                |
| Other guarantees                                  | 6                                    | 19                          | 21   | 17   | 3,580                    | 3,637  | 15                   |
| Total guarantees                                  | \$ 136                               | 27,689                      | 20,190                                     | 8,732  | 15,212                   | 71,823 | 34,167               |

Total maximum exposure to loss includes direct pay letters of credit (DPLCs) of \$8.6 billion and \$9.2 billion at September 30, 2017, and December 31, 2016, respectively. We issue DPLCs to provide credit enhancements for certain bond issuances. Beneficiaries (bond trustees) may draw upon these instruments to make scheduled principal and interest payments, redeem all outstanding bonds because a default event has occurred, or for other reasons as permitted by the agreement. We also originate multipurpose lending commitments under which borrowers have the option to draw on the facility in one of several forms, including as a standby letter of credit. Total maximum exposure to loss includes the portion of these facilities for which we have issued standby letters of credit under the commitments.

(1) Includes indemnifications provided to certain third-party clearing agents. Outstanding customer obligations under these arrangements were \$92 million and \$175 million with related collateral of \$837 million and \$991 million at September 30, 2017, and December 31, 2016, respectively. Estimated maximum exposure to loss was \$929 million at September 30, 2017 and \$1.2 billion at December 31, 2016.

(2) Written put options, which are in the form of derivatives, are also included in the derivative disclosures in Note 12 (Derivatives).

(3)

(4)

Represent recourse provided, predominantly to the GSEs, on loans sold under various programs and arrangements. Under these arrangements, we repurchased \$1 million and \$3 million respectively, of loans associated with these agreements in the third quarter and first nine months of 2017, and \$2 million and \$4 million in the same periods of 2016, respectively.

- (5) Consists of guarantees made under certain factoring arrangements to purchase trade receivables from third parties, generally upon their request, if receivable debtors default on their payment obligations.

“Maximum exposure to loss” and “Non-investment grade” are required disclosures under GAAP. Non-investment grade represents those guarantees on which we have a higher risk of being required to perform under the terms of the guarantee. If the underlying assets under the guarantee are non-investment grade (that is, an external rating that is below investment grade or an internal credit default grade that is equivalent to a below investment grade external rating), we consider the risk of performance to be high. Internal credit default grades are determined based upon the same credit policies that we use to evaluate the risk of payment or performance when making loans and other extensions of credit. Credit quality indicators we usually consider in evaluating risk of payments or performance are described in Note 5 (Loans and Allowance for Credit Losses).

Maximum exposure to loss represents the estimated loss that would be incurred under an assumed hypothetical circumstance, despite what we believe is a remote possibility, where the value of our interests and any associated collateral declines to zero. Maximum exposure to loss estimates in Table 10.1 do not reflect economic hedges or collateral we could use to offset or recover losses we may incur under our guarantee agreements. Accordingly, this required disclosure is not an indication of expected loss. We believe the carrying value, which is either fair value for derivative-related products or the allowance for lending-related commitments, is more representative of our exposure to loss than maximum exposure to loss.

## Note 10: Guarantees, Pledged Assets and Collateral (continued)

## Pledged Assets

As part of our liquidity management strategy, we pledge various assets to secure trust and public deposits, borrowings and letters of credit from the FHLB and FRB, securities sold under agreements to repurchase (repurchase agreements), securities lending arrangements, and for other purposes as required or permitted by law or insurance statutory requirements. The types of collateral we pledge include securities issued by federal agencies, GSEs, domestic and foreign companies and various commercial and consumer loans. Table 10.2 provides the total carrying amount of pledged assets by asset type and pledged off-

balance sheet securities for securities financings. The table excludes pledged consolidated VIE assets of \$12.9 billion and \$13.4 billion at September 30, 2017, and December 31, 2016, respectively, which can only be used to settle the liabilities of those entities. The table also excludes \$1.1 billion in assets pledged in transactions with VIE's accounted for as secured borrowings at both September 30, 2017, and December 31, 2016, respectively. See Note 7 (Securitizations and Variable Interest Entities) for additional information on consolidated VIE assets and secured borrowings.

Table 10.2: Pledged Assets

| (in millions)                         | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---------------------------------------|-----------------|-----------------|
| Trading assets and other (1)          | \$100,160       | 84,603          |
| Investment securities (2)             | 67,142          | 90,946          |
| Mortgages held for sale and loans (3) | 480,422         | 516,112         |
| Total pledged assets                  | \$647,724       | 691,661         |

Consists of trading assets of \$40.1 billion and \$33.2 billion at September 30, 2017, and December 31, 2016, respectively and off-balance sheet securities of \$60.1 billion and \$51.4 billion as of the same dates, respectively, (1) that are pledged as collateral for repurchase agreements and other securities financings. Total trading assets and other includes \$100.1 billion and \$84.2 billion at September 30, 2017, and December 31, 2016, respectively that permit the secured parties to sell or repledge the collateral.

Includes carrying value of \$5.0 billion and \$6.2 billion (fair value of \$5.0 billion and \$6.2 billion) in collateral for repurchase agreements at September 30, 2017, and December 31, 2016, respectively, which are pledged under agreements that do not permit the secured parties to sell or repledge the collateral. Also includes \$84 million and (2) \$617 million in collateral pledged under repurchase agreements at September 30, 2017, and December 31, 2016, respectively, that permit the secured parties to sell or repledge the collateral. All other pledged securities are pursuant to agreements that do not permit the secured party to sell or repledge the collateral.

Includes mortgages held for sale of \$1.3 billion and \$15.8 billion at September 30, 2017, and December 31, 2016, respectively. Substantially all of the total mortgages held for sale and loans are pledged under agreements that do (3) not permit the secured parties to sell or repledge the collateral. Amounts exclude \$1.3 billion and \$1.2 billion at September 30, 2017, and December 31, 2016, respectively, of pledged loans recorded on our balance sheet representing certain delinquent loans that are eligible for repurchase from GNMA loan securitizations.

### Securities Financing Activities

We enter into resale and repurchase agreements and securities borrowing and lending agreements (collectively, “securities financing activities”) typically to finance trading positions (including securities and derivatives), acquire securities to cover short trading positions, accommodate customers’ financing needs, and settle other securities obligations. These activities are conducted through our broker dealer subsidiaries and to a lesser extent through other bank entities. Most of our securities financing activities involve high quality, liquid securities such as U.S. Treasury securities and government agency securities, and to a lesser extent, less liquid securities, including equity securities, corporate bonds and asset-backed securities. We account for these transactions as collateralized financings in which we typically receive or pledge securities as collateral. We believe these financing transactions generally do not have material credit risk given the collateral provided and the related monitoring processes.

**OFFSETTING OF RESALE AND REPURCHASE AGREEMENTS AND SECURITIES BORROWING AND LENDING AGREEMENTS** Table 10.3 presents resale and repurchase agreements subject to master repurchase agreements (MRA) and securities borrowing and lending agreements subject to master securities lending agreements (MSLA). We account for

transactions subject to these agreements as collateralized financings, and those with a single counterparty are presented net on our balance sheet, provided certain criteria are met that permit balance sheet netting. Most transactions subject to these agreements do not meet those criteria and thus are not eligible for balance sheet netting. Collateral we pledged consists of non-cash instruments, such as securities or loans, and is not netted on the balance sheet against the related liability. Collateral we received includes securities or loans and is not recognized on our balance sheet. Collateral pledged or received may be increased or decreased over time to maintain certain contractual thresholds as the assets underlying each arrangement fluctuate in value. Generally, these agreements require collateral to exceed the asset or liability recognized on the balance sheet. The following table includes the amount of collateral pledged or received related to exposures subject to enforceable MRAs or MSLAs. While these agreements are typically over-collateralized, U.S. GAAP requires disclosure in this table to limit the reported amount of such collateral to the amount of the related recognized asset or liability for each counterparty.

In addition to the amounts included in Table 10.3, we also have balance sheet netting related to derivatives that is disclosed in Note 12 (Derivatives).

Table 10.3: Offsetting – Resale and Repurchase Agreements

| (in millions)   | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| <b>Assets:</b>  |                 |                 |
| Resale and securities borrowing agreements                          |                 |                 |
| Gross amounts recognized  | \$ 109,529      | 91,123          |
| Gross amounts offset in consolidated balance sheet (1)              | (22,954 )       | (11,680)        |
| Net amounts in consolidated balance sheet (2)                       | 86,575          | 79,443          |
| Collateral not recognized in consolidated balance sheet (3)         | (85,777 )       | (78,837)        |
| Net amount (4)  | \$ 798          | 606             |
| <b>Liabilities:</b>   |                 |                 |
| Repurchase and securities lending agreements                        |                 |                 |
| Gross amounts recognized (5)  | \$ 102,281      | 89,111          |
| Gross amounts offset in consolidated balance sheet (1)              | (22,954 )       | (11,680)        |
| Net amounts in consolidated balance sheet (6)                       | 79,327          | 77,431          |
| Collateral pledged but not netted in consolidated balance sheet (7) | (79,060 )       | (77,184)        |
| Net amount (8)  | \$ 267          | 247             |

(1) Represents recognized amount of resale and repurchase agreements with counterparties subject to enforceable MRAs that have been offset in the consolidated balance sheet.

(2) At September 30, 2017, and December 31, 2016, includes \$66.0 billion and \$58.1 billion, respectively, classified on our consolidated balance sheet in federal funds sold, securities purchased under resale

agreements and other short-term investments and \$20.6 billion and \$21.3 billion, respectively, in loans.

- Represents the fair value of collateral we have received under enforceable MRAs or MSLAs, limited for table presentation purposes to the amount of the recognized asset due from each counterparty. At September 30, 2017, and December 31, 2016, we have received total collateral with a fair value of \$120.5 billion and \$102.3 billion, respectively, all of which, we have the right to sell or repledge. These amounts include securities we have sold or repledged to others with a fair value of \$58.4 billion at September 30, 2017, and \$50.0 billion at December 31, 2016.
- Represents the amount of our exposure that is not collateralized and/or is not subject to an enforceable MRA or MSLA.
- For additional information on underlying collateral and contractual maturities, see the “Repurchase and Securities Lending Agreements” section in this Note.
- Amount is classified in short-term borrowings on our consolidated balance sheet.
- Represents the fair value of collateral we have pledged, related to enforceable MRAs or MSLAs, limited for table presentation purposes to the amount of the recognized liability owed to each counterparty. At September 30, 2017, and December 31, 2016, we have pledged total collateral with a fair value of \$104.2 billion and \$91.4 billion, respectively, of which, the counterparty does not have the right to sell or repledge \$5.0 billion as of September 30, 2017 and \$6.6 billion as of December 31, 2016.
- Represents the amount of our obligation that is not covered by pledged collateral and/or is not subject to an enforceable MRA or MSLA.

## Note 10: Guarantees, Pledged Assets and Collateral (continued)

**REPURCHASE AND SECURITIES LENDING AGREEMENTS** Securities sold under repurchase agreements and securities lending arrangements are effectively short-term collateralized borrowings. In these transactions, we receive cash in exchange for transferring securities as collateral and recognize an obligation to reacquire the securities for cash at the transaction's maturity. These types of transactions create risks, including (1) the counterparty may fail to return the securities at maturity, (2) the fair value of the securities transferred may decline below the amount of our obligation to reacquire the securities, and therefore create an obligation for us to pledge additional amounts, and (3) the counterparty may accelerate the maturity

on demand, requiring us to reacquire the security prior to contractual maturity. We attempt to mitigate these risks by the fact that most of our securities financing activities involve highly liquid securities, we underwrite and monitor the financial strength of our counterparties, we monitor the fair value of collateral pledged relative to contractually required repurchase amounts, and we monitor that our collateral is properly returned through the clearing and settlement process in advance of our cash repayment. Table 10.4 provides the underlying collateral types of our gross obligations under repurchase and securities lending agreements.

Table 10.4: Underlying Collateral Types of Gross Obligations

| (in millions)  | Sep 30,<br>2017 | Dec 31,<br>2016 |
|--|-----------------|-----------------|
| Repurchase agreements:                               |                 |                 |
| Securities of U.S. Treasury and federal agencies     | \$44,312        | 34,335          |
| Securities of U.S. States and political subdivisions | 120             | 81              |
| Federal agency mortgage-backed securities            | 33,456          | 32,669          |
| Non-agency mortgage-backed securities                | 1,548           | 2,167           |
| Corporate debt securities                            | 7,381           | 6,829           |
| Asset-backed securities                              | 1,873           | 3,010           |
| Equity securities                                    | 368             | 1,309           |
| Other  | 1,300           | 1,704           |
| Total repurchases                                    | 90,358          | 82,104          |
| Securities lending:                                  |                 |                 |
| Securities of U.S. Treasury and federal agencies     | 134             | 152             |
| Federal agency mortgage-backed securities            | 80              | 104             |
| Non-agency mortgage-backed securities                | —               | 1               |
| Corporate debt securities                            | 592             | 653             |
| Equity securities (1)                                | 11,117          | 6,097           |
| Total securities lending                             | 11,923          | 7,007           |
| Total repurchases and securities lending             | \$102,281       | 89,111          |

(1) Equity securities are generally exchange traded and either re-hypothecated under margin lending agreements or obtained through contemporaneous securities borrowing transactions with other counterparties.

Table 10.5 provides the contractual maturities of our gross obligations under repurchase and securities lending agreements.

Table 10.5: Contractual Maturities of Gross Obligations

| (in millions)                                | Overnight | Up to 30 days | 30-90 days | >90 days | Total gross obligation |
|--|-----------|---------------|------------|----------|------------------------|
| September 30, 2017                           |           |               |            |          |                        |
| Repurchase agreements                        | \$73,953  | 8,212         | 3,898      | 4,295    | 90,358                 |
| Securities lending                           | 9,765     | 405           | 1,753      | —        | 11,923                 |
| Total repurchases and securities lending (1) | \$83,718  | 8,617         | 5,651      | 4,295    | 102,281                |
| December 31, 2016                            |           |               |            |          |                        |
| Repurchase agreements                        | \$60,516  | 9,598         | 6,762      | 5,228    | 82,104                 |
| Securities lending                           | 5,565     | 167           | 1,275      | —        | 7,007                  |

Total repurchases and securities lending (1) \$66,081 9,765 8,037 5,228 89,111

Securities lending is executed under agreements that allow either party to terminate the transaction without notice, while repurchase agreements have a term structure to them that technically matures at a point in time. The (1) overnight/continuous repurchase agreements require election of both parties to roll the trade rather than the election to terminate the arrangement as in securities lending.



## Note 11: Legal Actions

Wells Fargo and certain of our subsidiaries are involved in a number of judicial, regulatory, arbitration, and other proceedings concerning matters arising from the conduct of our business activities, and many of those proceedings expose Wells Fargo to potential financial loss. These proceedings include actions brought against Wells Fargo and/or our subsidiaries with respect to corporate-related matters and transactions in which Wells Fargo and/or our subsidiaries were involved. In addition, Wells Fargo and our subsidiaries may be requested to provide information or otherwise cooperate with government authorities in the conduct of investigations of other persons or industry groups. Although there can be no assurance as to the ultimate outcome, Wells Fargo and/or our subsidiaries have generally denied, or believe we have a meritorious defense and will deny, liability in all significant legal actions pending against us, including the matters described below, and we intend to defend vigorously each case, other than matters we describe as having settled. We establish accruals for legal actions when potential losses associated with the actions become probable and the costs can be reasonably estimated. For such accruals, we record the amount we consider to be the best estimate within a range of potential losses that are both probable and estimable; however, if we cannot determine a best estimate, then we record the low end of the range of those potential losses. The actual costs of resolving legal actions may be substantially higher or lower than the amounts accrued for those actions.

**ATM ACCESS FEE LITIGATION** In October 2011, plaintiffs filed a putative class action, *Mackmin, et. al. v. Visa, Inc. et. al.*, against Wells Fargo & Company, Wells Fargo Bank, N.A., Visa, MasterCard, and several other banks in the United States District Court for the District of Columbia. Plaintiffs allege that the Visa and MasterCard requirement that if an ATM operator charges an access fee on Visa and MasterCard transactions, then that fee cannot be greater than the access fee charged for transactions on other networks violates antitrust rules. Plaintiffs seek treble damages, restitution, injunctive relief, and attorneys' fees where available under federal and state law. Two other antitrust cases which make similar allegations were filed in the same court, but these cases did not name Wells Fargo as a defendant. On February 13, 2013, the district court granted defendants' motions to dismiss the three actions. Plaintiffs appealed the dismissals and, on August 4, 2015, the United States Court of Appeals for the District of Columbia Circuit vacated the district court's decisions and remanded the three cases to the district court for further proceedings. On June 28, 2016, the United States Supreme Court granted defendants' petitions for writ of certiorari to review the decisions of the United States Court of Appeals for the District of Columbia. On November 17, 2016, the United States Supreme Court dismissed the petitions as improvidently granted, and the three cases returned to the district court for further proceedings.

**AUTOMOBILE LENDING MATTERS** As the Company centralizes operations in its dealer services business and tightens controls and oversight of third-party risk management, the Company anticipates it will identify and remediate issues related to historical practices concerning the origination, servicing, and/or collection of consumer automobile loans, including related insurance products. For example, in July 2017, the Company announced a plan to remediate customers who may have been

financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf. The Company determined that certain external vendor processes and operational controls were inadequate and, as a result, customers may have been charged premiums for CPI even if they were paying for their own vehicle insurance, as required, and in some cases the CPI premiums may have contributed to a default that led to their vehicle's repossession. The Company discontinued the practice of placing CPI in September 2016. Multiple putative class action cases alleging, among other things, unfair and deceptive practices relating to these CPI policies, have been filed against the Company and consolidated into one multi-district litigation in the United States District Court for the Central District of California. Further, a former team member has alleged retaliation for raising concerns regarding automobile lending practices. In addition, the Company has identified certain issues related to the unused portion of guaranteed automobile protection (GAP) waiver or insurance agreements between the dealer and, by assignment, the lender, which may result in refunds to customers in certain states. Allegations related to both the CPI and GAP programs are among the subjects of two shareholder derivative lawsuits filed in California state court. These and other issues related to the origination, servicing and/or collection of consumer automobile loans, including related insurance products, have also subjected the Company to formal or informal inquiries, investigations or examinations from federal and state government agencies.

**CONSUMER DEPOSIT ACCOUNT RELATED REGULATORY INVESTIGATION** The Consumer Financial Protection Bureau (the “CFPB”) has commenced an investigation into whether customers were unduly harmed by the Company’s procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the Company detected suspected fraudulent activity (by third-parties or account holders) that affected those accounts.

**INADVERTENT CLIENT INFORMATION DISCLOSURE** In July 2017, the Company inadvertently provided certain client information in response to a third-party subpoena issued in a civil litigation. The Company obtained permanent injunctions in New Jersey and New York state courts requiring the electronic data and all copies to be delivered to the New Jersey state court and the Company for safekeeping. The Company has made voluntary self-disclosure to various state and federal regulatory agencies. Notifications have been sent to clients whose personal identifying data was contained in the inadvertent production.

**INTERCHANGE LITIGATION** Plaintiffs representing a putative class of merchants have filed putative class actions, and individual merchants have filed individual actions, against Wells Fargo Bank, N.A., Wells Fargo & Company, Wachovia Bank, N.A. and Wachovia Corporation regarding the interchange fees associated with Visa and MasterCard payment card transactions. Visa, MasterCard and several other banks and bank holding companies are also named as defendants in these actions. These actions have been consolidated in the United States District Court for the Eastern District of New York. The amended and consolidated complaint asserts claims against defendants based on alleged violations of federal and state antitrust laws and seeks damages, as well as injunctive relief. Plaintiff merchants allege that Visa, MasterCard and payment card issuing banks unlawfully

## Note 11: Legal Actions (continued)

colluded to set interchange rates. Plaintiffs also allege that enforcement of certain Visa and MasterCard rules and alleged tying and bundling of services offered to merchants are anticompetitive. Wells Fargo and Wachovia, along with other defendants and entities, are parties to Loss and Judgment Sharing Agreements, which provide that they, along with other entities, will share, based on a formula, in any losses from the Interchange Litigation. On July 13, 2012, Visa, MasterCard and the financial institution defendants, including Wells Fargo, signed a memorandum of understanding with plaintiff merchants to resolve the consolidated class action and reached a separate settlement in principle of the consolidated individual actions. The settlement payments to be made by all defendants in the consolidated class and individual actions totaled approximately \$6.6 billion before reductions applicable to certain merchants opting out of the settlement. The class settlement also provided for the distribution to class merchants of 10 basis points of default interchange across all credit rate categories for a period of eight consecutive months. The district court granted final approval of the settlement, which was appealed to the United States Court of Appeals for the Second Circuit by settlement objector merchants. Other merchants opted out of the settlement and are pursuing several individual actions. On June 30, 2016, the Second Circuit vacated the settlement agreement and reversed and remanded the consolidated action to the United States District Court for the Eastern District of New York for further proceedings. On November 23, 2016, prior class counsel filed a petition to the United States Supreme Court, seeking review of the reversal of the settlement by the Second Circuit, and the Supreme Court denied the petition on March 27, 2017. On November 30, 2016, the district court appointed lead class counsel for a damages class and an equitable relief class. Several of the opt-out litigations were settled during the pendency of the Second Circuit appeal while others remain pending. Discovery is proceeding in the opt-out litigations and the remanded class cases.

**MORTGAGE BANKRUPTCY LOAN MODIFICATION LITIGATION** Plaintiffs, representing a putative class of mortgage borrowers who were debtors in Chapter 13 bankruptcy cases, filed a putative class action, Cotton, et al. v. Wells Fargo, et al, against Wells Fargo & Company and Wells Fargo Bank, N.A. in the United States Bankruptcy Court for the Western District of North Carolina on June 7, 2017. The plaintiffs allege that Wells Fargo improperly and unilaterally modified the mortgages of borrowers who were debtors in Chapter 13 bankruptcy cases. The plaintiffs allege that Wells Fargo implemented these modifications by improperly filing mortgage payment change notices in Chapter 13 bankruptcy cases, in violation of bankruptcy rules and process. The amended complaint asserts claims based on, among other things, alleged fraud, violations of bankruptcy rules and laws, and unfair and deceptive trade practices. The amended complaint seeks monetary damages, attorneys' fees, and declaratory and injunctive relief.

**MORTGAGE INTEREST RATE LOCK RELATED REGULATORY INVESTIGATION** The CFPB has commenced an investigation into the Company's policies and procedures regarding the circumstances in which the Company required customers to pay fees for the extension of interest rate lock periods for residential mortgages. On October 4, 2017, the Company announced plans to reach out to all home lending customers who paid fees for mortgage rate lock extensions requested from September 16, 2013, through February 28, 2017, and to refund customers who believe they shouldn't have paid those fees. The Company is named in two putative class actions, filed in the United States

District Courts for the Central District of California and the Northern District of California, alleging violations of federal and state consumer fraud statutes relating to mortgage rate lock extension fees. In addition, former team members have asserted claims, including in pending litigation, that they were terminated for raising concerns regarding these policies and procedures. Allegations related to mortgage interest rate lock extension fees are also among the subjects of two shareholder derivative lawsuits filed in California state court.

**MORTGAGE RELATED REGULATORY INVESTIGATIONS** Federal and state government agencies, including the United States Department of Justice (the "Department of Justice"), continue investigations or examinations of certain mortgage related activities of Wells Fargo and predecessor institutions. Wells Fargo, for itself and for predecessor institutions, has responded, and continues to respond, to requests from these agencies seeking information regarding the origination, underwriting and securitization of residential mortgages, including sub-prime mortgages. These agencies have advanced theories of purported liability with respect to certain of these activities. The Department of Justice and Wells Fargo continue to discuss the matter, including potential settlement of the Department of Justice's

concerns; however, litigation with these agencies, including with the Department of Justice, remains a possibility. Other financial institutions have entered into similar settlements with these agencies, the nature of which related to the specific activities of those financial institutions, including the imposition of significant financial penalties and remedial actions.

**OFAC RELATED INVESTIGATION** The Company has self-identified an issue whereby certain foreign banks utilized a Wells Fargo software-based solution to conduct import/export trade-related financing transactions with countries and entities prohibited by the Office of Foreign Assets Control (“OFAC”) of the United States Department of the Treasury. We do not believe any funds related to these transactions flowed through accounts at Wells Fargo as a result of the aforementioned conduct. The Company has made voluntary self-disclosures to OFAC and is cooperating with an inquiry from the Department of Justice.

**ORDER OF POSTING LITIGATION** Plaintiffs filed a series of putative class actions against Wachovia Bank, N.A. and Wells Fargo Bank, N.A., as well as many other banks, challenging the “high to low” order in which the banks post debit card transactions to consumer deposit accounts. Most of these actions were consolidated in multi-district litigation proceedings (the “MDL proceedings”) in the United States District Court for the Southern District of Florida. The court in the MDL proceedings has certified a class of putative plaintiffs, and Wells Fargo moved to compel arbitration of the claims of unnamed class members. The court denied the motions to compel arbitration on October 17, 2016. Wells Fargo has appealed this decision to the United States Court of Appeals for the Eleventh Circuit.

**RMBS TRUSTEE LITIGATION** In November 2014, a group of institutional investors (the “Institutional Investor Plaintiffs”), including funds affiliated with BlackRock, Inc., filed a putative class action in the United States District Court for the Southern District of New York against Wells Fargo Bank, N.A., alleging claims against the Company in its capacity as trustee for a number of residential mortgage-backed securities (RMBS) trusts (the “Federal Court Complaint”). Similar complaints have been filed against other trustees in various courts, including in the Southern District of New York, in New

York state court, and in other states, by RMBS investors. The Federal Court Complaint alleges that Wells Fargo Bank, N.A., as trustee, caused losses to investors and asserts causes of action based upon, among other things, the trustee's alleged failure to notify and enforce repurchase obligations of mortgage loan sellers for purported breaches of representations and warranties, notify investors of alleged events of default, and abide by appropriate standards of care following alleged events of default. Plaintiffs seek money damages in an unspecified amount, reimbursement of expenses, and equitable relief. In December 2014 and December 2015, certain other investors filed four complaints alleging similar claims against Wells Fargo Bank, N.A. in the Southern District of New York (the "Related Federal Cases"), and the various cases pending against Wells Fargo are proceeding before the same judge. On January 19, 2016, the Southern District of New York entered an order in connection with the Federal Court Complaint dismissing claims related to certain of the trusts at issue (the "Dismissed Trusts"). The Company's motion to dismiss the Federal Court Complaint and the complaints for the Related Federal Cases was granted in part and denied in part in March 2017. In May 2017, the Company filed third-party complaints against certain investment advisors affiliated with the Institutional Investor Plaintiffs seeking contribution with respect to claims alleged in the Federal Court Complaint. A complaint raising similar allegations to the Federal Court Complaint was filed in May 2016 in New York state court by a different plaintiff investor. In addition, the Institutional Investor Plaintiffs subsequently filed a complaint relating to the Dismissed Trusts and certain additional trusts in California state court (the "California Action"). The California Action was subsequently dismissed in September 2016. In December 2016, the Institutional Investor Plaintiffs filed a new putative class action complaint in New York state court in respect of 261 RMBS trusts, including the Dismissed Trusts, for which Wells Fargo Bank, N.A. serves or served as trustee (the "State Court Action"). The Company has moved to dismiss the State Court Action.

In July 2017, certain of the plaintiffs from the State Court Action filed a civil complaint relating to Wells Fargo Bank, N.A.'s setting aside reserves for legal fees and expenses in connection with the liquidation of eleven RMBS trusts at issue in the State Court Action. The complaint seeks, among other relief, declarations that Wells Fargo Bank, N.A. is not entitled to indemnification, the advancement of funds or the taking of reserves from trust funds for legal fees and expenses it incurs in defending the claims in the State Court Action. In September 2017, one of the plaintiffs in the Related Federal Cases filed a similar complaint in the Southern District of New York seeking declaratory and injunctive relief and money damages on an individual and class action basis.

**SALES PRACTICES MATTERS** Federal, state and local government agencies, including the Department of Justice, the United States Securities and Exchange Commission and the United States Department of Labor, and state attorneys general and prosecutors' offices, as well as Congressional committees, have undertaken formal or informal inquiries, investigations or examinations arising out of certain sales practices of the Company that were the subject of settlements with the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency and the Office of the Los Angeles City Attorney announced by the Company on September 8, 2016. The Company has responded, and

continues to respond, to requests from a number of the foregoing seeking information regarding these sales practices and the circumstances of the settlements and related matters.

In addition, a number of lawsuits have also been filed by non-governmental parties seeking damages or other remedies related to these sales practices. First, various class plaintiffs purporting to represent consumers who allege that they received products or services without their authorization or consent have brought separate putative class actions against the Company in the United States District Court for the Northern District of California and various other jurisdictions. In April 2017, the Company entered into a settlement agreement in the first-filed action, *Jabbari v. Wells Fargo Bank, N.A.*, to resolve claims regarding certain products or services provided without authorization or consent for the time period May 1, 2002 to April 20, 2017. Pursuant to the settlement, the Company will pay \$142 million for remediation, attorneys' fees, and settlement fund claims administration. In the unlikely event that the \$142 million settlement total is not enough to provide remediation, pay attorneys' fees, pay settlement fund claims administration costs, and have at least \$25 million left over to distribute to all class members, the Company will contribute additional funds to the settlement. In addition, in the unlikely event that the number of unauthorized accounts identified by settlement class members in the claims process and not disputed by the claims administrator exceeds plaintiffs' 3.5

million account estimate, the Company will proportionately increase the \$25 million reserve so that the ratio of reserve to unauthorized accounts is no less than what was implied by plaintiffs' estimate at the time of the district court's preliminary approval of the settlement in July 2017. A final approval hearing has been scheduled for the first quarter of 2018. Second, Wells Fargo shareholders are pursuing a consolidated securities fraud class action in the United States District Court for the Northern District of California alleging certain misstatements and omissions in the Company's disclosures related to sales practices matters. Third, Wells Fargo shareholders have brought numerous shareholder derivative lawsuits asserting breach of fiduciary duty claims, among others, against current and former directors and officers for their alleged failure to detect and prevent sales practices issues, which were consolidated into two separate actions in the United States District Court for the Northern District of California and California state court, as well as two separate actions in Delaware state court. Fourth, a range of employment litigation has been brought against Wells Fargo, including an Employee Retirement Income Security Act (ERISA) class action in the United States District Court for the District of Minnesota brought on behalf of 401(k) plan participants; class actions pending in the United States District Courts for the Northern District of California and Eastern District of New York on behalf of employees who allege that they protested sales practice misconduct and/or were terminated for not meeting sales goals; various wage and hour class actions brought in federal and state court in California, New Jersey, Florida, and Pennsylvania on behalf of non-exempt branch based employees alleging sales pressure resulted in uncompensated overtime; and multiple single plaintiff Sarbanes-Oxley Act complaints and state law whistleblower actions filed with the United States Department of Labor or in various state courts alleging adverse employment actions for raising sales practice misconduct issues.

**OUTLOOK** As described above, the Company establishes accruals for legal actions when potential losses associated with the actions become probable and the costs can be reasonably estimated. The high end of the range of reasonably possible potential losses in excess of the Company's accrual for probable

Note 11: Legal Actions (continued)

and estimable losses was approximately \$3.3 billion as of September 30, 2017. The high end of the range as of September 30, 2017, remained unchanged from June 30, 2017, reflecting a decrease from the \$1 billion discrete litigation accrual in third quarter 2017 for the Company's existing mortgage-related regulatory investigations, offset by the possibility of increased risk in a variety of matters, including the Company's existing mortgage-related regulatory investigations. The outcomes of legal actions are unpredictable and subject to significant uncertainties, and it is inherently difficult to determine whether any loss is probable or even possible. It is also inherently difficult to estimate the amount of any loss and there may be matters for which a loss is probable or reasonably possible but not currently estimable. Accordingly, actual losses may be in excess of the established accrual or the range of reasonably possible loss. Wells Fargo is unable to determine whether the ultimate resolution of either the mortgage related regulatory investigations or the sales practices matters will have a material adverse effect on its consolidated financial condition. Based on information currently available, advice of counsel, available insurance coverage and established reserves, Wells Fargo believes that the eventual outcome of other actions against Wells Fargo and/or its subsidiaries will not, individually or in the aggregate, have a material adverse effect on Wells Fargo's consolidated financial condition. However, it is possible that the ultimate resolution of a matter, if unfavorable, may be material to Wells Fargo's results of operations for any particular period.

## Note 12: 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. We designate certain derivatives as hedging instruments in a qualifying hedge accounting relationship (fair value or cash flow hedge). Our remaining derivatives consist of economic hedges that do not qualify for hedge accounting and derivatives held for customer accommodation trading, or other purposes. For more information on our derivative activities, see Note 16 (Derivatives) to Financial Statements in our 2016 Form 10-K.

Table 12.1 presents the total notional or contractual amounts and fair values for our derivatives. Derivative transactions can be measured in terms of the notional amount, but this 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. The notional amount is generally not exchanged but is used only as the basis on which interest and other payments are determined.

Table 12.1: Notional or Contractual Amounts and Fair Values of Derivatives

| (in millions)  | September 30, 2017             |                   | December 31, 2016                 |                                |                   |                                   |
|--|--------------------------------|-------------------|-----------------------------------|--------------------------------|-------------------|-----------------------------------|
|  | Notional or contractual amount | Derivative assets | Fair value Derivative liabilities | Notional or contractual amount | Derivative assets | Fair value Derivative liabilities |
| Derivatives designated as hedging instruments                  |                                |                   |                                   |                                |                   |                                   |
| Interest rate contracts (1)                                    | \$243,338                      | 2,589             | 1,190                             | 235,222                        | 6,587             | 2,710                             |
| Foreign exchange contracts (1)                                 | 33,398                         | 1,219             | 1,211                             | 25,861                         | 673               | 2,779                             |
| Total derivatives designated as qualifying hedging instruments |                                | 3,808             | 2,401                             |                                | 7,260             | 5,489                             |
| Derivatives not designated as hedging instruments              |                                |                   |                                   |                                |                   |                                   |
| Economic hedges:   |                                |                   |                                   |                                |                   |                                   |
| Interest rate contracts (2)                                    | 228,310                        | 219               | 299                               | 228,051                        | 1,098             | 1,441                             |
| Equity contracts   | 10,650                         | 640               | 134                               | 7,964                          | 545               | 83                                |
| Foreign exchange contracts                                     | 17,678                         | 66                | 467                               | 20,435                         | 626               | 165                               |
| Credit contracts – protection purchased                        | 123                            | 52                | —                                 | 482                            | 102               | —                                 |
| Subtotal   |                                | 977               | 900                               |                                | 2,371             | 1,689                             |
| Customer accommodation trading and other derivatives:          |                                |                   |                                   |                                |                   |                                   |
| Interest rate contracts  | 6,717,492                      | 15,533            | 14,144                            | 6,018,370                      | 57,583            | 61,058                            |
| Commodity contracts  | 66,743                         | 1,574             | 1,172                             | 65,532                         | 3,057             | 2,551                             |
| Equity contracts   | 173,306                        | 6,156             | 7,501                             | 151,675                        | 4,813             | 6,029                             |
| Foreign exchange contracts                                     | 367,266                        | 7,487             | 7,128                             | 318,999                        | 9,595             | 9,798                             |
| Credit contracts – protection sold                             | 9,754                          | 154               | 219                               | 10,483                         | 85                | 389                               |
| Credit contracts – protection purchased                        | 20,263                         | 214               | 257                               | 19,964                         | 365               | 138                               |
| Other contracts  | 955                            | —                 | 26                                | 961                            | —                 | 47                                |
| Subtotal   |                                | 31,118            | 30,447                            |                                | 75,498            | 80,010                            |
| Total derivatives not designated as hedging instruments        |                                | 32,095            | 31,347                            |                                | 77,869            | 81,699                            |
| Total derivatives before netting                               |                                | 35,903            | 33,748                            |                                | 85,129            | 87,188                            |
| Netting (3)  |                                | (23,323 )         | (24,251 )                         |                                | (70,631 )         | (72,696 )                         |
| Total  |                                | \$ 12,580         | 9,497                             |                                | 14,498            | 14,492                            |

(1) Notional amounts presented exclude \$500 million and \$1.9 billion of interest rate contracts at September 30, 2017, and December 31, 2016, respectively, for certain derivatives that are combined for designation as a hedge on a single instrument. The notional amount for foreign exchange contracts at September 30, 2017, and December 31, 2016, excludes \$13.3 billion and \$9.6 billion, respectively, for certain derivatives that are combined for designation



as a hedge on a single instrument.

- (2) Includes economic hedge derivatives used to hedge the risk of changes in the fair value of residential MSRs, MHFS, loans, derivative loan commitments and other interests held.
- (3) Represents balance sheet netting of derivative asset and liability balances, related cash collateral and portfolio level counterparty valuation adjustments. See Table 12.2 for further information.

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## Note 12: Derivatives (continued)

Table 12.2 provides information on the gross fair values of derivative assets and liabilities, the balance sheet netting adjustments and the resulting net fair value amount recorded on our balance sheet, as well as the non-cash collateral associated with such arrangements. We execute largely all of our derivative transactions under master netting arrangements and reflect all derivative balances and related cash collateral subject to enforceable master netting arrangements on a net basis within the balance sheet. The “Gross amounts recognized” column in the following table includes \$27.2 billion and \$28.8 billion of gross derivative assets and liabilities, respectively, at September 30, 2017, and \$74.4 billion and \$78.4 billion, respectively, at December 31, 2016, with counterparties subject to enforceable master netting arrangements that are carried on the balance sheet net of offsetting amounts. The remaining gross derivative assets and liabilities of \$8.7 billion and \$4.9 billion, respectively, at September 30, 2017, and \$10.7 billion and \$8.7 billion, respectively, at December 31, 2016, include those with counterparties subject to master netting arrangements for which we have not assessed the enforceability because they are with counterparties where we do not currently have positions to offset, those subject to master netting arrangements where we have not been able to confirm the enforceability and those not subject to master netting arrangements. As such, we do not net derivative balances or collateral within the balance sheet for these counterparties.

We determine the balance sheet netting adjustments based on the terms specified within each master netting arrangement. We disclose the balance sheet netting amounts within the column titled “Gross amounts offset in consolidated balance sheet.” Balance sheet netting adjustments are determined at the counterparty level for which there may be multiple contract types. For disclosure purposes, we allocate these netting adjustments to the contract type for each counterparty proportionally based upon the “Gross amounts recognized” by counterparty. As a result, the net amounts disclosed by contract type may not represent the actual exposure upon settlement of the contracts.

We do not net non-cash collateral that we receive and pledge on the balance sheet. For disclosure purposes, we present the fair value of this non-cash collateral in the column titled “Gross amounts not offset in consolidated balance sheet (Disclosure-only netting)” within the table. We determine and allocate the Disclosure-only netting amounts in the same manner as balance sheet netting amounts.

The “Net amounts” column within Table 12.2 represents the aggregate of our net exposure to each counterparty after considering the balance sheet and Disclosure-only netting adjustments. We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit risk limits, using master netting arrangements and obtaining collateral. Derivative contracts executed in over-the-counter markets include bilateral contractual arrangements that are not cleared through a central clearing organization but are typically subject to master netting arrangements. The percentage of our bilateral derivative transactions outstanding at period end in such markets, based on gross fair value, is provided within the following table. Other derivative contracts executed in over-the-counter or exchange-traded markets are settled through a central clearing organization and are excluded from this percentage. In addition to the netting amounts included in the table, we also have balance sheet netting related to resale and repurchase agreements that are disclosed within Note 10 (Guarantees, Pledged Assets and Collateral).

Table 12.2: Gross Fair Values of Derivative Assets and Liabilities

| (in millions)                           | Gross amounts recognized (1) | Gross amounts offset in consolidated balance sheet (1)(2) | Net amounts in consolidated balance sheet | Gross amounts not offset in consolidated balance sheet (Disclosure-only netting) (3) | Net amounts | Percent exchanged in over-the-counter market (1)(4) |   |
|---|------------------------------|---|---|--|-------------|---|---|
| September 30, 2017                      |                              |   |   |  |             |   |   |
| Derivative assets                       |                              |   |   |  |             |   |   |
| Interest rate contracts                 | \$ 18,341                    | (11,991)  | ) 6,350                                   | (313   | ) 6,037     | 99  | % |
| Commodity contracts                     | 1,574                        | (672)   | ) 902                                     | (5   | ) 897       | 83  |   |
| Equity contracts                        | 6,796                        | (4,149)   | ) 2,647                                   | (473   | ) 2,174     | 75  |   |
| Foreign exchange contracts              | 8,772                        | (6,306)   | ) 2,466                                   | (63  | ) 2,403     | 100   |   |
| Credit contracts – protection sold      | 154                          | (14)  | ) 140                                     | —  | 140         | 10  |   |
| Credit contracts – protection purchased | 266                          | (191)   | ) 75                                      | (1   | ) 74        | 94  |   |
| Total derivative assets                 | \$ 35,903                    | (23,323)  | ) 12,580                                  | (855   | ) 11,725    |   |   |
| Derivative liabilities                  |                              |   |   |  |             |   |   |
| Interest rate contracts                 | \$ 15,633                    | (12,932)  | ) 2,701                                   | (1,567   | ) 1,134     | 99  | % |
| Commodity contracts                     | 1,172                        | (361)   | ) 811                                     | (13  | ) 798       | 80  |   |
| Equity contracts                        | 7,635                        | (3,708)   | ) 3,927                                   | (365   | ) 3,562     | 85  |   |
| Foreign exchange contracts              | 8,806                        | (7,049)   | ) 1,757                                   | (429   | ) 1,328     | 100   |   |
| Credit contracts – protection sold      | 219                          | (196)   | ) 23                                      | (17  | ) 6         | 89  |   |
| Credit contracts – protection purchased | 257                          | (5)   | ) 252                                     | —  | 252         | 7   |   |
| Other contracts                         | 26                           | —   | 26  | —  | 26          | 100   |   |
| Total derivative liabilities            | \$ 33,748                    | (24,251)  | ) 9,497                                   | (2,391   | ) 7,106     |   |   |
| December 31, 2016                       |                              |   |   |  |             |   |   |
| Derivative assets                       |                              |   |   |  |             |   |   |
| Interest rate contracts                 | \$ 65,268                    | (59,880)  | ) 5,388                                   | (987   | ) 4,401     | 34  | % |
| Commodity contracts                     | 3,057                        | (707)   | ) 2,350                                   | (30  | ) 2,320     | 74  |   |
| Equity contracts                        | 5,358                        | (3,018)   | ) 2,340                                   | (365   | ) 1,975     | 75  |   |
| Foreign exchange contracts              | 10,894                       | (6,663)   | ) 4,231                                   | (362   | ) 3,869     | 97  |   |
| Credit contracts – protection sold      | 85                           | (48)  | ) 37                                      | —  | 37          | 61  |   |
| Credit contracts – protection purchased | 467                          | (315)   | ) 152                                     | (1   | ) 151       | 98  |   |
| Total derivative assets                 | \$ 85,129                    | (70,631)  | ) 14,498                                  | (1,745   | ) 12,753    |   |   |
| Derivative liabilities                  |                              |   |   |  |             |   |   |
| Interest rate contracts                 | \$ 65,209                    | (58,956)  | ) 6,253                                   | (3,129   | ) 3,124     | 30  | % |
| Commodity contracts                     | 2,551                        | (402)   | ) 2,149                                   | (37  | ) 2,112     | 38  |   |
| Equity contracts                        | 6,112                        | (2,433)   | ) 3,679                                   | (331   | ) 3,348     | 85  |   |
| Foreign exchange contracts              | 12,742                       | (10,572)  | ) 2,170                                   | (251   | ) 1,919     | 100   |   |
| Credit contracts – protection sold      | 389                          | (295)   | ) 94                                      | (44  | ) 50        | 98  |   |
| Credit contracts – protection purchased | 138                          | (38)  | ) 100                                     | (2   | ) 98        | 50  |   |
| Other contracts                         | 47                           | —   | 47  | —  | 47          | 100   |   |

Total derivative liabilities \$ 87,188 (72,696 ) 14,492 (3,794 ) 10,698

In second quarter, 2017, we adopted Settlement to Market treatment for the cash collateralizing our interest rate derivative contracts with certain centrally cleared counterparties. As a result of this adoption, the “gross amounts recognized” and “gross amounts offset in the consolidated balance sheet” columns do not include exposure with (1) certain centrally cleared counterparties because the contracts are considered settled by the collateral. Likewise, what remains in these gross amount columns consists primarily of over-the-counter (OTC) market contracts for most of the contract types as reflected by the high percentage of OTC contracts in the “percent exchanged in over-the counter market” column as of September 30, 2017.

Represents amounts with counterparties subject to enforceable master netting arrangements that have been offset in the consolidated balance sheet, including related cash collateral and portfolio level counterparty valuation adjustments. Counterparty valuation adjustments were \$273 million and \$348 million related to derivative assets and \$98 million and \$114 million related to derivative liabilities at September 30, 2017, and December 31, 2016, respectively. Cash collateral totaled \$3.1 billion and \$4.2 billion, netted against derivative assets and liabilities, respectively, at September 30, 2017, and \$4.8 billion and \$7.1 billion, respectively, at December 31, 2016.

Represents non-cash collateral pledged and received against derivative assets and liabilities with the same (3) counterparty that are subject to enforceable master netting arrangements. U.S. GAAP does not permit netting of such non-cash collateral balances in the consolidated balance sheet but requires disclosure of these amounts.

Represents derivatives executed in over-the-counter markets that are not settled through a central clearing (4) organization. Over-the-counter percentages are calculated based on gross amounts recognized as of the respective balance sheet date. The remaining percentage represents derivatives settled through a central clearing organization, which are executed in either over-the-counter or exchange-traded markets.

## Note 12: Derivatives (continued)

## Fair Value Hedges

We use derivatives to hedge against changes in fair value of certain financial instruments, including available-for-sale debt securities, mortgages held for sale, and long-term debt. For more information on fair value hedges, see Note 1 (Summary of Significant Accounting Policies) and Note 16 (Derivatives) to Financial Statements in our 2016 Form 10-K.

Table 12.3 shows the net gains (losses) recognized in the income statement related to derivatives in fair value hedging relationships.

Table 12.3: Derivatives in Fair Value Hedging Relationships

| (in millions)   | Interest rate contracts hedging: |                         |                | Foreign exchange contracts hedging: |                | Total net gains (losses) on fair value hedges |
|---|----------------------------------|-------------------------|----------------|-------------------------------------|----------------|---|
|   | Available-for-sale securities    | Mortgages held for sale | Long-term debt | Available-for-sale securities       | Long-term debt |   |
| Quarter ended September 30, 2017                              |                                  |                         |                |                                     |                |   |
| Net interest income (expense) recognized on derivatives       | \$ (110)                         | (1)                     | ) 271          | 4                                   | (60)           | ) 104   |
| Gains (losses) recorded in noninterest income                 |                                  |                         |                |                                     |                |   |
| Recognized on derivatives                                     | (6)                              | ) —                     | (161)          | ) (87)                              | ) 996          | 742   |
| Recognized on hedged item                                     | (6)                              | ) (2)                   | ) 173          | 86                                  | (878)          | ) (627)                                       |
| Net recognized on fair value hedges (ineffective portion) (1) | \$ (12)                          | ) (2)                   | ) 12           | (1)                                 | ) 118          | 115   |
| Quarter ended September 30, 2016                              |                                  |                         |                |                                     |                |   |
| Net interest income (expense) recognized on derivatives       | \$ (117)                         | (1)                     | ) 471          | 2                                   | 9              | 364   |
| Gains (losses) recorded in noninterest income                 |                                  |                         |                |                                     |                |   |
| Recognized on derivatives                                     | 21                               | 6                       | (271)          | ) 30                                | 312            | 98  |
| Recognized on hedged item                                     | (10)                             | ) (7)                   | ) 354          | (32)                                | ) (234)        | ) 71  |
| Net recognized on fair value hedges (ineffective portion) (1) | \$ 11                            | (1)                     | ) 83           | (2)                                 | ) 78           | 169   |
| Nine months ended September 30, 2017                          |                                  |                         |                |                                     |                |   |
| Net interest income (expense) recognized on derivatives (1)   | \$ (363)                         | (5)                     | ) 1,070        | 10                                  | (142)          | ) 570   |
| Gains (losses) recorded in noninterest income                 |                                  |                         |                |                                     |                |   |
| Recognized on derivatives                                     | (167)                            | ) (11)                  | ) (294)        | ) (216)                             | ) 2,579        | 1,891   |
| Recognized on hedged item                                     | 121                              | 4                       | 314            | 216                                 | (2,554)        | ) (1,899)                                     |
| Net recognized on fair value hedges (ineffective portion)     | \$ (46)                          | ) (7)                   | ) 20           | —                                   | 25             | (8)   |
| Nine months ended September 30, 2016                          |                                  |                         |                |                                     |                |   |
| Net interest income (expense) recognized on derivatives (1)   | \$ (468)                         | (5)                     | ) 1,436        | 4                                   | 40             | 1,007   |
| Gains (losses) recorded in noninterest income                 |                                  |                         |                |                                     |                |   |
| Recognized on derivatives                                     | (2,674)                          | (36)                    | ) 4,815        | 98                                  | 1,475          | 3,678   |
| Recognized on hedged item                                     | 2,699                            | 32                      | (4,215)        | ) (106)                             | ) (1,242)      | ) (2,832)                                     |
| Net recognized on fair value hedges (ineffective portion)     | \$ 25                            | (4)                     | ) 600          | (8)                                 | ) 233          | 846   |

The third quarter and first nine months of 2017 included \$(1) million and \$(2) million, respectively, and the third quarter and first nine months of 2016 included \$(3) million and \$(10) million, respectively, of the time value component recognized as net interest income (expense) on forward derivatives hedging foreign currency that were excluded from the assessment of hedge effectiveness.

#### Cash Flow Hedges

We use derivatives to hedge certain financial instruments against future interest rate increases and to limit the variability of cash flows on certain financial instruments due to changes in the benchmark interest rate. For more information on cash flow hedges, see Note 1 (Summary of Significant Accounting Policies) and Note 16 (Derivatives) to Financial Statements in our 2016 Form 10-K.

Based upon current interest rates, we estimate that \$224 million (pre tax) of deferred net gains on derivatives in OCI

at September 30, 2017, will be reclassified into net interest income during the next twelve months. Future changes to interest rates may significantly change actual amounts reclassified to earnings. We are hedging our exposure to the variability of future cash flows for all forecasted transactions for a maximum of 5 years.

Table 12.4 shows the net gains (losses) recognized related to derivatives in cash flow hedging relationships.

Table 12.4: Derivatives in Cash Flow Hedging Relationships

| (in millions)   | Quarter                  |       | Nine months              |       |
|---|--------------------------|-------|--------------------------|-------|
|   | ended Sep<br>30,<br>2017 | 2016  | ended Sep<br>30,<br>2017 | 2016  |
| Gains (losses) (pre tax) recognized in OCI on derivatives                               | \$36                     | (445) | 279                      | 2,611 |
| Gains (pre tax) reclassified from cumulative OCI into net income (1)                    | 105                      | 262   | 460                      | 783   |
| Gains (losses) (pre tax) recognized in noninterest income for hedge ineffectiveness (2) | (4)                      | —     | (7)                      | 1     |

(1) See Note 17 (Other Comprehensive Income) for detail on components of net income.

(2) None of the change in value of the derivatives was excluded from the assessment of hedge effectiveness.

### Derivatives Not Designated as Hedging Instruments

We use economic hedges primarily to hedge the risk of changes in the fair value of certain residential MHFS, residential MSRs measured at fair value, loans, derivative loan commitments and other interests held. We also use economic hedge derivatives to mitigate the periodic earnings volatility caused by ineffectiveness recognized on our fair value accounting hedges. The resulting gain or loss on these economic hedge derivatives is reflected in mortgage banking noninterest income, net gains (losses) from equity investments and other noninterest income.

The derivatives used to hedge MSRs measured at fair value, resulted in net derivative gains of \$240 million and \$599 million in the third quarter and first nine months of 2017, respectively, and \$142 million and \$2.6 billion in the third quarter and first nine months of 2016, respectively, which are included in mortgage banking noninterest income. The aggregate fair value of these derivatives was a net liability of \$9 million at September 30, 2017, and net liability of \$617 million at

December 31, 2016. The change in fair value of these derivatives for each period end is due to changes in the underlying market indices and interest rates as well as the purchase and sale of derivative financial instruments throughout the period as part of our dynamic MSR risk management process.

Interest rate lock commitments for mortgage loans that we intend to sell are considered derivatives. The aggregate fair value of derivative loan commitments on the balance sheet was a net asset of \$25 million and net liability of \$6 million at September 30, 2017, and December 31, 2016, respectively, and is included in the caption "Interest rate contracts" under "Customer accommodation trading and other derivatives" in Table 12.1 in this Note.

For more information on economic hedges and other derivatives, see Note 16 (Derivatives) to Financial Statements in our 2016 Form 10-K. Table 12.5 shows the net gains recognized in the income statement related to derivatives not designated as hedging instruments.

Table 12.5: Derivatives Not Designated as Hedging Instruments

| (in millions)  | Quarter ended |        | Nine months   |          |
|--|---------------|--------|---------------|----------|
|  | Sep 30,       | 2016   | ended Sep 30, | 2016     |
|  | 2017          |        | 2017          | 2016     |
| Net gains (losses) recognized on economic hedges derivatives:                              |               |        |               |          |
| Interest rate contracts  |               |        |               |          |
| Recognized in noninterest income:  |               |        |               |          |
| Mortgage banking (1)   | \$ 138        | 4      | 480           | 1,435    |
| Other (2)  | (19 )         | (56 )  | (64 )         | (308 )   |
| Equity contracts (3)   | (489 )        | (372 ) | (1,175 )      | (84 )    |
| Foreign exchange contracts (2)   | (300 )        | 175    | (834 )        | 504      |
| Credit contracts (2)   | (6 )          | 12     | 8             | 12       |
| Subtotal (4)   | (676 )        | (237 ) | (1,585 )      | 1,559    |
| Net gains (losses) recognized on customer accommodation trading and other derivatives:     |               |        |               |          |
| Interest rate contracts  |               |        |               |          |
| Recognized in noninterest income:  |               |        |               |          |
| Mortgage banking (5)   | 152           | 510    | 599           | 1,485    |
| Other (6)  | 17            | 210    | 80            | (520 )   |
| Commodity contracts (6)  | 63            | 45     | 138           | 162      |
| Equity contracts (6)   | (851 )        | (982 ) | (2,525 )      | (1,277 ) |
| Foreign exchange contracts (6)   | 155           | 188    | 356           | 686      |
| Credit contracts (6)   | (31 )         | (25 )  | (59 )         | (66 )    |
| Other (2)  | 8             | 15     | 22            | (15 )    |
| Subtotal   | (487 )        | (39 )  | (1,389 )      | 455      |
| Net gains (losses) recognized related to derivatives not designated as hedging instruments | \$(1,163)     | (276 ) | (2,974 )      | 2,014    |

- (1) Reflected in mortgage banking noninterest income including gains (losses) on the derivatives used as economic hedges of MSR's measured at fair value, interest rate lock commitments and mortgages held for sale.
- (2) Included in other noninterest income.
- (3) Included in net gains from equity investments and other noninterest income.  
Includes hedging gains (losses) of \$(18) million and \$(64) million for the third quarter and first nine months of
- (4) 2017, respectively, and \$(29) million and \$(272) million for the third quarter and first nine months of 2016, respectively, which partially offset hedge accounting ineffectiveness.
- (5) Reflected in mortgage banking noninterest income including gains (losses) on interest rate lock commitments and net gains from trading activities in noninterest income.
- (6) Included in net gains from trading activities in noninterest income.



## Note 12: Derivatives (continued)

## Credit Derivatives

Credit derivative contracts are arrangements whose value is derived from the transfer of credit risk of a reference asset or entity from one party (the purchaser of credit protection) to another party (the seller of credit protection). We use credit derivatives to assist customers with their risk management objectives. We may also use credit derivatives in structured product transactions or liquidity agreements written to special purpose vehicles. The maximum exposure of sold credit derivatives is managed through posted collateral, purchased credit derivatives and similar products in order to achieve our desired credit risk profile. This credit risk management provides an ability to recover a significant portion of any amounts that would be paid under the sold credit derivatives. We would be

required to perform under sold credit derivatives in the event of default by the referenced obligors. Events of default include events such as bankruptcy, capital restructuring or lack of principal and/or interest payment. In certain cases, other triggers may exist, such as the credit downgrade of the referenced obligors or the inability of the special purpose vehicle for which we have provided liquidity to obtain funding.

Table 12.6 provides details of sold and purchased credit derivatives.

Table 12.6: Sold and Purchased Credit Derivatives

| (in millions)                               | Notional amount      |                     |  |   |                               |                            |                     |
|---|----------------------|---------------------|--|---|-------------------------------|----------------------------|---------------------|
|   | Fair value liability | Protection sold (A) | Protection sold – non-investment grade | Protection purchased with identical underlyings (B) | Net protection sold (A) - (B) | Other protection purchased | Range of maturities |
| September 30, 2017                          |                      |                     |  |   |                               |                            |                     |
| Credit default swaps on:                    |                      |                     |  |   |                               |                            |                     |
| Corporate bonds                             | \$ 26                | 1,932               | 535                                    | 1,255   | 677                           | 1,379                      | 2017 - 2027         |
| Structured products                         | 91                   | 210                 | 205                                    | 184   | 26                            | 140                        | 2020 - 2047         |
| Credit protection on:                       |                      |                     |  |   |                               |                            |                     |
| Default swap index                          | —                    | 3,553               | 537                                    | 62  | 3,491                         | 5,665                      | 2017 - 2027         |
| Commercial mortgage-backed securities index | 92                   | 441                 | —                                      | 410   | 31                            | 146                        | 2047 - 2058         |
| Asset-backed securities index               | 9                    | 42                  | —                                      | 38  | 4                             | 5                          | 2045 - 2046         |
| Other                                       | 1                    | 3,576               | 3,576                                  | —   | 3,576                         | 11,102                     | 2017 - 2028         |
| Total credit derivatives                    | \$ 219               | 9,754               | 4,853                                  | 1,949   | 7,805                         | 18,437                     |                     |
| December 31, 2016                           |                      |                     |  |   |                               |                            |                     |
| Credit default swaps on:                    |                      |                     |  |   |                               |                            |                     |
| Corporate bonds                             | \$ 22                | 4,324               | 1,704                                  | 3,060   | 1,264                         | 1,804                      | 2017 - 2026         |
| Structured products                         | 193                  | 405                 | 333                                    | 295   | 110                           | 79                         | 2020 - 2047         |
| Credit protection on:                       |                      |                     |  |   |                               |                            |                     |
| Default swap index                          | —                    | 1,515               | 257                                    | 139   | 1,376                         | 3,668                      | 2017 - 2021         |
| Commercial mortgage-backed securities index | 156                  | 627                 | —                                      | 584   | 43                            | 71                         | 2047 - 2058         |

|                               |        |        |       |       |       |        |                |
|-------------------------------|--------|--------|-------|-------|-------|--------|----------------|
| Asset-backed securities index | 17     | 45     | —     | 40    | 5     | 187    | 2045 -<br>2046 |
| Other                         | 1      | 3,567  | 3,568 | —     | 3,567 | 10,519 | 2017 -<br>2047 |
| Total credit derivatives      | \$ 389 | 10,483 | 5,862 | 4,118 | 6,365 | 16,328 |                |

Protection sold represents the estimated maximum exposure to loss that would be incurred under an assumed hypothetical circumstance, where the value of our interests and any associated collateral declines to zero, without any consideration of recovery or offset from any economic hedges. We believe this hypothetical circumstance to be a remote possibility and accordingly, this required disclosure is not an indication of expected loss. The amounts under non-investment grade represent the notional amounts of those credit derivatives on which we have a higher risk of being required to perform under the terms of the credit derivative and are a function of the underlying assets.

We consider the risk of performance to be high if the underlying assets under the credit derivative have an external rating that is below investment grade or an internal credit default grade that is equivalent thereto. We believe the net protection sold, which is representative of the net notional amount of protection sold and purchased with identical underlyings, in combination with other protection purchased, is more representative of our exposure to loss than either non-investment grade or protection sold. Other protection purchased represents additional protection, which may offset the exposure to loss for protection sold, that was not purchased with an identical underlying of the protection sold.

### Credit-Risk Contingent Features

Certain of our derivative contracts contain provisions whereby if the credit rating of our debt were to be downgraded by certain major credit rating agencies, the counterparty could demand additional collateral or require termination or replacement of derivative instruments in a net liability position. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a net liability position was \$9.2 billion at September 30, 2017, and \$12.8 billion at December 31, 2016, for which we posted \$8.0 billion and \$8.9 billion, respectively, in collateral in the normal course of business. A credit rating below investment grade is the credit-risk-related contingent feature that if triggered requires the maximum amount of collateral to be posted. If the credit rating of our debt had been downgraded below investment grade, on September 30, 2017, or December 31, 2016, we would have been required to post additional collateral of \$1.2 billion or \$4.0 billion, respectively, or potentially settle the contract in an amount equal to its fair value. Some contracts require that we provide more collateral than the fair value of derivatives that are in a net liability position if a downgrade occurs.

### Counterparty Credit Risk

By using derivatives, we are exposed to counterparty credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, our counterparty credit risk is equal to the amount reported as a derivative asset on our balance sheet. The amounts reported as a derivative asset are derivative contracts in a gain position, and to the extent subject to legally enforceable master netting arrangements, net of derivatives in a loss position with the same counterparty and cash collateral received. We minimize counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate. To the extent the master netting arrangements and other criteria meet the applicable requirements, including determining the legal enforceability of the arrangement, it is our policy to present derivative balances and related cash collateral amounts net on the balance sheet. We incorporate credit valuation adjustments (CVA) to reflect counterparty credit risk in determining the fair value of our derivatives. Such adjustments, which consider the effects of enforceable master netting agreements and collateral arrangements, reflect market-based views of the credit quality of each counterparty. Our CVA calculation is determined based on observed credit spreads in the credit default swap market and indices indicative of the credit quality of the counterparties to our derivatives.

Note 13: Fair Values of Assets and Liabilities (continued)

Note 13: Fair Values of Assets and Liabilities

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Assets and liabilities recorded at fair value on a recurring basis are presented in Table 13.2 in this Note. From time to time, we may be required to record fair value adjustments on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of LOCOM accounting or write-downs of individual assets. Assets recorded on a nonrecurring basis are presented in Table 13.14 in this Note.

See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2016 Form 10-K for discussion of how we determine fair value. For descriptions of the valuation methodologies we use for assets and liabilities recorded at fair value on a recurring or nonrecurring basis and for estimating fair value for financial instruments that are not recorded at fair value, see Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in our 2016 Form 10-K.

**FAIR VALUE HIERARCHY** We group our assets and liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from techniques that use significant assumptions that are not observable in the market.

These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

In accordance with new accounting guidance that we adopted effective January 1, 2016, we do not classify an investment in the fair value hierarchy if we use the non-published net asset value (NAV) per share (or its equivalent) that has been communicated to us as an investor as a practical expedient to measure fair value. We generally use NAV per share as the fair value measurement for certain nonmarketable equity fund investments. This guidance was required to be applied retrospectively. Accordingly, certain prior period fair value disclosures have been revised to conform with current period presentation. Marketable equity investments with published NAVs continue to be classified in the fair value hierarchy.

**Fair Value Measurements from Vendors**

For certain assets and liabilities, we obtain fair value measurements from vendors, which predominantly consist of third-party pricing services, and record the unadjusted fair value in our financial statements. For additional information, see Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in our 2016 Form 10-K. Table 13.1. presents unadjusted fair value measurements provided by brokers or third-party pricing services by fair value hierarchy level. Fair value measurements obtained from brokers or third-party pricing services that we have adjusted to determine the fair value recorded in our financial statements are excluded from Table 13.1.

Table 13.1: Fair Value Measurements by Brokers or Third-Party Pricing Services

| (in millions)  | Brokers |         |         | Third-party pricing services |         |         |
|--|---------|---------|---------|------------------------------|---------|---------|
|  | Level 1 | Level 2 | Level 3 | Level 1                      | Level 2 | Level 3 |
| September 30, 2017                                   |         |         |         |                              |         |         |
| Trading assets                                       | \$—     | —       | 674     | 211                          | —       | —       |
| Available-for-sale securities:                       |         |         |         |                              |         |         |
| Securities of U.S. Treasury and federal agencies     | —       | —       | 3,400   | 2,950                        | —       | —       |
| Securities of U.S. states and political subdivisions | —       | —       | —       | 52,068                       | 50      | —       |
| Mortgage-backed securities                           | —37     | —       | —       | 160,628                      | 76      | —       |
| Other debt securities (1)                            | —684    | 1,146   | —       | 46,098                       | 22      | —       |
| Total debt securities                                | —721    | 1,146   | 3,400   | 261,744                      | 148     | —       |
| Total marketable equity securities                   | —       | —       | —       | 264                          | —       | —       |
| Total available-for-sale securities                  | —721    | 1,146   | 3,400   | 262,008                      | 148     | —       |
| Derivatives assets                                   | —       | —       | 19      | —                            | —       | —       |
| Derivatives liabilities                              | —       | —       | (16     | )                            | —       | —       |
| Other liabilities (2)                                | —       | —       | —       | —                            | —       | —       |
| December 31, 2016                                    |         |         |         |                              |         |         |
| Trading assets                                       | \$—     | —       | 899     | 60                           | —       | —       |
| Available-for-sale securities:                       |         |         |         |                              |         |         |
| Securities of U.S. Treasury and federal agencies     | —       | —       | 22,870  | 2,949                        | —       | —       |
| Securities of U.S. states and political subdivisions | —       | —       | —       | 49,837                       | 208     | —       |
| Mortgage-backed securities                           | —171    | —       | —       | 176,923                      | 92      | —       |
| Other debt securities (1)                            | —450    | 968     | —       | 49,162                       | 54      | —       |
| Total debt securities                                | —621    | 968     | 22,870  | 278,871                      | 354     | —       |
| Total marketable equity securities                   | —       | —       | —       | 358                          | —       | —       |
| Total available-for-sale securities                  | —621    | 968     | 22,870  | 279,229                      | 354     | —       |
| Derivatives assets                                   | —       | —       | 22      | —                            | —       | —       |
| Derivatives liabilities                              | —       | —       | (109    | )                            | (1      | )       |
| Other liabilities (2)                                | —       | —       | —       | —                            | —       | —       |

(1) Includes corporate debt securities, collateralized loan and other debt obligations, asset-backed securities, and other debt securities.

(2) Includes short sale liabilities and other liabilities.

## Note 13: Fair Values of Assets and Liabilities (continued)

## Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Table 13.2 presents the balances of assets and liabilities recorded at fair value on a recurring basis.

Table 13.2: Fair Value on a Recurring Basis

| (in millions)  | Level 1   | Level 2 | Level 3 | Netting     | Total     |
|--|-----------|---------|---------|-------------|-----------|
| September 30, 2017                                   |           |         |         |             |           |
| Trading assets                                       |           |         |         |             |           |
| Securities of U.S. Treasury and federal agencies     | \$ 16,882 | 3,012   | —       | —           | 19,894    |
| Securities of U.S. states and political subdivisions | —         | 4,401   | 3       | —           | 4,404     |
| Collateralized loan obligations                      | —         | 359     | 383     | —           | 742       |
| Corporate debt securities                            | —         | 11,098  | 34      | —           | 11,132    |
| Mortgage-backed securities                           | —         | 23,966  | —       | —           | 23,966    |
| Asset-backed securities                              | —         | 799     | —       | —           | 799       |
| Equity securities                                    | 25,980    | 270     | —       | —           | 26,250    |
| Total trading securities (1)                         | 42,862    | 43,905  | 420     | —           | 87,187    |
| Other trading assets                                 | —         | 1,161   | 56      | —           | 1,217     |
| Total trading assets                                 | 42,862    | 45,066  | 476     | —           | 88,404    |
| Securities of U.S. Treasury and federal agencies     | 3,400     | 2,950   | —       | —           | 6,350     |
| Securities of U.S. states and political subdivisions | —         | 52,068  | 706     | (2)—        | 52,774    |
| Mortgage-backed securities:                          |           |         |         |             |           |
| Federal agencies                                     | —         | 150,181 | —       | —           | 150,181   |
| Residential  | —         | 6,393   | 1       | —           | 6,394     |
| Commercial   | —         | 4,576   | 76      | —           | 4,652     |
| Total mortgage-backed securities                     | —         | 161,150 | 77      | —           | 161,227   |
| Corporate debt securities                            | 56        | 8,904   | 380     | —           | 9,340     |
| Collateralized loan and other debt obligations (3)   | —         | 34,594  | 1,014   | (2)—        | 35,608    |
| Asset-backed securities:                             |           |         |         |             |           |
| Automobile loans and leases                          | —         | 544     | —       | —           | 544       |
| Home equity loans                                    | —         | 283     | —       | —           | 283       |
| Other asset-backed securities                        | —         | 4,556   | 635     | (2)—        | 5,191     |
| Total asset-backed securities                        | —         | 5,383   | 635     | —           | 6,018     |
| Other debt securities                                | —         | —       | —       | —           | —         |
| Total debt securities                                | 3,456     | 265,049 | 2,812   | —           | 271,317   |
| Marketable equity securities:                        |           |         |         |             |           |
| Perpetual preferred securities                       | 155       | 264     | —       | —           | 419       |
| Other marketable equity securities                   | 474       | —       | —       | —           | 474       |
| Total marketable equity securities                   | 629       | 264     | —       | —           | 893       |
| Total available-for-sale securities                  | 4,085     | 265,313 | 2,812   | —           | 272,210   |
| Mortgages held for sale                              | —         | 15,452  | 1,032   | —           | 16,484    |
| Loans  | —         | —       | 410     | —           | 410       |
| Mortgage servicing rights (residential)              | —         | —       | 13,338  | —           | 13,338    |
| Derivative assets:                                   |           |         |         |             |           |
| Interest rate contracts                              | 26        | 18,143  | 172     | —           | 18,341    |
| Commodity contracts                                  | —         | 1,546   | 28      | —           | 1,574     |
| Equity contracts                                     | 1,708     | 3,867   | 1,221   | —           | 6,796     |
| Foreign exchange contracts                           | 19        | 8,733   | 20      | —           | 8,772     |
| Credit contracts                                     | —         | 275     | 145     | —           | 420       |
| Netting  | —         | —       | —       | (23,323)(4) | (23,323 ) |
| Total derivative assets                              | 1,753     | 32,564  | 1,586   | (23,323)    | 12,580    |

|  |            |           |          |          |           |
|--|------------|-----------|----------|----------|-----------|
| Other assets – excluding nonmarketable equity investments at NAV | —          | 50        | 4,473    | —        | 4,523     |
| Total assets included in the fair value hierarchy                | \$48,700   | 358,445   | 24,127   | (23,323) | 407,949   |
| Other assets – nonmarketable equity investments at NAV (5)       |            |           |          |          | —         |
| Total assets recorded at fair value                              |            |           |          |          | \$407,949 |
| Derivative liabilities:  |            |           |          |          |           |
| Interest rate contracts  | \$(18 )    | (15,557 ) | (58 )    | —        | (15,633 ) |
| Commodity contracts  | —          | (1,156 )  | (16 )    | —        | (1,172 )  |
| Equity contracts   | (1,125 )   | (4,698 )  | (1,812 ) | —        | (7,635 )  |
| Foreign exchange contracts                                       | (16 )      | (8,777 )  | (13 )    | —        | (8,806 )  |
| Credit contracts   | —          | (384 )    | (92 )    | —        | (476 )    |
| Other derivative contracts                                       | —          | —         | (26 )    | —        | (26 )     |
| Netting  | —          | —         | —        | 24,251   | (4)24,251 |
| Total derivative liabilities                                     | (1,159 )   | (30,572 ) | (2,017 ) | 24,251   | (9,497 )  |
| Short sale liabilities:  |            |           |          |          |           |
| Securities of U.S. Treasury and federal agencies                 | (10,401 )  | (728 )    | —        | —        | (11,129 ) |
| Corporate debt securities  | —          | (5,643 )  | —        | —        | (5,643 )  |
| Equity securities  | (2,283 )   | (7 )      | —        | —        | (2,290 )  |
| Other securities   | —          | (34 )     | (3 )     | —        | (37 )     |
| Total short sale liabilities                                     | (12,684 )  | (6,412 )  | (3 )     | —        | (19,099 ) |
| Other liabilities  | —          | —         | (3 )     | —        | (3 )      |
| Total liabilities recorded at fair value                         | \$(13,843) | (36,984)  | (2,023 ) | 24,251   | (28,599 ) |

Net gains (losses) from trading activities recognized in the income statement for the first nine months September (1)30, 2017 and 2016 both include \$1.4 billion in net unrealized gains (losses) on trading securities held at September 30, 2017 and 2016, respectively.

Balances consist of securities that are mostly investment grade based on ratings received from the ratings agencies (2)or internal credit grades categorized as investment grade if external ratings are not available. The securities are classified as Level 3 due to limited market activity.

(3)Includes collateralized debt obligations of \$1.0 billion.

(4)Represents balance sheet netting of derivative asset and liability balances and related cash collateral. See Note 12 (Derivatives) for additional information.

(5)Consists of certain nonmarketable equity investments that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

(continued on following page)

(continued from previous page)

(in millions)

December 31, 2016

|  | Level 1  | Level 2 | Level 3 | Netting     | Total     |
|--|----------|---------|---------|-------------|-----------|
| Trading assets   |          |         |         |             |           |
| Securities of U.S. Treasury and federal agencies                 | \$14,950 | 2,710   | —       | —           | 17,660    |
| Securities of U.S. states and political subdivisions             | —        | 2,910   | 3       | —           | 2,913     |
| Collateralized loan obligations                                  | —        | 501     | 309     | —           | 810       |
| Corporate debt securities  | —        | 9,481   | 34      | —           | 9,515     |
| Mortgage-backed securities                                       | —        | 20,254  | —       | —           | 20,254    |
| Asset-backed securities  | —        | 1,128   | —       | —           | 1,128     |
| Equity securities  | 20,462   | 290     | —       | —           | 20,752    |
| Total trading securities (1)                                     | 35,412   | 37,274  | 346     | —           | 73,032    |
| Other trading assets   | —        | 1,337   | 28      | —           | 1,365     |
| Total trading assets   | 35,412   | 38,611  | 374     | —           | 74,397    |
| Securities of U.S. Treasury and federal agencies                 | 22,870   | 2,949   | —       | —           | 25,819    |
| Securities of U.S. states and political subdivisions             | —        | 49,961  | 1,140   | (2)—        | 51,101    |
| Mortgage-backed securities:                                      |          |         |         |             |           |
| Federal agencies   | —        | 161,230 | —       | —           | 161,230   |
| Residential  | —        | 7,815   | 1       | —           | 7,816     |
| Commercial   | —        | 8,411   | 91      | —           | 8,502     |
| Total mortgage-backed securities                                 | —        | 177,456 | 92      | —           | 177,548   |
| Corporate debt securities  | 58       | 10,967  | 432     | —           | 11,457    |
| Collateralized loan and other debt obligations (3)               | —        | 34,141  | 879     | (2)—        | 35,020    |
| Asset-backed securities:   |          |         |         |             |           |
| Automobile loans and leases                                      | —        | 9       | —       | —           | 9         |
| Home equity loans  | —        | 327     | —       | —           | 327       |
| Other asset-backed securities                                    | —        | 4,909   | 962     | (2)—        | 5,871     |
| Total asset-backed securities                                    | —        | 5,245   | 962     | —           | 6,207     |
| Other debt securities  | —        | 1       | —       | —           | 1         |
| Total debt securities  | 22,928   | 280,720 | 3,505   | —           | 307,153   |
| Marketable equity securities:                                    |          |         |         |             |           |
| Perpetual preferred securities                                   | 112      | 357     | —       | —           | 469       |
| Other marketable equity securities                               | 741      | 1       | —       | —           | 742       |
| Total marketable equity securities                               | 853      | 358     | —       | —           | 1,211     |
| Total available-for-sale securities                              | 23,781   | 281,078 | 3,505   | —           | 308,364   |
| Mortgages held for sale  | —        | 21,057  | 985     | —           | 22,042    |
| Loans  | —        | —       | 758     | —           | 758       |
| Mortgage servicing rights (residential)                          | —        | —       | 12,959  | —           | 12,959    |
| Derivative assets:   |          |         |         |             |           |
| Interest rate contracts  | 44       | 64,986  | 238     | —           | 65,268    |
| Commodity contracts  | —        | 3,020   | 37      | —           | 3,057     |
| Equity contracts   | 1,314    | 2,997   | 1,047   | —           | 5,358     |
| Foreign exchange contracts                                       | 22       | 10,843  | 29      | —           | 10,894    |
| Credit contracts   | —        | 280     | 272     | —           | 552       |
| Netting  | —        | —       | —       | (70,631)(4) | (70,631 ) |
| Total derivative assets  | 1,380    | 82,126  | 1,623   | (70,631)    | 14,498    |
| Other assets – excluding nonmarketable equity investments at NAV | —        | 16      | 3,259   | —           | 3,275     |
| Total assets included in the fair value hierarchy                | \$60,573 | 422,888 | 23,463  | (70,631)    | 436,293   |
| Other assets – nonmarketable equity investments at NAV (5)       | —        | —       | —       | —           | —         |



|  |            |           |          |        |           |
|--|------------|-----------|----------|--------|-----------|
| Total assets recorded at fair value              |            |           |          |        | \$436,293 |
| Derivative liabilities:                          |            |           |          |        |           |
| Interest rate contracts                          | \$(45 )    | (65,047 ) | (117 )   | —      | (65,209 ) |
| Commodity contracts                              | —          | (2,537 )  | (14 )    | —      | (2,551 )  |
| Equity contracts                                 | (919 )     | (3,879 )  | (1,314 ) | —      | (6,112 )  |
| Foreign exchange contracts                       | (109 )     | (12,616 ) | (17 )    | —      | (12,742 ) |
| Credit contracts                                 | —          | (332 )    | (195 )   | —      | (527 )    |
| Other derivative contracts                       | —          | —         | (47 )    | —      | (47 )     |
| Netting  | —          | —         | —        | 72,696 | (4)72,696 |
| Total derivative liabilities                     | (1,073 )   | (84,411 ) | (1,704 ) | 72,696 | (14,492 ) |
| Short sale liabilities:                          |            |           |          |        |           |
| Securities of U.S. Treasury and federal agencies | (9,722 )   | (701 )    | —        | —      | (10,423 ) |
| Corporate debt securities                        | —          | (4,063 )  | —        | —      | (4,063 )  |
| Equity securities                                | (1,795 )   | —         | —        | —      | (1,795 )  |
| Other securities                                 | —          | (98 )     | —        | —      | (98 )     |
| Total short sale liabilities                     | (11,517 )  | (4,862 )  | —        | —      | (16,379 ) |
| Other liabilities                                | —          | —         | (4 )     | —      | (4 )      |
| Total liabilities recorded at fair value         | \$(12,590) | (89,273 ) | (1,708 ) | 72,696 | (30,875 ) |

(1) Net gains (losses) from trading activities recognized in the income statement for the year ended December 31, 2016, include \$820 million in net unrealized gains (losses) on trading securities held at December 31, 2016.

Balances consist of securities that are mostly investment grade based on ratings received from the ratings agencies (2) or internal credit grades categorized as investment grade if external ratings are not available. The securities are classified as Level 3 due to limited market activity.

(3) Includes collateralized debt obligations of \$847 million.

(4) Represents balance sheet netting of derivative asset and liability balances and related cash collateral. See Note 12 (Derivatives) for additional information.

(5) Consists of certain nonmarketable equity investments that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

## Note 13: Fair Values of Assets and Liabilities (continued)

## Changes in Fair Value Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2, and Level 3 accordingly. Observable market data includes but is not limited to quoted prices and market transactions. Changes in economic conditions or market liquidity generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in

changing the valuation technique used, are generally the cause of transfers between Level 1, Level 2, and Level 3. Transfers into and out of Level 1, Level 2, and Level 3 are provided within Table 13.3 for the periods presented. The amounts reported as transfers represent the fair value as of the beginning of the quarter in which the transfer occurred.

Table 13.3: Transfers Between Fair Value Levels

| (in millions)                             | Transfers Between Fair Value Levels |      |         |       |             |         | Total |
|---|-------------------------------------|------|---------|-------|-------------|---------|-------|
|   | Level 1                             |      | Level 2 |       | Level 3 (1) |         |       |
|   | In                                  | Out  | In      | Out   | In          | Out     |       |
| Quarter ended September 30, 2017          |                                     |      |         |       |             |         |       |
| Trading assets                            | \$—                                 | —    | —       | (20)  | 20          | —       | —     |
| Available-for-sale securities             | —                                   | —    | 838     | —     | —           | (838)   | —     |
| Mortgages held for sale                   | —                                   | —    | 2       | (55)  | 55          | (2)     | —     |
| Other assets                              | —                                   | —    | —       | —     | —           | —       | —     |
| Net derivative assets and liabilities (2) | —                                   | —    | 6       | 15    | (15)        | (6)     | —     |
| Short sale liabilities                    | —                                   | —    | —       | —     | —           | —       | —     |
| Total transfers                           | \$—                                 | —    | 846     | (60)  | 60          | (846)   | —     |
| Quarter ended September 30, 2016          |                                     |      |         |       |             |         |       |
| Trading assets                            | \$1                                 | (44) | 44      | (2)   | 1           | —       | —     |
| Available-for-sale securities             | —                                   | —    | 465     | —     | —           | (465)   | —     |
| Mortgages held for sale                   | —                                   | —    | 3       | (18)  | 18          | (3)     | —     |
| Other assets                              | —                                   | —    | —       | —     | —           | —       | —     |
| Net derivative assets and liabilities (2) | —                                   | —    | 79      | (14)  | 14          | (79)    | —     |
| Short sale liabilities                    | —                                   | 1    | (1)     | —     | —           | —       | —     |
| Total transfers                           | \$1                                 | (43) | 590     | (34)  | 33          | (547)   | —     |
| Nine months ended September 30, 2017      |                                     |      |         |       |             |         |       |
| Trading assets                            | \$—                                 | —    | 1       | (39)  | 39          | (1)     | —     |
| Available-for-sale securities             | —                                   | —    | 1,334   | (5)   | 5           | (1,334) | —     |
| Mortgages held for sale                   | —                                   | —    | 8       | (116) | 116         | (8)     | —     |
| Other assets                              | —                                   | —    | —       | (1)   | 1           | —       | —     |
| Net derivative assets and liabilities (2) | —                                   | —    | 89      | 37    | (37)        | (89)    | —     |
| Short sale liabilities                    | —                                   | —    | —       | —     | —           | —       | —     |
| Total transfers                           | \$—                                 | —    | 1,432   | (124) | 124         | (1,432) | —     |
| Nine months ended September 30, 2016      |                                     |      |         |       |             |         |       |
| Trading assets                            | \$5                                 | (48) | 59      | (6)   | 1           | (11)    | —     |
| Available-for-sale securities             | —                                   | —    | 481     | (80)  | 80          | (481)   | —     |
| Mortgages held for sale                   | —                                   | —    | 12      | (72)  | 72          | (12)    | —     |
| Other assets                              | —                                   | —    | —       | —     | —           | —       | —     |
| Net derivative assets and liabilities (2) | —                                   | —    | 129     | (42)  | 42          | (129)   | —     |
| Short sale liabilities                    | (1)                                 | 1    | (1)     | 1     | —           | —       | —     |
| Total transfers                           | \$4                                 | (47) | 680     | (199) | 195         | (633)   | —     |

(1) All transfers in and out of Level 3 are disclosed within the recurring Level 3 rollforward tables in this Note.

(2)

Includes transfers of net derivative assets and net derivative liabilities between levels due to changes in observable market data.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended September 30, 2017, are presented in Table 13.4.

Table 13.4: Changes in Level 3 Fair Value Assets and Liabilities on a Recurring Basis – Quarter ended September 30, 2017

| (in millions)  | Balance,<br>beginning<br>of<br>period | Total net gains<br>(losses) included<br>in |                                       | Purchases,<br>sales,<br>issuances<br>and<br>settlements,<br>net (1) | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>end of<br>period | Net<br>unrealized<br>gains<br>(losses)<br>included in<br>income<br>related<br>to assets<br>and<br>liabilities<br>held<br>at period<br>end | (2)   |
|--|---------------------------------------|--|---------------------------------------|---|------------------------------|--------------------------------|------------------------------|---|-------|
|  |                                       | Net<br>income                              | Other<br>compre-<br>hensive<br>income |   |                              |                                |                              |   |       |
| Quarter ended<br>September 30, 2017                        |                                       |  |                                       |   |                              |                                |                              |   |       |
| Trading assets:  |                                       |  |                                       |   |                              |                                |                              |   |       |
| Securities of U.S. states<br>and<br>political subdivisions | \$ 9                                  | —  | —                                     | (6  | ) —                          | —                              | 3                            | —   |       |
| Collateralized loan<br>obligations                         | 403                                   | —  | —                                     | (20   | ) —                          | —                              | 383                          | (4  | )     |
| Corporate debt securities                                  | 26                                    | —  | —                                     | 6   | 2                            | —                              | 34                           | —   |       |
| Mortgage-backed<br>securities                              | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Asset-backed securities                                    | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Equity securities  | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Total trading securities                                   | 438                                   | —  | —                                     | (20   | ) 2                          | —                              | 420                          | (4  | )     |
| Other trading assets                                       | 39                                    | —  | —                                     | (1  | ) 18                         | —                              | 56                           | —   |       |
| Total trading assets                                       | 477                                   | —  | —                                     | (21   | ) 20                         | —                              | 476                          | (4  | ) (3) |
| Available-for-sale<br>securities:                          |                                       |  |                                       |   |                              |                                |                              |   |       |
| Securities of U.S. states<br>and<br>political subdivisions | 1,557                                 | 3  | 3                                     | (19   | ) —                          | (838                           | ) 706                        | —   |       |
| Mortgage-backed<br>securities:                             |                                       |  |                                       |   |                              |                                |                              |   |       |
| Residential  | 1                                     | —  | —                                     | —   | —                            | —                              | 1                            | —   |       |
| Commercial   | 75                                    | —  | 1                                     | —   | —                            | —                              | 76                           | —   |       |
| Total mortgage-backed<br>securities                        | 76                                    | —  | 1                                     | —   | —                            | —                              | 77                           | —   |       |
| Corporate debt securities                                  | 376                                   | 1  | 4                                     | (1  | ) —                          | —                              | 380                          | —   |       |
| Collateralized loan and<br>other<br>debt obligations       | 1,002                                 | 7  | 25                                    | (20   | ) —                          | —                              | 1,014                        | —   |       |
| Asset-backed securities:                                   | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |

|   |        |        |     |       |        |       |         |         |  |     |
|---|--------|--------|-----|-------|--------|-------|---------|---------|--|-----|
| Automobile loans and leases                 |        |        |     |       |        |       |         |         |  |     |
| Other asset-backed securities               | 872    | 1      | 2   | (240) | ) —    | —     | 635     | —       |  |     |
| Total asset-backed securities               | 872    | 1      | 2   | (240) | ) —    | —     | 635     | —       |  |     |
| Total debt securities                       | 3,883  | 12     | 35  | (280) | ) —    | (838) | ) 2,812 | —       |  | (4) |
| Marketable equity securities:               |        |        |     |       |        |       |         |         |  |     |
| Perpetual preferred securities              | —      | —      | —   | —     | —      | —     | —       | —       |  |     |
| Other marketable equity securities          | —      | —      | —   | —     | —      | —     | —       | —       |  |     |
| Total marketable equity securities          | —      | —      | —   | —     | —      | —     | —       | —       |  | (5) |
| Total available-for-sale securities         | 3,883  | 12     | 35  | (280) | ) —    | (838) | ) 2,812 | —       |  |     |
| Mortgages held for sale                     | 995    | (10)   | ) — | (6)   | ) 55   | (2)   | ) 1,032 | (11)    |  | (6) |
| Loans                                       | 443    | —      | —   | (33)  | ) —    | —     | 410     | (3)     |  | (6) |
| Mortgage servicing rights (residential) (7) | 12,789 | (661)  | ) — | 1,210 | —      | —     | 13,338  | (142)   |  | (6) |
| Net derivative assets and liabilities:      |        |        |     |       |        |       |         |         |  |     |
| Interest rate contracts                     | 115    | 158    | —   | (159) | ) —    | —     | 114     | 8       |  |     |
| Commodity contracts                         | 17     | (16)   | ) — | 9     | 2      | —     | 12      | 7       |  |     |
| Equity contracts                            | (471)  | ) (70) | ) — | (27)  | ) (17) | ) (6) | ) (591) | ) (130) |  | )   |
| Foreign exchange contracts                  | 4      | 3      | —   | —     | —      | —     | 7       | 1       |  |     |
| Credit contracts                            | 72     | (6)    | ) — | (13)  | ) —    | —     | 53      | (6)     |  | )   |
| Other derivative contracts                  | (34)   | ) 8    | —   | —     | —      | —     | (26)    | ) 8     |  |     |
| Total derivative contracts                  | (297)  | ) 77   | —   | (190) | ) (15) | ) (6) | ) (431) | ) (112) |  | (8) |
| Other assets                                | 3,960  | 513    | —   | —     | —      | —     | 4,473   | 513     |  | (5) |
| Short sale liabilities                      | —      | —      | —   | (3)   | ) —    | —     | (3)     | ) —     |  | (3) |
| Other liabilities                           | (3)    | ) —    | —   | —     | —      | —     | (3)     | ) —     |  | (6) |

(1) See Table 13.5 for detail.

(2) Represents only net gains (losses) that are due to changes in economic conditions and management's estimates of fair value and excludes changes due to the collection/realization of cash flows over time.

(3) Included in net gains (losses) from trading activities and other noninterest income in the income statement.

(4) Included in net gains (losses) from debt securities in the income statement.

(5) Included in net gains (losses) from equity investments in the income statement.

(6) Included in mortgage banking and other noninterest income in the income statement.

(7) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

(8) Included in mortgage banking, trading activities, equity investments and other noninterest income in the income statement.

(continued on following page)



## Note 13: Fair Values of Assets and Liabilities (continued)

(continued from previous page)

Table 13.5 presents gross purchases, sales, issuances and settlements related to the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended September 30, 2017.

Table 13.5: Gross Purchases, Sales, Issuances and Settlements – Level 3 – Quarter ended September 30, 2017  
(in millions)

|  | Purchases | Sales  | Issuances | Settlements | Net    |
|--|-----------|--------|-----------|-------------|--------|
| Quarter ended September 30, 2017                     |           |        |           |             |        |
| Trading assets:                                      |           |        |           |             |        |
| Securities of U.S. states and political subdivisions | \$ 30     | (35 )  | —         | (1 )        | (6 )   |
| Collateralized loan obligations                      | 51        | (36 )  | —         | (35 )       | (20 )  |
| Corporate debt securities                            | 9         | (3 )   | —         | —           | 6      |
| Mortgage-backed securities                           | —         | —      | —         | —           | —      |
| Asset-backed securities                              | —         | —      | —         | —           | —      |
| Equity securities                                    | —         | —      | —         | —           | —      |
| Total trading securities                             | 90        | (74 )  | —         | (36 )       | (20 )  |
| Other trading assets                                 | —         | (1 )   | —         | —           | (1 )   |
| Total trading assets                                 | 90        | (75 )  | —         | (36 )       | (21 )  |
| Available-for-sale securities:                       |           |        |           |             |        |
| Securities of U.S. states and political subdivisions | —         | (68 )  | 98        | (49 )       | (19 )  |
| Mortgage-backed securities:                          |           |        |           |             |        |
| Residential  | —         | —      | —         | —           | —      |
| Commercial   | —         | —      | —         | —           | —      |
| Total mortgage-backed securities                     | —         | —      | —         | —           | —      |
| Corporate debt securities                            | —         | —      | —         | (1 )        | (1 )   |
| Collateralized loan and other debt obligations       | 6         | —      | —         | (26 )       | (20 )  |
| Asset-backed securities:                             |           |        |           |             |        |
| Automobile loans and leases                          | —         | —      | —         | —           | —      |
| Other asset-backed securities                        | —         | —      | 16        | (256 )      | (240 ) |
| Total asset-backed securities                        | —         | —      | 16        | (256 )      | (240 ) |
| Total debt securities                                | 6         | (68 )  | 114       | (332 )      | (280 ) |
| Marketable equity securities:                        |           |        |           |             |        |
| Perpetual preferred securities                       | —         | —      | —         | —           | —      |
| Other marketable equity securities                   | —         | —      | —         | —           | —      |
| Total marketable equity securities                   | —         | —      | —         | —           | —      |
| Total available-for-sale securities                  | 6         | (68 )  | 114       | (332 )      | (280 ) |
| Mortgages held for sale                              | 17        | (130 ) | 147       | (40 )       | (6 )   |
| Loans  | 2         | —      | 5         | (40 )       | (33 )  |
| Mortgage servicing rights (residential) (1)          | 541       | 64     | 605       | —           | 1,210  |
| Net derivative assets and liabilities:               |           |        |           |             |        |
| Interest rate contracts                              | —         | —      | —         | (159 )      | (159 ) |
| Commodity contracts                                  | —         | —      | —         | 9           | 9      |
| Equity contracts                                     | —         | (48 )  | —         | 21          | (27 )  |
| Foreign exchange contracts                           | —         | —      | —         | —           | —      |
| Credit contracts                                     | 1         | —      | —         | (14 )       | (13 )  |
| Other derivative contracts                           | —         | —      | —         | —           | —      |
| Total derivative contracts                           | 1         | (48 )  | —         | (143 )      | (190 ) |
| Other assets   |           |        |           |             |        |
| Short sale liabilities                               | —         | (3 )   | —         | —           | (3 )   |
| Other liabilities                                    |           |        |           |             |        |
| —  | —         | —      | —         | —           | —      |

(1) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

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The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended September 30, 2016, are presented in Table 13.6.

Table 13.6: Changes in Level 3 Fair Value Assets and Liabilities on a Recurring Basis – Quarter ended September 30, 2016

| (in millions)  | Balance,<br>beginning<br>of<br>period | Total net gains<br>(losses) included<br>in |                                       | Purchases,<br>sales,<br>issuances<br>and<br>settlements,<br>net (1) | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>end of<br>period | Net<br>unrealized<br>gains<br>(losses)<br>included in<br>income<br>related<br>to assets<br>and<br>liabilities<br>held<br>at period<br>end | (2)   |
|--|---------------------------------------|--|---------------------------------------|---|------------------------------|--------------------------------|------------------------------|---|-------|
|  |                                       | Net<br>income                              | Other<br>compre-<br>hensive<br>income |   |                              |                                |                              |   |       |
| Quarter ended<br>September 30, 2016                        |                                       |  |                                       |   |                              |                                |                              |   |       |
| Trading assets:  |                                       |  |                                       |   |                              |                                |                              |   |       |
| Securities of U.S. states<br>and<br>political subdivisions | \$ 7                                  | —  | —                                     | (4  | ) —                          | —                              | 3                            | —   |       |
| Collateralized loan<br>obligations                         | 249                                   | —  | —                                     | 39  | —                            | —                              | 288                          | (1  | )     |
| Corporate debt<br>securities                               | 36                                    | 1  | —                                     | 9   | —                            | —                              | 46                           | 1   |       |
| Mortgage-backed<br>securities                              | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Asset-backed securities                                    | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Equity securities  | —                                     | —  | —                                     | (1  | ) 1                          | —                              | —                            | —   |       |
| Total trading securities                                   | 292                                   | 1  | —                                     | 43  | 1                            | —                              | 337                          | —   |       |
| Other trading assets                                       | 33                                    | (3   | ) —                                   | —   | —                            | —                              | 30                           | (2  | )     |
| Total trading assets                                       | 325                                   | (2   | ) —                                   | 43  | 1                            | —                              | 367                          | (2  | ) (3) |
| Available-for-sale<br>securities:                          |                                       |  |                                       |   |                              |                                |                              |   |       |
| Securities of U.S. states<br>and<br>political subdivisions | 1,793                                 | 1  | (15                                   | ) (114  | ) —                          | (465                           | ) 1,200                      | —   |       |
| Mortgage-backed<br>securities:                             |                                       |  |                                       |   |                              |                                |                              |   |       |
| Residential  | 1                                     | —  | —                                     | —   | —                            | —                              | 1                            | —   |       |
| Commercial   | 94                                    | —  | 1                                     | (2  | ) —                          | —                              | 93                           | (1  | )     |
| Total mortgage-backed<br>securities                        | 95                                    | —  | 1                                     | (2  | ) —                          | —                              | 94                           | (1  | )     |
| Corporate debt<br>securities                               | 471                                   | 3  | 5                                     | (4  | ) —                          | —                              | 475                          | —   |       |
| Collateralized loan and<br>other<br>debt obligations       | 951                                   | 19   | 2                                     | (12   | ) —                          | —                              | 960                          | —   |       |

|   |        |       |     |        |      |       |         |       |       |
|---|--------|-------|-----|--------|------|-------|---------|-------|-------|
| Asset-backed securities:                    |        |       |     |        |      |       |         |       |       |
| Automobile loans and leases                 | —      | —     | —   | —      | —    | —     | —       | —     | —     |
| Other asset-backed securities               | 1,117  | (1    | ) — | (70    | ) —  | —     | 1,046   | —     |       |
| Total asset-backed securities               | 1,117  | (1    | ) — | (70    | ) —  | —     | 1,046   | —     |       |
| Total debt securities                       | 4,427  | 22    | (7  | ) (202 | ) —  | (465  | ) 3,775 | (1    | ) (4) |
| Marketable equity securities:               |        |       |     |        |      |       |         |       |       |
| Perpetual preferred securities              | —      | —     | —   | —      | —    | —     | —       | —     |       |
| Other marketable equity securities          | —      | —     | —   | —      | —    | —     | —       | —     |       |
| Total marketable equity securities          | —      | —     | —   | —      | —    | —     | —       | —     | (5)   |
| Total available-for-sale securities         | 4,427  | 22    | (7  | ) (202 | ) —  | (465  | ) 3,775 | (1    | )     |
| Mortgages held for sale                     | 1,084  | (10   | ) — | 18     | 18   | (3    | ) 1,107 | (11   | ) (6) |
| Loans                                       | 5,032  | (25   | ) — | (219   | ) —  | —     | 4,788   | (26   | ) (6) |
| Mortgage servicing rights (residential) (7) | 10,396 | (594  | ) — | 613    | —    | —     | 10,415  | (8    | ) (6) |
| Net derivative assets and liabilities:      |        |       |     |        |      |       |         |       |       |
| Interest rate contracts                     | 690    | 504   | —   | (561   | ) —  | —     | 633     | 186   |       |
| Commodity contracts                         | 21     | (3    | ) — | —      | 1    | 1     | 20      | (1    | )     |
| Equity contracts                            | (252   | ) (33 | ) — | (7     | ) (3 | ) (80 | ) (375  | ) (54 | )     |
| Foreign exchange contracts                  | —      | 1     | —   | —      | 16   | —     | 17      | 2     |       |
| Credit contracts                            | 61     | 17    | —   | (8     | ) —  | —     | 70      | 14    |       |
| Other derivative contracts                  | (88    | ) 15  | —   | —      | —    | —     | (73     | ) 16  |       |
| Total derivative contracts                  | 432    | 501   | —   | (576   | ) 14 | (79   | ) 292   | 163   | (8)   |
| Other assets                                | 3,038  | 380   | —   | —      | —    | —     | 3,418   | 381   | (5)   |
| Short sale liabilities                      | —      | —     | —   | —      | —    | —     | —       | —     | (3)   |
| Other liabilities                           | (5     | ) 1   | —   | —      | —    | —     | (4      | ) —   | (6)   |

(1) See Table 13.7 for detail.

(2) Represents only net gains (losses) that are due to changes in economic conditions and management's estimates of fair value and excludes changes due to the collection/realization of cash flows over time.

(3) Included in net gains (losses) from trading activities and other noninterest income in the income statement.

(4) Included in net gains (losses) from debt securities in the income statement.

(5) Included in net gains (losses) from equity investments in the income statement.

(6) Included in mortgage banking and other noninterest income in the income statement.

(7) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

(8) Included in mortgage banking, trading activities, equity investments and other noninterest income in the income statement.

(continued on following page)



## Note 13: Fair Values of Assets and Liabilities (continued)

(continued from previous page)

Table 13.7 presents gross purchases, sales, issuances and settlements related to the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended September 30, 2016.

Table 13.7: Gross Purchases, Sales, Issuances and Settlements – Level 3 – Quarter ended September 30, 2016 (in millions)

|  | Purchases | Sales  | Issuances | Settlements | Net     |
|--|-----------|--------|-----------|-------------|---------|
| Quarter ended September 30, 2016                     |           |        |           |             |         |
| Trading assets:                                      |           |        |           |             |         |
| Securities of U.S. states and political subdivisions | \$ —      | —      | (4        | )           | (4 )    |
| Collateralized loan obligations                      | 75        | (36 )  | —         | —           | 39      |
| Corporate debt securities                            | 19        | (10 )  | —         | —           | 9       |
| Mortgage-backed securities                           | —         | —      | —         | —           | —       |
| Asset-backed securities                              | —         | —      | —         | —           | —       |
| Equity securities                                    | —         | (1 )   | —         | —           | (1 )    |
| Total trading securities                             | 94        | (47 )  | —         | (4          | ) 43    |
| Other trading assets                                 | —         | —      | —         | —           | —       |
| Total trading assets                                 | 94        | (47 )  | —         | (4          | ) 43    |
| Available-for-sale securities:                       |           |        |           |             |         |
| Securities of U.S. states and political subdivisions | —         | —      | —         | (114        | ) (114) |
| Mortgage-backed securities:                          |           |        |           |             |         |
| Residential  | —         | —      | —         | —           | —       |
| Commercial   | —         | —      | —         | (2          | ) (2 )  |
| Total mortgage-backed securities                     | —         | —      | —         | (2          | ) (2 )  |
| Corporate debt securities                            | 1         | (4 )   | —         | (1          | ) (4 )  |
| Collateralized loan and other debt obligations       | 121       | (45 )  | —         | (88         | ) (12 ) |
| Asset-backed securities:                             |           |        |           |             |         |
| Automobile loans and leases                          | —         | —      | —         | —           | —       |
| Other asset-backed securities                        | —         | —      | 16        | (86         | ) (70 ) |
| Total asset-backed securities                        | —         | —      | 16        | (86         | ) (70 ) |
| Total debt securities                                | 122       | (49 )  | 16        | (291        | ) (202) |
| Marketable equity securities:                        |           |        |           |             |         |
| Perpetual preferred securities                       | —         | —      | —         | —           | —       |
| Other marketable equity securities                   | —         | —      | —         | —           | —       |
| Total marketable equity securities                   | —         | —      | —         | —           | —       |
| Total available-for-sale securities                  | 122       | (49 )  | 16        | (291        | ) (202) |
| Mortgages held for sale                              | 23        | (113 ) | 161       | (53         | ) 18    |
| Loans  | —         | —      | 76        | (295        | ) (219) |
| Mortgage servicing rights (residential) (1)          | —         | 3      | 609       | 1           | 613     |
| Net derivative assets and liabilities:               |           |        |           |             |         |
| Interest rate contracts                              | —         | —      | —         | (561        | ) (561) |
| Commodity contracts                                  | —         | —      | —         | —           | —       |
| Equity contracts                                     | —         | —      | —         | (7          | ) (7 )  |
| Foreign exchange contracts                           | —         | —      | —         | —           | —       |
| Credit contracts                                     | 2         | (1 )   | —         | (9          | ) (8 )  |
| Other derivative contracts                           | —         | —      | —         | —           | —       |
| Total derivative contracts                           | 2         | (1 )   | —         | (577        | ) (576) |
| Other assets   | —         | —      | —         | —           | —       |
| Short sale liabilities                               | —         | —      | —         | —           | —       |
| Other liabilities                                    | —         | —      | —         | —           | —       |

(1) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

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The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the first nine months of 2017, are presented in Table 13.8.

Table 13.8: Changes in Level 3 Fair Value Assets and Liabilities on a Recurring Basis – Nine months ended September 30, 2017

| (in millions)  | Balance,<br>beginning<br>of<br>period | Total net gains<br>(losses) included<br>in |                                       | Purchases,<br>sales,<br>issuances<br>and<br>settlements,<br>net (1) | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>end of<br>period | Net<br>unrealized<br>gains<br>(losses)<br>included in<br>income<br>related<br>to assets<br>and<br>liabilities<br>held<br>at period<br>end | (2)   |
|--|---------------------------------------|--|---------------------------------------|---|------------------------------|--------------------------------|------------------------------|---|-------|
|  |                                       | Net<br>income                              | Other<br>compre-<br>hensive<br>income |   |                              |                                |                              |   |       |
| Nine months ended<br>September 30, 2017                    |                                       |  |                                       |   |                              |                                |                              |   |       |
| Trading assets:  |                                       |  |                                       |   |                              |                                |                              |   |       |
| Securities of U.S. states<br>and<br>political subdivisions | \$ 3                                  | —  | —                                     | —   | —                            | —                              | 3                            | —   |       |
| Collateralized loan<br>obligations                         | 309                                   | (3   | ) —                                   | 77  | —                            | —                              | 383                          | (12   | )     |
| Corporate debt securities                                  | 34                                    | 1  | —                                     | (5  | ) 5                          | (1                             | ) 34                         | —   |       |
| Mortgage-backed<br>securities                              | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Asset-backed securities                                    | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Equity securities  | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |
| Total trading securities                                   | 346                                   | (2   | ) —                                   | 72  | 5                            | (1                             | ) 420                        | (12   | )     |
| Other trading assets                                       | 28                                    | (3   | ) —                                   | (3  | ) 34                         | —                              | 56                           | (2  | )     |
| Total trading assets                                       | 374                                   | (5   | ) —                                   | 69  | 39                           | (1                             | ) 476                        | (14   | ) (3) |
| Available-for-sale<br>securities:                          |                                       |  |                                       |   |                              |                                |                              |   |       |
| Securities of U.S. states<br>and<br>political subdivisions | 1,140                                 | 4  | 7                                     | 884   | 5                            | (1,334                         | ) 706                        | —   |       |
| Mortgage-backed<br>securities:                             |                                       |  |                                       |   |                              |                                |                              |   |       |
| Residential  | 1                                     | —  | —                                     | —   | —                            | —                              | 1                            | —   |       |
| Commercial   | 91                                    | (6   | ) —                                   | (9  | ) —                          | —                              | 76                           | (11   | )     |
| Total mortgage-backed<br>securities                        | 92                                    | (6   | ) —                                   | (9  | ) —                          | —                              | 77                           | (11   | )     |
| Corporate debt securities                                  | 432                                   | (13  | ) 14                                  | (53   | ) —                          | —                              | 380                          | —   |       |
| Collateralized loan and<br>other<br>debt obligations       | 879                                   | 17   | 70                                    | 48  | —                            | —                              | 1,014                        | —   |       |
| Asset-backed securities:                                   | —                                     | —  | —                                     | —   | —                            | —                              | —                            | —   |       |

|   |        |        |      |      |       |        |     |        |       |       |       |       |      |       |   |
|---|--------|--------|------|------|-------|--------|-----|--------|-------|-------|-------|-------|------|-------|---|
| Automobile loans and leases                 |        |        |      |      |       |        |     |        |       |       |       |       |      |       |   |
| Other asset-backed securities               | 962    | 1      | 5    | (333 | )     | —      | —   | 635    | —     |       |       |       |      |       |   |
| Total asset-backed securities               | 962    | 1      | 5    | (333 | )     | —      | —   | 635    | —     |       |       |       |      |       |   |
| Total debt securities                       | 3,505  | 3      | 96   | 537  | 5     | (1,334 | )   | 2,812  | (11   | ) (4) |       |       |      |       |   |
| Marketable equity securities:               |        |        |      |      |       |        |     |        |       |       |       |       |      |       |   |
| Perpetual preferred securities              | —      | —      | —    | —    | —     | —      | —   | —      | —     |       |       |       |      |       |   |
| Other marketable equity securities          | —      | —      | —    | —    | —     | —      | —   | —      | —     |       |       |       |      |       |   |
| Total marketable equity securities          | —      | —      | —    | —    | —     | —      | —   | —      | —     | (5)   |       |       |      |       |   |
| Total available-for-sale securities         | 3,505  | 3      | 96   | 537  | 5     | (1,334 | )   | 2,812  | (11   | )     |       |       |      |       |   |
| Mortgages held for sale                     | 985    | (20    | )    | —    | (41   | )      | 116 | (8     | )     | 1,032 | (21   | ) (6) |      |       |   |
| Loans                                       | 758    | (6     | )    | —    | (342  | )      | —   | —      | 410   | (9    | ) (6) |       |      |       |   |
| Mortgage servicing rights (residential) (7) | 12,959 | (1,795 | )    | —    | 2,174 | —      | —   | 13,338 | (328  | ) (6) |       |       |      |       |   |
| Net derivative assets and liabilities:      |        |        |      |      |       |        |     |        |       |       |       |       |      |       |   |
| Interest rate contracts                     | 121    | 625    | —    | (632 | )     | —      | —   | 114    | (10   | )     |       |       |      |       |   |
| Commodity contracts                         | 23     | (14    | )    | —    | 3     | 2      | (2  | )      | 12    | 9     |       |       |      |       |   |
| Equity contracts                            | (267   | )      | (128 | )    | —     | (70    | )   | (39    | )     | (87   | )     | (591  | )    | (223  | ) |
| Foreign exchange contracts                  | 12     | (5     | )    | —    | —     | —      | —   | 7      | (1    | )     |       |       |      |       |   |
| Credit contracts                            | 77     | 29     | —    | (53  | )     | —      | —   | 53     | (42   | )     |       |       |      |       |   |
| Other derivative contracts                  | (47    | )      | 22   | —    | (1    | )      | —   | —      | (26   | )     | 22    |       |      |       |   |
| Total derivative contracts                  | (81    | )      | 529  | —    | (753  | )      | (37 | )      | (89   | )     | (431  | )     | (245 | ) (8) |   |
| Other assets                                | 3,259  | 1,214  | —    | (1   | )     | 1      | —   | 4,473  | 1,215 | (5)   |       |       |      |       |   |
| Short sale liabilities                      | —      | —      | —    | (3   | )     | —      | —   | (3     | )     | —     | (3)   |       |      |       |   |
| Other liabilities                           | (4     | )      | 1    | —    | —     | —      | —   | (3     | )     | —     | (6)   |       |      |       |   |

(1) See Table 13.9 for detail.

(2) Represents only net gains (losses) that are due to changes in economic conditions and management's estimates of fair value and excludes changes due to the collection/realization of cash flows over time.

(3) Included in net gains (losses) from trading activities and other noninterest income in the income statement.

(4) Included in net gains (losses) from debt securities in the income statement.

(5) Included in net gains (losses) from equity investments in the income statement.

(6) Included in mortgage banking and other noninterest income in the income statement.

(7) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

(8) Included in mortgage banking, trading activities, equity investments and other noninterest income in the income statement.

(continued on following page)





## Note 13: Fair Values of Assets and Liabilities (continued)

(continued from previous page)

Table 13.9 presents gross purchases, sales, issuances and settlements related to the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the first nine months of 2017.

Table 13.9: Gross Purchases, Sales, Issuances and Settlements – Level 3 – Nine months ended September 30, 2017 (in millions)

|  | Purchases | Sales  | Issuances | Settlements | Net    |
|--|-----------|--------|-----------|-------------|--------|
| Nine months ended September 30, 2017                 |           |        |           |             |        |
| Trading assets:                                      |           |        |           |             |        |
| Securities of U.S. states and political subdivisions | \$ 37     | (36 )  | —         | (1 )        | —      |
| Collateralized loan obligations                      | 337       | (165 ) | —         | (95 )       | 77     |
| Corporate debt securities                            | 18        | (23 )  | —         | —           | (5 )   |
| Mortgage-backed securities                           | —         | —      | —         | —           | —      |
| Asset-backed securities                              | —         | —      | —         | —           | —      |
| Equity securities                                    | —         | —      | —         | —           | —      |
| Total trading securities                             | 392       | (224 ) | —         | (96 )       | 72     |
| Other trading assets                                 | —         | (1 )   | —         | (2 )        | (3 )   |
| Total trading assets                                 | 392       | (225 ) | —         | (98 )       | 69     |
| Available-for-sale securities:                       |           |        |           |             |        |
| Securities of U.S. states and political subdivisions | —         | (68 )  | 1,099     | (147 )      | 884    |
| Mortgage-backed securities:                          |           |        |           |             |        |
| Residential  | —         | —      | —         | —           | —      |
| Commercial   | —         | —      | —         | (9 )        | (9 )   |
| Total mortgage-backed securities                     | —         | —      | —         | (9 )        | (9 )   |
| Corporate debt securities                            | 4         | —      | —         | (57 )       | (53 )  |
| Collateralized loan and other debt obligations       | 135       | —      | —         | (87 )       | 48     |
| Asset-backed securities:                             |           |        |           |             |        |
| Automobile loans and leases                          | —         | —      | —         | —           | —      |
| Other asset-backed securities                        | —         | —      | 198       | (531 )      | (333 ) |
| Total asset-backed securities                        | —         | —      | 198       | (531 )      | (333 ) |
| Total debt securities                                | 139       | (68 )  | 1,297     | (831 )      | 537    |
| Marketable equity securities:                        |           |        |           |             |        |
| Perpetual preferred securities                       | —         | —      | —         | —           | —      |
| Other marketable equity securities                   | —         | —      | —         | —           | —      |
| Total marketable equity securities                   | —         | —      | —         | —           | —      |
| Total available-for-sale securities                  | 139       | (68 )  | 1,297     | (831 )      | 537    |
| Mortgages held for sale                              | 57        | (374 ) | 386       | (110 )      | (41 )  |
| Loans  | 5         | (129 ) | 14        | (232 )      | (342 ) |
| Mortgage servicing rights (residential) (1)          | 541       | 9      | 1,624     | —           | 2,174  |
| Net derivative assets and liabilities:               |           |        |           |             |        |
| Interest rate contracts                              | —         | —      | —         | (632 )      | (632 ) |
| Commodity contracts                                  | —         | —      | —         | 3           | 3      |
| Equity contracts                                     | —         | (117 ) | —         | 47          | (70 )  |
| Foreign exchange contracts                           | —         | —      | —         | —           | —      |
| Credit contracts                                     | 5         | (2 )   | —         | (56 )       | (53 )  |
| Other derivative contracts                           | —         | —      | —         | (1 )        | (1 )   |
| Total derivative contracts                           | 5         | (119 ) | —         | (639 )      | (753 ) |
| Other assets   | —         | (1 )   | —         | —           | (1 )   |
| Short sale liabilities                               | —         | (3 )   | —         | —           | (3 )   |
| Other liabilities                                    | —         | —      | —         | —           | —      |

(1) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

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The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the first nine months of 2016, are presented in Table 13.10.

Table 13.10: Changes in Level 3 Fair Value Assets and Liabilities on a Recurring Basis – Nine months ended September 30, 2016

| (in millions)  | Balance, beginning of period | Total net gains (losses) included in |                            | Purchases, sales, issuances and settlements, net (1) | Transfers into Level 3 | Transfers out of Level 3 | Balance, end of period | Net unrealized gains (losses) included in income related to assets and liabilities held at period end | (2) |     |
|--|------------------------------|--------------------------------------|----------------------------|--|------------------------|--------------------------|------------------------|---|-----|-----|
|  |                              | Net income                           | Other comprehensive income |  |                        |                          |                        |   |     |     |
| Nine months ended September 30, 2016                 |                              |                                      |                            |  |                        |                          |                        |   |     |     |
| Trading assets:                                      |                              |                                      |                            |  |                        |                          |                        |   |     |     |
| Securities of U.S. states and political subdivisions | \$ 8                         | —                                    | —                          | (5   | ) —                    | —                        | 3                      | —   |     |     |
| Collateralized loan obligations                      | 343                          | (24                                  | ) —                        | (20  | ) —                    | (11                      | ) 288                  | (25   | )   |     |
| Corporate debt securities                            | 56                           | (7                                   | ) —                        | (3   | ) —                    | —                        | 46                     | (6  | )   |     |
| Mortgage-backed securities                           | —                            | —                                    | —                          | —  | —                      | —                        | —                      | —   |     |     |
| Asset-backed securities                              | —                            | —                                    | —                          | —  | —                      | —                        | —                      | —   |     |     |
| Equity securities                                    | —                            | —                                    | —                          | (1   | ) 1                    | —                        | —                      | —   |     |     |
| Total trading securities                             | 407                          | (31                                  | ) —                        | (29  | ) 1                    | (11                      | ) 337                  | (31   | )   |     |
| Other trading assets                                 | 34                           | (4                                   | ) —                        | —  | —                      | —                        | 30                     | 1   |     |     |
| Total trading assets                                 | 441                          | (35                                  | ) —                        | (29  | ) 1                    | (11                      | ) 367                  | (30   | )   | (3) |
| Available-for-sale securities:                       |                              |                                      |                            |  |                        |                          |                        |   |     |     |
| Securities of U.S. states and political subdivisions | 1,500                        | 5                                    | (11                        | ) 107  | 80                     | (481                     | ) 1,200                | —   |     |     |
| Mortgage-backed securities:                          |                              |                                      |                            |  |                        |                          |                        |   |     |     |
| Residential  | 1                            | —                                    | —                          | —  | —                      | —                        | 1                      | —   |     |     |
| Commercial   | 73                           | —                                    | 1                          | 19   | —                      | —                        | 93                     | (1  | )   |     |
| Total mortgage-backed securities                     | 74                           | —                                    | 1                          | 19   | —                      | —                        | 94                     | (1  | )   |     |
| Corporate debt securities                            | 405                          | 8                                    | 33                         | 29   | —                      | —                        | 475                    | —   |     |     |
| Collateralized loan and other debt obligations       | 565                          | 42                                   | (18                        | ) 371  | —                      | —                        | 960                    | —   |     |     |
| Asset-backed securities:                             |                              |                                      |                            |  |                        |                          |                        |   |     |     |

|   |        |        |     |        |      |      |         |        |       |
|---|--------|--------|-----|--------|------|------|---------|--------|-------|
| Automobile loans and leases                 | —      | —      | —   | —      | —    | —    | —       | —      | —     |
| Other asset-backed securities               | 1,182  | 1      | (7  | ) (130 | ) —  | —    | 1,046   | (4     | )     |
| Total asset-backed securities               | 1,182  | 1      | (7  | ) (130 | ) —  | —    | 1,046   | (4     | )     |
| Total debt securities                       | 3,726  | 56     | (2  | ) 396  | 80   | (481 | ) 3,775 | (5     | ) (4) |
| Marketable equity securities:               |        |        |     |        |      |      |         |        |       |
| Perpetual preferred securities              | —      | —      | —   | —      | —    | —    | —       | —      | —     |
| Other marketable equity securities          | —      | —      | —   | —      | —    | —    | —       | —      | —     |
| Total marketable equity securities          | —      | —      | —   | —      | —    | —    | —       | —      | (5)   |
| Total available-for-sale securities         | 3,726  | 56     | (2  | ) 396  | 80   | (481 | ) 3,775 | (5     | )     |
| Mortgages held for sale                     | 1,082  | 20     | —   | (55    | ) 72 | (12  | ) 1,107 | 15     | (6)   |
| Loans                                       | 5,316  | (29    | ) — | (499   | ) —  | —    | 4,788   | (30    | ) (6) |
| Mortgage servicing rights (residential) (7) | 12,415 | (3,434 | ) — | 1,434  | —    | —    | 10,415  | (1,789 | ) (6) |
| Net derivative assets and liabilities:      |        |        |     |        |      |      |         |        |       |
| Interest rate contracts                     | 288    | 1,763  | —   | (1,411 | ) —  | (7   | ) 633   | 374    |       |
| Commodity contracts                         | 12     | 5      | —   | (2     | ) 4  | 1    | 20      | 13     |       |
| Equity contracts                            | (111   | ) (26  | ) — | (137   | ) 22 | (123 | ) (375  | ) (278 | )     |
| Foreign exchange contracts                  | —      | 1      | —   | —      | 16   | —    | 17      | 16     |       |
| Credit contracts                            | (3     | ) 25   | —   | 48     | —    | —    | 70      | 16     |       |
| Other derivative contracts                  | (58    | ) (15  | ) — | —      | —    | —    | (73     | ) (15  | )     |
| Total derivative contracts                  | 128    | 1,753  | —   | (1,502 | ) 42 | (129 | ) 292   | 126    | (8)   |
| Other assets                                | 3,065  | 142    | —   | 211    | —    | —    | 3,418   | 142    | (5)   |
| Short sale liabilities                      | —      | —      | —   | —      | —    | —    | —       | —      | (3)   |
| Other liabilities                           | (30    | ) 1    | —   | 25     | —    | —    | (4      | ) —    | (6)   |

(1) See Table 13.11 for detail.

(2) Represents only net gains (losses) that are due to changes in economic conditions and management's estimates of fair value and excludes changes due to the collection/realization of cash flows over time.

(3) Included in net gains (losses) from trading activities and other noninterest income in the income statement.

(4) Included in net gains (losses) from debt securities in the income statement.

(5) Included in net gains (losses) from equity investments in the income statement.

(6) Included in mortgage banking and other noninterest income in the income statement.

(7) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

(8) Included in mortgage banking, trading activities, equity investments and other noninterest income in the income statement.

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## Note 13: Fair Values of Assets and Liabilities (continued)

(continued from previous page)

Table 13.11 presents gross purchases, sales, issuances and settlements related to the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the first nine months of 2016.

Table 13.11: Gross Purchases, Sales, Issuances and Settlements – Level 3 – Nine months ended September 30, 2016 (in millions)

|  | Purchases | Sales  | Issuances | Settlements | Net      |
|--|-----------|--------|-----------|-------------|----------|
| Nine months ended September 30, 2016                 |           |        |           |             |          |
| Trading assets:                                      |           |        |           |             |          |
| Securities of U.S. states and political subdivisions | \$ 2      | (2 )   | —         | (5 )        | (5 )     |
| Collateralized loan obligations                      | 265       | (285 ) | —         | —           | (20 )    |
| Corporate debt securities                            | 32        | (35 )  | —         | —           | (3 )     |
| Mortgage-backed securities                           | —         | —      | —         | —           | —        |
| Asset-backed securities                              | —         | —      | —         | —           | —        |
| Equity securities                                    | —         | (1 )   | —         | —           | (1 )     |
| Total trading securities                             | 299       | (323 ) | —         | (5 )        | (29 )    |
| Other trading assets                                 | —         | —      | —         | —           | —        |
| Total trading assets                                 | 299       | (323 ) | —         | (5 )        | (29 )    |
| Available-for-sale securities:                       |           |        |           |             |          |
| Securities of U.S. states and political subdivisions | 28        | (7 )   | 475       | (389 )      | 107      |
| Mortgage-backed securities:                          |           |        |           |             |          |
| Residential  | —         | —      | —         | —           | —        |
| Commercial   | 22        | —      | —         | (3 )        | 19       |
| Total mortgage-backed securities                     | 22        | —      | —         | (3 )        | 19       |
| Corporate debt securities                            | 35        | (4 )   | —         | (2 )        | 29       |
| Collateralized loan and other debt obligations       | 610       | (49 )  | —         | (190 )      | 371      |
| Asset-backed securities:                             |           |        |           |             |          |
| Automobile loans and leases                          | —         | —      | —         | —           | —        |
| Other asset-backed securities                        | —         | (28 )  | 214       | (316 )      | (130 )   |
| Total asset-backed securities                        | —         | (28 )  | 214       | (316 )      | (130 )   |
| Total debt securities                                | 695       | (88 )  | 689       | (900 )      | 396      |
| Marketable equity securities:                        |           |        |           |             |          |
| Perpetual preferred securities                       | —         | —      | —         | —           | —        |
| Other marketable equity securities                   | —         | —      | —         | —           | —        |
| Total marketable equity securities                   | —         | —      | —         | —           | —        |
| Total available-for-sale securities                  | 695       | (88 )  | 689       | (900 )      | 396      |
| Mortgages held for sale                              |           |        |           |             |          |
| Loans  | 12        | —      | 248       | (759 )      | (499 )   |
| Mortgage servicing rights (residential) (1)          | —         | (19 )  | 1,452     | 1           | 1,434    |
| Net derivative assets and liabilities:               |           |        |           |             |          |
| Interest rate contracts                              | —         | —      | —         | (1,411 )    | (1,411 ) |
| Commodity contracts                                  | —         | —      | —         | (2 )        | (2 )     |
| Equity contracts                                     | 29        | (146 ) | —         | (20 )       | (137 )   |
| Foreign exchange contracts                           | —         | —      | —         | —           | —        |
| Credit contracts                                     | 5         | (2 )   | —         | 45          | 48       |
| Other derivative contracts                           | —         | —      | —         | —           | —        |
| Total derivative contracts                           | 34        | (148 ) | —         | (1,388 )    | (1,502 ) |
| Other assets   | 211       | —      | —         | —           | 211      |
| Short sale liabilities                               | —         | —      | —         | —           | —        |

|                   |   |   |   |    |    |
|-------------------|---|---|---|----|----|
| Other liabilities | — | — | — | 25 | 25 |
|-------------------|---|---|---|----|----|

(1) For more information on the changes in mortgage servicing rights, see Note 8 (Mortgage Banking Activities).

Table 13.12 and Table 13.13 provide quantitative information about the valuation techniques and significant unobservable inputs used in the valuation of substantially all of our Level 3 assets and liabilities measured at fair value on a recurring basis for which we use an internal model.

The significant unobservable inputs for Level 3 assets and liabilities that are valued using fair values obtained from third party vendors are not included in the table, as the specific inputs applied are not provided by the vendor. In addition, the table excludes the valuation techniques and significant unobservable inputs for certain classes of Level 3 assets and liabilities measured using an internal model that we consider, both individually and in the aggregate, insignificant relative to our overall Level 3 assets and liabilities. We made this determination

based upon an evaluation of each class, which considered the magnitude of the positions, nature of the unobservable inputs and potential for significant changes in fair value due to changes in those inputs. For information on how changes in significant unobservable inputs affect the fair values of Level 3 assets and liabilities, see Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in our 2016 Form 10-K.

Table 13.12: Valuation Techniques – Recurring Basis – September 30, 2017

| (\$ in millions, except cost to service amounts)      | Fair Value Level 3 | Valuation Technique(s)    | Significant Unobservable Input | Range of Inputs | Weighted Average (1) |
|---|--------------------|---------------------------|--------------------------------|-----------------|----------------------|
| September 30, 2017                                    |                    |                           |                                |                 |                      |
| Trading and available-for-sale securities:            |                    |                           |                                |                 |                      |
| Securities of U.S. states and political subdivisions: |                    |                           |                                |                 |                      |
| Government, healthcare and other revenue bonds        | \$630              | Discounted cash flow      | Discount rate                  | 1.3 -5.4 %      | 2.4                  |
| Other municipal bonds                                 | 29                 | Discounted cash flow      | Discount rate                  | 4.2 -4.3        | 4.3                  |
|   | 50                 | Vendor priced             |                                |                 |                      |
| Collateralized loan and other debt obligations (2)    | 383                | Market comparable pricing | Comparability adjustment       | (16.5-24.0      | 3.1                  |
|   | 1,014              | Vendor priced             |                                |                 |                      |
| Asset-backed securities:                              |                    |                           |                                |                 |                      |
| Diversified payment rights (3)                        | 324                | Discounted cash flow      | Discount rate                  | 2.1 -3.7        | 2.8                  |
| Other commercial and consumer                         | 285                | (4) Discounted cash flow  | Discount rate                  | 3.3 -4.7        | 3.9                  |
|   | 26                 | Vendor priced             | Weighted average life          | 1.3 -3.5 yrs    | 1.9                  |
| Mortgages held for sale (residential)                 | 1,009              | Discounted cash flow      | Default rate                   | 0.0 -5.6 %      | 1.2                  |
|   |                    |                           | Discount rate                  | 1.1 -7.1        | 5.3                  |
|   |                    |                           | Loss severity                  | 0.1 -40.8       | 18.8                 |
|   |                    |                           | Prepayment rate                | 6.5 -15.8       | 9.2                  |
|   | 23                 | Market comparable pricing | Comparability adjustment       | (53.3-(20.0 )   | (43.2 )              |
| Loans   | 410                | (5) Discounted cash flow  | Discount rate                  | 2.8 -7.3        | 4.1                  |
|   |                    |                           | Prepayment rate                | 8.5 -100.0      | 92.4                 |
|   |                    |                           | Loss severity                  | 0.0 -31.9       | 5.8                  |
| Mortgage servicing rights (residential)               | 13,338             | Discounted cash flow      | Cost to service per loan (6)   | \$79 -584       | 145                  |
|   |                    |                           | Discount rate                  | 6.5 -12.0 %     | 6.7                  |
|   |                    |                           | Prepayment rate (7)            | 10.0 -20.5      | 10.8                 |
| Net derivative assets and (liabilities):              |                    |                           |                                |                 |                      |
| Interest rate contracts                               | 89                 | Discounted cash flow      | Default rate                   | 0.0 -5.0        | 1.7                  |
|   |                    |                           | Loss severity                  | 50.0 -50.0      | 50.0                 |
|   |                    |                           | Prepayment rate                | 2.8 -12.5       | 10.1                 |
| Interest rate contracts: derivative loan commitments  | 25                 | Discounted cash flow      | Fall-out factor                | 1.0 -99.0       | 17.8                 |

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|  |        |                           |                          |               |     |         |
|--|--------|---------------------------|--------------------------|---------------|-----|---------|
|  |        |                           | Initial-value servicing  | (38.0-98.2    | bps | 27.9    |
| Equity contracts                               | 105    | Discounted cash flow      | Conversion factor        | (9.8)-0.0     | %   | (7.8 )  |
|  | (696 ) | Option model              | Weighted average life    | 0.3 -2.3      | yrs | 1.4     |
|  |        |                           | Correlation factor       | (77.0-98.0    | %   | 29.5    |
|  |        |                           | Volatility factor        | 5.0 -100.0    |     | 19.2    |
| Credit contracts                               | (3 )   | Market comparable pricing | Comparability adjustment | (25.8-15.7    |     | (0.8 )  |
|  | 56     | Option model              | Credit spread            | 0.0 -12.2     |     | 1.2     |
|  |        |                           | Loss severity            | 12.0 -60.0    |     | 48.8    |
| Other assets: nonmarketable equity investments | 10     | Discounted cash flow      | Discount rate            | 5.0 -10.3     |     | 9.7     |
|  |        |                           | Volatility Factor        | 0.5 -1.3      |     | 0.8     |
|  | 4,463  | Market comparable pricing | Comparability adjustment | (19.1)-(3.3 ) |     | (14.6 ) |

Insignificant Level 3 assets, net of liabilities 534 (8)

Total level 3 assets, net of liabilities \$22,104 (9)

(1) Weighted averages are calculated using outstanding unpaid principal balance for cash instruments, such as loans and securities, and notional amounts for derivative instruments.

(2) Includes \$1.0 billion of collateralized debt obligations.

(3) Securities backed by specified sources of current and future receivables generated from foreign originators.

(4) A significant portion of the balance consists of investments in asset-backed securities that are revolving in nature, for which the timing of advances and repayments of principal are uncertain.

(5) Consists of reverse mortgage loans.

(6) The high end of the range of inputs is for servicing modified loans. For non-modified loans the range is \$79 - \$282.

(7) Includes a blend of prepayment speeds and expected defaults. Prepayment speeds are influenced by mortgage interest rates as well as our estimation of drivers of borrower behavior.

(8) Represents the aggregate amount of Level 3 assets and liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant. The amount includes corporate debt securities, mortgage-backed securities, other trading assets, other liabilities and certain net derivative assets and liabilities, such as commodity contracts, foreign exchange contracts, and other derivative contracts.

(9) Consists of total Level 3 assets of \$24.1 billion and total Level 3 liabilities of \$2.0 billion, before netting of derivative balances.



## Note 13: Fair Values of Assets and Liabilities (continued)

Table 13.13: Valuation Techniques – Recurring Basis – December 31, 2016

| (\$ in millions, except cost to service amounts)      | Fair Value Level 3 | Valuation Technique(s)    | Significant Unobservable Input | Range of Inputs | Weighted Average (1) |
|---|--------------------|---------------------------|--------------------------------|-----------------|----------------------|
| December 31, 2016                                     |                    |                           |                                |                 |                      |
| Trading and available-for-sale securities:            |                    |                           |                                |                 |                      |
| Securities of U.S. states and political subdivisions: |                    |                           |                                |                 |                      |
| Government, healthcare and other revenue bonds        | \$906              | Discounted cash flow      | Discount rate                  | 1.1 -5.6 %      | 2.0                  |
| Other municipal bonds                                 | 29                 | Discounted cash flow      | Discount rate                  | 3.7 -4.9        | 4.5                  |
|   |                    |                           | Weighted average life          | 3.6 -3.6 yrs    | 3.6                  |
|   | 208                | Vendor priced             |                                |                 |                      |
| Collateralized loan and other debt obligations (2)    | 309                | Market comparable pricing | Comparability adjustment       | (15.5-20.3 %    | 2.9                  |
|   | 879                | Vendor priced             |                                |                 |                      |
| Asset-backed securities:                              |                    |                           |                                |                 |                      |
| Diversified payment rights (3)                        | 443                | Discounted cash flow      | Discount rate                  | 1.9 -4.8        | 3.3                  |
| Other commercial and consumer                         | 492                | (4) Discounted cash flow  | Discount rate                  | 3.0 -4.6        | 3.9                  |
|   |                    |                           | Weighted average life          | 0.8 -4.2 yrs    | 2.9                  |
|   | 27                 | Vendor priced             |                                |                 |                      |
| Mortgages held for sale (residential)                 | 955                | Discounted cash flow      | Default rate                   | 0.5 -7.9 %      | 1.9                  |
|   |                    |                           | Discount rate                  | 1.1 -6.9        | 5.1                  |
|   |                    |                           | Loss severity                  | 0.1 -42.5       | 26.9                 |
|   |                    |                           | Prepayment rate                | 6.3 -17.1       | 10.0                 |
|   | 30                 | Market comparable pricing | Comparability adjustment       | (53.3-0.0       | (37.8 )              |
| Loans   | 758                | (5) Discounted cash flow  | Discount rate                  | 0.0 -3.9        | 0.6                  |
|   |                    |                           | Prepayment rate                | 0.4 -100.0      | 83.7                 |
|   |                    |                           | Utilization rate               | 0.0 -0.8        | 0.1                  |
| Mortgage servicing rights (residential)               | 12,959             | Discounted cash flow      | Cost to service per loan (6)   | \$79 -598       | 155                  |
|   |                    |                           | Discount rate                  | 6.5 -18.4 %     | 6.8                  |
|   |                    |                           | Prepayment rate (7)            | 9.4 -20.6       | 10.3                 |
| Net derivative assets and (liabilities):              |                    |                           |                                |                 |                      |
| Interest rate contracts                               | 127                | Discounted cash flow      | Default rate                   | 0.1 -6.8        | 2.1                  |
|   |                    |                           | Loss severity                  | 50.0 -50.0      | 50.0                 |
|   |                    |                           | Prepayment rate                | 2.8 -12.5       | 9.6                  |
|   | (6 )               |                           | Fall-out factor                | 1.0 -99.0       | 15.0                 |

|  |          |                              |                             |               |     |         |
|--|----------|------------------------------|-----------------------------|---------------|-----|---------|
| Interest rate contracts:<br>derivative loan<br>commitments |          | Discounted cash<br>flow      | Initial-value servicing     | (23.0)-131.2  | bps | 56.8    |
| Equity contracts   | 79       | Discounted cash<br>flow      | Conversion factor           | (10.6)-0.0    | %   | (7.9 )  |
|  | (346 )   | Option model                 | Weighted average life       | 1.0 -3.0      | yrs | 2.0     |
| Credit contracts   | (28 )    | Market comparable<br>pricing | Correlation factor          | (65.0)-98.5   | %   | 39.9    |
|  | 105      | Option model                 | Volatility factor           | 6.5 -100.0    |     | 20.7    |
| Other assets: nonmarketable<br>equity investments          | 21       | Discounted cash<br>flow      | Comparability<br>adjustment | (27.7)-21.3   |     | 0.02    |
|  | 3,238    | Market comparable<br>pricing | Credit spread               | 0.0 -11.6     |     | 1.2     |
| Insignificant Level 3 assets, net<br>of liabilities        | 570      | (8)                          | Loss severity               | 12.0 -60.0    |     | 50.4    |
| Total level 3 assets, net of<br>liabilities                | \$21,755 | (9)                          | Discount rate               | 5.0 -10.3     |     | 8.7     |
|  |          |                              | Volatility Factor           | 0.3 -2.4      |     | 1.1     |
|  |          |                              | Comparability<br>adjustment | (22.1)-(5.5 ) |     | (16.4 ) |

- (1) Weighted averages are calculated using outstanding unpaid principal balance for cash instruments, such as loans and securities, and notional amounts for derivative instruments.
- (2) Includes \$847 million of collateralized debt obligations.
- (3) Securities backed by specified sources of current and future receivables generated from foreign originators.
- (4) A significant portion of the balance consists of investments in asset-backed securities that are revolving in nature, for which the timing of advances and repayments of principal are uncertain.
- (5) Consists of reverse mortgage loans.
- (6) The high end of the range of inputs is for servicing modified loans. For non-modified loans the range is \$79 - \$293.
- (7) Includes a blend of prepayment speeds and expected defaults. Prepayment speeds are influenced by mortgage interest rates as well as our estimation of drivers of borrower behavior.
- (8) Represents the aggregate amount of Level 3 assets and liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant. The amount includes corporate debt securities, mortgage-backed securities, other trading assets, other liabilities and certain net derivative assets and liabilities, such as commodity contracts, foreign exchange contracts, and other derivative contracts.
- (9) Consists of total Level 3 assets of \$23.5 billion and total Level 3 liabilities of \$1.7 billion, before netting of derivative balances.

The valuation techniques used for our Level 3 assets and liabilities, as presented in the previous tables, are described as follows:

**Discounted cash flow** – Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument and then discounting those cash flows at a rate of return that results in the fair value amount.

**Market comparable pricing** – Market comparable pricing valuation techniques are used to determine the fair value of certain instruments by incorporating known inputs, such as recent transaction prices, pending transactions, or prices of other similar investments that require significant adjustment to reflect differences in instrument characteristics.

**Option model** – Option model valuation techniques are generally used for instruments in which the holder has a contingent right or obligation based on the occurrence of a future event, such as the price of a referenced asset going above or below a predetermined strike price. Option models estimate the likelihood of the specified event occurring by incorporating assumptions such as volatility estimates, price of the underlying instrument and expected rate of return.

**Vendor-priced** – Prices obtained from third party pricing vendors or brokers that are used to record the fair value of the asset or liability for which the related valuation technique and significant unobservable inputs are not provided.

Significant unobservable inputs presented in the previous tables are those we consider significant to the fair value of the Level 3 asset or liability. We consider unobservable inputs to be significant if by their exclusion the fair value of the Level 3 asset or liability would be impacted by a predetermined percentage change. We also consider qualitative factors, such as nature of the instrument, type of valuation technique used, and the significance of the unobservable inputs relative to other inputs used within the valuation. Following is a description of the significant unobservable inputs provided in the table.

- **Comparability adjustment** – is an adjustment made to observed market data, such as a transaction price in order to reflect dissimilarities in underlying collateral, issuer, rating, or other factors used within a market valuation approach, expressed as a percentage of an observed price.

- **Conversion Factor** – is the risk-adjusted rate in which a particular instrument may be exchanged for another instrument upon settlement, expressed as a percentage change from a specified rate.

- **Correlation factor** – is the likelihood of one instrument changing in price relative to another based on an established relationship expressed as a percentage of relative change in price over a period over time.

**Cost to service** – is the expected cost per loan of servicing a portfolio of loans, which includes estimates for unreimbursed expenses (including delinquency and foreclosure costs) that may occur as a result of servicing such loan portfolios.

**Credit spread** – is the portion of the interest rate in excess of a benchmark interest rate, such as Overnight Index Swap (OIS), LIBOR or U.S. Treasury rates, that when applied to an investment captures changes in the obligor's creditworthiness.

- **Default rate** – is an estimate of the likelihood of not collecting contractual amounts owed expressed as a constant default rate (CDR).

- **Discount rate** – is a rate of return used to calculate the present value of the future expected cash flow to arrive at the fair value of an instrument. The discount rate consists of a benchmark rate component and a risk premium component.

- The benchmark rate component, for example, OIS, LIBOR or U.S. Treasury rates, is generally observable within the market and is necessary to appropriately reflect the time value of money. The risk premium component reflects the amount of compensation market participants require due to the uncertainty inherent in the instruments' cash flows resulting from risks such as credit and liquidity.

- **Fall-out factor** – is the expected percentage of loans associated with our interest rate lock commitment portfolio that are likely of not funding.

- **Initial-value servicing** – is the estimated value of the underlying loan, including the value attributable to the embedded servicing right, expressed in basis points of outstanding unpaid principal balance.

- **Loss severity** – is the estimated percentage of contractual cash flows lost in the event of a default.

• Prepayment rate – is the estimated rate at which forecasted prepayments of principal of the related loan or debt instrument are expected to occur, expressed as a constant prepayment rate (CPR).

- Utilization rate – is the estimated rate in which incremental portions of existing reverse mortgage credit lines are expected to be drawn by borrowers, expressed as an annualized rate.

• Volatility factor – is the extent of change in price an item is estimated to fluctuate over a specified period of time expressed as a percentage of relative change in price over a period over time.

- Weighted average life – is the weighted average number of years an investment is expected to remain outstanding based on its expected cash flows reflecting the estimated date the issuer will call or extend the maturity of the instrument or otherwise reflecting an estimate of the timing of an instrument's cash flows whose timing is not contractually fixed.

## Note 13: Fair Values of Assets and Liabilities (continued)

## Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of

LOCOM accounting or write-downs of individual assets. Table 13.14 provides the fair value hierarchy and carrying amount of all assets that were still held as of September 30, 2017, and December 31, 2016, and for which a nonrecurring fair value adjustment was recorded during the periods presented.

Table 13.14: Fair Value on a Nonrecurring Basis

| (in millions)  | September 30, 2017 |         |         |         | December 31, 2016 |         |         |       |
|--|--------------------|---------|---------|---------|-------------------|---------|---------|-------|
|  | Level 1            | Level 2 | Level 3 | Total   | Level 1           | Level 2 | Level 3 | Total |
| Mortgages held for sale (LOCOM) (1)                                  | \$—                | 1,652   | 1,340   | 2,992   | —                 | 2,312   | 1,350   | 3,662 |
| Loans held for sale  | —                  | 18      | —       | 18      | —                 | 8       | —       | 8     |
| Loans:   |                    |         |         |         |                   |         |         |       |
| Commercial   | —                  | 386     | —       | 386     | —                 | 464     | —       | 464   |
| Consumer   | —                  | 460     | 10      | 470     | —                 | 822     | 7       | 829   |
| Total loans (2)  | —                  | 846     | 10      | 856     | —                 | 1,286   | 7       | 1,293 |
| Other assets - excluding nonmarketable equity investments at NAV (3) | —                  | 198     | 146     | 344     | —                 | 233     | 412     | 645   |
| Total included in the fair value hierarchy                           | \$—                | 2,714   | 1,496   | 4,210   | —                 | 3,839   | 1,769   | 5,608 |
| Other assets - nonmarketable equity investments at NAV (4)           |                    |         |         | 5       |                   |         |         | 13    |
| Total assets at fair value on a nonrecurring basis                   |                    |         |         | \$4,215 |                   |         |         | 5,621 |

(1) Consists of commercial mortgages and residential real estate 1-4 family first mortgage loans.

(2) Represents the carrying value of loans for which nonrecurring adjustments are based on the appraised value of the collateral.

(3) Includes the fair value of foreclosed real estate, other collateral owned, operating lease assets and nonmarketable equity investments.

(4) Consists of certain nonmarketable equity investments that are measured at fair value on a nonrecurring basis using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

Table 13.15 presents the increase (decrease) in value of certain assets held at the end of the respective reporting periods presented for which a nonrecurring fair value adjustment was recognized during the periods presented.

Table 13.15: Change in Value of Assets with Nonrecurring Fair Value Adjustment

| (in millions)                   | Nine months ended September 30, |          |
|---------------------------------|---------------------------------|----------|
|                                 | 2017                            | 2016     |
| Mortgages held for sale (LOCOM) | \$ 23                           | 26       |
| Loans held for sale             | (1 )                            | (21 )    |
| Loans:                          |                                 |          |
| Commercial                      | (286 )                          | (736 )   |
| Consumer                        | (371 )                          | (578 )   |
| Total loans (1)                 | (657 )                          | (1,314 ) |
| Other assets (2)                | (179 )                          | (339 )   |
| Total                           | \$ (814 )                       | (1,648 ) |

(1) Represents write-downs of loans based on the appraised value of the collateral.

(2) Includes the losses on foreclosed real estate and other collateral owned that were measured at fair value subsequent to their initial classification as foreclosed assets. Also includes impairment losses on nonmarketable equity

investments.

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Table 13.16 provides quantitative information about the valuation techniques and significant unobservable inputs used in the valuation of substantially all of our Level 3 assets that are measured at fair value on a nonrecurring basis using an internal model. The table is limited to financial instruments that had nonrecurring fair value adjustments during the periods presented.

We have excluded from the table valuation techniques and significant unobservable inputs for certain classes of Level 3

assets measured using an internal model that we consider, both individually and in the aggregate, insignificant relative to our overall Level 3 nonrecurring measurements. We made this determination based upon an evaluation of each class that considered the magnitude of the positions, nature of the unobservable inputs and potential for significant changes in fair value due to changes in those inputs.

Table 13.16: Valuation Techniques – Nonrecurring Basis

| (\$ in millions)                               | Fair Value Level 3 | Valuation Technique(s) (1) | Significant Unobservable Inputs (1) | Range of inputs | Weighted Average (2) |
|--|--------------------|----------------------------|-------------------------------------|-----------------|----------------------|
| September 30, 2017                             |                    |                            |                                     |                 |                      |
| Residential mortgages held for sale (LOCOM)    | \$ 1,340 (3)       | Discounted cash flow       | Default rate                        | (4) 0.1 –40.3 % | 2.6 %                |
|  |                    |                            | Discount rate                       | 1.5 –8.5        | 3.8                  |
|  |                    |                            | Loss severity                       | 0.8 –57.6       | 2.6                  |
|  |                    |                            | Prepayment rate                     | (5) 5.3 –400.0  | 49.8                 |
| Other assets: nonmarketable equity investments | 34                 | Discounted cash flow       | Discount rate                       | 5.0 –40.5       | 9.4                  |
| Insignificant level 3 assets                   | 122                |                            |                                     |                 |                      |
| Total  | \$ 1,496           |                            |                                     |                 |                      |
| December 31, 2016                              |                    |                            |                                     |                 |                      |
| Residential mortgages held for sale (LOCOM)    | \$ 1,350 (3)       | Discounted cash flow       | Default rate                        | (4) 0.2 –4.3 %  | 1.9 %                |
|  |                    |                            | Discount rate                       | 1.5 –8.5        | 3.8                  |
|  |                    |                            | Loss severity                       | 0.7 –50.1       | 2.4                  |
|  |                    |                            | Prepayment rate                     | (5) 3.0 –400.0  | 50.7                 |
| Other assets: nonmarketable equity investments | 220                | Discounted cash flow       | Discount rate                       | 4.7 –9.3        | 7.3                  |
| Insignificant level 3 assets                   | 199                |                            |                                     |                 |                      |
| Total  | \$ 1,769           |                            |                                     |                 |                      |

(1) Refer to the narrative following Table 13.13 for a definition of the valuation technique(s) and significant unobservable inputs.

(2) For residential MHFS, weighted averages are calculated using the outstanding unpaid principal balance of the loans.

(3) Consists of approximately \$1.3 billion of government insured/guaranteed loans purchased from GNMA-guaranteed mortgage securitizations at both September 30, 2017, and December 31, 2016, and \$30 million and \$33 million of other mortgage loans that are not government insured/guaranteed at September 30, 2017 and December 31, 2016, respectively.

(4) Applies only to non-government insured/guaranteed loans.

(5) Includes the impact on prepayment rate of expected defaults for government insured/guaranteed loans, which impact the frequency and timing of early resolution of loans.

Alternative Investments

We hold certain nonmarketable equity investments for which we use NAV per share (or its equivalent) as a practical expedient for fair value measurements, including estimated fair values for investments accounted for under the cost method. The investments consist of private equity funds that invest in equity and debt securities issued by private and publicly-held companies. The fair values of these investments and related unfunded commitments totaled \$27 million and \$25 million, respectively, at September 30, 2017, and \$48 million and \$37 million, respectively, at December 31, 2016. The investments do not allow redemptions. We receive distributions as the underlying assets of the funds liquidate, which we expect to occur through 2025.



## Note 13: Fair Values of Assets and Liabilities (continued)

## Fair Value Option

The fair value option is an irrevocable election, generally only permitted upon initial recognition of financial assets or liabilities, to measure eligible financial instruments at fair value with changes in fair value reflected in earnings. We may elect the fair value option to align the measurement model with how the financial assets or liabilities are managed or to reduce complexity or accounting asymmetry. For more information, including the basis for our fair value option elections, see Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in our 2016 Form 10-K.

Table 13.17 reflects differences between the fair value carrying amount of the assets for which we have elected the fair value option and the contractual aggregate unpaid principal amount at maturity.

Table 13.17: Fair Value Option

| (in millions)                                     | September 30, 2017         |                            |  | December 31, 2016          |                            |  |
|---|----------------------------|----------------------------|--|----------------------------|----------------------------|--|
|   | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| Trading assets – loans:                           |                            |                            |  |                            |                            |  |
| Total loans                                       | \$1,182                    | 1,231                      | (49 )  | 1,332                      | 1,418                      | (86 )  |
| Nonaccrual loans                                  | 65                         | 84                         | (19 )  | 100                        | 115                        | (15 )  |
| Mortgages held for sale:                          |                            |                            |  |                            |                            |  |
| Total loans                                       | 16,484                     | 16,087                     | 397  | 22,042                     | 21,961                     | 81   |
| Nonaccrual loans                                  | 120                        | 159                        | (39 )  | 136                        | 182                        | (46 )  |
| Loans 90 days or more past due and still accruing | 13                         | 16                         | (3 )   | 12                         | 16                         | (4 )   |
| Loans held for sale:                              |                            |                            |  |                            |                            |  |
| Total loans                                       | —                          | 6                          | (6 )   | —                          | 6                          | (6 )   |
| Nonaccrual loans                                  | —                          | 6                          | (6 )   | —                          | 6                          | (6 )   |
| Loans:  |                            |                            |  |                            |                            |  |
| Total loans                                       | 410                        | 437                        | (27 )  | 758                        | 775                        | (17 )  |
| Nonaccrual loans                                  | 267                        | 293                        | (26 )  | 297                        | 318                        | (21 )  |
| Other assets (1)                                  | 4,523                      | N/A                        | N/A  | 3,275                      | N/A                        | N/A  |

(1) Consists of nonmarketable equity investments carried at fair value. See Note 6 (Other Assets) for more information.

The assets accounted for under the fair value option are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in earnings. The changes in fair value related to initial

measurement and subsequent changes in fair value included in earnings for these assets measured at fair value are shown in Table 13.18 by income statement line item.

Table 13.18: Fair Value Option – Changes in Fair Value Included in Earnings

| (in millions)                   | 2017   |                          | 2016                                |  |                          |
|---------------------------------|--|--------------------------|-------------------------------------|--|--------------------------|
|                                 | Net gains (losses) from noninterest trading activities | Other noninterest income | Mortgage banking noninterest income | Net gains (losses) from trading activities | Other noninterest income |
| Quarter ended September 30,     |  |                          |                                     |  |                          |
| Trading assets - loans          | \$-6   | —                        | —                                   | 21   | 1                        |
| Mortgages held for sale         | 400  | —                        | 563                                 | —  | —                        |
| Loans                           | —  | —                        | —                                   | —  | (25 )                    |
| Other assets                    | —  | 522                      | —                                   | —  | 383                      |
| Other interests held (1)        | —(1 )  | —                        | —                                   | (3 )                                       | —                        |
| Nine months ended September 30, |  |                          |                                     |  |                          |
| Trading assets – loans          | \$-42  | 1                        | —                                   | 47   | 2                        |
| Mortgages held for sale         | 967  | —                        | 1,739                               | —  | —                        |
| Loans                           | —  | —                        | —                                   | —  | (29 )                    |
| Other assets                    | —  | 1,233                    | —                                   | —  | 149                      |
| Other interests held (1)        | —(5 )  | —                        | —                                   | (4 )                                       | —                        |

(1) Includes retained interests in securitizations.

For performing loans, instrument-specific credit risk gains or losses were derived principally by determining the change in fair value of the loans due to changes in the observable or implied credit spread. Credit spread is the market yield on the loans less the relevant risk-free benchmark interest rate. For

nonperforming loans, we attribute all changes in fair value to instrument-specific credit risk. Table 13.19 shows the estimated gains and losses from earnings attributable to instrument-specific credit risk related to assets accounted for under the fair value option.

Table 13.19: Fair Value Option – Gains/Losses Attributable to Instrument-Specific Credit Risk

| (in millions)   | Quarter ended September 30, |      | Nine months ended September 30, |      |
|---|-----------------------------|------|---------------------------------|------|
|   | 2017                        | 2016 | 2017                            | 2016 |
| Gains (losses) attributable to instrument-specific credit risk: |                             |      |                                 |      |
| Trading assets – loans  | \$ 6                        | 21   | 42                              | 47   |
| Mortgages held for sale   | (4 )                        | 1    | (9 )                            | (4 ) |
| Total   | \$ 2                        | 22   | 33                              | 43   |

#### Disclosures about Fair Value of Financial Instruments

Table 13.20 is a summary of fair value estimates for financial instruments, excluding financial instruments recorded at fair value on a recurring basis, as they are included within Table 13.2 in this Note. The carrying amounts in the following table are recorded on the balance sheet under the indicated captions, except for nonmarketable equity

investments, which are included in other assets.

We have not included assets and liabilities that are not financial instruments in our disclosure, such as the value of the long-term relationships with our deposit, credit card and trust customers, amortized MSRs, premises and equipment, goodwill and other intangibles, deferred taxes and other liabilities. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company.

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## Note 13: Fair Values of Assets and Liabilities (continued)

Table 13.20: Fair Value Estimates for Financial Instruments

| (in millions)   | Carrying amount | Estimated fair value |           |         |           |
|---|-----------------|----------------------|-----------|---------|-----------|
|   |                 | Level 1              | Level 2   | Level 3 | Total     |
| September 30, 2017  |                 |                      |           |         |           |
| Financial assets  |                 |                      |           |         |           |
| Cash and due from banks (1)   | \$ 19,206       | 19,206               | —         | —       | 19,206    |
| Federal funds sold, securities purchased under resale agreements and other short-term investments (1)     | 273,105         | 206,073              | 66,963    | 69      | 273,105   |
| Held-to-maturity securities   | 142,423         | 45,282               | 96,627    | 909     | 142,818   |
| Mortgages held for sale (2)   | 3,525           | —                    | 2,189     | 1,340   | 3,529     |
| Loans held for sale   | 157             | —                    | 157       | —       | 157       |
| Loans, net (3)  | 921,420         | —                    | 54,106    | 881,812 | 935,918   |
| Nonmarketable equity investments (cost method)  |                 |                      |           |         |           |
| Excluding investments at NAV  | 7,642           | —                    | 23        | 8,084   | 8,107     |
| Total financial assets included in the fair value hierarchy   | 1,367,478       | 270,561              | 220,065   | 892,214 | 1,382,840 |
| Investments at NAV (4)  | 25              |                      |           |         | 27        |
| Total financial assets  | \$ 1,367,503    |                      |           |         | 1,382,867 |
| Financial liabilities   |                 |                      |           |         |           |
| Deposits  | \$ 1,306,706    | —                    | 1,285,239 | 21,455  | 1,306,694 |
| Short-term borrowings (1)   | 93,811          | —                    | 93,811    | —       | 93,811    |
| Long-term debt (5)  | 238,854         | —                    | 240,846   | 2,306   | 243,152   |
| Total financial liabilities   | \$ 1,639,371    | —                    | 1,619,896 | 23,761  | 1,643,657 |
| December 31, 2016   |                 |                      |           |         |           |
| Financial assets  |                 |                      |           |         |           |
| Cash and due from banks (1)   | \$ 20,729       | 20,729               | —         | —       | 20,729    |
| Federal funds sold, securities purchased under resale agreements and other short-term investments (1) (6) | 266,038         | 207,003              | 58,953    | 82      | 266,038   |
| Held-to-maturity securities   | 99,583          | 45,079               | 51,706    | 2,370   | 99,155    |
| Mortgages held for sale (2)   | 4,267           | —                    | 2,927     | 1,350   | 4,277     |
| Loans held for sale   | 80              | —                    | 81        | —       | 81        |
| Loans, net (3)  | 936,358         | —                    | 60,245    | 887,589 | 947,834   |
| Nonmarketable equity investments (cost method)  |                 |                      |           |         |           |
| Excluding investments at NAV  | 8,362           | —                    | 18        | 8,924   | 8,942     |
| Total financial assets included in the fair value hierarchy   | 1,335,417       | 272,811              | 173,930   | 900,315 | 1,347,056 |
| Investments at NAV (4)  | 35              |                      |           |         | 48        |
| Total financial assets  | \$ 1,335,452    |                      |           |         | 1,347,104 |
| Financial liabilities   |                 |                      |           |         |           |
| Deposits  | \$ 1,306,079    | —                    | 1,282,158 | 23,995  | 1,306,153 |
| Short-term borrowings (1)   | 96,781          | —                    | 96,781    | —       | 96,781    |
| Long-term debt (5)  | 255,070         | —                    | 245,704   | 10,075  | 255,779   |
| Total financial liabilities   | \$ 1,657,930    | —                    | 1,624,643 | 34,070  | 1,658,713 |

(1) Amounts consist of financial instruments for which carrying value approximates fair value.

(2) Excludes MHFS for which we elected the fair value option.

(3) Excludes loans for which the fair value option was elected and also excludes lease financing with a carrying amount of \$19.2 billion and \$19.3 billion at September 30, 2017, and December 31, 2016, respectively.

(4) Consists of certain nonmarketable equity investments for which estimated fair values are determined using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

(5)

Excludes capital lease obligations under capital leases of \$39 million and \$7 million at September 30, 2017, and December 31, 2016, respectively.

- (6) The fair value classification level of certain interest-earning deposits have been reclassified to conform with the current period end classification.

Loan commitments, standby letters of credit and commercial and similar letters of credit are not included in the table above. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the allowance for unfunded credit commitments, which totaled \$1.1 billion and \$1.2 billion at September 30, 2017, and December 31, 2016, respectively.

## Note 14: Preferred Stock

We are authorized to issue 20 million shares of preferred stock and 4 million shares of preference stock, both without par value. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no general voting rights. We have not issued any preference shares under

this authorization. If issued, preference shares would be limited to one vote per share. Our total authorized, issued and outstanding preferred stock is presented in the following two tables along with the Employee Stock Ownership Plan (ESOP) Cumulative Convertible Preferred Stock.

Table 14.1: Preferred Stock Shares

|   | September 30, 2017<br>Liquidation<br>Shares<br>preference<br>authorized<br>per<br>share<br>and designated | December 31, 2016<br>Liquidation<br>Shares<br>preference<br>authorized<br>per<br>share<br>and designated |
|---|---|--|
| DEP Shares  |   |  |
| Dividend Equalization Preferred Shares (DEP)                              | \$10 97,000   | \$10 97,000  |
| Series H  |   |  |
| Floating Class A Preferred Stock (1)                                      | — —   | 20,000,000   |
| Series I  |   |  |
| Floating Class A Preferred Stock  | 100,000,010   | 100,000,010  |
| Series J  |   |  |
| 8.00% Non-Cumulative Perpetual Class A Preferred Stock                    | 1,000,300,000   | 1,000,300,000  |
| Series K  |   |  |
| 7.98% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock  | 1,000,500,000   | 1,000,500,000  |
| Series L  |   |  |
| 7.50% Non-Cumulative Perpetual Convertible Class A Preferred Stock        | 1,000,025,000   | 1,000,025,000  |
| Series N  |   |  |
| 5.20% Non-Cumulative Perpetual Class A Preferred Stock                    | 25,000,000  | 25,000,000   |
| Series O  |   |  |
| 5.125% Non-Cumulative Perpetual Class A Preferred Stock                   | 25,000,600  | 25,000,600   |
| Series P  |   |  |
| 5.25% Non-Cumulative Perpetual Class A Preferred Stock                    | 25,000,400  | 25,000,400   |
| Series Q  |   |  |
| 5.85% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock  | 25,000,000  | 25,000,000   |
| Series R  |   |  |
| 6.625% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock | 25,000,500  | 25,000,500   |
| Series S  |   |  |
| 5.90% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock  | 25,000,000  | 25,000,000   |
| Series T  |   |  |
| 6.00% Non-Cumulative Perpetual Class A Preferred Stock                    | 25,000,200  | 25,000,200   |
| Series U  |   |  |
| 5.875% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock | 25,000,000  | 25,000,000   |
| Series V  |   |  |
| 6.00% Non-Cumulative Perpetual Class A Preferred Stock                    | 25,000,000  | 25,000,000   |

|   |             |             |
|---|-------------|-------------|
| Series W  |             |             |
| 5.70% Non-Cumulative Perpetual Class A Preferred Stock  | 25,000,000  | 25,000,000  |
| Series X  |             |             |
| 5.50% Non-Cumulative Perpetual Class A Preferred Stock  | 25,006,000  | 25,006,000  |
| Series Y  |             |             |
| 5.625% Non-Cumulative Perpetual Class A Preferred Stock | 25,007,600  | —           |
| ESOP  |             |             |
| Cumulative Convertible Preferred Stock (2)              | — 1,774,652 | — 1,439,181 |
| Total   | 12,254,962  | 11,941,891  |

(1) On January 26, 2017, we filed with the Delaware Secretary of State a Certificate Eliminating the Certificate of Designations with respect to the Series H preferred stock.

(2) See the ESOP Cumulative Convertible Preferred Stock section in this Note for additional information about the liquidation preference for the ESOP Cumulative Convertible Preferred Stock.

## Note 14: Preferred Stock (continued)

Table 14.2: Preferred Stock – Shares Issued and Carrying Value

| (in millions, except shares)   | September 30, 2017            |                              |                |          | December 31, 2016             |                              |                |          |
|--|-------------------------------|------------------------------|----------------|----------|-------------------------------|------------------------------|----------------|----------|
|  | Shares issued and outstanding | Liquidation preference value | Carrying value | Discount | Shares issued and outstanding | Liquidation preference value | Carrying value | Discount |
| DEP Shares   |                               |                              |                |          |                               |                              |                |          |
| Dividend Equalization Preferred Shares (DEP) Series I (1)                              | 96,546                        | \$ —                         | —              | —        | 96,546                        | \$ —                         | —              | —        |
| Floating Class A Preferred Stock Series J (1)  | 25,010                        | 2,501                        | 2,501          | —        | 25,010                        | 2,501                        | 2,501          | —        |
| 8.00% Non-Cumulative Perpetual Class A Preferred Stock Series K (1)                    | 2,150,375                     | 2,150                        | 1,995          | 155      | 2,150,375                     | 2,150                        | 1,995          | 155      |
| 7.98% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock Series L (1)  | 3,352,000                     | 3,352                        | 2,876          | 476      | 3,352,000                     | 3,352                        | 2,876          | 476      |
| 7.50% Non-Cumulative Perpetual Convertible Class A Preferred Stock Series N (1)        | 3,968,000                     | 3,968                        | 3,200          | 768      | 3,968,000                     | 3,968                        | 3,200          | 768      |
| 5.20% Non-Cumulative Perpetual Class A Preferred Stock Series O (1)                    | 30,000                        | 750                          | 750            | —        | 30,000                        | 750                          | 750            | —        |
| 5.125% Non-Cumulative Perpetual Class A Preferred Stock Series P (1)                   | 26,000                        | 650                          | 650            | —        | 26,000                        | 650                          | 650            | —        |
| 5.25% Non-Cumulative Perpetual Class A Preferred Stock Series Q (1)                    | 25,000                        | 625                          | 625            | —        | 25,000                        | 625                          | 625            | —        |
| 5.85% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock Series R (1)  | 69,000                        | 1,725                        | 1,725          | —        | 69,000                        | 1,725                        | 1,725          | —        |
| 6.625% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock Series S (1) | 33,600                        | 840                          | 840            | —        | 33,600                        | 840                          | 840            | —        |
| 5.90% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock Series T (1)  | 80,000                        | 2,000                        | 2,000          | —        | 80,000                        | 2,000                        | 2,000          | —        |
|  | 32,000                        | 800                          | 800            | —        | 32,000                        | 800                          | 800            | —        |



|   |            |           |        |       |            |           |        |       |
|---|------------|-----------|--------|-------|------------|-----------|--------|-------|
| 6.00% Non-Cumulative<br>Perpetual Class A Preferred<br>Stock<br>Series U (1)<br>5.875% Fixed-to-Floating<br>Non-Cumulative Perpetual<br>Class A Preferred Stock<br>Series V (1)<br>6.00% Non-Cumulative<br>Perpetual Class A Preferred<br>Stock<br>Series W (1)<br>5.70% Non-Cumulative<br>Perpetual Class A Preferred<br>Stock<br>Series X (1)<br>5.50% Non-Cumulative<br>Perpetual Class A Preferred<br>Stock<br>Series Y (1)<br>5.625% Non-Cumulative<br>Perpetual Class A Preferred<br>Stock<br>ESOP<br>Cumulative Convertible<br>Preferred Stock | 80,000     | 2,000     | 2,000  | —     | 80,000     | 2,000     | 2,000  | —     |
|   | 40,000     | 1,000     | 1,000  | —     | 40,000     | 1,000     | 1,000  | —     |
|   | 40,000     | 1,000     | 1,000  | —     | 40,000     | 1,000     | 1,000  | —     |
|   | 46,000     | 1,150     | 1,150  | —     | 46,000     | 1,150     | 1,150  | —     |
|   | 27,600     | 690       | 690    | —     | —          | —         | —      | —     |
| Total   | 1,774,652  | 1,774     | 1,774  | —     | 1,439,181  | 1,439     | 1,439  | —     |
|   | 11,895,783 | \$ 26,975 | 25,576 | 1,399 | 11,532,712 | \$ 25,950 | 24,551 | 1,399 |

(1) Preferred shares qualify as Tier 1 capital.

In April 2017, we issued 27.6 million Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series Y, for an aggregate public offering price of \$690 million. See Note 7 (Securitizations and Variable Interest Entities) for additional information on our trust preferred securities.

**ESOP CUMULATIVE CONVERTIBLE PREFERRED STOCK** All shares of our ESOP Cumulative Convertible Preferred Stock (ESOP Preferred Stock) were issued to a trustee acting on behalf of the Wells Fargo & Company 401(k) Plan (the 401(k) Plan). Dividends on the ESOP Preferred Stock are cumulative from the date of initial issuance and are payable quarterly at annual rates based upon the year of issuance. Each share of ESOP Preferred Stock released from the unallocated reserve of the 401(k) Plan is converted into shares of our common stock based on the stated

value of the ESOP Preferred Stock and the then current market price of our common stock. The ESOP Preferred Stock is also convertible at the option of the holder at any time, unless previously redeemed. We have the option to redeem the ESOP Preferred Stock at any time, in whole or in part, at a redemption price per share equal to the higher of (a) \$1,000 per share plus accrued and unpaid dividends or (b) the fair market value, as defined in the Certificates of Designation for the ESOP Preferred Stock.

Table 14.3: ESOP Preferred Stock

| (in millions, except shares)             | Shares issued and outstanding |              | Carrying value |              | Adjustable dividend rate |         |
|--|-------------------------------|--------------|----------------|--------------|--------------------------|---------|
|  | Sep 30, 2017                  | Dec 31, 2016 | Sep 30, 2017   | Dec 31, 2016 | Minimum                  | Maximum |
| <b>ESOP Preferred Stock</b>              |                               |              |                |              |                          |         |
| \$1,000 liquidation preference per share |                               |              |                |              |                          |         |
| 2017                                     | 491,758                       | —            | \$492          | —            | 7.00                     | % 8.00  |
| 2016                                     | 322,826                       | 358,528      | 323            | 358          | 9.30                     | 10.30   |
| 2015                                     | 187,436                       | 200,820      | 187            | 201          | 8.90                     | 9.90    |
| 2014                                     | 237,151                       | 255,413      | 237            | 255          | 8.70                     | 9.70    |
| 2013                                     | 201,948                       | 222,558      | 202            | 223          | 8.50                     | 9.50    |
| 2012                                     | 128,634                       | 144,072      | 129            | 144          | 10.00                    | 11.00   |
| 2011                                     | 129,296                       | 149,301      | 129            | 149          | 9.00                     | 10.00   |
| 2010                                     | 75,603                        | 90,775       | 75             | 91           | 9.50                     | 10.50   |
| 2008                                     | —                             | 17,714       | —              | 18           | 10.50                    | 11.50   |
| Total ESOP Preferred Stock (1)           | 1,774,652                     | 1,439,181    | \$1,774        | 1,439        |                          |         |
| Unearned ESOP shares (2)                 |                               |              | \$(1,904)      | (1,565 )     |                          |         |

(1) At September 30, 2017 and December 31, 2016, additional paid-in capital included \$130 million and \$126 million, respectively, related to ESOP preferred stock.

We recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP (2) Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released.

## Note 15: Employee Benefits

We sponsor a frozen noncontributory qualified defined benefit retirement plan called the Wells Fargo & Company Cash Balance Plan (Cash Balance Plan), which covers eligible employees of Wells Fargo. The Cash Balance Plan was frozen on July 1, 2009, and no new benefits accrue after that date.

Table 15.1 presents the components of net periodic benefit cost.

Table 15.1: Net Periodic Benefit Cost

| (in millions)                             | 2017<br>Pension benefits |               |                   | 2016<br>Pension benefits |               |                   |
|---|--------------------------|---------------|-------------------|--------------------------|---------------|-------------------|
|   | Qualified                | Non-qualified | Other<br>benefits | Qualified                | Non-qualified | Other<br>benefits |
| Quarter ended September 30,               |                          |               |                   |                          |               |                   |
| Service cost                              | \$1                      | —             | —                 | —                        | —             | —                 |
| Interest cost                             | 103                      | 5             | 7                 | 105                      | 6             | 11                |
| Expected return on plan assets            | (163)                    | —             | (7)               | (152)                    | —             | (8)               |
| Amortization of net actuarial loss (gain) | 37                       | 3             | (3)               | 37                       | 3             | (1)               |
| Amortization of prior service credit      | —                        | —             | (2)               | —                        | —             | —                 |
| Settlement loss                           | 6                        | —             | —                 | —                        | —             | —                 |
| Net periodic benefit cost (income)        | \$(16)                   | 8             | (5)               | (10)                     | 9             | 2                 |
| Nine months ended September 30,           |                          |               |                   |                          |               |                   |
| Service cost                              | \$4                      | —             | —                 | 2                        | —             | —                 |
| Interest cost                             | 309                      | 17            | 21                | 323                      | 19            | 31                |
| Expected return on plan assets            | (489)                    | —             | (22)              | (435)                    | —             | (23)              |
| Amortization of net actuarial loss (gain) | 113                      | 9             | (8)               | 103                      | 9             | (3)               |
| Amortization of prior service credit      | —                        | —             | (7)               | —                        | —             | —                 |
| Settlement loss                           | 7                        | 6             | —                 | 4                        | 2             | —                 |
| Net periodic benefit cost (income)        | \$(56)                   | 32            | (16)              | (3)                      | 30            | 5                 |

## Note 16: Earnings Per Common Share

Table 16.1 shows earnings per common share and diluted earnings per common share and reconciles the numerator and denominator of both earnings per common share calculations.

Table 16.1: Earnings Per Common Share Calculations

| (in millions, except per share amounts)                       | Quarter ended |         | Nine months ended |         |
|---|---------------|---------|-------------------|---------|
|   | September 30, |         | September 30,     |         |
|   | 2017          | 2016    | 2017              | 2016    |
| Wells Fargo net income  | \$4,596       | 5,644   | \$15,863          | 16,664  |
| Less: Preferred stock dividends and other                     | 411           | 401     | 1,218             | 1,163   |
| Wells Fargo net income applicable to common stock (numerator) | \$4,185       | 5,243   | \$14,645          | 15,501  |
| Earnings per common share                                     |               |         |                   |         |
| Average common shares outstanding (denominator)               | 4,948.6       | 5,043.4 | 4,982.1           | 5,061.9 |
| Per share   | \$0.85        | 1.04    | \$2.94            | 3.06    |
| Diluted earnings per common share                             |               |         |                   |         |
| Average common shares outstanding                             | 4,948.6       | 5,043.4 | 4,982.1           | 5,061.9 |
| Add: Stock options  | 15.8          | 18.1    | 18.1              | 19.6    |
| Restricted share rights                                       | 22.4          | 23.1    | 24.1              | 26.1    |
| Warrants  | 10.0          | 10.0    | 11.1              | 10.6    |
| Diluted average common shares outstanding (denominator)       | 4,996.8       | 5,094.6 | 5,035.4           | 5,118.2 |
| Per share   | \$0.84        | 1.03    | \$2.91            | 3.03    |

Table 16.2 presents the outstanding options to purchase shares of common stock that were anti-dilutive (the exercise price was higher than the weighted-average market price), and therefore not included in the calculation of diluted earnings per common share.

Table 16.2: Outstanding Anti-Dilutive Options

| (in millions) | Weighted-average shares |      |                   |      |
|---------------|-------------------------|------|-------------------|------|
|               | Quarter ended           |      | Nine months ended |      |
|               | September 30,           |      | September 30,     |      |
|               | 2017                    | 2016 | 2017              | 2016 |
| Options       | 1.8                     | 2.6  | 2.0               | 3.4  |

## Note 17: Other Comprehensive Income (continued)

## Note 17: Other Comprehensive Income

Table 17.1 provides the components of other comprehensive income (OCI), reclassifications to net income by income statement line item, and the related tax effects.

Table 17.1: Summary of Other Comprehensive Income

| (in millions)   | Quarter ended September 30,<br>2017 |               |                  | 2016          |               |                  | Nine months ended September 30,<br>2017 |               |                  | 2016          |               |                  |
|---|-------------------------------------|---------------|------------------|---------------|---------------|------------------|---|---------------|------------------|---------------|---------------|------------------|
|   | Before<br>tax                       | Tax<br>effect | Net<br>of<br>tax | Before<br>tax | Tax<br>effect | Net<br>of<br>tax | Before<br>tax                           | Tax<br>effect | Net<br>of<br>tax | Before<br>tax | Tax<br>effect | Net<br>of<br>tax |
| Investment securities:                                  |                                     |               |                  |               |               |                  |   |               |                  |               |               |                  |
| Net unrealized gains arising during the period          | \$891                               | (353 )        | 538              | 112           | (32 )         | 80               | 2,825                                   | (1,075 )      | 1,750            | 2,478         | (938 )        | 1,540            |
| Reclassification of net (gains) losses to net income:   |                                     |               |                  |               |               |                  |   |               |                  |               |               |                  |
| Interest income on investment securities (1)            | 70                                  | (26 )         | 44               | 2             | (1 )          | 1                | 122                                     | (46 )         | 76               | 5             | (2 )          | 3                |
| Net gains on debt securities                            | (166 )                              | 62            | (104 )           | (106 )        | 40            | (66 )            | (322 )                                  | 119           | (203 )           | (797 )        | 299           | (498 )           |
| Net gains from equity investments                       | (106 )                              | 41            | (65 )            | (85 )         | 32            | (53 )            | (323 )                                  | 120           | (203 )           | (204 )        | 77            | (127 )           |
| Other noninterest income                                | 2                                   | —             | 2                | (4 )          | 2             | (2 )             | 1                                       | —             | 1                | (5 )          | 2             | (3 )             |
| Subtotal reclassifications to net income                | (200 )                              | 77            | (123 )           | (193 )        | 73            | (120 )           | (522 )                                  | 193           | (329 )           | (1,001 )      | 376           | (625 )           |
| Net change  | 691                                 | (276 )        | 415              | (81 )         | 41            | (40 )            | 2,303                                   | (882 )        | 1,421            | 1,477         | (562 )        | 915              |
| Derivatives and hedging activities:                     |                                     |               |                  |               |               |                  |   |               |                  |               |               |                  |
| Net unrealized gains (losses) arising during the period | 36                                  | (13 )         | 23               | (445 )        | 168           | (277 )           | 279                                     | (105 )        | 174              | 2,611         | (984 )        | 1,627            |
| Reclassification of net (gains) losses to net income:   |                                     |               |                  |               |               |                  |   |               |                  |               |               |                  |
| Interest income on loans                                | (107 )                              | 41            | (66 )            | (266 )        | 100           | (166 )           | (468 )                                  | 177           | (291 )           | (794 )        | 299           | (495 )           |
| Interest expense on long-term debt                      | 2                                   | (1 )          | 1                | 4             | (1 )          | 3                | 8                                       | (3 )          | 5                | 11            | (4 )          | 7                |
| Subtotal reclassifications to net income                | (105 )                              | 40            | (65 )            | (262 )        | 99            | (163 )           | (460 )                                  | 174           | (286 )           | (783 )        | 295           | (488 )           |
| Net change  | (69 )                               | 27            | (42 )            | (707 )        | 267           | (440 )           | (181 )                                  | 69            | (112 )           | 1,828         | (689 )        | 1,139            |
| Defined benefit plans adjustments:                      |                                     |               |                  |               |               |                  |   |               |                  |               |               |                  |
|   | 11                                  | (5 )          | 6                | (447 )        | 168           | (279 )           | 4                                       | (2 )          | 2                | (474 )        | 178           | (296 )           |

|   |       |        |       |          |       |       |       |        |       |        |         |        |
|---|-------|--------|-------|----------|-------|-------|-------|--------|-------|--------|---------|--------|
| Net actuarial and prior service gains (losses) arising during the period          |       |        |       |          |       |       |       |        |       |        |         |        |
| Reclassification of amounts to net periodic benefit costs (2):                    |       |        |       |          |       |       |       |        |       |        |         |        |
| Amortization of net actuarial loss  | 37    | (13 )  | 24    | 39       | (14 ) | 25    | 114   | (43 )  | 71    | 109    | (41 )   | 68     |
| Settlements and other   | 4     | (1 )   | 3     | —        | —     | —     | 6     | —      | 6     | 6      | (2 )    | 4      |
| Subtotal reclassifications to net periodic benefit costs                          | 41    | (14 )  | 27    | 39       | (14 ) | 25    | 120   | (43 )  | 77    | 115    | (43 )   | 72     |
| Net change  | 52    | (19 )  | 33    | (408 )   | 154   | (254) | 124   | (45 )  | 79    | (359 ) | 135     | (224 ) |
| Foreign currency translation adjustments:   |       |        |       |          |       |       |       |        |       |        |         |        |
| Net unrealized gains (losses) arising during the period                           | 40    | 3      | 43    | (10 )    | (1 )  | (11 ) | 87    | 6      | 93    | 27     | 6       | 33     |
| Net change  | 40    | 3      | 43    | (10 )    | (1 )  | (11 ) | 87    | 6      | 93    | 27     | 6       | 33     |
| Other comprehensive income (loss)   | \$714 | (265 ) | 449   | (1,206 ) | 461   | (745) | 2,333 | (852 ) | 1,481 | 2,973  | (1,110) | 1,863  |
| Less: Other comprehensive income (loss) from noncontrolling interests, net of tax |       |        | (34 ) |          |       | 19    |       |        | (29 ) |        |         | (24 )  |
| Wells Fargo other comprehensive income (loss), net of tax                         |       |        | \$483 |          |       | (764) |       |        | 1,510 |        |         | 1,887  |

(1) Represents net unrealized gains and losses amortized over the remaining lives of securities that were transferred from the available-for-sale portfolio to the held-to-maturity portfolio.

(2) These items are included in the computation of net periodic benefit cost, which is recorded in employee benefits expense (see Note 15 (Employee Benefits) for additional details).

Table 17.2: Cumulative OCI Balances

| (in millions)   | Investment securities | Derivatives and hedging activities | Defined benefit plans adjustments | Foreign currency translation adjustments | Cumulative other comprehensive income |
|---|-----------------------|------------------------------------|-----------------------------------|--|---------------------------------------|
| Quarter ended September 30, 2017                                      |                       |                                    |                                   |  |                                       |
| Balance, beginning of period  | \$ (96                | ) 19                               | (1,897                            | ) (136                                   | ) (2,110                              |
| Net unrealized gains arising during the period                        | 538                   | 23                                 | 6                                 | 43                                       | 610                                   |
| Amounts reclassified from accumulated other comprehensive income      | (123                  | ) (65                              | ) 27                              | —  | (161                                  |
| Net change  | 415                   | (42                                | ) 33                              | 43                                       | 449                                   |
| Less: Other comprehensive loss from noncontrolling interests          | (34                   | ) —                                | —                                 | —  | (34                                   |
| Balance, end of period  | \$ 353                | (23                                | ) (1,864                          | ) (93                                    | ) (1,627                              |
| Quarter ended September 30, 2016                                      |                       |                                    |                                   |  |                                       |
| Balance, beginning of period  | \$ 2,812              | 2,199                              | (1,921                            | ) (142                                   | ) 2,948                               |
| Net unrealized gains (losses) arising during the period               | 80                    | (277                               | ) (279                            | ) (11                                    | ) (487                                |
| Amounts reclassified from accumulated other comprehensive income      | (120                  | ) (163                             | ) 25                              | —  | (258                                  |
| Net change  | (40                   | ) (440                             | ) (254                            | ) (11                                    | ) (745                                |
| Less: Other comprehensive income from noncontrolling interests        | 19                    | —                                  | —                                 | —  | 19                                    |
| Balance, end of period  | \$ 2,753              | 1,759                              | (2,175                            | ) (153                                   | ) 2,184                               |
| Nine months ended September 30, 2017                                  |                       |                                    |                                   |  |                                       |
| Balance, beginning of period  | \$ (1,099             | ) 89                               | (1,943                            | ) (184                                   | ) (3,137                              |
| Net unrealized gains arising during the period                        | 1,750                 | 174                                | 2                                 | 93                                       | 2,019                                 |
| Amounts reclassified from accumulated other comprehensive income      | (329                  | ) (286                             | ) 77                              | —  | (538                                  |
| Net change  | 1,421                 | (112                               | ) 79                              | 93                                       | 1,481                                 |
| Less: Other comprehensive income (loss) from noncontrolling interests | (31                   | ) —                                | —                                 | 2  | (29                                   |
| Balance, end of period  | \$ 353                | (23                                | ) (1,864                          | ) (93                                    | ) (1,627                              |
| Nine months ended September 30, 2016                                  |                       |                                    |                                   |  |                                       |
| Balance, beginning of period  | \$ 1,813              | 620                                | (1,951                            | ) (185                                   | ) 297                                 |
| Net unrealized gains (losses) arising during the period               | 1,540                 | 1,627                              | (296                              | ) 33                                     | 2,904                                 |
| Amounts reclassified from accumulated other comprehensive income      | (625                  | ) (488                             | ) 72                              | —  | (1,041                                |
| Net change  | 915                   | 1,139                              | (224                              | ) 33                                     | 1,863                                 |
| Less: Other comprehensive income (loss) from noncontrolling interests | (25                   | ) —                                | —                                 | 1  | (24                                   |
| Balance, end of period  | \$ 2,753              | 1,759                              | (2,175                            | ) (153                                   | ) 2,184                               |

## Note 18: Operating Segments

We have three reportable operating segments: Community Banking; Wholesale Banking; and Wealth and Investment Management (WIM). We define our operating segments by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative guidance equivalent to GAAP for financial accounting. The management accounting process measures the performance of the operating segments based on

our management structure and is not necessarily comparable with similar information for other financial services companies. If the management structure and/or the allocation process changes, allocations, transfers and assignments may change. For a description of our operating segments, including the underlying management accounting process, see Note 24 (Operating Segments) to Financial Statements in our 2016 Form 10-K. Table 18.1 presents our results by operating segment.

Table 18.1: Operating Segments

|  | Community Banking |        | Wholesale Banking |        | Wealth and Investment Management |       | Other (1) |         | Consolidated Company |         |
|--|-------------------|--------|-------------------|--------|----------------------------------|-------|-----------|---------|----------------------|---------|
|  | 2017              | 2016   | 2017              | 2016   | 2017                             | 2016  | 2017      | 2016    | 2017                 | 2016    |
| (income/expense in millions, average balances in billions) |                   |        |                   |        |                                  |       |           |         |                      |         |
| Quarter ended Sep 30,                                      |                   |        |                   |        |                                  |       |           |         |                      |         |
| Net interest income (2)                                    | \$7,645           | 7,430  | 4,353             | 4,062  | 1,159                            | 977   | (681 )    | (517 )  | 12,476               | 11,952  |
| Provision (reversal of provision) for credit losses        | 650               | 651    | 69                | 157    | (1 )                             | 4     | (1 )      | (7 )    | 717                  | 805     |
| Noninterest income   | 4,415             | 4,957  | 2,732             | 3,085  | 3,087                            | 3,122 | (784 )    | (788 )  | 9,450                | 10,376  |
| Noninterest expense  | 7,834             | 6,953  | 4,248             | 4,120  | 3,106                            | 2,999 | (837 )    | (804 )  | 14,351               | 13,268  |
| Income (loss) before income tax expense (benefit)          | 3,576             | 4,783  | 2,768             | 2,870  | 1,141                            | 1,096 | (627 )    | (494 )  | 6,858                | 8,255   |
| Income tax expense (benefit)                               | 1,286             | 1,546  | 729               | 827    | 427                              | 415   | (238 )    | (187 )  | 2,204                | 2,601   |
| Net income (loss) before noncontrolling interests          | 2,290             | 3,237  | 2,039             | 2,043  | 714                              | 681   | (389 )    | (307 )  | 4,654                | 5,654   |
| Less: Net income (loss) from noncontrolling interests      | 61                | 10     | (7 )              | (4 )   | 4                                | 4     | —         | —       | 58                   | 10      |
| Net income (loss) (3)                                      | \$2,229           | 3,227  | 2,046             | 2,047  | 710                              | 677   | (389 )    | (307 )  | 4,596                | 5,644   |
| Average loans  | \$473.5           | 489.2  | 463.8             | 454.3  | 72.4                             | 68.4  | (57.4 )   | (54.4 ) | 952.3                | 957.5   |
| Average assets   | 988.9             | 993.6  | 824.3             | 794.2  | 213.4                            | 212.1 | (88.1 )   | (85.3 ) | 1,938.5              | 1,914.6 |
| Average deposits   | 734.5             | 708.0  | 463.4             | 441.2  | 188.1                            | 189.2 | (79.6 )   | (76.9 ) | 1,306.4              | 1,261.5 |
| Nine months ended Sep 30,                                  |                   |        |                   |        |                                  |       |           |         |                      |         |
| Net interest income (2)                                    | \$22,820          | 22,277 | 12,779            | 11,729 | 3,360                            | 2,852 | (1,700)   | (1,506) | 37,259               | 35,352  |
| Provision (reversal of provision) for credit losses        | 1,919             | 2,060  | (39 )             | 905    | 2                                | (8 )  | (5 )      | 8       | 1,877                | 2,965   |
| Noninterest income   | 13,622            | 14,928 | 8,295             | 9,660  | 9,261                            | 9,020 | (2,340)   | (2,275) | 28,838               | 31,333  |
| Noninterest expense  | 22,278            | 20,437 | 12,551            | 12,124 | 9,387                            | 9,017 | (2,532)   | (2,416) | 41,684               | 39,162  |
| Income (loss) before income tax expense (benefit)          | 12,245            | 14,708 | 8,562             | 8,360  | 3,232                            | 2,863 | (1,503)   | (1,373) | 22,536               | 24,558  |
| Income tax expense (benefit)                               | 3,817             | 4,910  | 2,034             | 2,341  | 1,206                            | 1,087 | (571 )    | (521 )  | 6,486                | 7,817   |
| Net income (loss) before noncontrolling interests          | 8,428             | 9,798  | 6,528             | 6,019  | 2,026                            | 1,776 | (932 )    | (852 )  | 16,050               | 16,741  |
| Less: Net income (loss) from noncontrolling interests      | 197               | 96     | (21 )             | (22 )  | 11                               | 3     | —         | —       | 187                  | 77      |
| Net income (loss) (3)                                      | \$8,231           | 9,702  | 6,549             | 6,041  | 2,015                            | 1,773 | (932 )    | (852 )  | 15,863               | 16,664  |



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|                  |         |       |       |       |       |       |         |         |         |         |
|------------------|---------|-------|-------|-------|-------|-------|---------|---------|---------|---------|
| Average loans    | \$477.8 | 486.4 | 465.0 | 445.2 | 71.6  | 66.4  | (56.8 ) | (52.8 ) | 957.6   | 945.2   |
| Average assets   | 987.7   | 969.6 | 816.5 | 771.9 | 216.1 | 208.5 | (88.1 ) | (84.3 ) | 1,932.2 | 1,865.7 |
| Average deposits | 726.4   | 698.3 | 464.1 | 431.7 | 190.6 | 185.4 | (78.8 ) | (76.1 ) | 1,302.3 | 1,239.3 |

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

Net interest income is the difference between interest earned on assets and the cost of liabilities to fund those assets. Interest earned includes actual interest earned on segment assets and, if the segment has excess liabilities, (2) interest credits for providing funding to other segments. The cost of liabilities includes interest expense on segment liabilities and, if the segment does not have enough liabilities to fund its assets, a funding charge based on the cost of excess liabilities from another segment.

(3) Represents segment net income (loss) for Community Banking; Wholesale Banking; and Wealth and Investment Management segments and Wells Fargo net income for the consolidated company.

## Note 19: Regulatory and Agency Capital Requirements

The Company and each of its subsidiary banks are subject to regulatory capital adequacy requirements promulgated by federal bank regulatory agencies. The Federal Reserve establishes capital requirements for the consolidated financial holding company, and the OCC has similar requirements for the Company's national banks, including Wells Fargo Bank, N.A. (the Bank).

Table 19.1 presents regulatory capital information for Wells Fargo & Company and the Bank using Basel III, which increased minimum required capital ratios, and introduced a minimum Common Equity Tier 1 (CET1) ratio. We must report the lower of our CET1, tier 1 and total capital ratios calculated under the Standardized Approach and under the Advanced Approach in the assessment of our capital adequacy. The information presented reflects risk-weighted assets (RWAs) under the Standardized and Advanced Approaches with Transition Requirements. The Standardized Approach applies assigned risk weights to broad risk categories, while the calculation of RWAs under the

Advanced Approach differs by requiring applicable banks to utilize a risk-sensitive methodology, which relies upon the use of internal credit models, and includes an operational risk component. The Basel III revised definition of capital, and changes are being phased-in effective January 1, 2014, through the end of 2021.

The Bank is an approved seller/servicer of mortgage loans and is required to maintain minimum levels of shareholders' equity, as specified by various agencies, including the United States Department of Housing and Urban Development, GNMA, FHLMC and FNMA. At September 30, 2017, the Bank met these requirements. Other subsidiaries, including the Company's insurance and broker-dealer subsidiaries, are also subject to various minimum capital levels, as defined by applicable industry regulations. The minimum capital levels for these subsidiaries, and related restrictions, are not significant to our consolidated operations.

Table 19.1: Regulatory Capital Information

| (in millions, except ratios) | Wells Fargo & Company |                    | December 31, 2016 |                       | Wells Fargo Bank, N.A. |                    | December 31, 2016 |                       |
|------------------------------|-----------------------|--------------------|-------------------|-----------------------|------------------------|--------------------|-------------------|-----------------------|
|                              | September 30, 2017    | September 30, 2017 | Advanced Approach | Standardized Approach | September 30, 2017     | September 30, 2017 | Advanced Approach | Standardized Approach |
| Regulatory capital:          |                       |                    |                   |                       |                        |                    |                   |                       |
| Common equity tier 1         | \$ 153,548            | 153,548            | 148,785           | 148,785               | 140,021                | 140,021            | 132,225           | 132,225               |
| Tier 1                       | 176,996               | 176,996            | 171,364           | 171,364               | 140,021                | 140,021            | 132,225           | 132,225               |
| Total                        | 209,522               | 219,208            | 204,425           | 214,877               | 153,558                | 162,723            | 145,665           | 155,281               |
| Assets:                      |                       |                    |                   |                       |                        |                    |                   |                       |
| Risk-weighted                | \$ 1,217,700          | 1,268,638          | 1,274,589         | 1,336,198             | 1,103,800              | 1,173,294          | 1,143,681         | 1,222,876             |
| Adjusted average (1)         | 1,908,883             | 1,908,883          | 1,914,802         | 1,914,802             | 1,713,046              | 1,713,046          | 1,714,524         | 1,714,524             |
| Regulatory capital ratios:   |                       |                    |                   |                       |                        |                    |                   |                       |
| Common equity tier 1 capital | 12.61                 | % 12.10            | * 11.67           | 11.13                 | * 12.69                | 11.93              | * 11.56           | 10.81                 |
| Tier 1 capital               | 14.54                 | 13.95              | * 13.44           | 12.82                 | * 12.69                | 11.93              | * 11.56           | 10.81                 |
| Total capital                | 17.21                 | * 17.28            | 16.04             | * 16.08               | 13.91                  | 13.87              | * 12.74           | 12.70                 |
| Tier 1 leverage (1)          | 9.27                  | 9.27               | 8.95              | 8.95                  | 8.17                   | 8.17               | 7.71              | 7.71                  |

\*Denotes the lowest capital ratio as determined under the Advanced and Standardized Approaches.

(1) The leverage ratio consists of Tier 1 capital divided by quarterly average total assets, excluding goodwill and certain other items.

Table 19.2 presents the minimum required regulatory capital ratios under Transition Requirements to which the Company and the Bank were subject as of September 30, 2017 and December 31, 2016.

Table 19.2: Minimum Required Regulatory Capital Ratios – Transition Requirements (1)

|                              | Wells Fargo & Company |                   | Wells Fargo Bank, N.A. |                   |
|------------------------------|-----------------------|-------------------|------------------------|-------------------|
|                              | September 30, 2017    | December 31, 2016 | September 30, 2017     | December 31, 2016 |
| Regulatory capital ratios:   |                       |                   |                        |                   |
| Common equity tier 1 capital | 6.750                 | % 5.625           | 5.750                  | 5.125             |
| Tier 1 capital               | 8.250                 | 7.125             | 7.250                  | 6.625             |
| Total capital                | 10.250                | 9.125             | 9.250                  | 8.625             |
| Tier 1 leverage              | 4.000                 | 4.000             | 4.000                  | 4.000             |

At September 30, 2017, under transition requirements, the CET1, tier 1 and total capital minimum ratio requirements for Wells Fargo & Company include a capital conservation buffer of 1.250% and a global (1) systemically important bank (G-SIB) surcharge of 1.000%. Only the 1.250% capital conservation buffer applies to the Bank at September 30, 2017.

## Glossary of Acronyms

|       |  |           |  |
|-------|--|-----------|--|
| ABS   | Asset-backed security                            | G-SIB     | Globally systemic important bank                   |
| ACL   | Allowance for credit losses                      | HAMP      | Home Affordability Modification Program            |
| ALCO  | Asset/Liability Management Committee             | HUD       | U.S. Department of Housing and Urban Development   |
| ARM   | Adjustable-rate mortgage                         | LCR       | Liquidity coverage ratio                           |
| ASC   | Accounting Standards Codification                | LHFS      | Loans held for sale                                |
| ASU   | Accounting Standards Update                      | LIBOR     | London Interbank Offered Rate                      |
| AUA   | Assets under administration                      | LIHTC     | Low income housing tax credit                      |
| AUM   | Assets under management                          | LOCOM     | Lower of cost or market value                      |
| AVM   | Automated valuation model                        | LTV       | Loan-to-value                                      |
| BCBS  | Basel Committee on Bank Supervision              | MBS       | Mortgage-backed security                           |
| BHC   | Bank holding company                             | MHA       | Making Home Affordable programs                    |
| CCAR  | Comprehensive Capital Analysis and Review        | MHFS      | Mortgages held for sale                            |
| CD    | Certificate of deposit                           | MSR       | Mortgage servicing right                           |
| CDO   | Collateralized debt obligation                   | MTN       | Medium-term note                                   |
| CDS   | Credit default swaps                             | NAV       | Net asset value                                    |
| CECL  | Current expected credit loss                     | NPA       | Nonperforming asset                                |
| CET1  | Common Equity Tier 1                             | OCC       | Office of the Comptroller of the Currency          |
| CFPB  | Consumer Financial Protection Bureau             | OCI       | Other comprehensive income                         |
| CLO   | Collateralized loan obligation                   | OTC       | Over-the-counter                                   |
| CLTV  | Combined loan-to-value                           | OTTI      | Other-than-temporary impairment                    |
| CMBS  | Commercial mortgage-backed securities            | PCI Loans | Purchased credit-impaired loans                    |
| CPI   | Collateral protection insurance                  | PTPP      | Pre-tax pre-provision profit                       |
| CPP   | Capital Purchase Program                         | RBC       | Risk-based capital                                 |
| CRE   | Commercial real estate                           | RMBS      | Residential mortgage-backed securities             |
| DPD   | Days past due                                    | ROA       | Wells Fargo net income to average total assets     |
| ESOP  | Employee Stock Ownership Plan                    | ROE       | Wells Fargo net income applicable to common stock  |
| FAS   | Statement of Financial Accounting Standards      |           | to average Wells Fargo common stockholders' equity |
| FASB  | Financial Accounting Standards Board             | ROTCE     | Return on average tangible common equity           |
| FDIC  | Federal Deposit Insurance Corporation            | RWAs      | Risk-weighted assets                               |
| FFELP | Federal Family Education Loan Program            | SEC       | Securities and Exchange Commission                 |
| FHA   | Federal Housing Administration                   | S&P       | Standard & Poor's Ratings Services                 |
| FHLB  | Federal Home Loan Bank                           | SLR       | Supplementary leverage ratio                       |
| FHLMC | Federal Home Loan Mortgage Corporation           | SPE       | Special purpose entity                             |
| FICO  | Fair Isaac Corporation (credit rating)           | TARP      | Troubled Asset Relief Program                      |
| FNMA  | Federal National Mortgage Association            | TDR       | Troubled debt restructuring                        |
| FRB   | Board of Governors of the Federal Reserve System | TLAC      | Total Loss Absorbing Capacity                      |
| GAAP  | Generally accepted accounting principles         | VA        | Department of Veterans Affairs                     |
| GNMA  | Government National Mortgage Association         | VaR       | Value-at-Risk                                      |
| GSE   | Government-sponsored entity                      | VIE       | Variable interest entity                           |

## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

Information in response to this item can be found in Note 11 (Legal Actions) to Financial Statements in this Report which information is incorporated by reference into this item.

## Item 1A. Risk Factors

Information in response to this item can be found under the “Financial Review – Risk Factors” section in this Report which information is incorporated by reference into this item.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows Company repurchases of its common stock for each calendar month in the quarter ended September 30, 2017.

| Calendar month | Total number of shares repurchased (1) | Weighted-average price paid per share | Maximum number of shares that may yet be repurchased under the authorization |
|----------------|--|---------------------------------------|--|
| July           | 6,616,050                              | \$ 54.73                              | 164,594,913  |
| August (2)     | 30,887,246                             | 53.26                                 | 133,707,667  |
| September (2)  | 11,519,239                             | 51.50                                 | 122,188,428  |
| Total          | 49,022,535                             |                                       |  |

All shares were repurchased under an authorization covering up to 350 million shares of common stock approved by the Board of Directors and publicly announced by the Company on January 26, 2016. Unless modified or revoked by the Board, this authorization does not expire.

August includes a private repurchase transaction of 18,746,180 shares at a weighted-average price per share of (2)\$53.34. September includes a private repurchase transaction of 9,717,399 shares at a weighted-average price per share of \$51.45.

The following table shows Company repurchases of the warrants for each calendar month in the quarter ended September 30, 2017.

| Calendar month | Total number of warrants repurchased (1) | Average price paid per warrant | Maximum dollar value of warrants that may yet be repurchased |
|----------------|--|--------------------------------|--|
| July           | —  | \$ —                           | 451,944,402  |
| August         | —  | —                              | 451,944,402  |
| September      | —  | —                              | 451,944,402  |
| Total          | —  |                                |  |

Warrants are repurchased under the authorization covering up to \$1 billion in warrants approved by the Board of (1)Directors (ratified and approved on June 22, 2010). Unless modified or revoked by the Board, this authorization does not expire.





|         |  |                     |
|---------|--|---------------------|
|         | <u>Sarbanes-Oxley Act of 2002.</u>   |                     |
|         | <u>Certification of principal financial officer</u>  |                     |
| 31(b)   | <u>pursuant to Section 302 of the</u><br><u>Sarbanes-Oxley Act of 2002.</u>  | Filed herewith.     |
|         | <u>Certification of Periodic Financial Report by</u>   |                     |
| 32(a)   | <u>Chief Executive Officer Pursuant to Section</u><br><u>906 of the Sarbanes-Oxley Act of 2002 and</u><br><u>18 U.S.C. § 1350.</u> | Furnished herewith. |
|         | <u>Certification of Periodic Financial Report by</u>   |                     |
| 32(b)   | <u>Chief Financial Officer Pursuant to Section</u><br><u>906 of the Sarbanes-Oxley Act of 2002 and</u><br><u>18 U.S.C. § 1350.</u> | Furnished herewith. |
| 101.INS | XBRL Instance Document   | Filed herewith.     |
| 101.SCH | XBRL Taxonomy Extension Schema<br>Document   | Filed herewith.     |
| 101.CAL | XBRL Taxonomy Extension Calculation<br>Linkbase Document   | Filed herewith.     |
| 101.DEF | XBRL Taxonomy Extension Definitions<br>Linkbase Document   | Filed herewith.     |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase<br>Document   | Filed herewith.     |
| 101.PRE | XBRL Taxonomy Extension Presentation<br>Linkbase Document  | Filed herewith.     |



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 3, 2017

WELLS FARGO & COMPANY

By: /s/ RICHARD D. LEVY  
Richard D. Levy  
Executive Vice President and Controller  
(Principal Accounting Officer)

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