Trust and Investment Client Assets Under Management
We earn trust and investment management fees from managing and administering assets, including mutual funds, institutional separate accounts, personal trust, employee benefit trust and agency assets through our asset management, wealth and retirement businesses. Our asset management business is conducted by Wells Fargo Asset Management (WFAM), which offers Wells Fargo proprietary mutual funds and manages institutional separate accounts. Our wealth business manages assets for high net worth clients, and our retirement business provides total retirement management, investments, and trust and custody solutions tailored to meet the needs of institutional clients. Substantially all of our trust and investment management fee income is earned from AUM where we have discretionary management authority over the investments and generate fees as a percentage of the market value of the AUM. Table 4f presents AUM activity for the third quarter and first nine months of 2016 and 2015.

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

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

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

(1) Assets managed by Wells Fargo Asset Management consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.
(2) Money Market fund activity is presented on a net inflow or net outflow basis, because the gross flows are not meaningful nor used by management as an indicator of performance.
(3) Includes $8.2 billion and $8.9 billion as of December 31, 2015 and 2014 and $7.7 billion and $8.3 billion as of September 30, 2016 and 2015, respectively, of client assets invested in proprietary funds managed by WFAM.
(4) Inflows include new managed account assets, contributions, dividends and interest.
(5) Outflows include closed managed account assets, withdrawals and client management fees.
(6) Market impact reflects gains and losses on portfolio investments.

At September 30, 2016, our assets totaled $1.9 trillion, up $154.5 billion from December 31, 2015. The predominant areas of asset growth were in federal funds sold and other short-term investments, which increased $28.2 billion, investment securities, which increased $43.3 billion, and loans, which increased $44.8 billion (including $26.5 billion from the GE Capital business acquisitions). Additionally, other assets increased $22.8 billion due to $5.9 billion in operating leases from the first quarter 2016 GE Capital business acquisitions, higher receivables related to unsettled trading security transactions and higher fair values for derivative assets designated as hedging instruments due to decreasing interest rates. An increase of $55.3 billion in long-term debt (including debt issued to fund the GE Capital business acquisitions and debt issued that is anticipated to be TLAC eligible), deposit growth of $52.6 billion, an increase in short-term borrowings of $27.1 billion, and total equity growth of $10.1 billion from December 31, 2015, were the predominant sources that funded our asset growth in the first nine months of 2016. Equity growth benefited from $9.4 billion in earnings net of dividends paid.

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

Investment Securities

Table 5: Investment Securities – Summary

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

(1) Available-for-sale securities are carried on the balance sheet at fair value. Held-to-maturity securities are carried on the balance sheet at amortized cost.

Table 5 presents a summary of our investment securities portfolio, which increased $43.3 billion from December 31, 2015, predominantly due to purchases of federal agency mortgage-backed securities. The increase in investment securities was partially offset by sales and pay-downs of federal agency mortgage-backed securities and sales of U.S. Treasury securities in our available-for-sale portfolio.

The total net unrealized gains on available-for-sale securities were $4.5 billion at September 30, 2016, up from $3.0 billion at December 31, 2015, due to a decline in interest rates. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section in our 2015 Form 10-K. Also, see the “Risk Management – Asset/Liability Management” section in this Report for information on our use of investments to manage liquidity and interest rate risk.

We analyze securities for other-than-temporary impairment (OTTI) quarterly or more often if a potential loss-triggering event occurs. Of the $464 million in OTTI write-downs recognized in earnings in the first nine months of 2016, $142 million related to debt securities and $5 million related to marketable equity securities, which are included in available-for-sale securities. Another $317 million in OTTI write-downs were related to nonmarketable equity investments, which are included in other assets. OTTI write-downs recognized in earnings related to oil and gas investments totaled $185 million in the first nine months of 2016, of which $57 million related to investment securities and $128 million related to nonmarketable equity investments. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At September 30, 2016, investment securities included $58.4 billion of municipal bonds, of which 96.3% were rated “A-” or better based largely on external and, in some cases, internal ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer’s guarantee in making the investment decision. The credit quality of our municipal bond holdings are monitored as part of our ongoing impairment analysis.

The weighted-average expected maturity of debt securities available-for-sale was 5.7 years at September 30, 2016. Because 53% of this portfolio is MBS, the expected remaining maturity is shorter than the remaining contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effects of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available-for-sale portfolio are shown in Table 6.

Table 6: Mortgage-Backed Securities Available for Sale

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

The weighted-average expected maturity of debt securities held-to-maturity was 5.5 years at September 30, 2016. See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

Loan Portfolios

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

Table 7: Loan Portfolios

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

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

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

Table 8: Maturities for Selected Commercial Loan Categories

	September 30, 2016				December 31, 2015			
(in millions)	**Within one year**	**After one year through five years**	**After five years**	**Total**	Within one year	After one year through five years	After five years	Total
Selected loan maturities:								
Commercial and industrial	$ **97,678**	**199,697**	**26,645**	**324,020**	91,214	184,641	24,037	299,892
Real estate mortgage	**20,933**	**70,027**	**39,263**	**130,223**	18,622	68,391	35,147	122,160
Real estate construction	**8,583**	**13,447**	**1,310**	**23,340**	7,455	13,284	1,425	22,164
Total selected loans	$ **127,194**	**283,171**	**67,218**	**477,583**	117,291	266,316	60,609	444,216
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$ **19,542**	**29,272**	**26,086**	**74,900**	16,819	27,705	23,533	68,057
Loans at floating/variable interest rates	**107,652**	**253,899**	**41,132**	**402,683**	100,472	238,611	37,076	376,159
Total selected loans	$ **127,194**	**283,171**	**67,218**	**477,583**	117,291	266,316	60,609	444,216

Deposits

Deposits increased $52.6 billion from December 31, 2015, to $1.28 trillion, reflecting continued broad-based growth in our consumer and small business banking deposits. Table 9 provides additional information regarding deposits. Information regarding the impact of deposits on net interest income and a comparison of average deposit balances is provided in the "Earnings Performance – Net Interest Income" section and Table 1 earlier in this Report.

Table 9: Deposits

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

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

Fair Value of Financial Instruments

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

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

Table 10: Fair Value Level 3 Summary

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

* Less than 1%.
(1) Before derivative netting adjustments.
(2) Level 3 assets at December 31, 2015, have been revised in accordance with our adoption of Accounting Standards Update 2015-07 (*Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*). See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information.

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

Equity

Total equity was $204.0 billion at September 30, 2016, compared with $193.9 billion at December 31, 2015. The increase was predominantly driven by a $9.4 billion increase in retained earnings from earnings net of dividends paid, and a $2.4 billion increase in preferred stock, partially offset by a net reduction in common stock due to repurchases.

Off-Balance Sheet Arrangements

In the ordinary course of business, we engage in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements include commitments to lend and purchase securities, transactions with unconsolidated entities, guarantees, derivatives, and other commitments. These transactions are designed to (1) meet the financial needs of customers, (2) manage our credit, market or liquidity risks, and/or (3) diversify our funding sources.

Commitments to Lend and Purchase Securities

We enter into commitments to lend funds to customers, which are usually at a stated interest rate, if funded, and for specific purposes and time periods. When we make commitments, we are exposed to credit risk. However, the maximum credit risk for these commitments will generally be lower than the contractual amount because a significant portion of these commitments is expected to expire without being used by the customer. For more information on lending commitments, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report. We also enter into commitments to purchase securities under resale agreements. For more information on commitments to purchase securities under resale agreements, see Note 3 (Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments) to Financial Statements in this Report.

Transactions with Unconsolidated Entities

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

Guarantees and Certain Contingent Arrangements

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of standby letters of credit, securities lending and other indemnifications, written put options, recourse obligations and other types of guarantee arrangements. For more information on guarantees and certain contingent arrangements, see Note 10 (Guarantees, Pledged Assets and Collateral) to Financial Statements in this Report.

Derivatives

We use derivatives to manage exposure to market risk, including interest rate risk, credit risk and foreign currency risk, and to assist customers with their risk management objectives. Derivatives are recorded on the balance sheet at fair value, and volume can be measured in terms of the notional amount, which is generally not exchanged but is used only as the basis on which interest and other payments are determined. The notional amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. For more information on derivatives, see Note 12 (Derivatives) to Financial Statements in this Report.

Other Commitments

We also have other off-balance sheet transactions, including obligations to make rental payments under noncancelable operating leases and commitments to purchase certain debt and equity securities. Our operating lease obligations are discussed in Note 7 (Premises, Equipment, Lease Commitments and Other Assets) to Financial Statements in our 2015 Form 10-K. For more information on commitments to purchase debt and equity securities, see the “Off-Balance Sheet Arrangements” section in our 2015 Form 10-K.

Risk Management

Wells Fargo manages a variety of risks that can significantly affect our financial performance and our ability to meet the expectations of our customers, stockholders, regulators and other stakeholders. Among the risks that we manage are operational risk, credit risk, and asset/liability management risk, which includes interest rate risk, market risk, and liquidity and funding risks. Our risk culture is strongly rooted in our *Vision and Values*, and in order to succeed in our mission of satisfying our customers' financial needs and helping them succeed financially, our business practices and operating model must support prudent risk management practices. For more information about how we manage these risks, see the "Risk Management" section in our 2015 Form 10-K. The discussion that follows provides an update regarding these risks.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal controls and processes, people and systems, or resulting from external events. These losses may be caused by events such as fraud, breaches of customer privacy, business disruptions, inappropriate employee behavior, vendors that do not perform their responsibilities, and regulatory fines and penalties.

Information security is a significant operational risk for financial institutions such as Wells Fargo, and includes the risk of losses resulting from cyber attacks. Wells Fargo and other financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. Cyber attacks have also focused on targeting the infrastructure of the internet, causing the widespread unavailability of websites and degrading website performance. Wells Fargo has not experienced any material losses relating to these or other cyber attacks. Addressing cybersecurity risks is a priority for Wells Fargo, and we continue to develop and enhance our controls, processes and systems in order to protect our networks, computers, software and data from attack, damage or unauthorized access. We are also proactively involved in industry cybersecurity efforts and working with other parties, including our third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cybersecurity threats. See the "Risk Factors" section in our 2015 Form 10-K for additional information regarding the risks associated with a failure or breach of our operational or security systems or infrastructure, including as a result of cyber attacks.

Credit Risk Management

We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk exists with many of our assets and exposures such as debt security holdings, certain derivatives, and loans. The following discussion focuses on our loan portfolios, which represent the largest component of assets on our balance sheet for which we have credit risk. Table 11 presents our total loans outstanding by portfolio segment and class of financing receivable.

Table 11: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable

(in millions)	Sep 30, 2016	Dec 31, 2015
Commercial:		
Commercial and industrial	**$ 324,020**	299,892
Real estate mortgage	**130,223**	122,160
Real estate construction	**23,340**	22,164
Lease financing	**18,871**	12,367
Total commercial	**496,454**	456,583
Consumer:		
Real estate 1-4 family first mortgage	**278,689**	273,869
Real estate 1-4 family junior lien mortgage	**48,105**	53,004
Credit card	**34,992**	34,039
Automobile	**62,873**	59,966
Other revolving credit and installment	**40,213**	39,098
Total consumer	**464,872**	459,976
Total loans	**$ 961,326**	916,559

We manage our credit risk by establishing what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our existing loan portfolios. We employ various credit risk management and monitoring activities to mitigate risks associated with multiple risk factors affecting loans we hold, could acquire or originate including:

- Loan concentrations and related credit quality
- Counterparty credit risk
- Economic and market conditions
- Legislative or regulatory mandates
- Changes in interest rates
- Merger and acquisition activities
- Reputation risk

Our credit risk management oversight process is governed centrally, but provides for decentralized management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, disciplined credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process.

A key to our credit risk management is adherence to a well-controlled underwriting process, which we believe is appropriate for the needs of our customers as well as investors who purchase the loans or securities collateralized by the loans.

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

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

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

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

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

For additional information on PCI loans, see the "Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans – Pick-a-Pay Portfolio" section in this Report, Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2015 Form 10-K, and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

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

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

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

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

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

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

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

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

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

(1) Industry categories are based on the North American Industry Classification System and the amounts reported include foreign loans. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for a breakout of commercial foreign loans.
(2) Includes $367 million of PCI loans, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.
(3) No other single industry had total loans in excess of $6.7 billion.

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $8.8 billion of foreign CRE loans, totaled $153.6 billion, or 16% of total loans, at September 30, 2016, and consisted of $130.2 billion of mortgage loans and $23.4 billion of construction loans.

Table 13 summarizes CRE loans by state and property type with the related nonaccrual totals. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of CRE loans are in California, New York, Texas and Florida, which combined represented 49% of the total CRE portfolio. By property type, the largest concentrations are office buildings at 28% and apartments at 16% of the portfolio. CRE nonaccrual loans totaled 0.5% of the CRE outstanding balance at September 30, 2016, compared with 0.7% at December 31, 2015. At September 30, 2016, we had $5.6 billion of criticized CRE mortgage loans, compared with $6.8 billion at December 31, 2015, and $562 million of criticized CRE construction loans, compared with $549 million at December 31, 2015.

At September 30, 2016, the recorded investment in PCI CRE loans totaled $470 million, down from $12.3 billion when acquired at December 31, 2008, reflecting principal payments, loan resolutions and write-downs.

Table 13: CRE Loans by State and Property Type

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

* Less than 1%.
(1) Includes a total of $470 million PCI loans, consisting of $410 million of real estate mortgage and $60 million of real estate construction, which are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.
(2) Includes 40 states; no state had loans in excess of $3.6 billion.

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

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

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

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

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