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

FORM 10-Q

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

Commission file number 001-2979

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Large accelerated filer	☑		Accelerated filer ☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company ☐

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

Yes ☐ No ☑

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

	Shares Outstanding October 25, 2016
Common stock, $1-2/3 par value	5,022,303,027

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

($ in millions, except per share amounts)		Quarter ended		% Change Sep 30, 2016 from		Nine months ended		
	Sep 30, 2016	Jun 30, 2016	Sep 30, 2015	Jun 30, 2016	Sep 30, 2015	**Sep 30, 2016**	Sep 30, 2015	% Change
For the Period								
Wells Fargo net income	**$ 5,644**	5,558	5,796	2%	(3)	**$ 16,664**	17,319	(4)%
Wells Fargo net income applicable to common stock	**5,243**	5,173	5,443	1	(4)	**15,501**	16,267	(5)
Diluted earnings per common share	**1.03**	1.01	1.05	2	(2)	**3.03**	3.12	(3)
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	**1.17%**	1.20	1.32	(3)	(11)	**1.19%**	1.34	(11)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	**11.60**	11.70	12.62	(1)	(8)	**11.68**	12.83	(9)
Return on average tangible common equity (ROTCE) (1)	**13.96**	14.15	15.19	(1)	(8)	**14.08**	15.46	(9)
Efficiency ratio (2)	**59.4**	58.1	56.7	2	5	**58.7**	58.0	1
Total revenue	**$ 22,328**	22,162	21,875	1	2	**$ 66,685**	64,471	3
Pre-tax pre-provision profit (PTPP) (3)	**9,060**	9,296	9,476	(3)	(4)	**27,523**	27,096	2
Dividends declared per common share	**0.380**	0.380	0.375	—	1	**1.135**	1.100	3
Average common shares outstanding	**5,043.4**	5,066.9	5,125.8	—	(2)	**5,061.9**	5,145.9	(2)
Diluted average common shares outstanding	**5,094.6**	5,118.1	5,193.8	—	(2)	**5,118.2**	5,220.3	(2)
Average loans	**$ 957,484**	950,751	895,095	1	7	**$ 945,197**	876,384	8
Average assets	**1,914,586**	1,862,084	1,746,402	3	10	**1,865,694**	1,727,967	8
Average total deposits	**1,261,527**	1,236,658	1,198,874	2	5	**1,239,287**	1,186,412	4
Average consumer and small business banking deposits (4)	**739,066**	726,359	683,245	2	8	**726,798**	674,741	8
Net interest margin	**2.82%**	2.86	2.96	(1)	(5)	**2.86%**	2.96	(3)
At Period End								
Investment securities	**$ 390,832**	353,426	345,074	11	13	**$ 390,832**	345,074	13
Loans	**961,326**	957,157	903,233	—	6	**961,326**	903,233	6
Allowance for loan losses	**11,583**	11,664	11,659	(1)	(1)	**11,583**	11,659	(1)
Goodwill	**26,688**	26,963	25,684	(1)	4	**26,688**	25,684	4
Assets	**1,942,124**	1,889,235	1,751,265	3	11	**1,942,124**	1,751,265	11
Deposits	**1,275,894**	1,245,473	1,202,179	2	6	**1,275,894**	1,202,179	6
Common stockholders' equity	**179,916**	178,633	172,089	1	5	**179,916**	172,089	5
Wells Fargo stockholders' equity	**203,028**	201,745	193,051	1	5	**203,028**	193,051	5
Total equity	**203,958**	202,661	194,043	1	5	**203,958**	194,043	5
Tangible common equity (1)	**149,829**	148,110	143,352	1	5	**149,829**	143,352	5
Capital ratios (5)(6):								
Total equity to assets	**10.50%**	10.73	11.08	(2)	(5)	**10.50%**	11.08	(5)
Risk-based capital:								
Common Equity Tier 1	**10.93**	10.82	10.87	1	1	**10.93**	10.87	1
Tier 1 capital	**12.60**	12.50	12.42	1	1	**12.60**	12.42	1
Total capital	**15.40**	15.14	14.86	2	4	**15.40**	14.86	4
Tier 1 leverage	**9.11**	9.25	9.51	(2)	(4)	**9.11**	9.51	(4)
Common shares outstanding	**5,023.9**	5,048.5	5,108.5	—	(2)	**5,023.9**	5,108.5	(2)
Book value per common share (7)	**$ 35.81**	35.38	33.69	1	6	**$ 35.81**	33.69	6
Tangible book value per common share (1) (7)	**29.82**	29.34	28.06	2	6	**29.82**	28.06	6
Common stock price:								
High	**51.00**	51.41	58.77	(1)	(13)	**53.27**	58.77	(9)
Low	**44.10**	44.50	47.75	(1)	(8)	**44.10**	47.75	(8)
Period end	**44.28**	47.33	51.35	(6)	(14)	**44.28**	51.35	(14)
Team members (active, full-time equivalent)	**268,800**	267,900	265,200	—	1	**268,800**	265,200	1

(1) Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including goodwill and intangible assets associated with certain of our nonmarketable equity investments but excluding mortgage servicing rights), net of applicable deferred taxes. The methodology of determining tangible common equity may differ among companies. Management believes that return on average tangible common equity and tangible book value per common share, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. For additional information, including a corresponding reconciliation to GAAP financial measures, see the "Capital Management – Tangible Common Equity" section in this Report.
(2) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).
(3) Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company's ability to generate capital to cover credit losses through a credit cycle.
(4) Consumer and small business banking deposits are total deposits excluding mortgage escrow and wholesale deposits.
(5) The risk-based capital ratios presented at September 30 and June 30, 2016, and September 30, 2015 were calculated under the lower of Standardized or Advanced Approach determined pursuant to Basel III with Transition Requirements. Accordingly, the total capital ratio was calculated under the Advanced Approach and the other ratios were calculated under the Standardized Approach, for each of the periods, respectively.
(6) See the "Capital Management" section and Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.
(7) Book value per common share is common stockholders' equity divided by common shares outstanding. Tangible book value per common share is tangible common equity divided by common shares outstanding.

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

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

Financial Review

Overview

Wells Fargo & Company is a diversified, community-based financial services company with $1.9 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,600 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 42 countries and territories to support customers who conduct business in the global economy. With approximately 269,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 27 on *Fortune's* 2016 rankings of America's largest corporations. We ranked third in assets and second in the market value of our common stock among all U.S. banks at September 30, 2016.

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

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

Sales Practices Matters

On September 8, 2016, we announced settlements with the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC) and the Office of the Los Angeles City Attorney regarding allegations that some of our retail customers received products and services they did not request. The amount of the settlements, which was fully accrued for as of June 30, 2016, totaled $185 million, plus $5 million in customer remediation. Our commitment to addressing the concerns raised by these settlements has included:

- The Independent Directors of the Board have retained the law firm of Shearman & Sterling LLP to assist in its investigation into the Company's retail banking sales practices and related matters.
- An extensive review was performed by an independent consulting firm going back to 2011, which was completed prior to these settlements. This review was conducted to identify financial harm stemming from potentially unauthorized accounts. The review identified approximately 2.1 million potentially unauthorized consumer and small business accounts, including 623,000 consumer and small business unsecured credit card accounts. As a result of this review, $2.6 million has been refunded to customers for any fees associated with the potentially unauthorized accounts. Since the announcement of the settlements, the review has been voluntarily expanded to include 2009 and 2010.
- Changes in senior management:
  - John Stumpf retired and has been replaced by Tim Sloan as CEO and Stephen Sanger, an independent member of the Board, as Chairman. Consistent with his recommendation, Mr. Stumpf forfeited unvested equity awards valued at approximately $41 million.
  - Carrie Tolstedt left the Company and has been replaced by Mary Mack as head of Community Banking. Ms. Tolstedt forfeited unvested equity awards valued at approximately $19 million, will not receive severance or retirement enhancements in connection with her separation from the Company, and has agreed not to exercise vested options during the investigation by the Independent Directors of the Board.
  - Neither executive will receive a bonus for 2016.
- Eliminated product sales goals for retail banking team members. Implemented interim incentive-based compensation plans in retail banking for fourth quarter 2016. Management continues to review incentive-based compensation practices in retail banking.
- Implemented procedures to send retail banking customers a confirmation email approximately an hour after opening a checking or savings account and an acknowledgment letter after submitting a credit card application.
- Attempting to contact all retail and small business deposit customers across the country, including those who have already received refunded fees, to invite them to review their accounts with their banker. Also contacting credit card customers identified as possibly having unauthorized accounts to confirm whether they need or want their credit card.

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

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

Financial Performance

Wells Fargo net income was $5.6 billion in third quarter 2016 with diluted earnings per common share (EPS) of $1.03, compared with $5.8 billion and $1.05, respectively, a year ago. We have now generated quarterly earnings of more than $5 billion for 16 consecutive quarters, which reflected the ability of our diversified business model and risk discipline to generate consistent financial performance during a period that included persistent low interest rates, market volatility and economic uncertainty. We remain focused on meeting the financial needs of our customers and on investing in our businesses so we may continue to meet the evolving needs of our customers in the future.

Compared with a year ago:

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

Balance Sheet and Liquidity

Our balance sheet maintained its strength in third quarter 2016 as we increased our liquidity position, generated loan, investment securities and deposit growth, experienced solid credit quality and maintained strong capital levels. We have been able to grow our loans on a year-over-year basis for 21 consecutive quarters (for the past 18 quarters year-over-year loan growth has been 3% or greater). Our loan portfolio increased $44.8 billion from December 31, 2015, predominantly due to growth in commercial and industrial, real estate mortgage, real estate construction and lease financing loans within the commercial loan portfolio segment, which included $26.5 billion of commercial and industrial loans and capital leases acquired from GE Capital in the first nine months of 2016.

With the expectation of interest rates remaining lower for a longer period, we grew our investment securities portfolio by $43.3 billion, or 12%, from December 31, 2015, with approximately $57 billion of gross purchases during third quarter 2016, compared with last year's average of $26 billion per quarter. The amount of investment securities purchased was higher than in prior quarters due to the fact that we did not add duration in the loan portfolio with interest rate swaps, as we had in prior quarters.

Our funding sources grew in third quarter 2016 with long-term debt up $55.3 billion from December 31, 2015, on $19.7 billion of issuances in third quarter 2016, including $9.2 billion that we anticipate will be Total Loss Absorbing Capacity (TLAC) eligible. Deposit growth continued in the first nine months of 2016 with period-end deposits up $52.6 billion, or 4%, from December 31, 2015. Our average deposit cost in third quarter 2016 was 11 basis points, up 3 basis points from a year ago, which reflected an increase in deposit pricing for certain wholesale banking customers. We successfully grew our primary consumer checking customers (i.e., customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) by 4.7% (August 2016 compared with August 2015).

Credit Quality

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

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

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

Nonperforming assets decreased $1.1 billion, or 8%, from June 30, 2016 with improvement across our consumer and commercial portfolios and lower foreclosed assets. Nonperforming assets were only 1.25% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased $977 million from the prior quarter primarily due to a $732 million decrease in consumer nonaccruals. In addition, foreclosed assets were down $97 million from the prior quarter.

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

Capital

Our financial performance in third quarter 2016 resulted in strong capital generation, which increased total equity to a record $204.0 billion at September 30, 2016, up $1.3 billion from the prior quarter. We returned $3.2 billion to shareholders in third quarter 2016 through common stock dividends and net share repurchases and our net payout ratio (which is the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock) was 61%, compared with 62% in the prior quarter, and within our targeted range of 55-75%. We continued to reduce our common share count through the repurchase of 38.3 million common shares in the quarter. We also entered into a $750 million forward repurchase contract with an unrelated third party in October 2016 that is expected to settle in first quarter 2017 for approximately 17 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2016.

We believe an important measure of our capital strength is the Common Equity Tier 1 ratio under Basel III, fully phased-in, which was 10.71% at September 30, 2016. Likewise, our other regulatory capital ratios remained strong. See the "Capital Management" section in this Report for more information regarding our capital, including the calculation of our regulatory capital amounts.

Earnings Performance

Wells Fargo net income for third quarter 2016 was $5.6 billion ($1.03 diluted earnings per common share), compared with $5.8 billion ($1.05 diluted per share) for third quarter 2015. Net income for the first nine months of 2016 was $16.7 billion ($3.03), compared with $17.3 billion ($3.12) for the same period a year ago. Our third quarter and first nine months of 2016 earnings reflected continued execution of our business strategy as we continued to satisfy our customers' financial needs. We generated revenue growth across many of our businesses and grew loans and deposits. Our financial performance in the first nine months of 2016, compared with the same period a year ago, benefited from a $1.6 billion increase in net interest income, which was offset by a $1.4 billion increase in our provision for credit losses and a $1.8 billion increase in noninterest expense. The key drivers of our financial performance in the third quarter and first nine months of 2016 were balanced net interest income and noninterest income, diversified sources of fee income, and a diversified and growing loan portfolio.

Revenue, the sum of net interest income and noninterest income, was $22.3 billion in third quarter 2016, compared with $21.9 billion in third quarter 2015. Revenue for the first nine months of 2016 was $66.7 billion, up 3% from the first nine months of 2015. The increase in revenue for the third quarter and first nine months of 2016, compared with the same periods in 2015, was largely due to an increase in net interest income, reflecting increases in interest income from loans and trading assets, partially offset by higher long-term debt and deposit interest expense. In the third quarter and first nine months of 2016, net interest income represented 54% and 53% of revenue, respectively, compared with 52% for both periods in 2015.

Noninterest income was $10.38 billion and $31.33 billion in the third quarter and first nine months of 2016, representing 46% and 47% of revenue, respectively, compared with $10.42 billion (48%) and $30.76 billion (48%) in the third quarter and first nine months of 2015. Noninterest income in third quarter 2016 decreased $42 million, compared with the same period in 2015, predominantly due to lower net gains on equity investments and insurance, partially offset by an increase in net gains from trading activities and lease income. Noninterest income for the first nine months of 2016, compared with the same period in 2015, reflected an increase in lease income related to the GE Capital business acquisitions, gains from the sale of our crop insurance and health benefit services businesses, and hedge ineffectiveness income, primarily on our long-term debt hedges, partially offset by lower trust and investment fees, and net gains on equity investments.

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

During first quarter 2016, we closed substantially all of the acquisition of certain commercial lending businesses and assets from GE Capital. A portion of the assets were acquired in January 2016 with additional assets acquired in March 2016. In third quarter 2016, we closed the acquisition of the Asia, Australia, and New Zealand segments of GE Capital's Commercial Distribution Finance business. In October 2016, the final phase of our GE Capital business acquisitions was completed when we closed the acquisition of the Europe, Middle East, and Africa segments of the GE Capital Commercial Distribution Finance business.

Net Interest Income

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

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

Net interest income on a taxable-equivalent basis was $12.3 billion and $36.3 billion in the third quarter and first nine months of 2016, respectively, compared with $11.7 billion and $34.5 billion for the same periods a year ago. The net interest margin was 2.82% and 2.86% for the third quarter and first nine months of 2016, down from 2.96% for both the third quarter and first nine months of 2015. The increase in net interest income in the third quarter and first nine months of 2016 from the same periods a year ago resulted from an increase in interest income, partially offset by an increase in funding interest expense. The increase in interest income was driven by growth in commercial and consumer loans, including the GE Capital business acquisitions that closed in 2016, growth in investment securities, increased trading income and higher short-term interest rates. Funding interest expense increased in the third quarter and first nine months of 2016, compared with the same periods a year ago, primarily due to growth and repricing of long-term debt. Deposit interest expense was also higher, predominantly due to an increase in wholesale pricing resulting from higher short-term interest rates.

The decline in net interest margin in the third quarter and first nine months of 2016, compared with the same periods a year ago, was primarily due to deposit growth and higher long-term debt balances, including debt issued to fund the GE Capital business acquisitions. As a result of growth in funding balances, net interest margin was diluted by an increase in cash, federal funds sold, and other short-term investments, which was partially offset by growth in loans, trading, and the benefit of higher short-term interest rates.

Average earning assets increased $158.4 billion and $135.5 billion in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago, as average loans increased $62.4 billion in the third quarter and $68.8 billion in the first nine months of 2016, average investment securities increased $24.2 billion in the third quarter and $21.5 billion in the first nine months of 2016, and average trading assets increased $21.6 billion in the third quarter and $17.6 billion in the first nine months of 2016, compared with the same periods a year ago. In addition, average federal funds sold and other short-term investments increased $49.2 billion and $28.4 billion in the third quarter and first nine months of 2016, respectively, compared with the same periods a year ago.

Deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Deposits include noninterest-bearing deposits, interest-bearing checking, market rate and other savings, savings certificates, other time deposits, and deposits in foreign offices. Average deposits of $1.26 trillion increased in third quarter 2016 ($1.24 trillion in the first nine months of 2016), compared with $1.20 trillion in third quarter 2015 ($1.19 trillion in the first nine months of 2015), and represented 132% of average loans in third quarter 2016 (131% in the first nine months of 2016), compared with 134% and 135% for the same periods a year ago. Average deposits decreased to 73% of average earning assets in both the third quarter and first nine months of 2016, compared with 76% for the same periods a year ago as the growth in total loans outpaced deposit growth.

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

						Quarter ended September 30,
			2016			2015
(in millions)	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	$ 299,351	0.50%	$ 373	250,104	0.26%	$ 167
Trading assets	88,838	2.72	605	67,223	2.93	492
Investment securities (3):						
Available-for-sale securities:						
Securities of U.S. Treasury and federal agencies	25,817	1.52	99	35,709	1.59	143
Securities of U.S. states and political subdivisions	55,170	4.28	590	48,238	4.22	510
Mortgage-backed securities:						
Federal agencies	105,780	2.39	631	98,459	2.70	665
Residential and commercial	18,080	5.54	250	21,876	5.84	319
Total mortgage-backed securities	123,860	2.85	881	120,335	3.27	984
Other debt and equity securities	54,176	3.37	459	50,371	3.40	430
Total available-for-sale securities	259,023	3.13	2,029	254,653	3.24	2,067
Held-to-maturity securities:						
Securities of U.S. Treasury and federal agencies	44,678	2.19	246	44,649	2.18	245
Securities of U.S. states and political subdivisions	2,507	5.24	33	2,151	5.17	28
Federal agency and other mortgage-backed securities	47,971	1.97	236	27,079	2.38	161
Other debt securities	3,909	1.98	19	5,371	1.75	24
Total held-to-maturity securities	99,065	2.15	534	79,250	2.30	458
Total investment securities	358,088	2.86	2,563	333,903	3.02	2,525
Mortgages held for sale (4)	24,060	3.44	207	24,159	3.69	223
Loans held for sale (4)	199	3.04	2	568	2.57	4
Loans:						
Commercial:						
Commercial and industrial – U.S.	271,226	3.48	2,369	241,409	3.30	2,005
Commercial and industrial – Non U.S.	51,261	2.40	309	45,923	1.83	212
Real estate mortgage	128,809	3.48	1,127	120,983	3.31	1,009
Real estate construction	23,212	3.50	205	21,626	3.39	184
Lease financing	18,896	4.70	223	12,282	4.18	129
Total commercial	493,404	3.42	4,233	442,223	3.18	3,539
Consumer:						
Real estate 1-4 family first mortgage	278,509	3.97	2,764	269,437	4.10	2,762
Real estate 1-4 family junior lien mortgage	48,927	4.37	537	55,298	4.22	588
Credit card	34,578	11.60	1,008	31,649	11.73	936
Automobile	62,461	5.60	880	58,534	5.80	855
Other revolving credit and installment	39,605	5.92	590	37,954	5.84	559
Total consumer	464,080	4.97	5,779	452,872	5.01	5,700
Total loans (4)	957,484	4.17	10,012	895,095	4.11	9,239
Other	6,488	2.30	36	5,028	5.11	64
Total earning assets	$ 1,734,508	3.17%	$ 13,798	1,576,080	3.21%	$ 12,714
Funding sources						
Deposits:						
Interest-bearing checking	$ 44,056	0.15%	$ 17	37,783	0.05%	$ 5
Market rate and other savings	667,185	0.07	110	628,119	0.06	90
Savings certificates	25,185	0.30	19	30,897	0.58	44
Other time deposits	54,921	0.93	128	48,676	0.46	57
Deposits in foreign offices	107,072	0.30	82	111,521	0.13	36
Total interest-bearing deposits	898,419	0.16	356	856,996	0.11	232
Short-term borrowings	116,228	0.29	86	90,357	0.06	13
Long-term debt	252,400	1.59	1,006	180,569	1.45	655
Other liabilities	16,771	2.11	88	16,435	2.13	89
Total interest-bearing liabilities	1,283,818	0.48	1,536	1,144,357	0.34	989
Portion of noninterest-bearing funding sources	450,690	—	—	431,723	—	—
Total funding sources	$ 1,734,508	0.35	1,536	1,576,080	0.25	989
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.82%	$ 12,262		2.96%	$ 11,725
Noninterest-earning assets						
Cash and due from banks	$ 18,682			16,979		
Goodwill	26,979			25,703		
Other	134,417			127,640		
Total noninterest-earning assets	$ 180,078			170,322		
Noninterest-bearing funding sources						
Deposits	$ 363,108			341,878		
Other liabilities	63,777			67,964		
Total equity	203,883			192,203		
Noninterest-bearing funding sources used to fund earning assets	(450,690)			(431,723)		
Net noninterest-bearing funding sources	$ 180,078			170,322		
Total assets	$ 1,914,586			1,746,402		

(1) Our average prime rate was 3.50% and 3.25% both for the quarters ended September 30, 2016 and 2015, and for the first nine months of 2016 and 2015, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 0.79% and 0.31% for the quarters ended September 30, 2016 and 2015, respectively, and 0.69% and 0.28% for the first nine months of 2016 and 2015, respectively.
(2) Yields/rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
(3) Yields and rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts represent amortized cost for the periods presented.
(4) Nonaccrual loans and related income are included in their respective loan categories.
(5) Includes taxable-equivalent adjustments of $310 million and $268 million for the quarters ended September 30, 2016 and 2015, respectively, and $909 million and $780 million for the first nine months of 2016 and 2015, respectively, predominantly related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

(in millions)	2016 Average balance	2016 Yields/ rates	2016 Interest income/ expense	2015 Average balance	2015 Yields/ rates	2015 Interest income/ expense
	Nine months ended September 30,					
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 292,635**	**0.49%**	**$ 1,076**	264,218	0.27%	$ 543
Trading assets	**83,580**	**2.86**	**1,792**	65,954	2.91	1,437
Investment securities (3):						
Available-for-sale securities:						
Securities of U.S. Treasury and federal agencies	**30,588**	**1.56**	**358**	31,242	1.57	368
Securities of U.S. states and political subdivisions	**52,637**	**4.25**	**1,678**	46,765	4.18	1,468
Mortgage-backed securities:						
Federal agencies	**98,099**	**2.57**	**1,889**	99,523	2.71	2,021
Residential and commercial	**19,488**	**5.39**	**787**	22,823	5.80	992
Total mortgage-backed securities	**117,587**	**3.03**	**2,676**	122,346	3.28	3,013
Other debt and equity securities	**53,680**	**3.36**	**1,349**	48,758	3.44	1,257
Total available-for-sale securities	**254,492**	**3.18**	**6,061**	249,111	3.27	6,106
Held-to-maturity securities:						
Securities of U.S. Treasury and federal agencies	**44,671**	**2.19**	**733**	44,010	2.19	722
Securities of U.S. states and political subdivisions	**2,274**	**5.34**	**91**	2,064	5.16	80
Federal agency and other mortgage-backed securities	**37,087**	**2.08**	**577**	19,871	2.14	319
Other debt securities	**4,193**	**1.94**	**61**	6,139	1.72	79
Total held-to-maturity securities	**88,225**	**2.21**	**1,462**	72,084	2.22	1,200
Total investment securities	**342,717**	**2.93**	**7,523**	321,195	3.03	7,306
Mortgages held for sale (4)	**20,702**	**3.53**	**549**	22,416	3.62	609
Loans held for sale (4)	**240**	**3.71**	**7**	644	2.93	14
Loans:						
Commercial:						
Commercial and industrial – U.S.	**266,622**	**3.44**	**6,874**	233,598	3.31	5,788
Commercial and industrial – Non U.S.	**50,658**	**2.29**	**867**	45,373	1.88	638
Real estate mortgage	**125,902**	**3.43**	**3,236**	115,224	3.45	2,972
Real estate construction	**22,978**	**3.53**	**608**	20,637	3.68	567
Lease financing	**17,629**	**4.86**	**643**	12,322	4.77	441
Total commercial	**483,789**	**3.38**	**12,228**	427,154	3.26	10,406
Consumer:						
Real estate 1-4 family first mortgage	**276,369**	**4.01**	**8,311**	267,107	4.12	8,243
Real estate 1-4 family junior lien mortgage	**50,585**	**4.38**	**1,659**	57,068	4.24	1,812
Credit card	**33,774**	**11.58**	**2,927**	30,806	11.74	2,704
Automobile	**61,246**	**5.64**	**2,588**	57,180	5.87	2,512
Other revolving credit and installment	**39,434**	**5.94**	**1,755**	37,069	5.91	1,638
Total consumer	**461,408**	**4.99**	**17,240**	449,230	5.03	16,909
Total loans (4)	**945,197**	**4.16**	**29,468**	876,384	4.16	27,315
Other	**6,104**	**2.23**	**101**	4,874	5.21	191
Total earning assets	**$ 1,691,175**	**3.20%**	**$ 40,516**	1,555,685	3.21%	$ 37,415
Funding sources						
Deposits:						
Interest-bearing checking	**$ 40,858**	**0.13%**	**$ 41**	38,491	0.05%	$ 15
Market rate and other savings	**659,257**	**0.07**	**327**	620,510	0.06	274
Savings certificates	**26,432**	**0.37**	**73**	32,639	0.66	160
Other time deposits	**58,087**	**0.84**	**364**	52,459	0.43	168
Deposits in foreign offices	**100,783**	**0.25**	**190**	107,153	0.13	105
Total interest-bearing deposits	**885,417**	**0.15**	**995**	851,252	0.11	722
Short-term borrowings	**111,993**	**0.28**	**231**	82,258	0.09	52
Long-term debt	**235,209**	**1.57**	**2,769**	183,130	1.37	1,879
Other liabilities	**16,534**	**2.10**	**260**	16,576	2.16	269
Total interest-bearing liabilities	**1,249,153**	**0.45**	**4,255**	1,133,216	0.34	2,922
Portion of noninterest-bearing funding sources	**442,022**		**—**	422,469	—	—
Total funding sources	**$ 1,691,175**	**0.34**	**4,255**	1,555,685	0.25	2,922
Net interest margin and net interest income on a taxable-equivalent basis (5)		**2.86%**	**$ 36,261**		2.96%	$ 34,493
Noninterest-earning assets						
Cash and due from banks	**$ 18,499**			17,167		
Goodwill	**26,696**			25,703		
Other	**129,324**			129,412		
Total noninterest-earning assets	**$ 174,519**			172,282		
Noninterest-bearing funding sources						
Deposits	**$ 353,870**			335,160		
Other liabilities	**62,169**			69,167		
Total equity	**200,502**			190,424		
Noninterest-bearing funding sources used to fund earning assets	**(442,022)**			(422,469)		
Net noninterest-bearing funding sources	**$ 174,519**			172,282		
Total assets	**$ 1,865,694**			1,727,967		