BANK OF AMERICA CORP /DE/
Form 10-Q
October 30, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2017
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number:
1-6523
Exact name of registrant as specified in its charter:
Bank of America Corporation
State or other jurisdiction of incorporation or organization:
Delaware
IRS Employer Identification No.:
56-0906609
Address of principal executive offices:
Bank of America Corporate Center
100 N. Tryon Street
Charlotte, North Carolina 28255
Registrant's telephone number, including area code:
(704) 386-5681
Former name, former address and former fiscal year, if changed since last report:
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 ü 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ü No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (check one).

Large accelerated filer ü	Accelerated filer	Non-accelerated filer (do not check if a smaller reporting company)	Smaller reporting company

Emerging growth company
Yes No ü
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.
Yes No
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).
Yes No ü
On October 27, 2017, there were 10,430,613,675 shares of Bank of America Corporation Common Stock outstanding.

Bank of America Corporation and Subsidiaries
September 30, 2017
Form 10-Q
INDEX

Part II. Other Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Bank of America Corporation (the "Corporation") and its management may make certain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipates,” “targets,” “expects,” “hopes,” “estimates,” “intends,” “plans,” “goals,” “belie “continue" and other similar expressions or future or conditional verbs such as “will,” “may,” “might,” “should,” “would” and “could.” Forward-looking statements represent the Corporation's current expectations, plans or forecasts of its future results, revenues, expenses, efficiency ratio, capital measures, and future business and economic conditions more generally, and other future matters. These statements are not guarantees of future results or performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond the Corporation's control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties more fully discussed under Item 1A. Risk Factors of our 2016 Annual Report on Form 10-K and in any of the Corporation’s subsequent Securities and Exchange Commission filings: potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation, regulatory proceedings and enforcement actions, including inquiries into our retail sales practices, and the possibility that amounts may be in excess of the Corporation’s recorded liability and estimated range of possible loss for litigation exposures; the possibility that the Corporation could face increased servicing, securities, fraud, indemnity, contribution or other claims from one or more counterparties, including trustees, purchasers of loans, underwriters, issuers, other parties involved in securitizations, monolines or private-label and other investors; the possibility that future representations and warranties losses may occur in excess of the Corporation’s recorded liability and estimated range of possible loss for its representations and warranties exposures; the Corporation’s ability to resolve representations and warranties repurchase and related claims, including claims brought by investors or trustees seeking to avoid the statute of limitations for repurchase claims; uncertainties about the financial stability and growth rates of non-U.S. jurisdictions, the risk that those jurisdictions may face difficulties servicing their sovereign debt, and related stresses on financial markets, currencies and trade, and the Corporation’s exposures to such risks, including direct, indirect and operational; the impact of U.S. and global interest rates, currency exchange rates

and economic conditions; the impact on the Corporation's business, financial condition and results of operations of a potential higher interest rate environment; the possibility that future credit losses may be higher than currently expected due to changes in economic assumptions, customer behavior, adverse developments with respect to U.S. or global economic conditions, and other uncertainties; the impact on the Corporation’s business, financial condition and results of operations from a protracted period of lower oil prices or ongoing volatility with respect to oil prices; the Corporation's ability to achieve its expense targets or net interest income expectations or other projections or expectations; adverse changes to the Corporation’s credit ratings from the major credit rating agencies; estimates of the fair value of certain of the Corporation’s assets and liabilities; uncertainty regarding the content, timing and impact of regulatory capital and liquidity requirements, including the approval of our internal models methodology for calculating counterparty credit risk for derivatives; the potential impact of total loss-absorbing capacity requirements; potential adverse changes to our global systemically important bank surcharge; the potential impact of Federal Reserve actions on the Corporation’s capital plans; the possible impact of the Corporation's failure to remediate shortcomings identified by banking regulators in the Corporation's Resolution Plan or failure to take actions identified therein; the impact of implementation and compliance with U.S. and international laws, regulations and regulatory interpretations, including, but not limited to, recovery and resolution planning requirements, Federal Deposit

Insurance Corporation assessments, the Volcker Rule, fiduciary standards and derivatives regulations; a failure in or breach of the Corporation’s operational or security systems or infrastructure, or those of third parties, including as a result of cyber attacks; the impact on the Corporation's business, financial condition and results of operations from the planned exit of the United Kingdom from the European Union; and other similar matters.

Forward-looking statements speak only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

Notes to the Consolidated Financial Statements referred to in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) are incorporated by reference into the MD&A. Certain prior-period amounts have been reclassified to conform to current-period presentation. Throughout the MD&A, the Corporation uses certain acronyms and abbreviations which are defined in the Glossary.

Executive Summary

Business Overview

The Corporation is a Delaware corporation, a bank holding company (BHC) and a financial holding company. When used in this report, “the Corporation” may refer to Bank of America Corporation individually, Bank of America Corporation and its subsidiaries, or certain of Bank of America Corporation’s subsidiaries or affiliates. Our principal executive offices are located in Charlotte, North Carolina. Through our banking and various nonbank subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbank financial services and products through four business segments: Consumer Banking, Global Wealth & Investment Management (GWIM), Global Banking and Global Markets, with the remaining operations recorded in All Other. We operate our banking activities primarily under the Bank of America, National Association (Bank of America, N.A. or BANA) charter. At September 30, 2017, the Corporation had approximately $2.3 trillion in assets and a headcount of approximately 210,000 employees. Headcount remained relatively unchanged since December 31, 2016.

As of September 30, 2017, we operated in all 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and more than 35 countries. Our retail banking footprint covers approximately 83 percent of the U.S. population, and we serve approximately 47 million consumer and small business relationships with approximately 4,500 retail financial centers, approximately 16,000 ATMs, and leading digital banking platforms (www.bankofamerica.com) with approximately 34 million active users, including approximately 24 million mobile active users. We offer industry-leading support to approximately three million small business owners. Our wealth management businesses, with client balances of approximately $2.7 trillion, provide tailored solutions to meet client needs through a full set of investment management, brokerage, banking, trust and retirement products. We are a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions and individuals around the world.

Third Quarter 2017 Economic and Business Environment

U.S. macroeconomic trends in the third quarter were characterized by a softening in economic growth and low inflation. GDP advanced at a slower pace than the previous quarter. At the same time, inflation remained subdued overall despite some energy-related pressure stemming from the hurricanes that impacted the southern U.S.

Despite sustained growth in the third quarter, the hurricanes added uncertainty to economic forecasts and distorted economic data releases. As a result of the hurricanes, there was an estimated 0.1 to 0.5 percent reduction from annualized GDP growth. Consumer spending slowed in August but recovered, especially vehicle sales, the following month. Business investment in equipment remained buoyant. While nonfarm payroll growth decelerated, the unemployment rate remained low. Despite tight labor market conditions, wage gains were modest.

The Federal Reserve, as expected, kept its target federal funds rate corridor at 1 to 1.25 percent, while announcing that balance sheet normalization would begin in October. U.S. equities rose in the quarter, in part due to improvement in corporate earnings and despite the realization that domestic fiscal policy changes will likely take longer than previously expected. Despite a late rally, the U.S. dollar index fell primarily on the strength of the euro. Amid a weaker dollar, gold and oil prices both rose. The U.S. yield curve flattened modestly while interest rates increased.

Abroad, eurozone recovery remained robust in the third quarter, maintaining momentum following its best quarter in two years. The more robust economic momentum has failed to translate into stronger inflationary pressures, which remained depressed over the quarter. As a result, the European Central Bank remained cautious about the outlook for monetary policy and it has been carefully evaluating how to extend the ongoing quantitative easing program into next year.

Many survey indicators suggest that the subdued momentum from the first half of the year in the United Kingdom (U.K.) economy has extended into the third quarter. At the same time, inflation continued in an upward trend and reached the highest level since 2012, well above the Bank of England target, driven by the pass-through from the sterling depreciation that followed the Brexit referendum.

In Japan, business surveys suggest that moderate economic momentum remained intact in the third quarter. In China, the service sector remained a key driver of economic growth. The yuan had a volatile third quarter, reaching a one-year high in September with Chinese foreign exchange reserves rising steadily over the quarter.

Recent Events

Capital Management

During the third quarter of 2017, we repurchased approximately $3.0 billion of common stock pursuant to the Board's 2017 repurchase authorization of $12.9 billion announced on June 28, 2017. For additional information, see Capital Management on page 28. On July 26, 2017, the Board declared a quarterly common stock dividend of $0.12 per share, payable on September 29, 2017 to shareholders of record as of September 1, 2017.

Series T Preferred Stock

In connection with an investment in the Corporation’s Series T 6% Non-cumulative preferred stock (Series T) in 2011, the Series T holders also received warrants to purchase 700 million shares of the Corporation’s common stock at an exercise price of $7.142857 per share. On August 24, 2017, the Series T holders exercised the warrants and acquired the 700 million shares of our common stock using the Series T preferred stock as consideration for the exercise price, which increased the number of common shares outstanding, but had no effect on diluted earnings per share as this conversion had been included in the Corporation’s diluted earnings per share calculation under the applicable accounting guidance. The carrying amount of the Series T was $2.9 billion and, upon conversion, was recorded as additional paid-in capital, increasing the Common equity tier 1 capital ratio by 20 basis points.

Selected Financial Data

Table 1 provides selected consolidated financial data for the three and nine months ended September 30, 2017 and 2016, and at September 30, 2017 and December 31, 2016.

Table 1 Selected Financial Data

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions, except per share information)	2017	2016	2017	2016
Income statement				
Revenue, net of interest expense	$21,839	$21,635	$66,916	$63,711
Net income	5,587	4,955	15,712	13,210
Diluted earnings per common share	0.48	0.41	1.35	1.10
Dividends paid per common share	0.12	0.075	0.27	0.175
Performance ratios				
Return on average assets	0.98 %	0.90 %	0.93 %	0.81 %
Return on average common shareholders' equity	8.14	7.27	7.81	6.61
Return on average tangible common shareholders' equity[(1)]	11.32	10.28	10.95	9.40
Efficiency ratio	60.16	62.31	62.34	65.59

	September 30 2017	December 31 2016
Balance sheet		
Total loans and leases	$927,117	$906,683
Total assets	2,283,896	2,187,702
Total deposits	1,284,417	1,260,934
Total common shareholders' equity	250,136	241,620
Total shareholders' equity	272,459	266,840

(1) Return on average tangible common shareholders' equity is a non-GAAP financial measure. For additional information and a corresponding reconciliation to accounting principles generally accepted in the United States of America (GAAP) financial measures, see Non-GAAP Reconciliations on page 67.

Financial Highlights

Net income was $5.6 billion and $15.7 billion, or $0.48 and $1.35 per diluted share for the three and nine months ended September 30, 2017 compared to $5.0 billion and $13.2 billion, or $0.41 and $1.10 per diluted share for the same periods in 2016. The results for the three- and nine-month periods compared to the same periods in 2016 were primarily driven by higher revenue, lower provision for credit losses and noninterest expense.

Total assets increased $96.2 billion from December 31, 2016 to $2.3 trillion at September 30, 2017 due to higher trading account assets primarily driven by additional inventory in fixed-income, currencies and commodities (FICC) to meet expected client demand, and increased client financing activities in equities, growth in cash and cash equivalents primarily due to an increase in deposits, as well as higher loans and leases and securities

borrowed or purchased under agreements to resell. These increases were partially offset by the impact of the sale of the non-U.S. consumer credit card business to a third party in the second quarter of 2017. Total liabilities increased $90.6 billion from December 31, 2016 to $2.0 trillion at September 30, 2017 primarily driven by higher deposits due to strong organic growth, an increase in trading account liabilities, higher securities loaned or sold under agreements to repurchase due to increased matched-book activity, as well as increases in long-term debt and accrued expenses and other liabilities. Shareholders' equity increased $5.6 billion from December 31, 2016 primarily due to net income, partially offset by returns of capital to shareholders of $12.0 billion through common stock repurchases and common and preferred stock dividends.

Table 2 Summary Income Statement

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2017	2016	2017	2016
Net interest income	$11,161	$10,201	$33,205	$30,804
Noninterest income	10,678	11,434	33,711	32,907
Total revenue, net of interest expense	21,839	21,635	66,916	63,711
Provision for credit losses	834	850	2,395	2,823
Noninterest expense	13,139	13,481	41,713	41,790
Income before income taxes	7,866	7,304	22,808	19,098
Income tax expense	2,279	2,349	7,096	5,888
Net income	5,587	4,955	15,712	13,210
Preferred stock dividends	465	503	1,328	1,321
Net income applicable to common shareholders	$5,122	$4,452	$14,384	$11,889
Per common share information				
Earnings	$0.50	$0.43	$1.42	$1.15
Diluted earnings	0.48	0.41	1.35	1.10

Net Interest Income

Net interest income increased $960 million to $11.2 billion, and $2.4 billion to $33.2 billion for the three and nine months ended September 30, 2017 compared to the same periods in 2016. The net interest yield increased 13 basis points (bps) to 2.31 percent, and 11 bps to 2.32 percent. These increases were primarily driven by the benefits from higher interest rates and loan and deposit growth, partially offset by the decline resulting from the sale of the non-U.S. consumer credit card business in the second quarter of 2017. For more information regarding interest rate risk management, see Interest Rate Risk Management for the Banking Book on page 63.

Noninterest Income

Table 3 Noninterest Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2017	2016	2017	2016
Card income	$1,429	$1,455	$4,347	$4,349
Service charges	1,968	1,952	5,863	5,660
Investment and brokerage services	3,303	3,160	9,882	9,543
Investment banking income	1,477	1,458	4,593	4,019
Trading account profits	1,837	2,141	6,124	5,821
Mortgage banking income	(20)	589	332	1,334
Gains on sales of debt securities	125	51	278	490
Other income	559	628	2,292	1,691
Total noninterest income	$10,678	$11,434	$33,711	$32,907

Noninterest income decreased $756 million to $10.7 billion, and increased $804 million to $33.7 billion for the three and nine months ended September 30, 2017 compared to the same periods in 2016. The following highlights the more significant changes.

Service charges remained relatively unchanged for the three-month period and increased $203 million for the nine-month period with the increase primarily driven by the impact of pricing strategies and higher treasury services-related revenue.

Investment and brokerage services income increased $143 million and $339 million primarily driven by the impact of assets under management (AUM) flows and higher market valuations, partially offset by the impact of changing market dynamics on transactional revenue and AUM pricing.

Investment banking income remained relatively unchanged for the three-month period and increased $574 million for the nine-month period primarily due to higher debt and equity issuance fees and higher advisory fees.

Trading account profits decreased $304 million for the three-month period primarily due to weaker performance in fixed-income products, and increased $303 million for the nine-month period primarily due to increased client financing activity in equities.

Mortgage banking income decreased $609 million and $1.0 billion primarily driven by lower net servicing income due to lower mortgage servicing rights (MSR) results, net of the related hedge performance, and lower production income primarily due to lower volume.

Gains on sales of debt securities increased $74 million for the three-month period and decreased $212 million for the nine-month period primarily driven by sales volume.
Other income decreased $69 million for the three-month period due to lower fair value adjustments from economic hedging activities in the fair value option portfolio, partially offset by higher gains on asset sales, and increased $601 million for the nine-month period primarily due to the $793 million pre-tax gain recognized in connection with the sale of the non-U.S. consumer credit card business in the second quarter of 2017.

Provision for Credit Losses

The provision for credit losses decreased $16 million to $834 million, and $428 million to $2.4 billion for the three and nine months ended September 30, 2017 compared to the same periods in 2016 primarily due to credit quality improvements in the consumer real estate portfolio and reductions in energy exposures in the commercial portfolio, partially offset by portfolio seasoning and loan growth in the U.S. credit card portfolio. For more information on the provision for credit losses, see Provision for Credit Losses on page 57.

Noninterest Expense

Table 4 Noninterest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2017	2016	2017	2016
Personnel	$7,483	$7,704	$24,353	$24,278
Occupancy	999	1,005	3,000	3,069
Equipment	416	443	1,281	1,357
Marketing	461	410	1,235	1,243
Professional fees	476	536	1,417	1,433
Amortization of intangibles	151	181	473	554
Data processing	777	685	2,344	2,240
Telecommunications	170	189	538	551
Other general operating	2,206	2,328	7,072	7,065
Total noninterest expense	$13,139	$13,481	$41,713	$41,790

Noninterest expense declined $342 million to $13.1 billion for the three months ended September 30, 2017 compared to the same period in 2016. The decrease was primarily due to lower personnel and other general operating expense, including the reduction related to the sale of the non-U.S. credit card business.

Noninterest expense for the nine-month period remained relatively unchanged as a $295 million impairment charge related to certain data centers in the process of being sold and higher Federal Deposit Insurance Corporation (FDIC) expense were largely offset by lower litigation expense.

Income Tax Expense

Table 5 Income Tax Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2017	2016	2017	2016
Income before income taxes	$7,866	$7,304	$22,808	$19,098
Income tax expense	2,279	2,349	7,096	5,888
Effective tax rate	29.0 %	32.2 %	31.1 %	30.8 %

The effective tax rates for both the three and nine months ended September 30, 2017 were driven by the impact of our recurring tax preference benefits. The nine-month 2017 effective tax rate also included tax expense of $690 million recognized in connection with the sale of the non-U.S. consumer credit card business in the second quarter of 2017.

The effective tax rates for the three and nine months ended September 30, 2016 were driven by our recurring tax preference benefits, and the third quarter of 2016 included a $350 million charge for the impact of the U.K. tax law changes enacted in September 2016.

Table 6 Selected Quarterly Financial Data

	2017 Quarters			2016 Quarters	
(Dollars in millions, except per share information)	Third	Second	First	Fourth	Third
Income statement					
Net interest income	$11,161	$10,986	$11,058	$10,292	$10,201
Noninterest income	10,678	11,843	11,190	9,698	11,434
Total revenue, net of interest expense	21,839	22,829	22,248	19,990	21,635
Provision for credit losses	834	726	835	774	850
Noninterest expense	13,139	13,726	14,848	13,161	13,481
Income before income taxes	7,866	8,377	6,565	6,055	7,304
Income tax expense	2,279	3,108	1,709	1,359	2,349
Net income	5,587	5,269	4,856	4,696	4,955
Net income applicable to common shareholders	5,122	4,908	4,354	4,335	4,452
Average common shares issued and outstanding	10,198	10,014	10,100	10,170	10,250
Average diluted common shares issued and outstanding	10,725	10,822	10,915	10,959	11,000
Performance ratios					
Return on average assets	0.98 %	0.93 %	0.88 %	0.85 %	0.90 %
Four quarter trailing return on average assets [(1)]	0.91	0.89	0.88	0.82	0.76
Return on average common shareholders' equity	8.14	8.00	7.27	7.04	7.27
Return on average tangible common shareholders' equity[(2)]	11.32	11.23	10.28	9.92	10.28
Return on average shareholders' equity	8.10	7.79	7.35	6.91	7.33
Return on average tangible shareholders' equity [(2)]	10.89	10.54	10.00	9.38	9.98
Total ending equity to total ending assets	11.93	12.02	11.93	12.20	12.30
Total average equity to total average assets	12.05	11.95	12.01	12.24	12.28
Dividend payout	24.78	15.25	17.37	17.68	17.32
Per common share data					
Earnings	$0.50	$0.49	$0.43	$0.43	$0.43
Diluted earnings	0.48	0.46	0.41	0.40	0.41
Dividends paid	0.12	0.075	0.075	0.075	0.075
Book value	23.92	24.88	24.36	24.04	24.19
Tangible book value [(2)]	17.23	17.78	17.23	16.95	17.14
Market price per share of common stock					
Closing	$25.34	$24.26	$23.59	$22.10	$15.65
High closing	25.45	24.32	25.50	23.16	16.19
Low closing	22.89	22.23	22.05	15.63	12.74
Market capitalization	$264,992	$239,643	$235,291	$222,163	$158,438

(1) Calculated as total net income for four consecutive quarters divided by annualized average assets for four consecutive quarters.

(2) Tangible equity ratios and tangible book value per share of common stock are non-GAAP financial measures. For more information on these ratios and for corresponding reconciliations to GAAP financial measures, see

Non-GAAP Reconciliations on page 67.

(3) For more information on the impact of the purchased credit-impaired (PCI) loan portfolio on asset quality, see Consumer Portfolio Credit Risk Management on page 39.

(4) Includes the allowance for loan and lease losses and the reserve for unfunded lending commitments.

(5) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Consumer Portfolio Credit Risk Management – Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 48 and corresponding Table 33, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 52 and corresponding Table 40.

(6) Asset quality metrics include $242 million and $243 million of non-U.S. credit card allowance for loan and lease losses and $9.5 billion and $9.2 billion of non-U.S. credit card loans in the first quarter of 2017 and in the fourth quarter of 2016, which were previously included in assets of business held for sale. During the second quarter of 2017, the Corporation sold its non-U.S. consumer credit card business.

(7) Primarily includes amounts allocated to the U.S. credit card and unsecured consumer lending portfolios in Consumer Banking, PCI loans and the non-U.S. credit card portfolio in All Other.

(8) Net charge-offs exclude $73 million, $55 million, $33 million, $70 million, and $83 million of write-offs in the PCI loan portfolio in the third, second and first quarters of 2017, and in the fourth and third quarters of 2016, respectively. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 45.

(9) Includes net charge-offs of $31 million, $44 million and $41 million on non-U.S. credit card loans in the second and first quarters of 2017, and in the fourth quarter of 2016, which were previously included in assets of business held for sale on the Consolidated Balance Sheet at March 31, 2017 and December 31, 2016.

(10) Risk-based capital ratios are reported under Basel 3 Advanced - Transition. For additional information, see Capital Management on page 28.

Table 6 Selected Quarterly Financial Data (continued)

	2017 Quarters			2016 Quarters	
(Dollars in millions)	Third	Second	First	Fourth	Third
Average balance sheet					
Total loans and leases	$918,129	$914,717	$914,144	$908,396	$900,594
Total assets	2,270,872	2,269,153	2,231,420	2,208,039	2,189,490
Total deposits	1,271,711	1,256,838	1,256,632	1,250,948	1,227,186
Long-term debt	227,309	224,019	221,468	220,587	227,269
Common shareholders' equity	249,624	246,003	242,883	245,139	243,679
Total shareholders' equity	273,648	271,223	268,103	270,360	268,899
Asset quality [3]					
Allowance for credit losses [4]	$11,455	$11,632	$11,869	$11,999	$12,459
Nonperforming loans, leases and foreclosed properties [5]	6,869	7,127	7,637	8,084	8,737
Allowance for loan and lease losses as a percentage of total loans and leases outstanding [5, 6]	1.16 %	1.20 %	1.25 %	1.26 %	1.30 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases [5, 6]	163	160	156	149	140
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the PCI loan portfolio [5, 6]	158	154	150	144	135
Amounts included in allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases [7]	$3,880	$3,782	$4,047	$3,951	$4,068
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases [5, 7]	104 %	104 %	100 %	98 %	91 %
Net charge-offs [8, 9]	$900	$908	$934	$880	$888
Annualized net charge-offs as a percentage of average loans and leases outstanding [5, 8]	0.39 %	0.40 %	0.42 %	0.39 %	0.40 %
Annualized net charge-offs as a percentage of average loans and leases outstanding, excluding the PCI loan portfolio [5]	0.40	0.41	0.42	0.39	0.40
Annualized net charge-offs and PCI write-offs as a percentage of average loans and leases outstanding [5]	0.42	0.43	0.43	0.42	0.43
Nonperforming loans and leases as a percentage of total loans and leases outstanding [5, 6]	0.71	0.75	0.80	0.85	0.93
Nonperforming loans, leases and foreclosed properties as a percentage of total loans, leases and foreclosed properties [5, 6]	0.75	0.78	0.84	0.89	0.97
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs [6, 8]	3.00	2.99	3.00	3.28	3.31
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs, excluding the PCI loan portfolio [6]	2.91	2.88	2.88	3.16	3.18
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs and PCI	2.77	2.82	2.90	3.04	3.03

write-offs [6]										
Capital ratios at period end [10]										
Risk-based capital:										
Common equity tier 1 capital	11.9	%	11.6	%	11.0	%	11.0	%	11.0	%
Tier 1 capital	13.3		13.2		12.5		12.4		12.4	
Total capital	15.1		15.1		14.4		14.3		14.2	
Tier 1 leverage	9.0		8.9		8.8		8.9		9.1	
Tangible equity [2]	9.1		9.2		9.1		9.2		9.4	
Tangible common equity [2]	8.1		8.0		7.9		8.1		8.2	

For footnotes see page 7.

Table 7 Selected Year-to-Date Financial Data

	Nine Months Ended September 30	
(In millions, except per share information)	2017	2016
Income statement		
Net interest income	$33,205	$30,804
Noninterest income	33,711	32,907
Total revenue, net of interest expense	66,916	63,711
Provision for credit losses	2,395	2,823
Noninterest expense	41,713	41,790
Income before income taxes	22,808	19,098
Income tax expense	7,096	5,888
Net income	15,712	13,210
Net income applicable to common shareholders	14,384	11,889
Average common shares issued and outstanding	10,103	10,313
Average diluted common shares issued and outstanding	10,820	11,047
Performance ratios		
Return on average assets	0.93 %	0.81 %
Return on average common shareholders' equity	7.81	6.61
Return on average tangible common shareholders' equity[1]	10.95	9.40
Return on average shareholder's equity	7.75	6.66
Return on average tangible shareholders' equity [1]	10.48	9.13
Total ending equity to total ending assets	11.93	12.30
Total average equity to total average assets	12.01	12.13
Dividend payout	19.28	15.19
Per common share data		
Earnings	$1.42	$1.15
Diluted earnings	1.35	1.10
Dividends paid	0.27	0.175
Book value	23.92	24.19
Tangible book value [1]	17.23	17.14
Market price per share of common stock		
Closing	$25.34	$15.65
High closing	25.50	16.43
Low closing	22.05	11.16
Market capitalization	$264,992	$158,438

(1) Tangible equity ratios and tangible book value per share of common stock are non-GAAP financial measures. For more information on these ratios and for corresponding reconciliations to GAAP financial measures, see Non-GAAP Reconciliations on page 67.

(2) For more information on the impact of the PCI loan portfolio on asset quality, see Consumer Portfolio Credit Risk Management on page 39.

(3) Includes the allowance for loan and lease losses and the reserve for unfunded lending commitments.

(4)

Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Consumer Portfolio Credit Risk Management – Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 48 and corresponding Table 33, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 52 and corresponding Table 40.

(5) Primarily includes amounts allocated to the U.S. credit card and unsecured consumer lending portfolios in Consumer Banking, PCI loans and the non-U.S. credit card portfolio in All Other. During the second quarter of 2017, the Corporation sold its non-U.S. consumer credit card business.

(6) Net charge-offs exclude $161 million and $270 million of write-offs in the PCI loan portfolio for the nine months ended September 30, 2017 and 2016. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 45.

Table 7 Selected Year-to-Date Financial Data (continued)

(Dollars in millions)	Nine Months Ended September 30 2017	2016
Average balance sheet		
Total loans and leases	$915,678	$897,760
Total assets	2,257,293	2,183,905
Total deposits	1,261,782	1,213,029
Long-term debt	224,287	231,313
Common shareholders' equity	246,195	240,440
Total shareholders' equity	271,012	264,907
Asset quality (2)		
Allowance for credit losses (3)	$11,455	$12,459
Nonperforming loans, leases and foreclosed properties (4)	6,869	8,737
Allowance for loan and lease losses as a percentage of total loans and	1.16 %	1.30 %

leases outstanding (4)				
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases (4)	163		140	
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the PCI loan portfolio (4)	158		135	
Amounts included in allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases (5)	$3,880		$4,068	
Allowance for loan and	104	%	91	%

lease losses as a percentage of total nonperforming loans and leases, excluding the allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases (4, 5)		
Net charge-offs (6)	$2,742	$2,941
Annualized net charge-offs as a percentage of average loans and leases outstanding (4, 6)	0.40 %	0.44 %
Annualized net charge-offs as a percentage of average loans and	0.41	0.45

leases outstanding, excluding the PCI loan portfolio (4)		
Annualized net charge-offs and PCI write-offs as a percentage of average loans and leases outstanding (4)	0.43	0.48
Nonperforming loans and leases as a percentage of total loans and leases outstanding (4)	0.71	0.93
Nonperforming loans, leases and foreclosed properties as a percentage of total loans, leases and foreclosed properties (4)	0.75	0.97
Ratio of the allowance for loan and	2.92	2.98

lease losses at period end to annualized net charge-offs (6)		
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs, excluding the PCI loan portfolio	2.83	2.86
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs and PCI write-offs	2.76	2.73

For footnotes see page 9.

Supplemental Financial Data
In this Form 10-Q, we present certain non-GAAP financial measures. Non-GAAP financial measures exclude certain items or otherwise include components that differ from the most directly comparable measures calculated in accordance with GAAP. Non-GAAP financial measures are provided as additional useful information to assess our financial condition, results of operations (including period-to-period operating performance) or compliance with prospective regulatory requirements. These non-GAAP financial measures are not intended as a substitute for GAAP financial measures and may not be defined or calculated the same way as non-GAAP financial measures used by other companies.
We view net interest income and related ratios and analyses on a fully taxable-equivalent (FTE) basis, which when presented on a consolidated basis, are non-GAAP financial measures. To derive the FTE basis, net interest income is adjusted to reflect tax-exempt income on an equivalent before-tax basis with a corresponding increase in income tax expense. For purposes of this calculation, we use the federal statutory tax rate of 35 percent and a representative state tax rate. In addition, certain performance measures including the efficiency ratio and net interest yield utilize net interest income (and thus total revenue) on an FTE basis. The efficiency ratio measures the costs expended to generate a dollar of revenue, and net interest yield measures the bps we earn over the cost of funds. We believe that presentation of these items on an FTE basis allows for comparison of amounts from both taxable and tax-exempt sources and is consistent with industry practices.
We may present certain key performance indicators and ratios excluding certain items (e.g., debit valuation adjustment (DVA)) which result in non-GAAP financial measures. We believe that the presentation of measures that exclude these items are useful because they provide additional information to assess the underlying operational performance and trends of our businesses and to allow better comparison of period-to-period operating performance.

We also evaluate our business based on certain ratios that utilize tangible equity, a non-GAAP financial measure. Tangible equity represents an adjusted shareholders’ equity or common shareholders’ equity amount which has been reduced by goodwill and certain acquired intangible assets (excluding MSRs), net of related deferred tax liabilities. These measures are used to evaluate our use of equity. In addition, profitability, relationship and investment models use both return on average tangible common shareholders’ equity and return on average tangible shareholders’ equity as key measures to support our overall growth goals. These ratios are as follows:
Return on average tangible common shareholders’ equity measures our earnings contribution as a percentage of adjusted common shareholders’ equity. The tangible common equity ratio represents adjusted ending common shareholders’ equity divided by total assets less goodwill and certain acquired intangible assets (excluding MSRs), net of related deferred tax liabilities.
Return on average tangible shareholders’ equity measures our earnings contribution as a percentage of adjusted average total shareholders’ equity. The tangible equity ratio represents adjusted ending shareholders’ equity divided by total assets less goodwill and certain acquired intangible assets (excluding MSRs), net of related deferred tax liabilities.
Tangible book value per common share represents adjusted ending common shareholders’ equity divided by ending common shares outstanding.
We believe that the use of ratios that utilize tangible equity provides additional useful information because they present measures of those assets that can generate income. Tangible book value per share provides additional useful information about the level of tangible assets in relation to outstanding shares of common stock.
The aforementioned supplemental data and performance measures are presented in Tables 6 and 7. Table 8 presents certain non-GAAP financial measures and performance measurements on an FTE basis.

Table 8 Supplemental Financial Data

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(Dollars in millions)	2017	2016	2017	2016
Fully taxable-equivalent basis data				

Net interest income	$11,401	$10,429	$33,879	$31,470
Total revenue, net of interest expense	22,079	21,863	67,590	64,377
Net interest yield	2.36 %	2.23 %	2.36 %	2.26 %
Efficiency ratio	59.51	61.66	61.71	64.91

Table 9 Quarterly Average Balances and Interest Rates – FTE Basis

(Dollars in millions)	Third Quarter 2017 Average Balance	Interest Income/ Expense	Yield/ Rate	Third Quarter 2016 Average Balance	Interest Income/ Expense	Yield/ Rate
Earning assets						
Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks	$127,835	$ 323	1.00%	$133,866	$ 148	0.44%
Time deposits placed and other short-term investments	12,503	68	2.17	9,336	34	1.45
Federal funds sold and securities borrowed or purchased under agreements to resell	223,585	659	1.17	214,254	267	0.50
Trading account assets	124,068	1,125	3.60	128,879	1,111	3.43
Debt securities (1)	436,886	2,670	2.44	423,182	2,169	2.07
Loans and leases (2):						
Residential mortgage	199,240	1,724	3.46	188,234	1,612	3.42
Home equity	61,225	664	4.31	70,603	681	3.84

U.S. credit card	91,602	2,253	9.76	88,210	2,061	9.30
Non-U.S. credit card [1]	—	—	—	9,256	231	9.94
Direct/Indirect consumer [3]	93,510	678	2.88	92,870	585	2.51
Other consumer [4]	2,762	28	4.07	2,358	18	2.94
Total consumer	448,339	5,347	4.74	451,531	5,188	4.58
U.S. commercial	293,203	2,542	3.44	276,833	2,040	2.93
Commercial real estate [5]	59,044	552	3.71	57,606	452	3.12
Commercial lease financing	21,818	160	2.92	21,194	153	2.88
Non-U.S. commercial	95,725	676	2.80	93,430	599	2.55
Total commercial	469,790	3,930	3.32	449,063	3,244	2.87
Total loans and leases	918,129	9,277	4.02	900,594	8,432	3.73
Other earning assets	76,496	775	4.02	59,951	677	4.50
Total earning assets [6]	1,919,502	14,897	3.09	1,870,062	12,838	2.74
Cash and due from banks [1]	28,990			27,361		
Other assets, less allowance for loan and lease losses [1]	322,380			292,067		
Total assets	$2,270,872			$2,189,490		
Interest-bearing liabilities						

U.S. interest-bearing deposits:						
Savings	$54,328	$ 1	0.01%	$49,885	$ 2	0.01%
NOW and money market deposit accounts	631,270	333	0.21	592,907	73	0.05
Consumer CDs and IRAs	44,239	31	0.27	48,695	33	0.27
Negotiable CDs, public funds and other deposits	38,119	101	1.05	32,023	43	0.54
Total U.S. interest-bearing deposits	767,956	466	0.24	723,510	151	0.08
Non-U.S. interest-bearing deposits:						
Banks located in non-U.S. countries	2,259	5	0.97	4,294	9	0.87
Governments and official institutions	1,012	3	1.04	1,391	3	0.61
Time, savings and other	63,716	150	0.93	59,340	103	0.70
Total non-U.S. interest-bearing deposits	66,987	158	0.93	65,025	115	0.71
Total interest-bearing deposits	834,943	624	0.30	788,535	266	0.13
Federal funds purchased, securities	230,230	944	1.63	207,634	569	1.09

loaned or sold under agreements to repurchase, short-term borrowings and other interest-bearing liabilities						
Trading account liabilities	48,390	319	2.62	37,229	244	2.61
Long-term debt	227,309	1,609	2.82	227,269	1,330	2.33
Total interest-bearing liabilities (6)	1,340,872	3,496	1.04	1,260,667	2,409	0.76
Noninterest-bearing sources:						